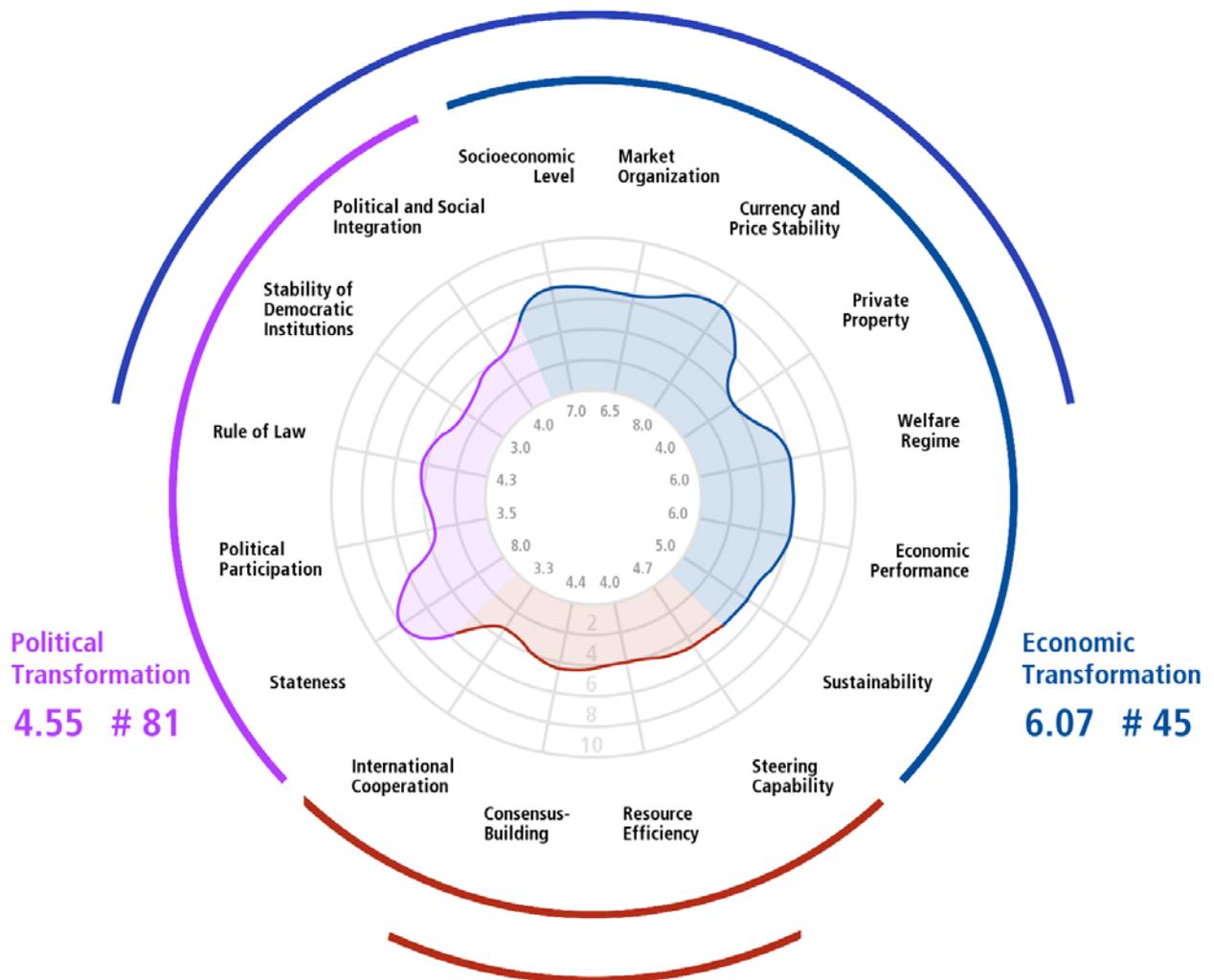


Russia

Status Index

5.31 # 70

on 1-10 scale out of 129



Political Transformation
4.55 # 81

Economic Transformation
6.07 # 45

Governance Index

3.52 # 105

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2018 Country Report — Russia. Gütersloh: Bertelsmann Stiftung, 2018.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

| | | | | | | |
|--------------------------|--------|-------|--------------------------------|-------|----------------------|-------|
| Population | M | 144.3 | HDI | 0.804 | GDP p.c., PPP \$ | 23163 |
| Pop. growth ¹ | % p.a. | 0.2 | HDI rank of 188 | 49 | Gini Index | 37.7 |
| Life expectancy | years | 70.9 | UN Education Index | 0.832 | Poverty ³ | % 0.3 |
| Urban population | % | 74.1 | Gender inequality ² | 0.271 | Aid per capita | \$ - |

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Vladimir Putin has been deciding and influencing the Russian political, economic and cultural landscape for about sixteen years, first in two terms as president, then one term as prime minister and now serving his third term as president.

His return to the Kremlin in 2012 was accompanied by large public protests, mainly because of his switching posts with President Dmitry Medvedev and the fraudulent December 2011 parliamentary elections. These protests provoked a political backlash marked by an increasingly autocratic approach.

The Kremlin has reverted to exercising power through suppression of semi-autonomous actors, including private businesses, local administrations, non-state media and politically relevant NGOs.

In an effort to consolidate power and to increase control over Russia's elites, the president and his government have effectively given rise to an authoritarian-bureaucratic nomenklatura system. This is characterized by:

- a small group of people in the Security Council who make decisions with only a modicum of control from representatives at the federal or regional level;
- an even more pronounced role for the “siloviki” (i.e., the Russian term for politicians who first made their careers in the security services or the military), while the role of the judiciary has become weaker;
- the dominance of vertical over horizontal decision-making, which is ensured, among other means, by removing old cadres and appointing loyal young technocrats to high-ranking posts;
- a much more flexible interpretation of moral and legal norms for those in power than for ordinary citizens;

- Russia being seen as a global power on its own, oscillating between the EU and China.

These developments in domestic politics have been accompanied by a previously unseen, resolute and somewhat belligerent foreign policy, with the annexation of Crimea and support for military insurgency in Eastern Ukraine. As a consequence, relations with the EU and the U.S. deteriorated dramatically, worsening to a situation reminiscent of the Cold War. At the same time, Russian allies like Kazakhstan and Belarus were not amused. The Kremlin's open hostility toward the U.S. and EU countries became manifest in Russia's attempts to influence politics abroad by a combination of state-sponsored propaganda (not very successful) and alleged illegal activities, such as hacking into foreign computer systems (German Bundestag and U.S. Democrats), both still unproven.

The lingering effects of the international financial and economic crisis of 2008, which marked the end of a long economic boom, were still being felt when the effects of Russia's foreign policy in 2014 hit the country. These challenges persisted through the 2015 to 2017 period. They were, as before, caused by structural deficiencies in its economic system, mainly high dependency on the sale of raw materials, the dramatic drop in world oil prices and finally the economic sanctions imposed by the EU and the U.S.

So far, the Russian government and the people have coped with these difficulties, because both seem to be united in the understanding that Russia, as the largest country in the world, can only survive as a power on its own: neither as part of the EU or NATO nor by being too close to China. Therefore, Russia has to prioritize security interests by having a cordon sanitaire around its western and partly southern borders. These interests, characterized as vital by the Russian government, are for the time being considered more important than the needs of Russia's economic development.

But Russia still faces an old problem: how to modernize the country in a globalized world without the government and the elite losing control over its citizens and without the possibility of facing the collapse of the Russian state, already experienced twice in the 20th century.

History and Characteristics of Transformation

The processes of economic and political transformation that led to the end of the Soviet Union were initiated through reforms introduced by the Secretary-General of the Communist Party, Mikhail Gorbachev, in the late 1980s. However, the reforms advanced by Russian President Boris Yeltsin in the 1990s have defined post-Soviet Russia. Following a war-like battle between the president and the parliament, a new Russian constitution was approved in December 1993 by a public referendum. The political balance of power in favor of a strong executive remained fairly constant until 1999, when Yeltsin stepped down from office.

Under Yeltsin, the discrepancies between constitutional provisions and political reality were substantial. This can be attributed to a dramatic economic transformation, which led to hyperinflation and left many Russians in the position of barely surviving. At the same time, anti-

democratic forces stalled reform projects in parliament while showing a flagrant disregard for democratic standards at the regional level. These problems were also rooted in the manipulation and pressure exercised by the Yeltsin administration in handling the mass media. His administration created a political context in which actors without democratic legitimacy (i.e., oligarchs) were able to exercise considerable influence over political decision-making processes.

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 plunged into a prolonged economic crisis. By 1999, GDP had declined by more than 60%, from \$516.8 billion in 1990 to \$195.9 billion. Russia remained competitive on the global market only as an exporter of raw materials and military equipment, while imported goods dominated the domestic market. And whereas investment 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 in 1999 appointed as prime minister Vladimir Putin, who became his successor after winning the presidential election in 2000. This transfer of power coincided with the growth of Russia's financial might as the price of oil and other raw materials started to rise and eventually skyrocketed. Putin enjoyed sustained support from significantly more than half of the voters throughout most of his first two presidential terms (2000–2008), as well as when he ran for the Russian presidency again in 2012. A key factor in his popularity at the beginning was his resolute handling of the second Chechen war in 1999. Putin also won high approval for tough government measures against the oligarchs.

At the same time, the Russian government imposed new constraints on democratic principles, in particular by interfering with press freedoms, subjecting NGOs to harassment and by committing human rights violations in the Chechen War. Showing flagrant disregard for the federal principles of the constitution, the government strengthened central control over the regions in 2004.

Whereas authoritarian tendencies have characterized the political transformation of Russia under President Putin, economic policy was initially dominated by liberal ideas and only gave way during 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, with GDP increasing by an average of 6.9% per year between 1999 and 2008. Yet, 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 a constitutional limit of two presidential terms in a row and did not seek reelection. His handpicked candidate, First Deputy Prime Minister Dmitry Medvedev, won the presidential election with a margin that mirrored

Putin's previous electoral success. Medvedev appointed Putin as prime minister, a decision that appeared to confirm speculations that Putin was maintaining his hold on power.

In public rhetoric, Putin and especially Medvedev stated that the policy of their "tandem" aimed at ensuring political stability, economic growth and benign relations with the West. Both openly criticized Russia's lack of a comprehensive social, liberal and democratic system of governance. Medvedev even spoke of Russia's "legal nihilism."

In September 2011, Putin and Medvedev publicly announced their decision to trade places. This caused some tacit discontent among Russia's elites and served as a trigger for massive protests in the large urban centers, primarily in Moscow. The Kremlin responded with a sustained propaganda campaign that presented the West and, in particular, the U.S. as a threat to Russia, using the so-called color revolutions in Ukraine and Georgia as examples of how the EU and the U.S. were undermining Russia's security.

The state media machinery, developed in the 2000s and further streamlined later, proved highly effective in promoting this image. The massive propaganda effort greatly contributed to an increased level of support for the state in Russian society. This refers mainly to Russia's role in the world, and less to domestic politics. Russians are still very critical of the political elite, with one exception: the institution of the president.

Because of some limited repression against the political opposition and pro-democracy NGOs, the protests of 2011 and 2012 were not repeated in 2016. Parliamentary elections were decisively won by the presidential party, United Russia, as it gained a three-quarters majority in the State Duma (the lower house of parliament). The political leadership of President Putin, irrespective of whether he decides to run again in the 2018 presidential elections or handpicks a candidate, seems to be unrivaled at the moment.

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

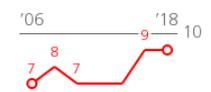
Russia's statehood is seriously challenged only with regard to separatists in the North Caucasus. So far, the Russian military has been unable to establish full control in the region, even though, in 2015 to 2016, significant advances were made toward achieving this aim. Still, some of the North Caucasus regions, primarily Dagestan, but also Chechnya, Ingushetia and Kabardino-Balkaria, are regularly subject to attacks by rebels targeting individuals and institutions representative of Russia's central power. In June 2015, the Islamic State (IS) group established the Wilayat Kavkaz [Qawqaz Governate] in the North Caucasus, occasionally conducting attacks on Russian security personnel there. Thus, the number of acts of terrorism throughout the region has remained substantial, but has fallen in comparison with the 2001 to 2014 period. There are no serious limitations on the state's monopoly on the use of force outside the North Caucasus.

Apart from the separatist conflicts in the North Caucasus, the definition of citizenship and who qualifies for it is not a politically contentious issue. The vast majority of the population conceives of the current Russian state as a state based on those people who irrespective of creed or ethnicity have lived within its territorial borders for a long time, with a dominant role ascribed to the Russian nation. After the war in Georgia and Ukraine, however, some discussions were initiated on the difference between "rossyiskiy," signifying multiethnic Russia, and "russkiy," describing ethnic Russians, and what fits the country best. Xenophobia is widespread and directed primarily at labor migrants from the Caucasus, Central Asia and Africa. Racial violence has led to rioting and the deaths of several individuals. There are also many cases of state employees discriminating against Russian citizens who are members of ethnic minorities from the North Caucasus.

Question
Score

Monopoly on the
use of force

9



1

State identity

9



1

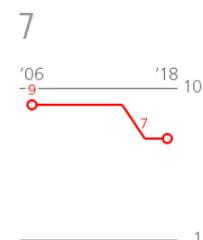
Officially, there is separation of church and state, and the political process is secularized. However, in many respects the Russian Orthodox Church enjoys a privileged status. For example, some government officials publicly demonstrate their denominational preference, while the church occasionally interferes without restriction in cultural affairs. Traditional Russian Orthodox values are employed as an important building block of efforts by the Kremlin administration to forge a new ideological identity. For years the Russian population has seen the Russian church as one of the most trusted institutions in the country. In 2015-2016 these attitudes were increasingly expressed in the state-controlled media and influenced policies related to culture and education, as well as, most significantly, the foundation of Russian identity. Yet, 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 world's largest Muslim populations.

The state has in place a basic administrative infrastructure (i.e., institutions with functioning state bodies of justice, law enforcement and the means of implementing policies) throughout the country. However, inefficient and erratic bureaucratization, corruption and to some extent a lack of funds have resulted in somewhat weak administrative performance. In addition, corruption tends to disadvantage the poor in terms of access to services such as health and education. Basic infrastructural services such as water supply, transport, communication, health services and education have been in place to various degrees throughout the country since Soviet times. However, some rural areas still do not have access to all services. Moreover, the lack of funds for maintenance and modernization have resulted in a decline in the quality of basic services in many regions. This tendency became more evident as the economic situation deteriorated in 2015 to 2016, and as stronger budgetary constraints forced the Russian authorities to increase financial pressures on the population by cutting necessary funding.

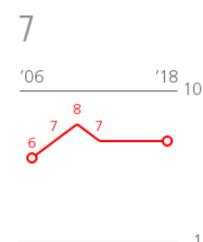
2 | Political Participation

The Russian electoral system is nominally democratic. In actual fact, however, it strongly favors the pro-presidential party, United Russia, and provides some access to a limited number of loyal political organizations. The voting process is generally free, even though a large number of voters are attracted to the polls by means of administrative mobilization. There are severe constraints with regard to registration and media access. In many local and regional elections officials have denied registration to opposition candidates and parties. Election campaigns are regularly manipulated by the state administration throughout the country. This includes biased media coverage on state-controlled TV channels, the use of state resources to support specific parties or candidates, and bans on public demonstrations or assemblies organized by opposition parties. Electoral fraud is widespread, which is especially

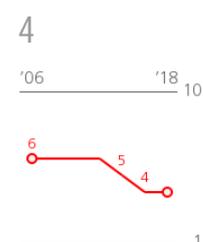
No interference of religious dogmas



Basic administration



Free and fair elections



evident in some ethnic republics, particularly in the North Caucasus and other regions in the south of Russia and in Siberia.

The electoral performance of the United Russia Party in the 2011 parliamentary elections was rather poor in comparison to previous election results, as it received only 52.9% of the vote and, due to a purely proportional electoral system in 2011, just 238 of the 450 seats in the parliament. Moreover, even these modest results were contested by a number of experts and opposition politicians who claimed electoral fraud. These accusations led to massive post-election protests in Moscow in which tens of thousands of Russians called for new elections and demanded the removal of the chairman of the Central Election Commission.

The authorities made significant efforts to avoid such complications in the 2016 elections. The rules for party registration were eased significantly, and the previous proportional representation system was replaced with a mixed one, with half the deputies elected in single-member districts by simple majority. At the same time, in the run-up to the 2016 national parliamentary elections, the authorities made an effort to reduce the level of citizens' engagement by shifting the election date from December to September, which effectively reduced the period of active campaigning to two weeks and also meant that the election took place during the summer growing or dacha season, when most people in Russia are focused on nurturing bounty from the soil in locations without polling stations.

The 2016 elections were contested by 14 parties, a marked increase from seven in 2011. The elections were preceded by very inactive campaigns. Media coverage was scarce yet biased, as fair and equal media access wasn't being ensured for all candidates and parties. Reflecting these peculiarities, the voter turnout in the 2016 elections was very low by national and international standards (47.9%). Despite the fact that the performance of United Russia improved only slightly (54.2%) in comparison with the 2011 elections, the newly introduced majority vote allowed it to gain 343 out of 450 seats. This means that United Russia can change the Russian constitution without consent from other political parties. Domestic and international observers noted numerous violations and instances of fraud in the 2016 elections; so did the newly appointed head of the election commission, Elena Panfilova, a well-known political activist.

After President Putin replaced gubernatorial elections in 2004 with presidential appointments, direct regional elections for Russia's governors were reintroduced in 2012. Nonetheless, the reinstated elections remain biased toward incumbent governors due to the so-called official filters, which introduced mechanisms that barred any serious opposition competitors. In most of the North Caucasus republics and in some other regions, the old appointment scheme remained in use, which means that regional assemblies ceremonially ratify the direct appointment of governors by the president.

In formal political decision-making, elected representatives have full power to govern. This is foremost true for the regions. At the national level, the informal power of non-state actors (i.e., oligarchs) has been successfully reduced under President Putin, only to be replaced by the influence of his close allies and former colleagues. It is generally assumed that representatives of the secret services, law enforcement 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 influence of elected or legitimately appointed representatives, on the one hand, but also on the influence of informal networks, on the other, especially concerning high-level business deals, though less the influence of other potential veto powers outside the power circle of the Kremlin. The parliament has very little impact on political decisions, (i.e., little control over the executive branch).

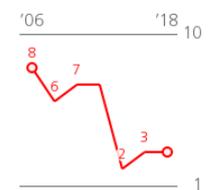
The constitution guarantees freedoms of association and assembly, and state representatives voice support for these rights. However, in practice, there are considerable restrictions. Liberal, as well as right-wing, opposition parties have been systematically discriminated against by the state administration and the official media. Formally, this situation improved after the adoption of the 2012 version of legislation on political parties. The new law substantially eased some of the most prohibitive restrictions on party registration, including unrealistic membership requirements. However, many other restrictions remain in place. Hence the authorities remain capable of denying registration to any parties that are suspected of actual or potential disloyalty. For example, the party of one of the most prominent political activists, Aleksey Navalny, has been systematically denied the ability to register.

Legislation on public demonstrations has been made more restrictive since 2012. 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 of a rally on arbitrary grounds. In practice, unauthorized demonstrations have, on many occasions, been dissolved by the police using violence and arresting participants. The political rights of several important political opposition figures remain restricted, to which end the authorities have often brought criminal charges against them. In 2016, state capacity for suppressing anti-government activities was increased by merging preexisting structures endowed with the functions of political police into a new body, *Rusgvardiya*.

The state would like to see NGOs working mostly in the social sector. Engagement in other, political, activities is viewed with great mistrust. NGOs that engage in controversial political activities, according to the Russian state, and receive financing from abroad must register as "foreign agents" according to a law adopted in July 2012. Since most NGOs refused to obey, in June 2014, the Ministry of Justice was

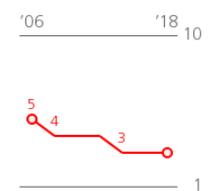
Effective power to govern

3



Association / assembly rights

3



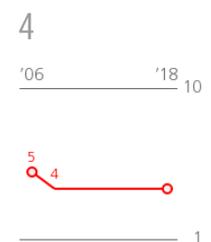
granted the authority to put NGOs on the “foreign agents” list without their consent. By January 2017, the list included 154 organizations. Being on the list means that the organization has to cope with the highest level of state scrutiny, making it very difficult to work. Most organizations have ceased to exist after being placed on the list, even though some of them continue to operate under different names.

In addition, a new law adopted in 2015 introduces the category of “undesirable organizations” that applies to some of the international NGOs previously operating in Russia. Such organizations have been effectively prohibited since the law was passed. As of January 2017, there are seven organizations on this list, including the National Endowment for Democracy, the National Democratic Institute for International Affairs, the International Republican Institute and two foundations in the Soros network. Many other international organizations, including the U.S. Agency for International Development, UNICEF, the Ford Foundation, the British Council and the International Foundation for Electoral Systems, were forced to leave the country due to the pressure from the Russian authorities.

The constitution guarantees freedom of expression, and legislation related to this constitutional provision is formally in place, but in practice the mass media and journalists face heavy pressure from several fronts. The state directly controls most influential media outlets. According to an assessment by the Russian Ombudsman for Human Rights, since 2006 “the main mass media, and above all the leading electronic media, accounting for 90% of the information segment of the country and forming public opinion, have been 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, primarily aimed 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 the Kremlin can generally decide to what extent controversial issues can be discussed and which topics cannot be discussed at all. Criticism outside the boundaries set by the Kremlin is strongly discouraged. Critical journalists and media are often subjected to administrative harassment, in the form of extensive fines for libel or intensive investigations by state organs into, for example, tax avoidance. In 2015 to 2016, several previously important, critically minded media outlets, such as the internet portal Lanta.ru, drastically changed their editorial policies in order to comply with the ever-growing demands from the authorities.

According to legislation introduced in 2014, shares of Russian media outlets owned by foreign entities were limited to 20% by 2017. This restriction has been fully enforced, to the clear detriment of media freedom in Russia. Indeed, Western media outlets have either reduced their broadcast coverage or withdrawn their services from Russia. This includes the BBC, RFE/RL and Voice of America. In 2014, after 21 years of broadcasting in Russia, CNN ceased its operations in the country. The

Freedom of
expression



presence of some other broadcasting companies, such as Deutsche Welle, is gradually decreasing because the number of cable TV operators that include them in their packages is declining.

Since August 2014 there is a legal requirement that blog websites must be registered as media outlets if they attract more than 3,000 visitors a day. In 2015 to 2016, this requirement remained largely unenforced. At the same time, the authorities invested significant efforts in implementing another requirement, according to which internet companies have to store user data for six months and supply law enforcement agencies with these data upon request. Some pro-government politicians systematically advance even more radical ideas for internet regulation in Russia, many of them practically amounting to building a Chinese-style “firewall,” but none of these ideas has yet been placed on the legislative agenda.

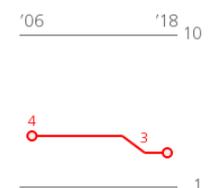
According to the Glasnost Defense Foundation, five journalists were killed in 2015, and three in 2016. The number of non-fatal assaults also remains substantial. There is no evidence that the state is behind these assaults, but the state has proven unable to protect journalists or to hold anyone responsible for these crimes.

3 | Rule of Law

Serious deficiencies exist in the checks and balances among the executive, legislative and judicial branches, with division of powers existing only de jure. In a presidential system the president has the right to rule accordingly. But in Russia the president de facto controls the parliament, and the legislature exercises its supervisory function only to a very limited degree. In effect, no bill or law can be adopted without the approval of the Kremlin. The presidential administration exercises its control over the parliament mainly due to the fact that it controls the by far strongest party, United Russia. Since the 2016 parliamentary elections, this party has held a super-majority of seats in the legislature. At the same time, all other parties represented in the parliament display high levels of loyalty to the president and support nearly all actions taken by the administration. There is no parliamentary control over the executive branch in Russia. On the regional level, these procedures may differ, but not fundamentally.

The judiciary is institutionally differentiated and a formally adequate education and appointment system for judges exists. It is also nominally independent, but lower-court decisions in particular are often influenced by corruption and political pressure. The principles of equal treatment and formal court proceedings have been systematically violated through direct interference by the Kremlin on the federal level or by governors on the regional level. The rulings of the Constitutional Court of Russia are almost invariably in favor of the actions taken by the executive branch.

Separation of powers
3



Independent judiciary
4



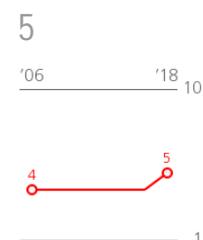
According to many surveys of entrepreneurs, courts are perceived to operate fairly in the case of inter-firm disputes. In contrast, court cases against state agencies are perceived to be unfair. The takeover of the relatively autonomous and modern Highest Court of Arbitrage in 2014 by the more government-controlled Supreme Court is a serious blow to what remains of judicial independence. The Kremlin strongly pushes Russian businesses toward “de-offshoreization” with the aim of encouraging all court disputes involving Russian businesses to be resolved domestically. The government did not abide by the 2014 ruling of the Hague Arbitration Court, which ordered Russia to pay the shareholders of Yukos \$50 billion for expropriating their assets. Moreover, in 2014, the Constitutional Court ruled that the decisions of international courts may be overruled in the event that they “do not correspond to the Russian constitution.” Furthermore, in December 2015, the parliament adopted a new law according to which judgments from the European Court of Human Rights could be overruled. According to TASS Russian News Agency, the new law aims to “protect the interests of Russia” in the face of decisions by international bodies responsible for ruling on human rights.

The Russian leadership, including President Putin and Prime Minister Medvedev, repeatedly state that corruption is a key challenge to the proper functioning of the state. There are many legal instruments for tackling corruption. These instruments include a 1992 decree introduced by then President Boris Yeltsin to fight corruption in the civil service as well as additional anti-corruption laws and a further presidential decree designed to enforce the U.N. Convention against Corruption and the Council of Europe’s Criminal Law Convention on Corruption. In addition, since 2012 public servants have been obliged to disclose their annual income and their overall wealth. For a long time, however, most anti-corruption efforts remained symbolic in nature. Accusations of corruption among the political elite are considered to be instruments for winning power struggles.

In 2015 to 2016, the anti-corruption activities of the authorities greatly increased in scale. While many observers continued to view some of the anti-corruption cases, such as those against Economic Development Minister Aleksey Ulyukaev and the Kirov Oblast governor, Nikita Belykh, as primarily or partially politically motivated, some other high-profile cases, such as those against the governor of Sakhalin, Aleksandr Khoroshavin, and Komi Governor Vyacheslav Gaizer, tended to be viewed as genuine anti-corruption efforts.

At the same time, petty corruption remains endemic, especially in the judicial system, public procurement and law enforcement. According to the 2017 GAN Integrity solutions report, bribes and irregular payments are widespread in Russia, which significantly impedes businesses operating or planning to invest in Russia. Despite Russia’s comprehensive anti-corruption legal framework, enforcement is inconsistent. Furthermore, in 2015, the government reduced penalties for bribery; decreasing the fine for passive bribery to ten times the amount of the bribe (down

Prosecution of
office abuse



from 25 times) and to five times the amount of the bribe for active bribery (down from 15 times). State and municipal officials, heads of state corporations and law enforcement officials are required to report any suspected corruption, and are required to declare their own and their spouses and children's income and property. Nevertheless, financial disclosure laws were inconsistently enforced and violations were rarely acted upon. Senior government officials are not prohibited from serving on the boards of state-owned enterprises, and several, including deputy prime ministers and ministers, have seats on the boards of major state-owned enterprises in Russia.

In chapter two of the Russian constitution, 47 articles guarantee civil rights. The Russian Ombudsman for Human Rights, together with colleagues at the regional level and independent NGOs, serve to monitor the implementation 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 and pressured into favoring local politicians, partly due to corruption, and do not properly protect civil rights. The state prosecution has initiated biased and selective investigations against a considerable number of independent journalists and NGOs. Harassment of minorities, like LGBTQ people, has become commonplace as a result of the extremely negative media coverage occasionally supported by high-ranking Russian officials. The reason is a tacit understanding among politicians and society that, over the last 25 years, the topic of human rights has been used by foreign powers, mainly the EU and the U.S., to interfere in Russia's domestic policy. There is also the perception that Russia has its own concept of human rights.

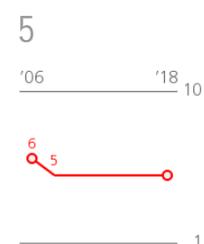
With regard to the fight against terrorism and the situation in the North Caucasus, the security forces have decided that stability trumps the local population's rights. Accordingly, human rights violations perpetrated by Russian security forces are rarely investigated and almost never punished. Amnesty International and Russian human rights organizations regularly report cases of torture in state prisons in the North Caucasus.

4 | Stability of Democratic Institutions

Democratic institutions are in place and de jure perform their functions. In practice, however, such essential institutions as the parliament and the judiciary are heavily controlled by the executive branch, which makes the concept of democratic checks and balances void.

In general, the efficiency of democratic institutions is hampered both by institutional restrictions, such as the legislation on party registration and the laws on NGO activities, and through systematic informal interference from the state executive branch. A further obstacle to the adequate performance of democratic institutions is

Civil rights



Performance of democratic institutions

3

the country's weak party system, which is very much dominated by the "party of power," United Russia. The opposition in parliament is not performing its duties by openly and controversially debating new laws. A weak and passive civil society, limited in its capacity to counteract the effects of strong state influences, also contributes to the weak performance of democratic institutions. In general, the rule of law is not considered by its citizens to ever have been implemented in Russia and is seen as very weak. This is first of all because legislative provisions are often poorly implemented by an inefficient administration that is subject to corruption. And second, the weak rule of law presents its citizens opportunities to take advantage of the state's weaknesses.

The institutions of Russian federalism are particularly problematic in terms of democratic institutional performance. The constitution defines Russia as a federal state, but from 2005 to 2012, elections for regional governors were abandoned, with the president appointing these officials. Some experts claim that this was a violation of the constitution, but the Russian Constitutional Court disagreed. In 2012, direct elections of regional governors were reintroduced, but due to a number of institutionally entrenched and informal checks, election processes are heavily influenced in favor of candidates proposed by the regional administration and agreed to by the Kremlin.

Democratic state institutions are vested with political power and enjoy acceptance by all relevant actors, as well as within different consultative bodies headed by the president, in which major political, business and security elites are represented. Although the existence and legitimacy of democratic institutions are not challenged by any relevant actor, these institutions are manipulated by undemocratic methods, which is seen as perfectly normal by the elites. In sum, accepting democratic institutions is for the most influential actors more a matter of pragmatism than of principle. The general public understands this very well, there is very little trust in democratic institutions like parliament, parties or the press – but yet the highest trust in the president.

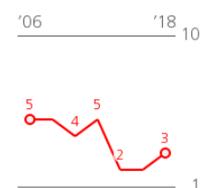
5 | Political and Social Integration

Since 1992 the Russian state and society have been unable to establish an organizationally stable and socially rooted party system. Current political parties are predominantly personality-oriented voting associations. The population is highly skeptical of political parties. According to most public opinion surveys, the share of the population claiming to trust parties never exceeds 10%, which was reflected in the low electoral turnout in 2016 at only 47.8% (2011: 60.2%).

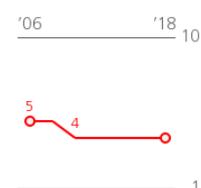
The Communist Party is the only party with a socially rooted, though shrinking and aging, mass base. The pro-presidential party United Russia, which was founded in 2001 through a merger of the two main rival parties from the preceding elections,



Commitment to democratic institutions
3



Party system
4



claims a relatively large membership of more than 500,000. But it is not clear how many of these members are genuinely committed to the party program rather than recruited by a combination of workplace inducement and administrative pressures.

Institutionalization of the populist-nationalist Liberal Democratic Party (LDPR) and the liberal Yabloko party, the latter not represented in the State Duma since 2003, are very low. United Russia, which is still the dominant party in Russian politics, won only 52.4% in the proportional section of the 2016 parliamentary elections, but now holds a three-quarter majority in the State Duma. It also holds majorities in all regional parliaments. United Russia often cooperates with the populist LDPR (13.1% of the vote in the State Duma) and other parties of the so-called systemic opposition within the Duma, that is, the Communist Party (13.3%) and the Just Russia party (6.2%). As a result, there is a low level of polarization in the party system.

Among the parties not represented in the Duma, many have been consciously manufactured by the authorities in order to split the communist vote. In addition to the four parties in parliament (plus three politicians – one from Rodina, one from the Civic Platform and one independent), the 2016 elections were contested by ten more parties. While jointly gaining about 10% of the votes, these parties helped the bigger parties by splitting the oppositional votes.

Until 2012, when changes to the law on political parties were introduced, there were only eight registered political parties in Russia. However, instead of strengthening the party system and widening its ideological base, these changes have strengthened the position of the larger parties. While the number of political parties has mushroomed, reaching 77 by February 2015, only a few of the new ones are able to participate in elections. Starting with 2015, the process of party registration slowed down, and some of them lost their official registration, so that as of January 2017, the number of parties is 76.

Due to the controlled nature of Russia's party system, voter volatility is moderate by international standards. This property of the Russian voters, however, stems not so much from their genuine commitment to political parties as from the lack of credible alternatives. Some analysts contend that clientelism may play a role in the stabilization of the Russian electorate. While there is significant evidence that locally based political machines, normally controlled and sustained by the governors, greatly contribute to United Russia's performance in some regions, especially in ethnic republics and in regions with a predominantly rural population, the exact scope of clientelism in Russia's electoral politics remains debatable.

The interest groups targeting social and political issues are generally weak. Social interests are underrepresented. Trade unions remain dominated by the successors to the socialist unions, and an increase in independent unions, while evident in the second half of the 2000s, was no longer observable in 2015-2016. The political leadership's reaction to the activities of interest groups has essentially been symbolic.

Interest groups

4

The law that forces politically active, foreign-funded NGOs in Russia to register as “foreign agents” has had a severe impact on the landscape of civil society organizations, as many of them are at least partly dependent on foreign funding. Political NGOs critical of the government have been excluded from the dialog between the state and civil society. They have also been subject to harassment by state agencies. However, NGOs that are less political and concentrate more on social issues are able to function.

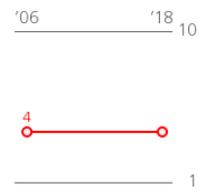
As a result of several years of harassment or marginalization, the strength and variety of interest groups has been reduced. Today, many NGOs shy away from political activities. There are also numerous state-sponsored organizations openly supporting the government. In 2016, the authorities provided more than 4.5 billion RUB (Russian ruble) in presidential grants to NGOs and business associations that avoid challenging the government. In contrast, there are only a relatively small number of NGOs that speak out in opposition to the government.

The large public demonstrations following the 2011 parliamentary elections indicated that a sizable and primarily urban part of civil society in Russia was beginning to assume a more active role in public life. Starting in 2014, however, political rallies almost disappeared due to a combination of political repression and greater public support for the authorities after Russia’s intervention in Ukraine. Nevertheless, there were protests in response to redundancies in the health and education sectors as well as to an increase in the cost of accessing public services.

The population’s approval of democracy as such as voiced in public polls is moderate to high, depending on the wording of the question.

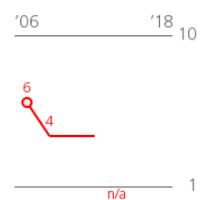
However, when asked about specific democratic principles, including democratic elections, accountability and civil rights, the majority of the Russian population does not consider any of these principles to be as important as welfare or security. This might be considered a direct result of the tumultuous transformation of the 1990s. The impression of the Russian population, according to opinion polls, is that democracy and prosperity were promised, but that instead the times became very unstable and were neither prosperous for the broad majority nor democratic.

Based on polls by institutes like FOM or the Levada Center, it can be roughly estimated that about a quarter of the population is openly opposed to western-style liberal democracy, mostly preferring communist-style models of government, whereas a little more than 10% can be counted as strong supporters of western-style liberal democracy. Others tend to express support for democracy while viewing it as equivalent to Russia’s current political regime, even though it may be that there is a category of respondents who oppose democracy for the very same reason. In general, there seems to be a sort of silent consent to democratic norms, but no principled opposition to undemocratic norms.



Approval of democracy

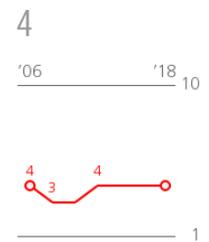
n/a



In Russia, trust among citizens – as measured in public surveys with the question of whether most people can be trusted – is lower than in most West European countries. Only 23% of the population claims to have trust in others. While very low in comparison to Sweden, for example, where trust in others is at 76%, this result is on par with the worldwide average, as registered in the latest round of the World Values Survey. In Russia 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. Accordingly, NGOs are unevenly distributed, flourishing mainly in the two largest cities, Moscow and St. Petersburg, and are often spontaneous and temporary. New legal provisions and increasing pressure by the government from 2011 to 2014 have severely affected their capacity to operate. At the same time, increased government funding for non-political NGOs enables some of them to carry on their charitable and other useful activities. Many leaders of such NGOs are able to communicate to the authorities via the so-called Public Chambers created at the national and regional levels. While providing some leverage to non-political NGOs, the Public Chambers also serve as tools of control. In 2015 to 2016, Russia witnessed the emergence of many government-controlled NGOs. Some of them actively participate in the ideological campaigns launched by the authorities.

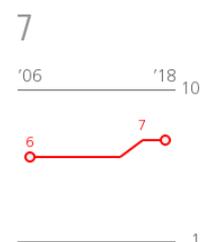
Social capital



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. In the most recent 2015 report, Russia scored 0.798, placing it in the high human development category alongside countries like China, Brazil and Algeria. There is no indication of fundamental social exclusion on the basis of poverty, education or gender. According to the U.N. Development Program Gender Inequality Index, Russia scores 0.276, ranking between Oman (0.275) and the United States (0.280). 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 (2008/09) has

Question
ScoreSocioeconomic
barriers

largely been averted through massive state spending. As a result, unemployment had returned to pre-crisis levels by 2010 and the mean wage had increased to about \$900 monthly by 2013.

At the very end of 2014, the mean wage fell by 40% due to a devaluation of the Russian ruble. Since then, economic conditions of Russia have continuously deteriorated, as a result of structural faults, economic sanctions introduced by the EU and the U.S. after the annexation of Crimea, and falling oil prices. According to the World Bank, Russia's GDP per capita fell from \$15,552 in 2013 to \$14,052 in 2014, and to \$9,092 in 2015. However, supported by the government's policy response package, the pace of the recession declined substantially in 2016: real GDP shrank by just 0.9% in the first half of 2016 compared to a decrease of 3.7% in 2015.

In 2016, poverty decreased slightly (0.5%) in comparison to 2015 but vulnerability remained at higher levels than previously. Despite a continued contraction of disposable income – by 5.8% – the poverty rate slightly decreased. In the first half of 2016, 21.4 million people, or 14.6% of the population, had incomes below the national poverty line.

Social inequality as indicated by the Gini index increased markedly in the 1990s and has since then hovered around the 0.4 level. The World Bank argues in its latest report for 2016 that “when it comes to reducing inequality, Russia's fiscal policy performs better than in Brazil, Chile, Colombia, Turkey and the United States. But with a similar budget size (as measured by government expenditure as share of GDP), many EU countries achieve a much higher reduction in inequality.” In other words, Russia could achieve “more for its current level of government spending and revenues.”

There are considerable socioeconomic differences among the regions in Russia. On the one hand are the big cities, primarily Moscow and St. Petersburg, with levels of socioeconomic development and related lifestyles close to middle-income European countries. On the other hand, there is the vast rural periphery, including the North Caucasus, with very low levels of socioeconomic development. Besides, dependence on natural resource extraction contributes strongly to both cross-sectional and cross-regional inequality in Russia. Financial readjustments made among regions do not reduce these discrepancies in a sustainable manner.

| Economic indicators | | 2013 | 2014 | 2015 | 2016 |
|---------------------|------|-----------|-----------|-----------|------------------|
| GDP | \$ M | 2230625.0 | 2063662.3 | 1365865.2 | 1283162.3 |
| GDP growth | % | 1.3 | 0.7 | -2.8 | -0.2 |
| Inflation (CPI) | % | 6.8 | 7.8 | 15.5 | 7.1 |
| Unemployment | % | 5.5 | 5.2 | 5.6 | 5.7 |

| Economic indicators | | 2013 | 2014 | 2015 | 2016 |
|---------------------------|----------|----------|----------|----------|-----------------|
| Foreign direct investment | % of GDP | 3.1 | 1.1 | 0.5 | 2.6 |
| Export growth | % | 4.6 | 0.5 | 3.7 | 3.1 |
| Import growth | % | 3.6 | -7.3 | -25.8 | -3.8 |
| Current account balance | \$ M | 33428.2 | 57512.8 | 68943.5 | 25006.1 |
| Public debt | % of GDP | 12.7 | 15.6 | 15.9 | 15.6 |
| External debt | \$ M | 668458.6 | 549592.4 | 467688.3 | 524685.9 |
| Total debt service | \$ M | 50673.7 | 88275.7 | 100521.9 | 71455.5 |
| Net lending/borrowing | % of GDP | 0.9 | -0.9 | -2.0 | - |
| Tax revenue | % of GDP | 13.3 | 13.2 | 10.6 | - |
| Government consumption | % of GDP | 19.7 | 17.9 | 17.5 | 18.1 |
| Public education spending | % of GDP | - | - | - | - |
| Public health spending | % of GDP | 3.7 | 3.7 | - | - |
| R&D expenditure | % of GDP | 1.1 | 1.1 | 1.1 | - |
| Military expenditure | % of GDP | 4.0 | 4.1 | 4.9 | 5.4 |

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The foundations of market-based competition are assured by the country's institutional framework. 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 WTO 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.

For a while, economic policy remained skewed in favor of politically influential large corporations, in particular state-owned companies. The state has considerably increased the share of companies it owns and considers of strategic relevance, thereby discriminating against private and foreign investors.

But interestingly enough, 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

Market-based competition

5

'06 '18 10



1

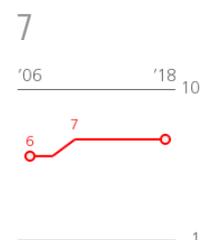
has improved, according to an independent study by the Higher School of Economics (Moscow) and the Levada Center. The informal sector amounted to 30% to 50% of GDP in the late 1990s. According to the Russian government, economic reforms have reduced the size of this sector considerably. According to the World Bank, “faster growth of pensions and public sector wages, together with the relatively low growth of private incomes, means households are dependent on the public sector for incomes.”

Although the economic boom in the late 1990s generated a net capital inflow, Russia mostly showed a net outflow. The net outflow reached a record \$151.5 billion in 2014. This can be attributed to Western banks retracting credit due to sanctions imposed on Russia by Western countries. In 2015 the outflow continued, but at a much slower pace, amounting \$58.1 billion. Judging from the reports of Russian officials, the tendency toward decreased capital outflow continued in 2016. Russia’s central bank estimates the 2016 outflow at about \$40 billion.

Russia ranks 51st out of 183 countries in the World Bank’s 2016 “Ease of Doing Business” ranking, which is a marked improvement in comparison to 2015 when it ranked 62nd. Still, as a result of unattractive conditions for business, especially the uncertainty of property rights, investments lie far below the levels needed to satisfy the Russian economy’s needs. Red tape presents a serious obstacle to running a small or medium-sized enterprise. In January 2015, Moody’s and Standard & Poor’s announced a downgrade in Russia’s credit rating to a speculative BB+ with a negative prognosis, which will make it even more difficult to improve the investment climate. In 2016, however, Standard & Poor’s, while retaining the BB+ rating, improved the prognosis to stable.

Broad sectors of the economy, defined as significant to national security, are shielded from competitive pressures and have been amalgamated within sector specific conglomerates, such as Russian Technologies, which is headed by an old acquaintance of President Putin, Sergei Chemezov. 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. Due to rising budgetary pressures and after a series of significant delays, the Russian government allowed for the privatization of 19.5% of Rosneft’s shares at the end of 2016. Before that, Rosneft took over Bashneft, the sixth largest oil-producing company in Russia. The deal was heralded as a strategic privatization, whereas in fact it was one state-owned company taking over another state-owned company, with the aim of raising cash for the Russian budget. The privatization of state-owned assets, including those in the energy sector, is expected to continue in the future.

Anti-monopoly
policy



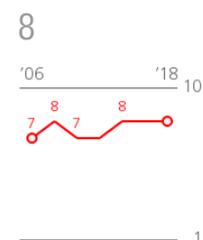
Russia's anti-monopoly agency is rather efficient in addressing the liberalized sectors of the economy, though this is less true at the regional level, where some administrative offices have blocked competition.

Although Russia's foreign trade has been liberalized in principle, and despite having finally joined the WTO in 2012, some barriers to free trade remain. Regulatory exceptions with regard to new protective import tariffs that were imposed on certain agricultural products and on cars in late 2008, as well as on some metals have resulted in regular trade disputes, primarily with the EU. The sanitary authority has also become famous for providing cover for politically motivated import bans that have frequently targeted companies from Belarus, Moldova, Ukraine, the EU and the U.S. In 2014, as a retaliation measure against Western economic sanctions, the Russian authorities introduced a wide range of sanctions against the U.S., the EU and several other countries on the import of agricultural products, and even stricter sanctions against Turkey followed the tensions between the two countries in 2015. While expressing their willingness to return to normal economic relations with these countries after they will have lifted their sanctions (which were eventually instated with regards to Turkey in spring 2017), the Russian authorities often claim that their sanctions help revitalize Russia's domestic production, especially in the agricultural sector. According to President Putin, the sanctions will not be lifted until absolutely necessary. Regarding regular tariff barriers, however, the World Bank records a constant drop of the weighted mean applied tariff rate from 6.67% in 2011 to 2.8% in 2015.

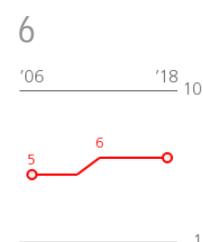
In 2010, Russia formed the Eurasian Customs Union with Belarus and Kazakhstan, which allows for common tariffs and removes customs duties and other barriers to mutual trade, with the exception of certain protective measures designed to prevent price dumping. In January 2015, the Customs Union was upgraded to the Eurasian Economic Union including Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia. Whereas the four smaller countries are looking at this union as an economic organization, for Russia there is also a political goal. That was made clear when the above sanctions were set in motion against the U.S. and the EU. Even though only Russia initiated them, the other member states suffer too – except for Belarus, which is proficient in re-exporting activities. In general, Russia advocates trade liberalization – as long as it fits its geopolitical goals.

Although Russia has a two-tier banking system and a central bank that is eager to demonstrate its independence, the Russian banking sector remains underdeveloped and is still not able to perform its economic function as a financial intermediary. Moreover, the banking sector is dominated by state-owned banks. Regulation of the banking sector has some deficits and the adoption of international standards (Basel II, Basel 2.5, Basel III) is proceeding slower than originally planned and slower than in many other countries.

Liberalization of foreign trade



Banking system



The international financial crisis of 2008, combined with the 2014 to 2016 economic recession, has put a heavy strain on the already weak Russian banking sector. But the Russian state guaranteed the banking system's liquidity. In 2008 and 2009, the government spent a total of \$31 billion to support the financial sector. About half of the money was used to recapitalize banks and other financial institutions. 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 to commercial banks. Such state support has been reinstated in the wake of the current economic crisis. This support was instrumental in helping Russia's banking system to cope with the problem of non-performing loans (8.3% in 2015). According to the central bank, in 2015, risk-weighted assets increased by 11.8% (in 2014, by 20.9%).

The number of banks in Russia is still disproportionately high. In December 2014, there were about 842 banks operating in Russia, including 74 banks with only foreign capital. All of these banks were included in the system of securing deposits. At the same time, the Russian authorities are pursuing a rather consistent policy of "sanitizing" the banking system by gradually revoking the banking licenses of the weakest banks. As many as 112 banks ceased to exist in 2016. Most of them were small, as a result of which – and due to the system of securing deposits – their liquidation did not cause any significant tensions.

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 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 spent more than \$100 billion to defend it. The result was a controlled depreciation of the currency and an only temporary increase in inflation.

However, the economic sanctions imposed on Russia following the Ukraine crisis combined with a depreciation in world oil prices led the central bank to reverse its exchange rate management strategy. In order to prop up the ruble, the central bank sold \$76 billion and €5.4 billion of its foreign currency reserves, with little effect. Subsequently the central bank adopted a free-floating exchange rate policy. Following this policy reversal, the ruble recovered by over 10%, having previously lost more than 40% of its value. In January 2015, the RUB to USD exchange rate

Anti-inflation /
forex policy

9



1

stood at 58.75, compared to 33.19 in January 2014. The ruble reached its next low point in January 2016, when it traded at 77.18 to 1 USD.

Since then, through a combination of stabilizing oil prices, the end of open battles in Eastern Ukraine, and some improvement in the national economy, the Russian monetary authorities succeeded in achieving greater stability for the national currency, and even an appreciation to 61.54 against the U.S. dollar by the end of 2016. Even though the central bank is under political pressure, thus far it has preserved quite a good deal of autonomy. According to a preliminary estimate by the Russian statistical agency Rosstat, in 2016, the country achieved a record low inflation of 5.4%. In this sense the Russian authorities were quite successful.

Over the last decade, Russia has adhered to a consistent austerity policy that regularly led to budget surpluses. This allowed for a significant reduction in the sovereign debt owed to foreign actors, from over a third of GDP in 2000 to 2% of GDP in 2008. However, this contrasts sharply to trends in private debt owed to foreign actors.

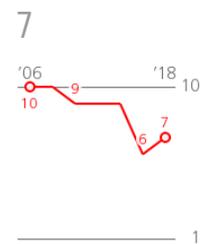
The saving of windfall profits in the Reserve Fund allowed the Russian government in autumn 2008, and again from 2014 to 2016, to react to the economic crises with extensive liquidity support and stabilization programs. The situation worsened in 2014 and 2015 because of additional costs to finance the separatists in Donbas, the incorporation of Crimea and the military's expedition in Syria. The government cut budget expenditures by 10%, excluding pensions and defense expenditures that together amounted to a staggering 9% of GDP for the first quarter of 2015.

A side effect of the current economic crisis is a considerable improvement in Russia's current account balance, from 1.6% of GDP in 2013 to more than 7% of GDP in 2015. While a depression in GDP rates can partly explain this trend, it is largely attributable to a substantial reduction in imports resulting from Russia's counter-sanctions against Western countries and the low ruble exchange rate.

The fiscal deficit worsened in 2016. Although expenditure cuts were undertaken from the beginning of the year, the federal budget deficit widened in the first nine months of 2016, when it stood at 2.6% (compared to 1.1% in the first nine months of 2015), according to the World Bank. This is because expenditure cuts only partly compensated for the revenue shortfall from the oil price shock. According to a statement made by President Putin, in 2016 the federal budget deficit reached 3.7%. Adherence to the proposed medium-term fiscal framework envisages fiscal consolidation in the 2017 to 2019 period. The 2017-2019 law on the federal budget (which assumes a conservative oil price of \$40/bbl) envisions consolidation mainly through expenditure cuts and some revenue mobilization efforts.

The Russian government is still interested in a well-financed budget and a positive trade balance. But geopolitical decisions in connection with state security enjoy higher priority than the economy.

Macro Stability



9 | Private Property

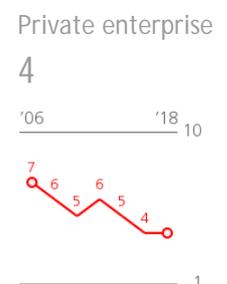
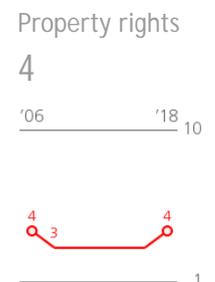
Property rights and the regulation of the acquisition of property are defined by law. With the exception of the sale of farmland, legal provisions are in place. They are not, however, consistently implemented or adequately safeguarded by law, especially against state intervention. In sectors deemed strategic (e.g., the oil industry), the state has systematically reduced the share of private owners through administrative pressures, which has led either to confiscations or to negotiated sales.

The state-owned company Rosneft paid \$44.4 billion in cash between 2012 and 2013 to acquire Russia's second largest private oil company, TNK-BP. In another salient case, Bashneft, a major oil company, was "deprivatized" when the AFK "Systema" company was forced to hand it back to the state in 2014, having originally bought it from the state in 2009. The "double" privatization of Bashneft and Rosneft in October to December 2016, when Bashneft was acquired from the state by Rosneft, was also very problematic. It involved a prolonged political debate and apparently had a side effect in the form of the arrest of Minister of Economic Development Aleksey Ulyukaev on corruption charges because he criticized the deal.

Some property rights, especially copyrights, are ignored on a regular basis.

According to the IMF the state now controls 71% of the economy, which is almost twice the 38% share it held in 2006. This is the result of the government's attempts to bring "strategic" enterprises back under state control, especially in the field of oil production. But under conditions of economic crisis, efforts are underway to reduce the scope of state intervention in the economy, including through an acceleration of privatization. These efforts are not entirely fruitless, as attested by the partial privatization of Alrosa and Rosneft in 2016, but they remain clearly insufficient in terms of reducing the level of state control over the economy.

The share of small and medium business is only 16% and is decreasing. The lack of sufficient protection for property rights is a major constraint on the vibrancy of the private sector, particularly concerning SMEs. In many cases, well-connected business people or civil servants have managed to strip successful business people of their property with the help of law enforcement agencies, tax authorities or sanitary inspectors. The government is well aware of this development, but is either unwilling or unable to control such takeovers.



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 are reduced by widespread red tape and corruption. Though pension payouts and unemployment benefits have been increased considerably in the 2000s, they are still insufficient in covering basic needs. Without additional income – such as a job in the shadow economy, private farming or family support – some social groups are at risk of slipping into poverty. The bigger cities have large numbers of homeless people without access to public social facilities.

Improvement in the state's social insurance systems has been limited. Reforms of the state's social welfare system have been aimed at liberalization. However, most Russians lack the financial means for private insurance and, especially with regard to the pension system, private companies are underdeveloped.

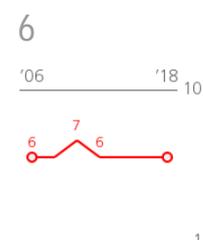
Special government programs to improve health care and fight rural poverty have had only limited effects so far, primarily because of the magnitude of the problem. Inefficiency within the state bureaucracy adds to the dilemma. According to OECD data for 2015, Russia spent 5.9% of GDP on health care, well below the 6.2% registered in 2012 and far behind most advanced economies. Yet 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 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 North Caucasus, are subject to systematic discrimination in the education system and on the job market. For instance, in Moscow citizens from that region have been banned from working at public markets.

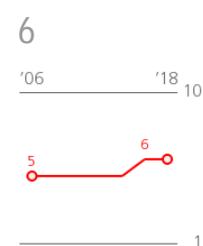
Social exclusion extends to people living in the North Caucasus where, in many regions, living standards and wages are far below the national average and a quarter of the population is unemployed. There are also a good number of homeless people in the larger Russian cities.

Throughout the country, women have equal access to education. According to the World Bank, the ratio of female to male tertiary enrollment in Russia was last measured at 125.97, which is very high by international standards. Russia's labor force participation rate, female (% of female population ages 15+) is 57%, approximately at the same level as in Germany (54%). At the same time, women are underrepresented in politics. For example, according to the Inter-Parliamentary Union, Russia ranks 154th out of 190 countries on the parameter of women's

Social safety nets



Equal opportunity



representation in national parliament (15.8%). The participation of women in business is also limited, especially in the large corporate sector, but no exact figures are available.

11 | Economic Performance

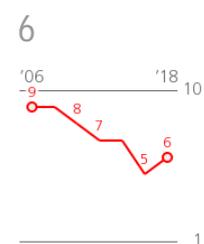
Until 2008, when the global economic crisis hit Russia, the country's macroeconomic performance had been very strong. GDP grew by 70% from 2000 to 2008. In 2006, GDP grew by 8% and fixed investments increased by 17% (though they were at rather low levels to begin with). Then the economic crisis hit. From 2008 to 2009, GDP fell by more than 8%, fixed investments dropped by 17%, inflation (CPI) rose to 12% and unemployment to 8%. Since 2010 and in line with global trends, the Russian economy has started to grow again. However, the national economy barely reached its pre-crisis levels. Furthermore, this recovery has not been felt across Russia; nearly half of the country's regions have not recovered positive growth rates. After reaching 4.5% in 2010, Russia's economic growth rate slowed, dropping to 3.4% in 2012, 1.3% in 2013 and 0.6% in 2014.

In 2015 Russia entered into a period of recession with a growth rate of -3.7%. The recession continued in the first half of 2016, as real GDP contracted by 0.9%. Worsening terms of trade in the first half of 2016 resulted in a reduction in the current account surplus to 3.0% of GDP (from 7.1% of GDP in the same period in 2015). By the beginning of 2017, the Russian economy had been in recession for about 20 months.

At the same time, foreign investment is down. The reasons for this downturn are hotly debated and include the adverse effects of the depression on the global energy and raw materials markets, the collateral damage of the Ukrainian crisis and the exhaustion of Russia's resource-based economic model with insufficient modernization and diversification. The World Bank projects Russia's real GDP to recover to 1.5% in 2017 and 1.7% in 2018. The decreasing real disposable incomes of the population contributed to the government's efforts to contain inflation. According to the Russian statistical agency Rosstat, in 2016 the country achieved a record low level of inflation of 5.4%.

According to Rosstat, the unemployment rate in Russia was slowly growing, reaching 5.6% in January 2017. When assessing this rather low figure, it has to be taken into account that according to Deputy Prime Minister Olga Golodets, at the same time, about 6% of Russia's labor force receive salaries at the minimum wage level, which is well below the official subsistence level.

Output strength



12 | Sustainability

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 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).

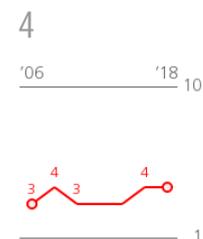
Nevertheless, in 2012, then President Medvedev issued a decree which was meant to guide Russia's environmental policy until the year 2030. The decree acknowledged several ecological challenges, including global challenges like climate change and domestic challenges like air pollution. There are also some remarkable success stories, such as the closure of the pulp and paper mill at Lake Baikal on January 1, 2014, following years of debate and the loss of 1,000 jobs.

A long-term political effort to reduce the country's economic dependence on raw materials production would reduce the negative impact these industries have on the environment, but this is not on the political agenda. Relevant support for renewable energies is only slowly being addressed. At the same time, the recent economic downturn in Russia has dealt a blow to its renewable energy sector. The depreciation of the ruble made many projects too expensive, as they rely on imported materials, such as the construction of a solar power station in Astrakhan Oblast.

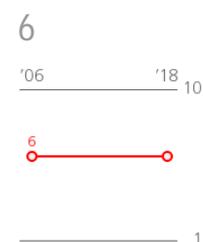
Russia inherited from the Soviet Union an education system with relatively high standards. Under post-Soviet conditions, however, the country has been unable to put this potential to good economic use. Instead, Russia has suffered from the mass emigration of the finest and the brightest. Funding shortages and increasing corruption have greatly reduced the quality of the state education system. The private education sector has not sufficiently developed to make up for the public sector's shortcomings.

The Russian government has reacted by declaring education a top priority as one of four national projects to receive considerable additional funding. In 2012 spending on education reached 4.15% of GDP. However, the 2014 economic crisis led to significant spending cuts. According to the Higher School of Economics, a Moscow-based university, in 2015 to 2016 the overall squeeze of the budget brought spending on education to its lowest level as a percentage of GDP since 2006. Russia has joined the Bologna Process, which aims to establish common European academic standards. But only a few academic institutions (mainly in Moscow and St. Petersburg) are able to teach according to these standards. Research and development 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 spending and output. In 2010, the government announced an ambitious goal of strengthening the positions of Russian universities

Environmental
policy



Education policy /
R&D



among the world's top universities. Ten research universities were established and assured of substantial financing from the federal budget. In 2016 Times Higher Education did indeed register some improvement in the international standing of Russia's leading universities, including higher scores for Moscow and St. Petersburg state universities, and an overall increase of the number of Russia's universities belonging to the top 200 to 24 (from 13 in 2015).

The Russian government has declared research and development a top priority, with spending hovering around 1% of GDP in recent years. A government-initiated project to create a Russian Silicon Valley in Skolkovo, near Moscow, has not had any discernible effect on innovation within the Russian economy. Moreover, since Putin's return to the presidency, the project has fallen out of favor.

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 at decreasing corruption and providing provincial schoolchildren access to the best universities, this system – though certainly an improvement – remains fraught with problems, as demonstrated by scandals involving unusually high results for students in some regions, especially in the North Caucasus.

Governance

I. Level of Difficulty

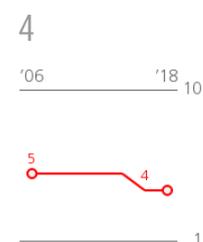
The structural constraints on governance in Russia are moderate, and key indicators show a relatively high level of socioeconomic development. The country has an educated workforce that is, however, shrinking by 0.7 to 0.8 million people a year as a result of demographic shifts. A decline in health care standards, an increasing rate of alcoholism and an aging population are still generating serious demographic problems. Russia's population declined from 147 million people in 2000 to 143.7 million in 2014, increasing to 146.3 in 2015 with the inclusion of Crimea, and estimated at 143.4 as of January 2017, based on the latest United Nations estimates.

Russia's sheer size in landmass and physical geography continues 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 located, remain essentially cut off from Russian and global markets. Russia has yet to develop high-speed transcontinental rail links and, no less important, a modern highway system. These failures make transporting goods and raw materials difficult and costly.

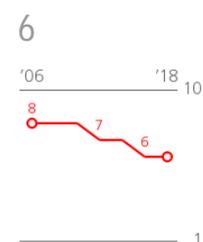
Throughout most of Russia's history, society was subject to considerable repression. But starting under Tsar Alexander II Russia's citizenry became more active, fighting for rights and against appalling social conditions, especially in the cities. The uprisings against the old regime at the beginning of the 20th century came as no surprise. The first constitution was implemented together with the first parliament in 1906. Still, society had the burden of being very much dependent on the state.

A breakthrough for civil society in the Soviet Union was the CSCE Final Act of 1975, in which human rights were given a prominent status. This is the period in recent history to which NGOs today mainly refer: dissidents and human rights activists of the late Soviet period, which explains their deeply rooted political motivation. Independent NGOs started to develop in the late 1980s and their number exploded in the 1990s. Since then, civil society has been diversifying, engaging in a greater number of issues. Those organizations that have pursued a political agenda critical of

Structural
constraints



Civil society
traditions



the regime have been increasingly subject to state pressure. In general, however, Russia's civic associations cannot be realistically described as either numerous or active in public life.

Trust in institutions is low in Russia. A culture of participation in public life is developing, but at a slow pace. Social capital, in the sense of informal networks needed to get things done, was a matter of survival in the Soviet Union; in the Russian Federation from 1992 onwards, less so. But, according to opinion polls, the importance of strong social networks among relatives, friends and beyond is growing again.

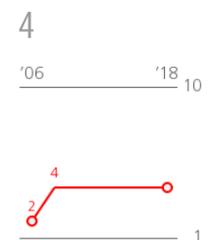
The ruling political elite around President Putin has embarked on a fairly confrontational approach to national politics. Many of Putin's political associates perceive politics in terms of "us versus them," which has resulted in several opposition figures and political movements being subject to discrimination and becoming the targets of populist slogans, biased media reports and police raids. The political leadership's capacity to dominate public discourse has created an atmosphere of passivity among much of the Russian population and marginalized the opposition. This approach has been backed by an informal social contract, according to which it is understood that the state provides the foundation for a fairly stable and decent life so long as society does not meddle in politics.

But the contract has come under pressure in the recent past. The political protests of 2011 and 2012 waged in the country's larger cities demonstrated that divisions in Russian society are potentially strong. In 2015-2016, however, a combination of overt repression against the opposition and successful pro-government nationalist mobilization made it possible for the Russian authorities to significantly reduce public displays of discontent.

In the North Caucasus, ethnic and religious conflicts have the character of a low-intensity civil war with regular terrorist acts. Apart from this, visible divisions within 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.

But the constant criticism of Western thought has led to greater xenophobia and anti-Semitism than seen for a long time. The approach of "us against them" has been used many times in Russian history and is returning with heavy support at the top level. But it has not yet taken deep roots in Russian society.

Conflict intensity



II. Governance Performance

14 | Steering Capability

Whereas Russian policies under President Yeltsin (1991–2000) presented a largely desolate picture of incompetence and short-term power grabs, his successor Vladimir Putin immediately defined and pursued clear, long-term priorities that have characterized the policies of his and Medvedev’s (2008–2012) administrations.

However, these long-term priorities are partly inconsistent with the goal of establishing a democracy and a socially based market economy. Politically, the government is primarily concerned with maintaining the executive’s control over the legislative process. Stability at all costs is the goal, in contrast to the historical “times of trouble,” as the Yeltsin years are currently portrayed (the real “times of trouble” occurred in the 17th century when Poles briefly ruled in the Kremlin). Economically, the state is primarily concerned with expanding its presence in this sphere and promoting growth, in part through direct intervention.

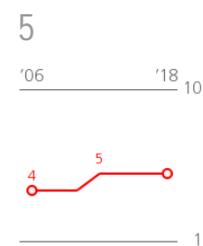
In May 2012, President Putin laid out a dozen ambitious long-term goals by decree. The strategic goals included creating 25 million new jobs by 2020, a 50% increase in labor productivity, and an improvement of Russia’s World Bank Ease of Doing Business ranking from 120th to 50th by 2015. In 2014 to 2016, however, the implementation of the May decrees, while officially remaining an important part of the government agenda, effectively lost momentum. None of the quantitative indicators set in 2012 have been achieved, with the exception of the Ease of Doing Business ranking, according to which Russia was ranked 40th in 2016.

Military modernization costs money, as do geopolitical maneuvers. The government’s focus has shifted toward foreign policy concerns, which in the cases of Ukraine and Syria proved very costly. These were ad hoc policy decisions that contradicted declared foreign policy interests. Because of the fast-changing international landscape, Russia has been adjusting with new concepts. However, due to Russia’s reactionary mode, the goals that are set are rarely achieved.

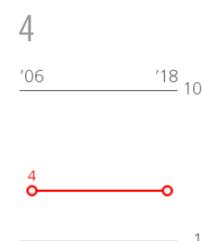
Although the government sets and maintains strategic priorities, its capacity to implement policy measures is limited. The main problem is the deficient capacity of the state administration, which has repeatedly proven unable to realize large-scale projects due to insufficient resources, corruption and incompetence. This is related to the fact that strategic policies such as health care, welfare provision and education, in which the interests of different elite groups overlap, and which depend on support

Question
Score

Prioritization



Implementation



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 in which one pet project substitutes for a systematic support program. A case in point was the Olympic Games in Sochi in 2010. It was strategic because it entailed development of the North Caucasus. But it also revealed many weaknesses, such as the inefficient use of resources, corruption and the lack of a sustainable approach to erecting the newly built infrastructure.

Nevertheless, 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. In 2015 through early 2016, the so-called “economic bloc” of the Russian leadership, including the Ministries of Finance and Economic Development and the central bank, took credit for preventing an uncontrollable deterioration of Russia’s economy, contrary to the predictions many analysts made in 2014, and succeeded in achieving some long-standing goals, such as curtailing inflation.

The failure to implement most important reform projects targeting modernization was, on many occasions, acknowledged by Vladimir Putin and Dmitry Medvedev. The reason is not new in Russia, which can only handle a certain amount of modernization under authoritarian rule. Too much progress is seen as threatening the integrity of the country, as happened twice in the 20th century. The agents of modernization are usually to be found in the Ministries of Finance and Economy; the critics in the Ministries of the Interior and Defense.

In response to administrative and political resistance to reform, the government has increasingly resorted to power and pressure tactics. Usually one prominent person gets fined or arrested to show the rest what the government is capable of doing. This practice occurs in the federal and regional bureaucracies.

At the same time, political criticism originating from outside the president’s circle (as opposed to criticism of weaknesses in the state administration by the president or the prime minister themselves) is received with increasing reluctance. Independent decision-makers, advisory bodies and civil society organizations have been increasingly brought under the Kremlin’s control, and opposition voices 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.

One of the few areas where different opinions are welcome is in developing and implementing the financial and economic strategy of the country. President Putin is open to advice from former Minister of Finance Aleksey Kudrin. Since 2016 he has drafted a reform program, based on a free and democratic Russia that has friendly

Policy learning

5

'06 _____ '18 10



1

relations with its neighbors. Arguably, the Kremlin's willingness to accept advice from the so-called "systemic liberals," such as Kudrin, might increase the Russian leadership's ability to cope with the partly self-inflicted problems of the country. It has to be emphasized, however, that the number of such channels of policy learning is limited, as it is restricted to a small number of people trusted by Putin; no new channels of this kind are likely to emerge in the near future, and flexibility in coping with economic problems does not translate into a similarly flexible approach in other policy domains, particularly in foreign policy.

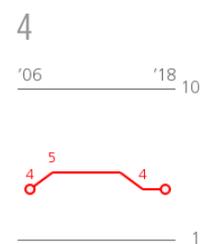
15 | Resource Efficiency

Although reforms have improved resource efficiency considerably in the last decade and although a stringent austerity policy has rendered government funds more efficient, the use of human and organizational resources continues to suffer at the hands of an often corrupt and only modestly competent state bureaucracy.

The state budget has been consolidated. The level of state debt has been considerably reduced. External corporate debt, however, in mid-2014 exceeded \$653 billion or 35% of GNP, and continued to increase in 2015 to 2016. Budget planning and spending have improved considerably. However, 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 standards, oversized. However, its organizational structure and code of behavior often lead to considerable inefficiencies. Although the president stresses on a regular basis the need for administrative reform, reorganizations have not led to substantial improvements as they do not tackle the problems of corruption, inefficiency and conflicts over competencies. As a result, the coherent strategy of the political leadership, which is often translated into less coherent legislation, is regularly distorted when it comes to implementation on the federal or regional levels.

The ongoing economic crisis in Russia, which was a particularly pressing issue in 2015, generated additional pressures on the state budget. The medium-term expenditure framework for 2017 – 2019, adopted in 2016 by the State Duma as part of the national budgeting process, envisions further consolidation mainly through expenditure cuts and some revenue mobilization efforts (with the exception of changes in most non-oil tax rates which have been postponed until 2019, thereby postponing the uncertainty concerning the overall tax regime). Expenditures would decrease by 3.7% of GDP over this three-year period, with the three biggest cuts to occur in national defense (-1.8% of GDP), social policy (-0.5% of GDP) and national security (-0.4% of GDP). At the same time, revenues would be mobilized predominantly from the dividends of state-controlled companies and higher taxes on the energy sector. These prospective indicators, however, have to be viewed in light of the fact that in the past many similar efforts suffered from poor implementation.

Efficient use of assets



In reaction to these implementation problems, the government has increasingly abandoned the goal of decentralizing political power as foreseen in the Russian constitution and practiced under the Yeltsin administration. Instead, 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. Competitive recruiting is secondary.

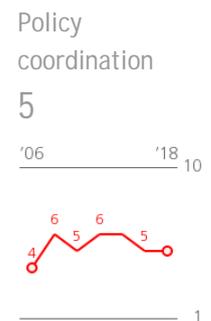
Due to the increasingly central role of one person – Vladimir Putin – and his inner circle in Russia’s political system, policy coordination is predominantly hierarchical, and at the discretion of the president and his apparatus. The president makes use of presidential commissions which are composed of government ministers, advisers and presidential appointees. Since the outbreak of the Ukrainian crisis, the National Security Council, headed by the former director of the secret police (the FSB) Nikolai Patrushev, has become an important advisory and decision-making board.

Beyond the National Security Council, the Russian state’s executive branch is divided into rival networks that are based in part on ideological divisions, but also increasingly on competition over access to rent-seeking opportunities. The more liberal and Western-oriented reformers, who were in charge of the broad lines of economic policy in the 1990s, but also under Putin and Medvedev until 2012, have been mostly sidelined by politicians with a secret service or law background, and by the siloviki.

But financial policy and economic policy are still dominated by politicians with a vision of liberal policies. The attempts of the siloviki to make Putin more attentive to the economists favored by them have so far been unsuccessful. Former Minister of Finance and prominent economic liberal Aleksey Kudrin, while forced to resign from government in 2011 due to a disagreement with Medvedev over military spending, remains influential and trusted by Putin.

Since the Yukos affair of 2003, the state executive is increasingly marked by conflicts between different government camps over competencies and especially over control of state-owned enterprises. The situation is less stable than standard analysis suggests. For instance, 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.

Yet, despite this capacity, the Ukraine crisis demonstrates that the balance of power between liberal-minded economists and orthodox siloviki has further moved toward the latter group, which implies that geopolitical interests will always have priority.



Corruption is widespread in Russia and poses a heavy burden on any development. This impression is shared not only by independent experts and surveys of foreign as well as domestic business people, but also by top state representatives, including the president, who regularly cites corruption as a key problem hindering modernization and the path to becoming a prosperous and just state.

This situation can be explained by the near complete lack of functioning integrity mechanisms. State auditors are often competent, but lack enforcement powers. Rules to hold politicians or bureaucrats accountable are seldom enforced in practice. While public procurement processes remain open to manipulation, the introduction of mandatory tenders has improved the regulation and transparency of these processes.

Corruption is not systematically prosecuted by the courts, which themselves are partly corrupt. Civil society is too weak and passive to have a real impact, while the media and NGOs are systematically discouraged from speaking out or taking on alleged anti-corruption cases and public integrity issues.

In 2015 to 2016, Russia witnessed several widely publicized anti-corruption cases involving high-ranking state officials at the governor and, in one case, even the federal ministry level.

Yet systemic counter-incentives against corruption remain weak. This is partly because society itself sees bribing bureaucrats as the only way to get things done. Trust in the police, the courts and government administrations is, according to opinion polls, very low.

16 | Consensus-Building

The elite consensus developed under the current government is not primarily oriented toward the creation of democracy. While adherence to democratic ideals remains a part of the public rhetoric of Putin and some of his close associates, especially Dmitry Medvedev, the focal point of the consensus achieved by Russia's major political actors is "stability," which is implicitly understood as preservation of the current model of political control. According to official pronouncements, democracy is a long-term goal, achievable only by evolution of the political and social systems, not through revolution. To maintain stability, elections are manipulated to ensure the victory of pro-presidential parties and candidates. These political manipulations render democratic processes increasingly meaningless. Actors in favor of democracy, such as the political parties Yabloko and PARNAS, have been increasingly marginalized in recent years and have had free access to public discourse constantly curtailed.

While the fundamental principles of a market economy are not rejected by Russia's key political actors, these principles are ignored in practice. The reason: the elite

Anti-corruption policy

3

'06 _____ '18 10



1

Consensus on goals

4

'06 _____ '18 10



1

consensus developed under President Putin is not primarily oriented toward the creation of a market economy but toward a model of a limited market economy. This combines the state as a major instrument in coordinating economic activities with some market mechanisms. These, however, are subject to manipulation in the interest of the elites. Accordingly, market rules are bent to support state enterprises.

Representatives of genuinely democratic movements have been marginalized in Russian politics. There are only a few relevant pro-democratic reformers represented in the ruling federal and local elite. These reformers are predominantly concentrated in the economic management.

But because of the importance of the economy as a foundation for global power, reformers within state structures and in the government have at least limited leverage over anti-democratic actors. A case in point is the reform program devised by Aleksey Kudrin. At best, the core representatives of the regime adhere to democratic principles selectively.

During his first two presidential terms Putin achieved considerable progress in consensus-building, compared with his predecessor Yeltsin. Putin's opponents in the regions have also seen their position weakened. A large although decreasing majority of the population supports Putin and his team, who center their political rhetoric on the need for broad-based collaboration to ensure stability.

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 from a majority of the population. On the other hand, the 2011 to 2012 protests revealed some potential for discontent in Russian society.

In 2014 to 2016, the Putin leadership succeeded not only in downsizing pro-democracy sentiment among the population, but also, due to the nationalist political mobilization that resulted from the annexation of Crimea and Russia's involvement in Eastern Ukraine, in securing unprecedented, high levels of public support. It was only in the second half of 2016 that some of the public opinion polls started to register a modest decline in Putin's popularity, which analysts tend to explain as resulting from economic hardship. Yet as of the beginning of 2017, the only cleavage-based conflict the political leadership has not been able to bring under control is the separatist (ethnic/religious) conflict in the North Caucasus.

Officially, the state executive seeks a dialog with civil society. For this purpose, President Putin, in April 2005, initiated a Public Chamber, consisting of citizen representatives and CSOs, and intended both to advise decision-makers on a wide range of public issues and to serve as a kind of ministry tasked with civil society issues. The chamber has so far had little influence on political decisions or public debates. Many of its members represent government-created NGOs, while some

Anti-democratic actors

3

'06 '18 10



Cleavage / conflict management

7

'06 '18 10



Civil society participation

3

others are prominent public figures who are supportive of the government, but lack any relation to civil society.

Another such organ is the Presidential Council for Civil Society Development and Human Rights. The council is composed of a large number of representatives from civil society and academia, some of them independent-minded. The president holds consultative meetings with the council or its chairman twice a year. On more than one occasion, the council has voiced serious concerns and criticism of government decisions. For example, it questioned the validity of the referendum in Crimea. The policy impact of the council is, however, minimal and its critical statements receive little attention in the media.

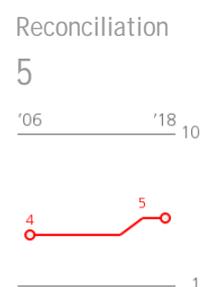
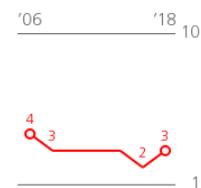
Both civil society and the mass media risk serious harassment from state organs when they engage in unwelcome criticism of the state. Most mass media outlets have been brought under state control and the creation of the chamber in combination with the restrictive NGO laws appear to bring civil society under control. Those remaining outside state control are often oppressed or ridiculed.

In one area the state has shown interest in cooperation and advice, especially in rural regions: when activities are oriented toward social policy, not toward political engagement or even criticism of federal leadership. Local administrative bodies are not protected from criticism by local NGOs.

Dealing with past injustices is not a major topic in Russia. Attempts 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. The Soviet victory over Germany, although achieved together with the Allied powers, remains a major component of Russian identity.

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. In 2015, the Kremlin also gave the green light for a monument to be built on Academician Sakharov Prospekt commemorating the victims of Stalin's mass repressions. In 2014 to 2016, however, this tendency was decisively countered by portraying Russia's current foreign policy as a direct continuation of the strength and prestige of the Soviet Union, which naturally invites a less-than-critical attitude toward the Stalin era.

The preparations for the celebration, or rather commemoration, of the 100th anniversary of the October Revolution shows the ambiguity toward Russian history: Was it a good historical revolution that catapulted Russia into becoming a superpower, or was it the first "color revolution" that severely crippled Russia's transformation into a successful country at the beginning of the 20th century?



17 | International Cooperation

During the third term of Putin's presidency, international cooperation with Western partners on the state or the society level has not been high on the agenda. And the need for "assistance" has been completely discarded. The modernization partnership with the EU, initiated under his predecessor, has been largely abandoned, chiefly because of the annexation of Crimea.

But since Russia wants to be a global power, Moscow is interested in some cooperation. The Iran negotiations are one example, the war in Syria another. Whenever Moscow sees a chance to get involved globally, as in the G20, it is willing to work on a common goal together with other countries, even through a binding roadmap. But this approach is not strategic and long-term but rather tactical and short-term – and primarily meant to bolster its global role.

Within a conceptual framework aimed at defining Russia as a global player, the Russian government behaves accordingly in international politics. It is attempting to become a power on its own, oscillating between the EU and China in Eurasia and having good relations with the U.S., when that fits Russian interests. As a side effect of this approach, Russia's leadership views all aspects of domestic policy, including human rights issues, as its exclusive domain to be protected from any foreign involvement, which leads to low compliance with international agreements and standards in the area of human rights.

This conceptual framework does not prevent Russia from honoring or even promoting some of the important international agreements and cooperation projects, particularly with regards to environmental policies. However, this conceptual framework does have serious ramifications for Russia's credibility in the international arena. Russia treats the CIS region as its sphere of influence and reacts to conflicts that might threaten its own security with increasing assertiveness. The unilateral recognition of South Ossetia and Abkhazia as independent states is a case in point, which also has a tone of revenge: Since the EU considers Kosovo an independent state, Russia does the same with the two above-mentioned regions.

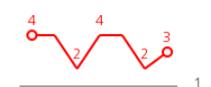
The worst cases are the annexation of Crimea and the armed conflict in Ukraine where the Russian military is actively involved. This has not only led to a rise in tensions with the EU and the U.S. on a scale comparable only to the Cold War. But the Russian policy of treating this conflict as a secret service operation, with the associated dishonest and contradictory statements from government sources, has devastated the credibility of the current Russian leadership.

A similarly dishonest and controversial stance has been taken by Russia with regards to its military involvement in the conflict in Syria. While officially aimed at fighting terrorism, the operation has been targeted primarily (and increasingly) at protecting

Effective use of support

3

'06 '18 10



Credibility

3

'06 '18 10



the Assad regime against the Syrian opposition, as epitomized in the regime's takeover of Aleppo from the opposition in December 2016. At the same time, the activities of the main terrorist group, IS, have not been seriously targeted by the Russian military.

Another problematic activity is Russia's increasing support of populist movements in EU countries. Moscow tries to use its financial resources to influence the internal politics of EU countries and of the U.S. Hacking is another tool, though it remains unproven. This is connected to the alleged involvement of Russian intelligence in the 2016 presidential election campaign in the U.S.

Yet these activities have also to be seen against the backdrop of violations of international law by the U.S. and its allies – as in the case of Kosovo in 1999 or the invasion of Iraq in 2003. Russia has repeatedly pointed this out, without being heard.

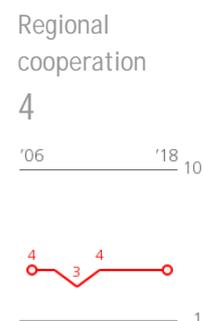
Russia has used its permanent seat at the U.N. Security Council and its close relations with some states facing considerable international pressure (e.g., Iran, Syria or Venezuela) to hinder international conflict resolution. But again, after having agreed to intervene in Libya, the mission was then used to topple the government – which was not covered by the U.N. mandate.

Serious conflicts over Russian energy exports that have led to supply interruptions in the European markets are also a matter of serious concern for countries in Central and Eastern Europe.

In relations with neighboring countries, Russia applies a foreign policy aiming for regional hegemony. However, Russia has been unable to transform the CIS into its own “backyard.” Some CIS countries, like Kazakhstan, Belarus or Armenia, have accepted Russian dominance in return for preferential economic treatment and security guarantees. Others, like Uzbekistan, have opted for pragmatic cooperation but refrain from closer integration. Some CIS countries, however, 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.

At the same time, Russia understands that a single power in a globalized world needs partners. Therefore, President Putin, since his return to office in 2012, has intensified efforts to enhance economic and political integration, not through the CIS, but through the Customs Union and more recently the Eurasian Economic Union.

In 2013 to 2014, Russia's attempts to bring Ukraine closer into its sphere of influence – or at least prevent it from signing the Association Agreement with the EU – led to large-scale intervention in Ukrainian internal affairs. This intervention included the annexation of Crimea under the pretext of protecting ethnic Russians, and Russia's involvement in the separatist conflict in Eastern Ukraine. None of these problems was resolved in 2015 to 2016, with Crimea remaining under Russia's control and the



separatist “republics” of Donetsk and Lugansk continuing their resistance to all attempts to reincorporate them into Ukraine.

The 2014 to 2015 Minsk agreements on resolving this conflict, while seemingly contributing to cooling hostilities, did not lead to conflict resolution.

As a result of the Ukrainian conflict Russia has seen its fairly well-established relations with Central European countries like Poland and the three Baltic states deteriorating, Hungary being the exception. In general, Russia is unable and unwilling to come to terms with the legacy of its Soviet past and portrays the countries of the former Soviet Union and Central and Eastern European countries as Moscow’s rightful sphere of influence. NATO membership is seen as a sign of revenge toward Russia, and EU membership as a first step toward that end.

Cooperation with China (and to some extent other East Asian neighbors such as South Korea and Japan) clearly follows a different and more conciliatory – and hence more productive – trajectory.

Strategic Outlook

During the period under review, Russia's political transformation has seen a serious setback. The mass protests 2011 to 2012 temporarily confused the regime and were met with an increasingly repressive response. Since Putin won the presidential election in March 2012, numerous legislative changes have consolidated the government's control and further restricted the country's National Assembly and media freedom.

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, NGOs that engage in political activities and receive financing from abroad must register as "foreign agents."

Against a background of anti-Western hysteria, mostly aimed at the U.S. and pumped up by a propaganda machine, nationalist tendencies within Russian society have become radicalized. Prompted by the developments in Ukraine and the search for a "fifth column" among the liberals and Westernizers, human rights activists have been marginalized and tensions within Russian society have increased. To consolidate its power, the political elite around President Putin routinely resorts to anti-democratic measures. These include marginalizing political actors, exercising control over nationwide and regional mass-media outlets and harassing politically involved NGOs.

The international financial and economic crisis marked the end of a long period of strong economic growth in Russia. The economic situation worsened substantially in 2014 due to a combination of several negative factors. These factors included serious flaws in Russia's economic model, weak institutions, economic sanctions imposed on Russia and, especially, the dramatic drop in the world oil price. Faced with economic decline, the Russian government adopted an externally aggressive foreign policy approach and a "besieged fortress" domestic policy approach. (Russia had adopted this approach long before the annexation of Crimea; it is usually dated to Putin's speech in Munich in 2007.)

As a result of these negative tendencies, the current political regime of Russia can be characterized as a variety of electoral authoritarianism, a regime that, while being dictatorial in the basic patterns of power distribution and reproduction, at the same time permits a shallow existence of institutions normally associated with democracy. The flagrant violation of international rules and norms has worsened Russia's economic and political climate. Russia's economic model, based on natural resource extraction, is unsustainable, while economic inequalities between regions are growing and government management is inefficient.

Russia has found itself at an impasse, which it conceals through propaganda, but this approach is unsustainable and almost certainly requires a fundamental turnaround in the future. But since revolutions in Russia are strongly feared by both the state and society, an evolutionary approach

would be desirable. Again, looking at the country's history, a new reform-oriented model must be found, combining state stability, sustainable economic growth and the democratic participation of society. Russia alone will not be able to pursue this course. If the EU and the U.S. perceive Russia only as a threat, which it partially is, very little movement can be expected. But one should not forget that a failing Russia is not in the interest of Europe as a whole.