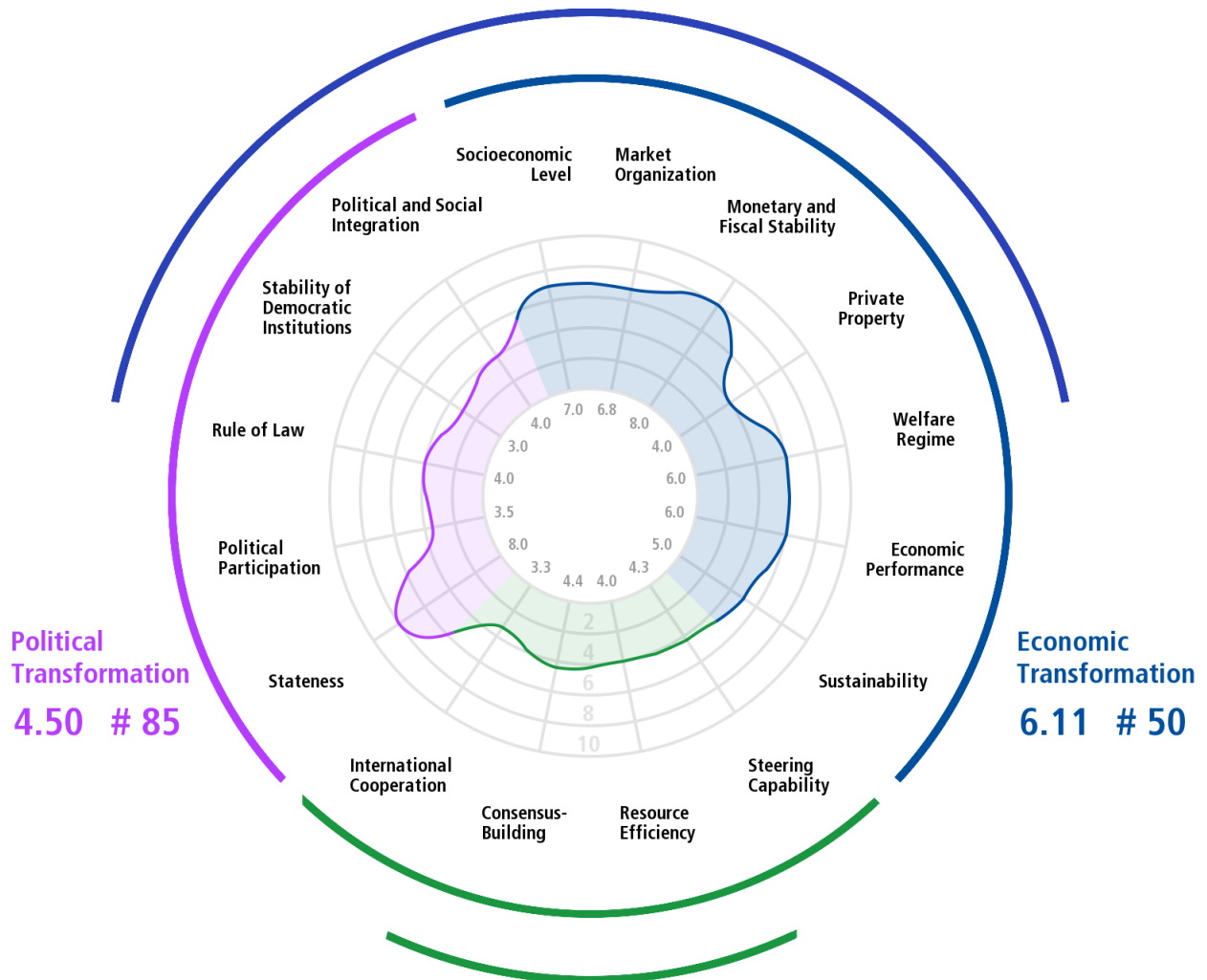


Russia

Status Index

5.30 # 73

on 1-10 scale out of 137



Political Transformation
4.50 # 85

Economic Transformation
6.11 # 50

Governance Index

3.47 # 114

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	144.5	HDI	0.824	GDP p.c., PPP \$	27147
Pop. growth ¹	% p.a.	0.0	HDI rank of 189	49	Gini Index	37.7
Life expectancy	years	72.1	UN Education Index	0.832	Poverty ³	% 0.3
Urban population	%	74.4	Gender inequality ²	0.255	Aid per capita	\$ -

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. 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 influencing the Russian political, economic and cultural landscape for about twenty years – first during two terms as president, then in one term as prime minister and now serving his fourth term as president.

His return to the Kremlin in 2012 was accompanied by large public protests, mainly because of his switching posts with President Medvedev and the fraudulent December 2011 parliamentary elections. These protests provoked a political backlash marked by ever-increasing repression. The Kremlin has reverted to exercising power through suppression of semi-autonomous actors, including private businesses, local administrations, non-state media and politically active 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 little control from representatives at the federal or regional level;
- an even more pronounced role for the “siloviki” (i.e., politicians who began 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;
- an increasingly flexible interpretation of moral and legal norms for those in power with respect to ordinary citizens;
- a drive to be seen as a global power, on par with the United States, 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, support for insurgents in Eastern Ukraine and military intervention in Syria. As a consequence, relations with the EU and the U.S. deteriorated dramatically, and are now reminiscent of the Cold War.

At the same time, Russian allies like Kazakhstan and Belarus have become concerned for their own sovereignty. 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 denied by the Russian authorities.

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 by the population when the international repercussions for Russia's aggressive foreign policy hit the country in 2014. These financial difficulties have persisted through the 2015 to 2019 period. They were, as before, caused by structural deficiencies in the economic system, high dependency on the sale of raw materials, a dramatic drop in world oil prices and, importantly, economic sanctions imposed by the EU and the U.S.

Thus far, the Russian government has coped with these difficulties. Internally, there is no serious political competition, due to the opposition's limited sources and ability to raise its voice. The government has succeeded in finding a balance between the center and the regions, between state and society and between domestic and foreign policies.

There is a clear conviction among Russia's leaders, that as the largest country in the world, Russia can only survive as a power if it is not subordinate to any other states. Most attempts at serious dialog with the EU and the United States have failed. One reason is that Russia's foreign policy interests have been mostly ignored by the EU and the United States.

Russia therefore decided to prioritize security interests by creating a cordon sanitaire around its western and some of its southern borders. These interests, characterized as vital by the Russian government and supported by the majority of the Russian people, are for the time being considered more important than the needs of Russia's economic development.

Russia is facing an old problem: how to adjust the country to the realities of a globalized world, without the government and the elite losing control over the citizenry and without the Russian state collapsing, which happened 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 General Secretary of the Communist Party, Mikhail Gorbachev, during the second half of the 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 President 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 barely surviving. The Yeltsin administration created a political context in which actors without democratic legitimacy (i.e., oligarchs) were able to exercise considerable influence over political decision-making.

The 1992 reform package marked the first milestone in Russia's transformation toward a market economy. 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. Important 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 after President Yeltsin in 1999 appointed Vladimir Putin as prime minister. Putin became Yeltsin's successor after winning the presidential election in 2000. The transfer of power coincided with the growth of Russia's financial clout as the price of oil and other raw materials started to rise and eventually skyrocketed. President Putin enjoyed sustained support from significantly more than half of voters throughout most of his first two presidential terms (2000–2008), as well as when he ran for office again in 2012 and 2018. A key factor in his popularity at the beginning was his resolute handling of the second Chechen war in 1999. President 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 as president in April 2008, Putin accepted a constitutional limit of two presidential terms in a row. His handpicked successor, First Deputy Prime Minister Dmitry Medvedev, won the presidential election with a margin that mirrored Putin’s previous electoral success. Medvedev appointed Putin prime minister, a decision that appeared to confirm speculations that former President Putin was maintaining his hold on power.

Under Medvedev’s presidency, Russia opened up considerably. A “reset” with the United States started, a new START agreement was signed and the president proposed a new security architecture for Europe. There was more social freedom. Think tanks were able to present new ideas for the future of Russia.

In September 2011, Prime Minister Putin and President 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 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 West was 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 along with improved government performance 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 persistent repression of the political opposition and pro-democracy NGOs, the protests of 2011 and 2012 did not recur 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 2018 presidential election returned Putin to his fourth, and presumably last, six-year term in office.

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 challenged only by separatists in the North Caucasus. So far, the Russian military has been unable to establish full control in the region, even though, in the past several years, 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 representatives of Russia's central power. The number terrorist acts in 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, 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 borders for a long time, with a dominant role ascribed to the Russian nation. Xenophobia is widespread and directed primarily at labor migrants from the South Caucasus and Central Asia, and students from Africa. There are also many cases of state employees discriminating against Russian citizens who are members of ethnic minorities from the North Caucasus.

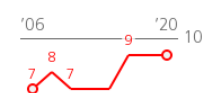
Officially, there is separation of church and state. However, in many respects the Russian Orthodox Church enjoys a privileged status. For example, some government officials publicly demonstrate their denominational preference, while the church occasionally interferes in cultural affairs. Traditional Russian Orthodox values are employed by the Kremlin administration to forge a new ideological identity.

For years, the Russian population has seen the Orthodox Church as one of the most trusted institutions in the country. In 2015 to 2019, these attitudes were increasingly expressed in the state-controlled media and influenced policies on culture and education, as well as, most significantly, the foundation of Russian identity.

Question
Score

Monopoly on the use of force

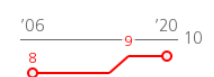
9



1

State identity

9



1

No interference of religious dogmas

7



1

At the same time, the Russian government has adopted an explicitly pro-Muslim stance on several occasions and President Putin has repeatedly pointed out that Russia has one of the world's largest Muslim populations. The Russian military presence in Syria, however, and civilian casualties there pose a challenge in terms of placating Russia's Muslim minority.

Basic administration (i.e., institutions with functioning state bodies of justice, law enforcement and the means of implementing policies) exists throughout the country. However, inefficient and erratic bureaucratization, corruption and, to some extent, a lack of funds have resulted in weak administrative performance. In addition, corruption tends to disadvantage the poor and their access to health services and education.

Although basic services (water supply, transport, communication, health services, education) have been in place throughout the country since Soviet times, 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 and the availability of basic services in many regions. This tendency became more evident as the economic situation deteriorated from 2015 to 2019, and as budgetary constraints forced the Russian authorities to cut necessary funding.

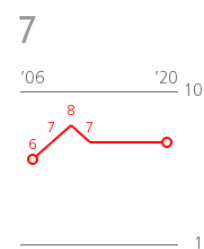
2 | Political Participation

The Russian electoral system is nominally democratic. In actual fact, however, it strongly favors the 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 administrative mobilization.

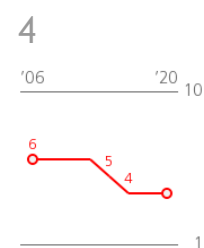
There are severe constraints on candidate registration and media access. In many elections, officials deny registration to opposition candidates and parties. Election campaigns are regularly manipulated by the state administration. This includes biased media coverage on state-controlled TV, the use of 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 evident in the ethnic republics, particularly in the North Caucasus.

The electoral performance of United Russia in the 2011 parliamentary elections was rather poor. It received only 52.9% of the vote and just 238 out of 450 parliament seats. Even these modest results raised the specter of electoral fraud. 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 a plurality rule.

Basic administration



Free and fair elections



The election campaign was very modest. Media coverage was scarce yet biased, without fair media access 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%), the newly introduced single-member district vote allowed it to occupy 343 out of 450 parliament seats. Domestic and international observers noted numerous violations and instances of fraud.

Eight candidates participated in the 2018 presidential elections, including candidates from the main official opposition parties (the Communists and Liberal Democrats). A famous TV journalist, Ksenia Sobchak, claimed to represent pro-democracy voters. The most popular contender, Alexey Navalny, was banned from participating. The campaigns of the opposition candidates clearly indicated that they had neither the capacity nor the intent to win against Vladimir Putin. The lack of genuine competition led to voter indifference, as a result of which the primary concern of the Putin campaign organizers was to mobilize voter turnout rather than to secure his victory, which seemed to be taken for granted. This effort was not in vain. The reported turnout was 67.5%. Putin won with 76.7% of the vote. ODIHR noticed that the elections “took place in an overly controlled legal and political environment marked by continued pressure on critical voices.”

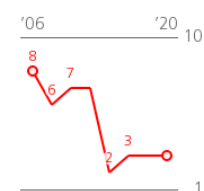
After President Putin replaced gubernatorial elections in 2004 with presidential appointments, direct regional elections for Russia’s governors were reintroduced in 2012. With very few exceptions, the elections were heavily skewed due to so-called official filters, which introduced mechanisms that barred serious opposition competitors. In most of the North Caucasus republics and in some other regions, the old appointment scheme remained in force, which means that regional assemblies ceremonially ratify the president’s direct appointment of the governors.

Officially, elected representatives have full power to govern. The informal power of non-state actors (i.e., oligarchs) has been successfully curtailed by President Putin, only to be replaced by 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 siloviki) have acquired broad political influence. This is indicated by numerous appointments to official positions in government agencies and state-owned companies. Thus, concern about the effective power to govern focuses more on the influence of informal networks, especially shady business deals, and less on the influence of potential veto powers outside the Kremlin’s power circle.

Parliament has virtually no control over the executive branch. At the regional level, governors are the primary decision-makers, in close contact with the central government, while the role of regional assemblies is even more limited than that of parliament.

Effective power to govern

3



The constitution guarantees freedoms of association and assembly, and officials voice support for these rights. However, in practice, there are considerable restrictions. “Non-systemic” opposition parties have been systematically discriminated against by the state administration and state media. Formally, this situation improved after the adoption of the 2012 law on political parties. The new law substantially eased the most prohibitive restrictions on party registration, including unrealistic membership requirements. However, many other restrictions remain in place. Hence, the authorities can still deny registration to parties that are suspected of actual or potential disloyalty. For example, the party of Alexey Navalny has been systematically denied registration.

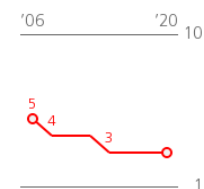
Legislation on public demonstrations has become much more restrictive since 2012. According to the Council of Europe’s Venice Commission, the law violates a number of European standards (e.g., by allowing the authorities to arbitrarily change the location of a rally). Unauthorized demonstrations have, on many occasions, been dissolved by the police using violence and arresting participants. The rights of several important 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 the existing political police structures into a new body, Rosgvardia.

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 “political” activities 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 granted the authority to put NGOs on the “foreign agents” list without their consent. 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, which explains why the number of organizations on the list decreased from 154 in January 2017 to 73 in January 2019, even though some of them continue to operate under different names.

In addition, a law adopted in 2015 introduces the category of “undesirable organizations” and prohibits international NGOs. As of January 2019, there are 15 organizations on this list, including the National Endowment for Democracy, the National Democratic Institute, 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.

Association /
assembly rights

3



The constitution guarantees freedom of expression. Relevant legislation is 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.”

Media coverage of elections is systematically manipulated. Opinions critical of the government are often restricted to a handful of newspapers and radio stations with a very limited reach, primarily aimed at the political and business elite, and confined to the internet. This does not mean that there is no criticism of official policies nor controversial debates in the Russian media. But the Kremlin defines the scope of controversial issues that can be discussed. 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 tax avoidance, inter alia. From 2015 to 2019, several important, critically minded media outlets, such as the internet portal, Lenta.ru, drastically changed their editorial policies in order to comply with ever-growing demands from the authorities. As of 2018, Reporters Without Borders ranked Russia 147th in the World Press Freedom Index (out of 168 countries).

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. In 2018 to 2019, the authorities invested significant efforts in implementing the legal 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 practically amounting to building a Chinese-style “wall.”

According to the Glasnost Defense Foundation, five journalists were killed in 2015, and three in 2016. At least four such instances were registered in 2018. 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 Russia’s system, the president currently de facto controls the parliament. The legislature exercises its supervisory function only to a very limited degree. In effect, no law can be adopted without prior approval by the Kremlin. The presidential administration exercises 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

Freedom of expression

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Separation of powers

3

held a super-majority of seats in the legislature. At the same time, all other parties in parliament display high levels of loyalty to the president and support virtually all actions taken by the administration. The same situation exists by and large on the regional level.

The constitutionally guaranteed independence of the judiciary is seriously compromised by political trials in which courts follow direct orders from the executive, both on the national and the regional levels.

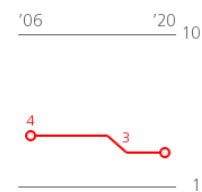
The judiciary is institutionally differentiated and a formally adequate education and appointment system for judges exists. It is also nominally independent, but lower-court decisions in particular are often influenced by corruption and political pressure. The principles of equal treatment and formal 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 executive branch. The more political the case, the more the interference from the state.

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 was a serious blow to what remained of judicial independence.

In 2014, the Constitutional Court ruled that the decisions of international courts may be overruled if they “do not correspond to the Russian constitution.” Furthermore, in December 2015, parliament adopted a new law, according to which judgments from the European Court of Human Rights could be overruled. In November 2018, the Moscow Commercial Court issued a high-profile ruling in which it refused to enforce a decision by the International Chamber of Commerce (ICC) International Court of Arbitration on grounds that the ICC decision contradicted Russian public policy.

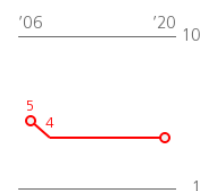
The Russian leadership repeatedly states that corruption is a key challenge to the proper functioning of the state. There are many legal instruments for tackling corruption. For a long time, however, most anti-corruption efforts remained symbolic in nature. Accusations of corruption among the political elite are considered to be instruments in power struggles.

Between 2012 and 2016, the authorities’ anti-corruption activities greatly increased in scale. Some anti-corruption cases from that period were viewed by many observers as primarily or partially politically motivated. But some high-profile cases, particularly those against the governors of Sakhalin and Komi Republic, were genuine. In 2017 to 2018, however, the authorities slowed the pace of their anti-corruption campaign.



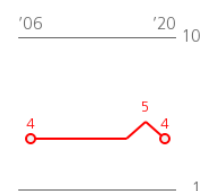
Independent judiciary

4



Prosecution of office abuse

4



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 business.

Despite Russia's comprehensive legal framework, anti-corruption 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 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 are inconsistently enforced and violations are 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.

Prosecution of corruption seems usually guided by political and not judicial motives. Opposition politician Alexey Navalny regularly documents cases of corruption at the highest political level, with almost no response from state structures.

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 in the name of stability.

Lower courts are often biased and pressured into favoring local politicians, partly as a result of 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 LGBTI people, has become commonplace as a result of 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. The debate as to whether Russia should leave the Council of Europe is ongoing. Russia follows rulings from the European Court increasingly grudgingly.

With regard to the fight against terrorism and the situation in the North Caucasus, security forces have government support for their position 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

Civil rights

5

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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, parliament and the judiciary are heavily controlled by the executive branch, which makes the concept of democratic checks and balances void. This is true for both the federal and the regional levels.

In general, the efficiency of democratic institutions is hampered both by legal restrictions concerning, inter alia, party registration and NGO activities, and through systematic informal interference from the executive. A further obstacle to the adequate performance of democratic institutions is the country's weak party system, which is very much dominated by the "party of power," United Russia. The "systemic" opposition in parliament is not really an opposition force. An overall weak and passive civil society, exceptions confirm the rule, also contributes to the weak performance of democratic institutions.

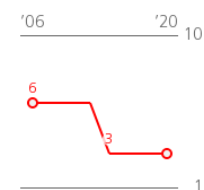
Russian citizens generally do not consider that the rule of law has ever been implemented. Legislative provisions are often poorly enacted by an inefficient administration. The weak rule of law presents citizens with opportunities to take advantage of the state's weaknesses. Then President Dmitry Medvedev criticized "legal nihilism," but efforts to shield the law from state interference did not prove to be successful.

The institutions of Russian federalism are particularly problematic in terms of democratic pluralistic 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.

Still, there are differences among the 85 federal subjects of the Russian Federation. Elections in Moscow and St. Petersburg are more open than those in the Northern Caucasus republics, for example. At the same time, the parliament's upper chamber, the Federation Council, which consists of representatives from the 85 federal subjects, has become more an institution representing the federal government in the regions than the other way around.

Performance of democratic institutions

3



Democratic 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. The constitution lays out the foundation for these institutions.

Although these institutions are not openly challenged by any relevant actor, they are manipulated using undemocratic methods, which is seen as useful and perfectly normal by the elites. Accepting democratic institutions is for the most influential actors more a matter of pragmatism than of principle. The introduction of democracy coincided with the catastrophic years of the 1990s, whereas “sovereign democracy” under president Putin is portrayed as the most stable and prosperous time of Russia. The general public understands this well. There is very little trust in democratic institutions like parliament, political parties or the press – but yet the highest appreciation for the institution of the president.

5 | Political and Social Integration

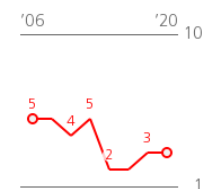
Since 1992, Russian state and society have been unable to establish a stable and socially rooted party system. Current political parties are predominantly personality-oriented voting associations. The population is highly skeptical of political parties. According to most public opinion surveys, trust in parties never exceeded 10%, which is also reflected in the low electoral turnout in 2016 at only 47.8% (2011: 60.2%). The presidential party, United Russia, claims a relatively large membership of over 500,000. But it is not clear how many of these members are genuinely committed to the party program and how many were recruited by a combination of workplace inducement and administrative pressures, or simply see the party as a way to climb the career ladder. The membership in other parties, with the enduring exception of the Communist party, is small.

United Russia won only 54.2% in the proportional section of the 2016 parliamentary elections, but it holds a three-quarter majority in the State Duma. As of January 2019, it also holds majorities in all but four regional parliaments. United Russia often cooperates with the populist LDPR (13.1% of the vote in the State Duma) and other parties of the “systemic” opposition within the Duma, that is, the Communist Party (13.3%) and the Just Russia Party (6.2%). There is no serious opposition party in parliament. As a result, there is a low level of polarization in the party system.

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 in 2015, the process of party registration slowed

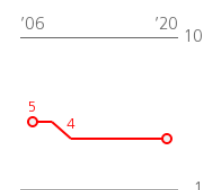
Commitment to democratic institutions

3



Party system

4



down and some lost their official registration, so that, as of January 2019, the number of parties eligible to run in elections is 63.

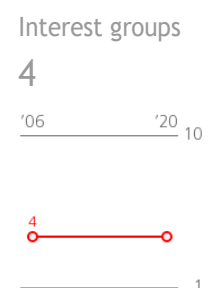
Due to the controlled nature of Russia's party system, voter volatility is moderate by international standards. This property of the Russian voters, however, stems not so much from their genuine commitment to political parties as from the lack of credible alternatives. Some analysts contend that clientelism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

The interest groups targeting political issues are generally weak. The representation of social interests is a different issue. Even though trade unions remain dominated by the successors to the socialist unions, the state acts on social issues in a much more nuanced way than on political issues.

The government's reaction to the activities of interest groups has essentially been symbolic. The law that forces politically active, foreign-funded NGOs in Russia to register as "foreign agents" has had a severe impact on 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 concentrate on social issues are able to function. There are also numerous state-sponsored civil organizations that openly support the government. In the second half of 2018, the authorities provided about RUR4.7 billion in presidential grants to NGOs and business associations that did not challenge the government. Business associations generally have more impact on politics than non-business associations because their issues are vital to the state.

The large public demonstrations following the 2011 parliamentary elections indicated that a sizable and primarily urban part of 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. In the second half of 2018, public protests were mostly focused on the increase in the retirement age. As a result of these protests, the president intervened, justified the necessity of increasing retirement age and softened some measures.



The population's approval of democracy 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 population did not consider any of these principles to be as important as welfare or security. This may be 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 things became very unstable and were neither prosperous nor democratic.

Based on polls by institutes like FOM or the Levada Center, it can be estimated that about a quarter of the population is openly opposed to western-style liberal democracy, mostly preferring models that feature a very strong government, with flexible state institutions open to negotiating the law. Only a little more than 10% are strong supporters of liberal democracy. Others tend to support democracy, while viewing it as equivalent to Russia's current political regime, although other respondents oppose democracy for the very same reason. In general, there seems to be a sort of silent consent to democratic norms, pluralism and human rights but no principled opposition to contradictions to democratic norms.

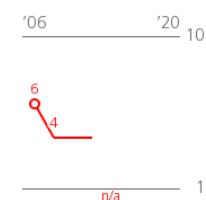
In Russia, trust among citizens – as measured in public surveys with the question of whether most people can be trusted – is lower than in Western Europe. Only 23% of the population has trust in their fellow citizens. While very low in comparison to Sweden, for example, where trust in others is at 76%, 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 for the common good. The state in general is suspicious of a strong, independent society.

In recent years, however, the situation has started to change as thousands of volunteers organized through social networks participated, inter alia, in fighting forest fires or assisting those hit by floods. Self-organization in civil society encounters strong barriers, namely the burden of a long Soviet past in which NGOs did not exist, and harassment by the state. NGOs are unevenly distributed, flourishing mainly in the two largest cities, Moscow and St. Petersburg. Even so, activism is increasing in other parts of the country.

New legal provisions and increasing pressure by the government from 2011 to 2014 have severely affected NGOs' capacity to operate. At the same time, increased government funding of non-political NGOs not only contributes to the proliferation of organizations, so that as many as 142,641 such NGOs had been registered as of January 2018, but also enables some to carry out charitable, useful activities. Some government-controlled NGOs actively participate in ideological campaigns launched by the authorities.

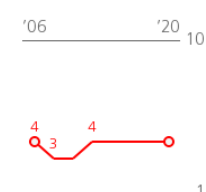
Approval of democracy

n/a



Social capital

4



II. Economic Transformation

6 | Level of Socioeconomic Development

The key indicators show a relatively high level of socioeconomic development. The country's level of development permits adequate freedom of choice for almost all citizens. In the 2017 HDI report, Russia scored 0.816, placing it in the high human development category alongside countries like China and Brazil. There is no indication of fundamental social exclusion on the basis of poverty, education or gender. According to the 2017 UNDP Gender Inequality Index, Russia scores 0.257, which is higher than in most West European countries. The economic upswing, 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).

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 falling oil prices, structural faults and economic sanctions by the EU and the U.S. after Russia's annexation of Crimea. According to the World Bank, Russia's GDP per capita fell from \$15,552 in 2013 to \$9,230 in 2017. However, supported by the government's policy response package, the pace of the recession declined substantially. While in 2015 and 2016, the GDP per capita continued to decrease, in 2017 – for the first time since 2011 – Russia witnessed positive growth, albeit very moderate (1.5%). This continued into 2018.

The national poverty rate in Russia decreased slightly from 13.5% in 2015 and 2016 to 13.2% in 2017. The World Bank is optimistic that Russia can achieve the poverty rate target of 6.6% by 2024. However, real disposable income continued declining.

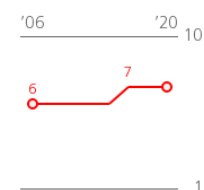
Social inequality as indicated by the Gini index increased markedly in the 1990s and has since then hovered around the 0.4 level. The World Bank argues in 2016 “when it comes to reducing inequality, Russia's fiscal policy performs better than in Brazil, Chile, Colombia, Turkey and the United States. 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.”

There are considerable socioeconomic differences among regions in Russia. The big cities, primarily Moscow and St. Petersburg, have achieved levels of development and related lifestyles close to middle-income European countries. But there is a vast rural periphery, including the North Caucasus, with very low levels of development. Financial transfers have not substantially reduced these discrepancies.

Question
Score

Socioeconomic
barriers

7



Economic indicators		2015	2016	2017	2018
GDP	\$ M	1363594.4	1282723.9	1578624.1	1657553.8
GDP growth	%	-2.3	0.3	1.6	2.3
Inflation (CPI)	%	15.5	7.0	3.7	2.9
Unemployment	%	5.6	5.6	5.2	4.7
Foreign direct investment	% of GDP	0.5	2.5	1.8	0.5
Export growth	%	3.7	3.2	5.0	5.5
Import growth	%	-25.1	-3.6	17.4	2.7
Current account balance	\$ M	67777.2	24468.8	32429.6	113454.9
Public debt	% of GDP	16.4	16.1	15.5	14.6
External debt	\$ M	467699.3	533203.8	518191.2	453938.1
Total debt service	\$ M	101029.6	71511.4	81133.5	109844.5
Net lending/borrowing	% of GDP	-2.3	-2.2	-1.6	-
Tax revenue	% of GDP	10.6	9.1	10.3	-
Government consumption	% of GDP	17.7	18.3	18.1	17.4
Public education spending	% of GDP	3.8	3.7	-	-
Public health spending	% of GDP	3.1	3	-	-
R&D expenditure	% of GDP	1.1	1.1	1.1	-
Military expenditure	% of GDP	4.9	5.5	4.2	3.9

Sources (as of December 2019): 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

In principle, market-based competition is institutionally guaranteed. Price regulation by the state is restricted to utilities, even though there have been several attempts of the state to intervene in price-setting (e.g., in the fuel sector in November 2018). The state also provides subsidies for agricultural products, although these have decreased since Russia joined the WTO in August 2012. 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 the 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 as having strategic relevance, thus discriminating against private and foreign investors. Nonetheless, Russia ranks 31 out of 190 countries in the World Bank's 2019 "Ease of Doing Business" index, which is a marked improvement in comparison to 2016 when it ranked 51st. According to Doing Business 2019 (in Moscow), starting a business takes 10 days and four procedures with a cost of 1.1% of GNI per capita.

Still, as a result of unattractive conditions for business, especially the uncertainty of property rights, investments lie far below the levels needed to satisfy Russia's economy's needs. Red tape presents a serious obstacle to running a small or medium-sized enterprise.

The shadow economy remains a challenge for the Russian state. The Russian Presidential Academy of National Economy and Public Administration estimates that the informal labor market in Russia consists of 30 million people, 21.7 million of whom combine official employment with informal earnings.

The informal employment category includes people who work in enterprises that are not registered as a legal entity, that is, the self-employed, farmers, individual entrepreneurs and the people they hire. Family members who help a family business or a business belonging to a relative are also included.

IMF estimates set the informal sector at around 30% of GDP (down from over 40% in the late 1990s). Official Russian figures put it at around 20%. According to the Russian government, economic reforms and the early 2000s (and strict enforcement afterwards) have contributed to reducing the size of this sector.



The 2006 law on the protection of competition provides relevant legal definitions and places restrictions on subsidies from federal, provincial or municipal governments and on their public procurement policies. The Code of Administrative Offenses establishes liability for anti-competitive practices. Punitive measures include a share of a company's revenues. Company directors can be criminally liable in cases of repeated abuse. However, 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 Sergey Chemezov, an old acquaintance of Vladimir Putin. Despite long-running debates, the "natural" monopolies in the natural gas and transportation industries have not been subject to substantial reform. In addition, a new giant, the state company Rosneft, has emerged in the oil sector.

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

In 2017, the president signed a new decree on legal policy provisions, the main objective of which is to enforce competition. There are multiple targets. One is customer satisfaction, attained by expanding the range of available goods and services, improving their quality and putting pressure on prices to keep them low. Another is increasing the economic efficiency and competitiveness of economic entities (e.g., via creating equal access to the goods and services of natural monopolies and public services, stimulating innovation, and increasing the share of high-tech goods and services).

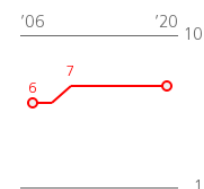
Russia's foreign trade has been liberalized in principle. In 2012, Russia finally joined the WTO after 18 years of negotiations. Regarding regular tariff barriers, the World Bank recorded a constant drop of the weighted mean applied tariff rate from 6.7% in 2011 to 2.8% in 2015, but this increased to 3.4% in 2016.

Nevertheless, some barriers to free trade remain, mostly geostrategically motivated. For instance, in 2014, as a retaliation against Western economic sanctions, the Russian authorities introduced a wide range of (counter-)sanctions against the U.S., the EU and several other countries on the import of agricultural products. As of December 2018, a total of 567 individuals and 75 companies from Ukraine faced Russian economic sanctions. The Russian authorities often claim that their sanctions encourage import substitution and help revitalize Russia's domestic production, especially in the agricultural sector. According to President Putin, the sanctions will not be lifted until absolutely necessary.

In 2010, Russia formed a Customs Union with Belarus and Kazakhstan, which allowed for common tariffs and removed customs duties and other barriers to mutual trade, with the exception of protective measures to prevent price dumping. In January 2015, the Customs Union was upgraded to the Eurasian Economic Union including

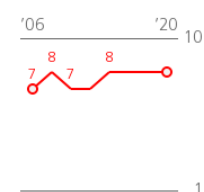
Competition policy

7



Liberalization of foreign trade

8



also Kyrgyzstan and Armenia. Whereas the four smaller countries are looking at this union as a purely economic venture, for Russia it also has political meaning. 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.

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 not able to efficiently perform 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 II.5, Basel III) is proceeding slower than originally planned.

The international financial crisis of 2008, combined with the post-2014 economic recession, has put a heavy strain on the already weak Russian banking sector. But the Russian state guaranteed its 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. Such state support has been reinstated in the wake of the current economic crisis, which helped Russia's banking system cope with the problem of non-performing loans. According to the World Bank, in 2017, non-performing loans were 10% of total gross loans and the ratio of bank capital to assets was 10.75.

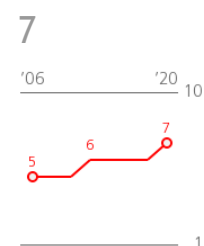
The number of banks in Russia is still high, but has been rapidly decreasing. In December 2014, there were about 842 banks operating in Russia, including 74 banks with only foreign capital. All these banks were included in the system of securing deposits. At the same time, the Russian authorities are pursuing a rather consistent policy of “sanitizing” the banking system by gradually revoking banking licenses. As many as 112 banks ceased to exist in 2016 alone. As of January 2019, only 149 banks retained their licenses. Most of the defunct banks were small, as a result of which their liquidation did not cause any significant tensions.

8 | Monetary and fiscal stability

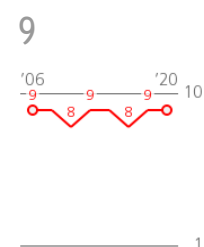
After the 1998 financial crisis, the government and central bank were able to bring inflation under control and stabilize the exchange rate through a consistent budgetary and monetary policy. The national currency became fully convertible in summer 2006. The financial crisis of 2008 put the exchange rate under serious 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 by adopting a free-floating rate. Following this

Banking system



Monetary stability



policy reversal, the ruble recovered by over 10%, having previously lost more than 40% of its value. The ruble reached its next low point in January 2016, when it traded at RUR77.18 to \$1.

Since then, through a combination of stabilizing oil prices 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 RUR61.54 against the U.S. dollar by the end of 2016. In April 2018, the depreciation of the ruble resumed. At the end of 2018, the ruble traded at RUR69.68 to \$1.

Russia has mostly experienced a net capital outflow. Recently, this stems from Western banks retracting credit due to sanctions imposed on Russia by Western countries. This tendency continued in 2016 and 2017. Russia's central bank estimates the 2016 outflow at about \$40 billion, and the 2017 outflow at \$31.2 billion. At the beginning of September, the Ministry of Economic Development more than doubled its forecast for capital outflow in 2018, from \$18 billion to \$41 billion.

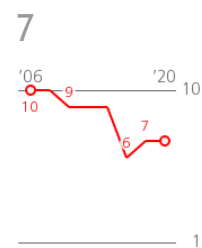
According to the World Bank Data, the consumer price index (2010 = 100) reached 168.72 in 2017. At the same time, the real effective exchange rate index (2010 = 100) stood at 93.435. Even though the central bank is under political pressure, thus far it has preserved a fair amount of autonomy. In 2016, the country achieved record low inflation of 3.5%. The 5.2% inflation registered in 2017 was in comparison to other countries fairly low. In this, the Russian authorities were quite successful. Still, political developments trump any economic decisions. That goes for price stability too.

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 2018, to react to the economic crises with extensive liquidity support and stabilization programs. In 2016, the fiscal deficit worsened because of additional costs incurred by separatists in Donbas, the incorporation of Crimea and the military expedition in Syria.

Since 2016, the situation has improved. According to the World Bank, Russia has a “sound macroeconomic framework.” The economy grew in 2018 with budget revenues estimated at RUR15.3 trillion rubles and projected spending at RUR16.5 trillion rubles. The three-year budget for 2019 to 2021, as approved by the State Duma in November 2018, envisions a surplus of RUR1.9 trillion (\$28.8 billion) in 2019, RUR1.2 trillion in 2020, and RUR952 billion in 2021. In explaining the budget, Russian officials have been open about their desire to set aside funds in case of external shocks by fresh sanctions or a new global crisis. At the same time, many

Fiscal stability



analysts warn that the strategy of putting savings before growth may imperil the Russian government's goal of joining the world's top five economies by 2024.

A side effect of the current economic crisis is some improvement in Russia's current account balance. According to the World Bank, the central government's debt total (% of GDP) stood at 14.15% in 2016, and net lending (+) / net borrowing (-) at -1.471 (current local currency unit, LCU) in 2017. While a depression in GDP rates partly explains this trend, it is primarily attributable to a substantial reduction in imports due to Russia's counter-sanctions against Western countries and the ruble's low exchange rate. The Russian government is interested in a well-financed budget and a positive trade balance. But state security and foreign grandstanding enjoy higher priority than the economy. The government has to deal with a population that is increasingly unwilling to accept cuts in social welfare, like an increase in the retirement age.

9 | Private Property

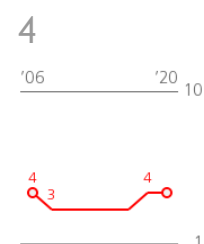
Property rights and regulation of property acquisition are defined by law. With the exception of the sale of farmland, legal provisions are in place. They are not, however, consistently implemented or adequately safeguarded, especially against state intervention. In sectors deemed strategic (e.g., the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

For example, the state company Rosneft in 2012/2013 paid \$44.4 billion in cash to acquire Russia's second largest private oil company, TNK-BP. In another salient case, Bashneft, a major oil company, was "deprivatized" when the Sistema corporation was forced to hand it back to the state in 2014, having bought it from the state in 2009. The "double" privatization of Bashneft and Rosneft from 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 the side effect of the arrest of Minister of Economic Development Aleksey Ulyukaev on corruption charges because he criticized the deal.

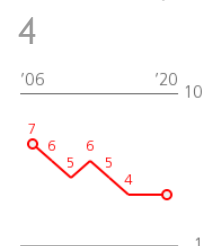
Some property rights, especially copyrights, are ignored on a regular basis.

Russia's privatization, conducted in the 1990s, facilitated the transfer of significant wealth to a relatively small group of business oligarchs, particularly bankers and natural gas and oil executives. At the same time, some "strategic" assets, including much of Russia's defense industry, were not privatized. Since 2000, the share of state-controlled assets in the energy sector has steadily increased. As a result, according to the IMF, the state now controls 71% of the economy, which is almost twice the 38% share it held in 2006.

Property rights



Private enterprise



Under conditions of economic crisis, efforts are underway to reduce the scope of state intervention in the economy, including through accelerating privatization. These efforts are not entirely fruitless, as attested by the partial privatization of Alrosa and Rosneft in 2016. In 2017, Prime Minister Dmitry Medvedev announced further privatizations, with the sale of some of the government's holdings in VTB Bank and Sovcomflot shipping company. However, since 2017, pressure on government finances has eased and these two privatizations have been postponed indefinitely. No plans have been announced for selling off other state-owned companies.

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 businesspeople or civil servants have managed to strip successful businesspeople of their property with the help of law-enforcement agencies, tax authorities or sanitary inspectors. The government is well aware of these corporate raids. Putin personally raised the issue several times, but is either unwilling or unable to put an end to such takeovers.

10 | Welfare Regime

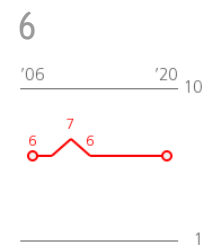
The social security system is relatively well developed in Russia, but it does not cover all risks for all strata of the population. Moreover, efficiency and availability are reduced by widespread red tape and corruption. Without additional income – such as a job in the shadow economy, private farming 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.

Special government programs to improve health care and fight rural poverty have had only limited effects, primarily because of the magnitude of the problem. Inefficiency in the state bureaucracy adds to the dilemma. According to OECD data for 2016, Russia spent 5.3% of GDP on health care, far behind most advanced economies. The sheer size of the state health care sector, with 700,000 doctors and an additional 1.5 million trained medical personnel, makes funding a challenge, especially, when government priorities lie in other directions.

Another well-known problem with special state programs is that they have not established meaningful accounting mechanisms for use of funds.

In 2018, the government made a decision that has proved quite risky: contrary to election promises, it raised the retirement age by five years, to 60 for women and 65 for men. The government's uneasiness was clear when it announced the change at the beginning of the World Cup, at a moment it was least likely to be noticed. However, public opinion polls registered massive negative reactions, reflected in the deterioration of approval ratings both for the government and the president, and in

Social safety nets



protest rallies. Many analysts estimate that the relatively poor performance of pro-government parties and candidates in the September 2018 regional elections was a direct consequence of the pension reform. Nevertheless, with slight changes, the reform was approved by the Duma and signed into law by the president.

Russia has gradually improved its social safety net for years. But the government no longer has sufficient funds available, not least because of its heavy focus on military spending and projecting power abroad. Still, the World Bank states that the fight against poverty can be won.

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.

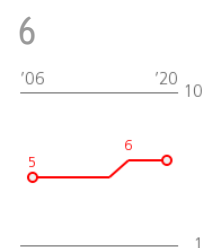
Throughout the country, women have equal access to education. According to the World Bank, the ratio of female to male tertiary enrollment in Russia was 126, which is very high by international standards. Russia's female labor force participation rate (% of female population ages 15+) is 57%, approximately the same level as in Germany (55%). At the same time, women are underrepresented among business executives and in politics. For example, according to the Inter-Parliamentary Union, Russia ranks 128th out of 187 countries on women's representation in national parliaments (15.8%).

There is ongoing harassment of lesbian, gay, bisexual and transgender minorities (LGBTI). A Human Rights Watch report in 2018 strongly urged the Russian government to support laws to protect the right of LGBTI people.

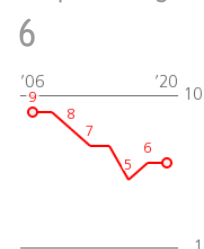
11 | Economic Performance

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. But 2008/2009 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, this recovery has not been felt across Russia; nearly half of the country's regions have not recovered positive growth rates.

Equal opportunity



Output strength



In 2015, Russia entered into a period of recession with a GDP decline of -3.7%. Only in 2017 did the decline taper off. A GDP growth in excess of the projected 1.5% occurred in 2018. Accordingly, in January 2015, Moody's and Standard & Poor's (S&P) announced a downgrade in Russia's credit rating to a speculative BB+ with a negative prognosis. Russia received an upgrade to its sovereign rating from S&P Global in February 2018. The improved rating, BBB- with a stable prognosis, was affirmed in July 2018. Explaining the rationale for the affirmation, S&P stated that the country's external and public balance sheets should enable the economy to absorb shocks from potential new international sanctions.

The Russian economy faces a lack of diversification. The share of oil and gas products was 69% in 2017. That is a problem considering the very volatile foreign trade environment with sanctions against Russia still in place. The level of foreign investment remains insufficient, as recognized by Russia's authorities. The reasons for this 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.

According to Rosstat, the unemployment rate in Russia was 4.8% in November 2018. When assessing this rather low figure, one must consider that a large portion of Russia's labor force receives salaries at the minimum wage level, which is well below the official subsistence level.

12 | Sustainability

Ecological concerns are entirely subordinated to growth efforts, despite a considerable legacy of environmental damage from the Soviet era. Conservation organizations like World Wildlife Federation Russia and Greenpeace Russia have noted that they lack support from the Kremlin.

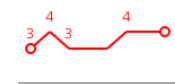
Nevertheless, in 2012, then President Medvedev issued a decree that was meant to guide Russia's environmental policy until the year 2030. In January 2016, President Putin signed an executive order "to attract public attention to Russia's environmental issues, preserving biodiversity and ensuring environmental security." The year 2017 was the "Year of the Environment" in Russia. However, this entailed very little action. For example, Russia is the largest carbon emitter among the signatories of the Paris Climate Agreement, with approximately 5% of global emissions, that has not yet ratified it.

In May 2018, in a major decree setting out strategic objectives for his fourth term, President Putin defined several new targets for Russia's environmental policy, including provisions for another five million hectares of protected environmental areas and for the reintroduction of disappearing species to boost biodiversity. But it

Environmental
policy

4

'06 '20 10



1

remains to be seen how – and whether – these ambitious goals will be implemented. So far, environmental concerns have been addressed only when they promised to deliver short-term benefits (and could be used to put pressure on unwanted investors) or when rewards in the international arena were expected in return (e.g., when the EU agreed to Russia's WTO accession terms in return for Russia's ratification of the Kyoto Protocol).

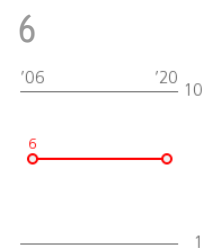
Russia inherited from the Soviet Union an education system with relatively high standards. Under post-Soviet conditions, however, the country has been unable to put this potential to good economic use. Funding shortages and increasing corruption have greatly reduced the quality of the state education 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 economic crisis that began in 2014 has led to significant spending cuts. In 2013, the federal budget provided RUR607 billion for education. The sum was RUR597 billion in 2016, RUR630 billion in 2017 and RUR653 billion in 2018. These figures should be assessed keeping in mind that prices have risen by a factor of about 1.5 since 2013.

Russia 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 spending and output. In 2010, the government announced an ambitious plan to place Russian universities among the world's top universities. Ten research universities were established and assured substantial financing from the federal budget. In 2016, Times Higher Education (THE) registered some improvement in the international standing of Russia's leading universities, including higher scores for Moscow and St. Petersburg state universities. Thirty-five Russian universities made the 2018 – 2019 THE ranking, compared to 27 in 2017.

The Russian government has repeatedly declared research and development a top priority, but spending hovered around only 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 in the Russian economy.

Education policy /
R&D



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, a high 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. In 2015, it rose again to 146.3 million, due to the inclusion of Crimea. For 2019, the United Nations again estimates a population of 143.9 million.

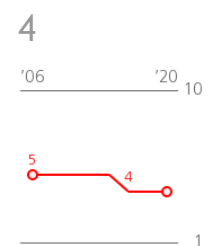
Russia's sheer size in landmass and physical geography continues to pose infrastructural challenges hard to overcome, not even by good governance. The country's population is concentrated in the more climate-friendly western and southern regions of the country, leaving vast areas sparsely populated. These areas, where most of the country's 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 citizens 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.

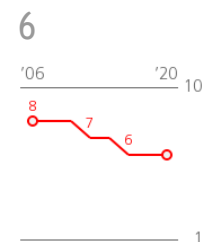
The first opening for civil society in the Soviet Union came from within and was the "thaw," introduced by Nikita Khrushchev, who criticized the terror regime of his predecessor, Josef Stalin. Another breakthrough came from abroad via the Commission on Security and Cooperation in Europe Final Act in 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,

Structural
constraints



Civil society
traditions



engaging in an increasing number of issues. Those organizations that have pursued a political agenda critical of the regime have been increasingly subject to state pressure. Consequently, Russia's civic associations do not have a major political impact.

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.

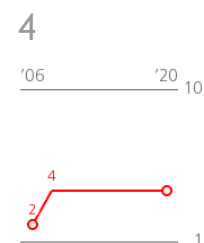
The ruling political elite around President Putin has embarked on a fairly confrontational approach to domestic politics. Many of Putin's political associates perceive politics in terms of "us versus them," which has resulted in several opposition figures and political movements being subject to harassment by 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.

The unofficial social contract between state and society, in which the state provides social support to a certain extent in exchange for society staying out of politics, has come under pressure recently. The political protests of 2011 and 2012 in the country's large cities demonstrated that divisions in Russian society are potentially strong. Since then, however, a combination of overt repression and successful nationalist mobilization made it possible for the Russian authorities to significantly reduce public discontent. Despite the perceived importance of pension reform and the widespread dissatisfaction expressed in public opinion polls, the 2018 protests against it were not massive.

In the North Caucasus, ethnic and religious conflicts have the character of a low-intensity civil war with regular but infrequent 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 Boris Yeltsin, under immense pressure to transform the economy from socialist to capitalist, presented a picture of incompetence and short-term power grabs, his successors, both Vladimir Putin and Dmitry Medvedev, tend to define long-term priorities in more precise and comprehensive ways. However, these long-term priorities have only randomly been implemented and are partly inconsistent with the goals of establishing a democracy and a socially based market economy. After the economy's collapse in the 1990s, stability at all costs is the main goal. The state is primarily concerned with expanding its economic presence in and promoting growth, in part through direct intervention.

In May 2012, President Putin laid out a dozen ambitious, long-term goals by decree. These 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. However, none of the quantitative indicators set in 2012 have been met, with the exception of the Ease of Doing Business ranking, in which Russia was 40th in 2016.

Following the 2018 presidential elections, Putin issued the May Decree, laying out the priorities for his third term in office. His main goal is to bring Russia into the top five global economies by the middle of the next decade, while maintaining GDP growth above the global average. According to the decree, Russia will invest heavily in new roads and ports to increase cargo traffic and increase the volume of annual residential construction to at least 120 million square meters per year.

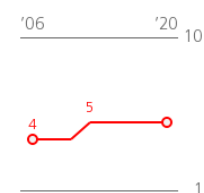
The Financial Times called the president's goals not just ambitious, but "outright utopian." In light of current growth rates, it is hard to see what could enable Russia to jump to the level of the world's largest economies from its current 12th place. Another of the Russian government's goals, namely, to be a more active player in international affairs, has proven very expensive. Military modernization costs money, as do the geopolitical ventures that seem highly prioritized by the Russian leadership.

Although the government sets and maintains strategic priorities, its capacity to implement policy measures is limited. The main problem is the administration's deficient capacity, repeatedly unable to realize large-scale projects due to insufficient resources and corruption. There are exceptions, as one-off, prestigious events such as the Winter Olympics in Sochi and the Soccer World Cup have shown. Yet strategic policies such as health care, welfare provision and education, which depend on

Question
Score

Prioritization

5



Implementation

4

support from the state administration throughout the regions, are not implemented successfully.

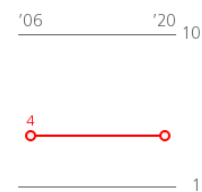
Nevertheless, policy measures that require just a small team of technocrats, as in monetary policy, are realized successfully on the basis of long-term strategies. The so-called “economic bloc” of Russia’s leadership, including the Ministry of Finance, the Ministry of Economic Development and the central bank, takes credit for preventing uncontrollable deterioration of Russia’s economy in 2014 – 2016 and achieving some long-standing goals, such as curtailing inflation in 2017/2018.

The failure to implement most important reform projects targeting modernization has been, 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 stability 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 where the line is and what the government is capable of doing. This practice occurs in federal and regional bureaucracies.

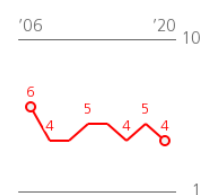
At the same time, political criticism originating from outside the president’s circle (as opposed to criticism of weaknesses in the state administration by the president or the prime minister themselves) is received with increasing dislike. Independent decision-makers, advisory bodies and civil society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

One of the few areas where different opinions are welcome is in developing and implementing the financial and economic strategy 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.



Policy learning

4



15 | Resource Efficiency

Although reforms have improved resource efficiency 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 is fairly low. Budget planning and spending have improved considerably. For the first time since 2014, the draft budget for 2019 has been planned with a surplus. The reserves of the National Welfare Fund are expected to grow to almost 13% of GDP by the end of 2021 (as compared to 3.8% of GDP in 2018). A nominal increase in spending is planned. Compared to 2018, nominal spending on national security is expected to grow by 10% in 2021 and on national defense by 5.5%, while spending on social policy will remain at almost the same level.

At a share of 2% of total employment, the state executive's bureaucracy is not oversized by international standards. However, its organizational structure and code of behavior often lead to considerable inefficiency. Although the president often stresses the need for administrative reform, resulting reorganizations have not led to substantial improvements: they do not tackle the problems of corruption, inefficiency and conflicts over competencies. As a result, the political leadership's coherent strategy, often translated into less coherent legislation, is regularly distorted when it comes to implementation at the federal or regional levels. Similarly, reports by the Audit Chamber have mostly been ignored.

In reaction to 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.

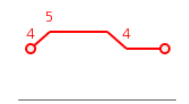
Due to the increasingly central role of one person – President Putin – and his inner circle in Russia's political system, policy coordination is predominantly hierarchical, and at the discretion of the president and his apparatus. The president makes use of presidential commissions that are composed 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.

The Russian state's executive branch is often viewed as being 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 reformers, who remain in charge of economic policy, have been mostly sidelined by politicians with a security background and the siloviki, coming mainly from law-enforcement and defense agencies.

Efficient use of assets

4

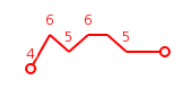
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Policy coordination

5

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Attempts by the siloviki to make President Putin more attentive to their favorite economists 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 President Medvedev over military spending, remains influential and trusted by Putin, as confirmed by his appointment as chairman of the Accounts Chamber of Russia in 2018.

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. Yet, 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, particularly when vital state interests are at stake.

The Ukraine crisis demonstrates that the balance of power between liberal economists and siloviki, who favor a strong Russia in international affairs and have little faith in cooperation with the EU and the United States, has moved toward the latter group.

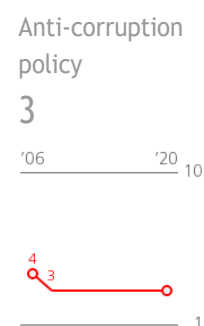
Corruption is widespread in Russia and places a heavy burden on any development. This impression is shared not only by independent experts and surveys of foreign as well as domestic business, but also by top state representatives, including the president, who regularly cites corruption as a key problem 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. 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 corruption cases and public integrity issues.

In 2015/2016, Russia witnessed several widely publicized anti-corruption cases involving high-ranking state officials at the governor and, in one case, at the federal ministry level. In 2017 to 2019, the anti-corruption drive has slowed again, even though some prominent cases were pursued.

Systemic counterincentives to corruption remain weak. This is partly because Russia's citizens see bribing bureaucrats as an important way to get things done. Therefore, according to opinion polls, trust in the police, the courts and government administrations is low or even very low.



16 | Consensus-Building

The elite consensus developed over years is not oriented toward building a solid foundation for and developing democracy. While adherence to democratic ideals remains part of the public rhetoric of President Putin and some of his close associates, especially Prime Minister 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, to be achieved gradually and evolutionary, not through revolution.

Elections are manipulated to ensure the victory of pro-presidential parties and candidates. The reasoning is that only the current elite is able to move the country through difficult times toward stability and prosperity. These political manipulations render democratic processes increasingly meaningless. Actors in favor of democracy, such as the political parties Yabloko and PARNAS, have been marginalized with access to public discourse constantly curtailed. The same goes for the politician, Alexey Navalny.

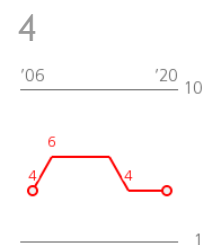
While the fundamental principles of a market economy are not rejected by Russia's key political actors, they are partly ignored in practice. The reason: the elite consensus developed under President Putin is oriented toward a model of a limited market economy. Again, the primary argument is for stability. According to the political elite, no economic transformation should happen again without a strong state. The fear is that the opposition could team up with powerful private companies and form a real opposition.

The state should thus be the primary actor 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.

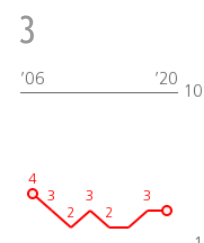
Representatives of genuine, active democratic movements have been marginalized in Russian politics. There are only a few relevant pro-democratic reformers represented in the ruling federal and local elite.

Because of the importance of the economy as a foundation for global power, reformers within state structures and in the government have some limited leverage over anti-democratic actors. Aleksey Kudrin, who was appointed chairman of the Accounts Chamber of Russia, has expressed pro-reform views on many occasions. Some other prominent figures in economic management are firmly pro-market, though not necessarily pro-democracy. But the core representatives of the regime (i.e., those who make crucial decisions outside the domain of economic policy) adhere to democratic principles only selectively, if not entirely superficially.

Consensus on goals



Anti-democratic actors



According to Moscow Carnegie Center Director Dmitri Trenin, the Russian ruling elite no longer pretend that they follow the West and cherish its declared values. Currently, Moscow adheres to “traditional values” and openly states that Russian values are not identical with modern Western values in the fields of democracy, human rights, national sovereignty, the role of government, the church and the nature of family.

During his first two presidential terms, Vladimir Putin achieved considerable progress in consensus-building, compared with his predecessor Boris Yeltsin. This was true for both the federal and the regional levels. Opponents and critics of the federal government in the regions have seen their positions weakened. A large though decreasing majority of the population supports Putin and his government, whose political rhetoric focuses 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 2011/2012 protests revealed discontent in Russian society.

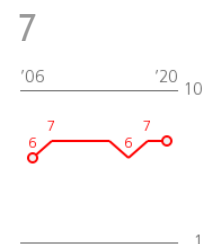
In 2014, the government succeeded not only in downsizing pro-democracy sentiment among the population, but also, employing nationalist mobilization in the wake of the annexation of Crimea and Russia’s involvement in Eastern Ukraine, in securing unprecedented, high levels of public support. It was only in the second half of 2016 that some public opinion polls started to register a modest decline in the president’s popularity.

Raising of the age of retirement catalyzed this tendency. Even though the president personally intervened and tried to moderate the conflict, according to polls conducted by the Levada Center, Putin’s personal trustworthiness dropped from 59% in November 2017 to 39% in September 2018, sinking to pre-Crimean annexation levels.

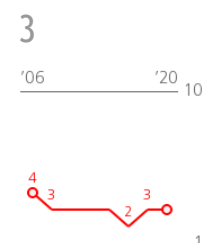
Officially, the state executive seeks a dialog with civil society. For this purpose, the president initiated in 2005 a Public Chamber, consisting of citizen representatives and CSOs, and intended both to advise decision-makers on public issues and to serve as a kind of ministry tasked with civil society issues. The chamber has had little impact. Many of its members represent government-created NGOs, while others are prominent public figures supportive of the government, with no 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

Cleavage /
conflict
management



Civil society
participation



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 harassment from state organs when they engage in unwelcome criticism and risk a lot more if they criticize the president. Most mass-media outlets have been brought under state control. The creation of the Public Chamber in combination with the restrictive NGO laws appear to have brought civil society under control. Those outside state control are often oppressed or ridiculed. Still, Navalny is able to criticize corruption even by prominent political decision-makers.

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.

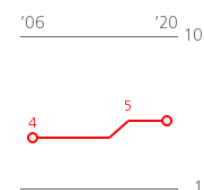
Dealing with past injustices is not a major topic in Russia. Public debate on Soviet human rights abuses is hampered by a government policy that aims to celebrate Soviet successes such as victory in the World War II. The Soviet victory over Germany remains a major component of Russian identity. There are still publications that examine terror in the Soviet Union, the purges and the Gulag.

Another exception is demonstrated by the Russian leadership's openness with regard to the Katyn massacre, an approach that promoted Russian-Polish rapprochement. In 2017, Putin personally inaugurated a monument on Academician Sakharov Prospekt commemorating the victims of Stalin's mass repressions. Yet reconciliation is compromised 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 period.

The commemoration of the 100th anniversary of the October Revolution in November 2017 revealed the ambiguity toward Russia's 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? There is no answer because Russia profited and suffered at the same time. This makes analyzing Russia's history difficult. The Russian anecdote that nothing is as unpredictable as Russian history holds true.

Reconciliation

5



17 | International Cooperation

International cooperation with Western partners at the state or society level is not high on the agenda of Russia's authorities. The need for "assistance" has been completely discarded, while a modernization partnership with the EU, initiated during Dmitry Medvedev's presidency, has been largely abandoned. With the annexation of Crimea, the relationship with the EU and the United States rapidly deteriorated.

But since Russia wants to be a global power, Moscow is interested in some cooperation. It created the Eurasian Economic Union with four former Soviet republics, which facilitates the exertion of regional influence. Equally important is its broad-based cooperation with China. The nuclear deal with Iran is another example. Even its rhetoric concerning the war in Syria is imbued with references to the common goal of fighting terror.

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. It is entirely interest-based and has no ideational foundation.

Within a conceptual framework defining Russia as a global power, 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 results in low compliance with international standards. But Russia is still member of the Council of Europe.

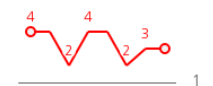
In general, Russia feels that since the end of the Cold War it has not been well treated by the world and therefore is entitled to assertively restore some of the influence it lost during the last quarter of a century.

This conceptual framework does not prevent Russia from honoring or even promoting important international agreements and cooperation projects, particularly with regard to environmental policies. However, the concept of great power has 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 an element of revenge: Since the West considers Kosovo an independent state, Russia feels entitled to do the same with the two above-mentioned polities.

Effective use of support

3

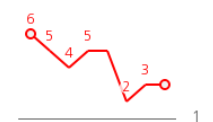
Year	Effective use of support
'06	4
'07	2
'08	4
'09	2
'10	3



Credibility

3

Year	Credibility
'06	6
'07	5
'08	4
'09	5
'10	3



The worst cases are the annexation of Crimea and the armed conflict in Ukraine, where the Russian military is actively involved. This has led to a rise in tensions with the West on a scale comparable only to the Cold War. Moreover, the Russian policy of treating this conflict as an undercover operation, with associated dishonest and contradictory statements from government sources, has further undermined its credibility.

Russia has taken a similarly dishonest and controversial stance with regard to its military involvement in Syria. While officially aimed at fighting terrorism, the operation has been targeted primarily (and increasingly) at protecting the Assad regime against the Syrian opposition. Another serious blow to Russia's international credibility was dealt by the country's alleged involvement in poisoning Sergei and Yulia Skripal in March 2018.

Another problematic activity is Russia's increasing support for populist movements in the West. Providing financial resources, trolling and hacking are widely used tools.

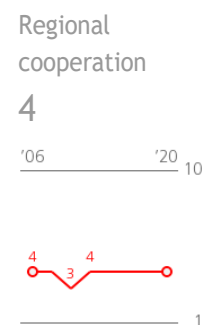
Russia has used its permanent seat at the U.N. Security Council and its close relations with some states facing considerable international pressure (e.g., Iran, Syria or Venezuela) to hinder international conflict resolution.

Past conflicts over Russian energy exports that 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 policy aimed at regional hegemony. However, Russia has been unable to transform the Commonwealth of Independent States (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. Others 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 Eurasian Economic Union.

In 2013/2014, Russia's attempts to bring Ukraine under 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 annexing Crimea and involvement in the separatist conflict in Eastern Ukraine, both under the



pretext of protecting ethnic Russians. Neither of these conflicts was resolved until 2018, despite many efforts (e.g., in the framework of the Minsk agreements).

As a result of the Ukrainian conflict, Russia has seen its relations with Central East European countries like Poland and the three Baltic states deteriorate, 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 as Moscow's rightful sphere of influence. NATO membership is seen as a form of revenge on 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, more conciliatory – and hence more productive – trajectory. Russia is generally dissatisfied with the status quo of its international relations but unwilling to take more initiative. At the same time, the EU and United States have made little in the way of overtures toward Russia.

Strategic Outlook

During the period under review, Russia's autocratic transformation continued. The mass protests 2011/2012 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 freedoms of assembly and the press.

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 more pronounced. 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. After a brief recovery, the economic situation worsened again in 2014 due to a combination of several negative factors such as serious flaws in Russia's economic model, weak institutions, economic sanctions imposed on Russia and, especially, the dramatic drop in world oil prices.

Externally, Russia has embarked on a decidedly more assertive course. The reasons for this are controversial. On the one hand, there are domestic reasons, mainly to get the population to rally behind the flag. A "besieged fortress" domestic policy approach seems helpful. On the other, as the largest country in the world, the Russian government seeks to have its interests better represented. NATO expansion toward its borders is not in Russia's interest. A speech by Russian President Putin at a security conference in Munich in 2007 made this clear.

As a result of these negative tendencies, Russia's current political regime can be characterized as an electoral authoritarianism, a regime that, while authoritarian in the basic patterns of power distribution and reproduction, at the same time permits institutions normally associated with democracy a shallow existence.

Russia is at an impasse. The flagrant violation of international rules and norms has degraded Russia's economic and political climate. Russia's economic model, based on natural resource extraction, is widely believed to be unsustainable. Economic inequalities between regions are growing and government management is inefficient. The government conceals this through

propaganda, but this approach seems unsustainable and almost certainly will require a fundamental turnaround in future. But since revolutions in Russia are strongly feared by both state and society, an evolutionary approach is 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 – something that has never occurred before. Russia alone will not be able to pursue this course. If the EU and the U.S. perceive Russia only as a threat, 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.