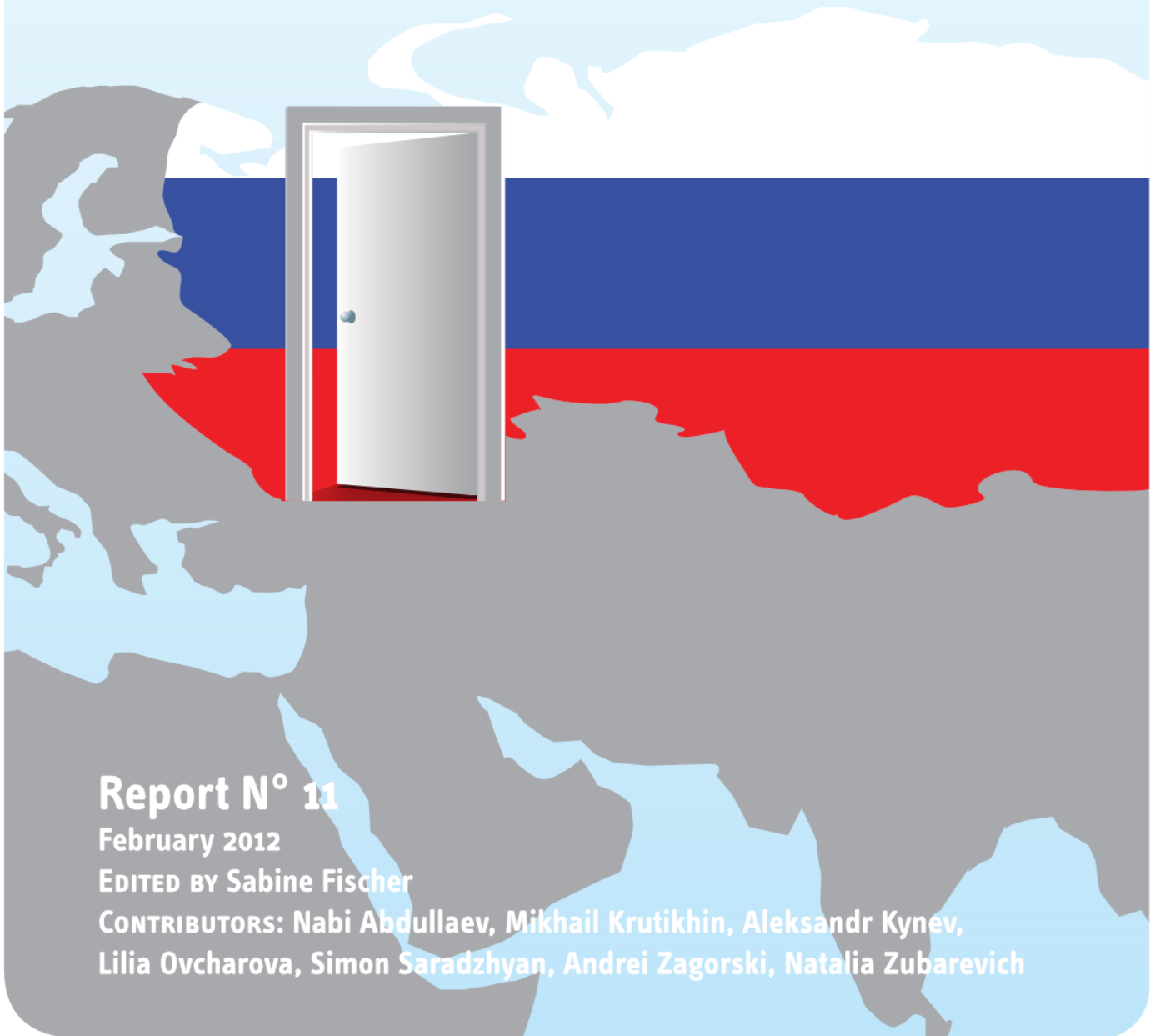


Russia

Insights from a changing country



Report N° 11

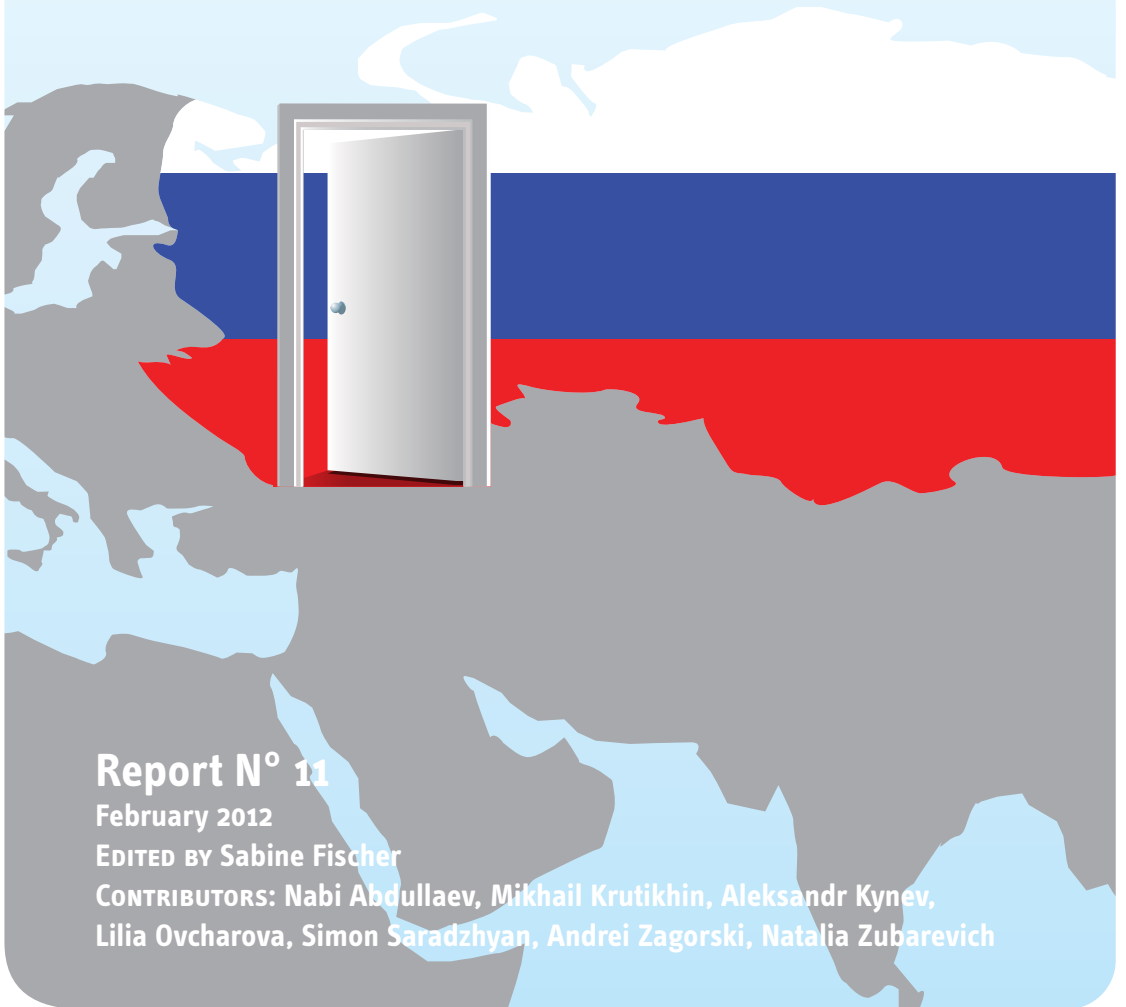
February 2012

EDITED BY Sabine Fischer

CONTRIBUTORS: Nabi Abdullaev, Mikhail Krutikhin, Aleksandr Kynev,
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Institute for Security Studies

100, avenue de Suffren

75015 Paris

tel.: +33 (0)1 56 89 19 30

fax: +33 (0)1 56 89 19 31

info@iss.europa.eu

<http://www.iss.europa.eu>

Director: Álvaro de Vasconcelos

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INTRODUCTION

Sabine Fischer

The mass protests in Moscow and other Russian cities after the parliamentary elections on 4 December 2011 shattered long-standing assumptions about the Russian political system and the apathy of Russian society. They raise new questions about the evolution of Russian society and state-society relations. These are extremely serious issues not only for the protesters and external observers, but also for a Russian leadership whose legitimacy is at risk and who, in one way or another, will have to react to this vocal expression of discontent and demand for change.

This EUISS Report features contributions from a group of Russian authors with outstanding expertise on important Russian domestic and foreign policy issues. They all contributed analytical papers to the Institute's 'Russia Insights' series, which were published online during the weeks before the parliamentary and presidential elections. Therefore, some of the papers were written before and some after the public protests started. Together, they provide valuable insights into Russian politics and society and into the country's economic system as well as into Russia's foreign policy posture. The result is a very complex picture combining elements of dynamism, stasis and stagnation.

Over the past ten years the Russian political system has been systematically manipulated and tailored to the needs of a small ruling elite whose main strategic goal is the preservation of their political power and access to economic resources. The proverbial 'power vertical', completed during Vladimir Putin's second presidential term, works at the national as well as the regional level.

As Aleksander Kynev demonstrates in his analyses, 'the party and electoral system today reflects the ruling elite's efforts to centralise and control'. Electoral and party legislation have become increasingly supportive of United Russia, the so-called 'party of power', and increasingly restrictive and discriminating vis-à-vis other parties. This development has severe consequences for the political system and state-society relations: on the one hand political parties have been unable to evolve into stable political entities with a clear profile and substance. As a result the State Duma has degenerated into a rubber stamp forum for the political leadership. The Kremlin on the other hand, has lost all connection with the population (and vice versa). The Russian people are unable to use elections as a means to communicate their wishes to the state, while the state is not attuned to changing societal moods, which explains why it was taken by surprise by the protests after the Duma elections.

Natalia Zubarevich confirms this assessment of the dysfunctionality of the power vertical for the relationship between the centre and the regions. She diagnoses the approaching end of the 'informal social contract' between the political leadership and Russian society, whereby Moscow guaranteed low-level economic stability through financial transfers and subsidies to the majority of economically underdeveloped regions. In the light of the economic crisis and growing unemployment, the centre will find it increasingly difficult to face the challenges inherent in Russia's unreformed federal structures, which are geared to control and co-opt regional elites but do not contribute to the improvement of the quality of governance, regional development and modernisation.

It is in the field of energy that Russian political and economic interests are concentrated. Mikhail Krutikhin delivers a pointed analysis of how state-dominated companies, dysfunctional governance, poor management practices and the rent-seeking behaviour of the elite undermine attempts to reform the outdated Russian energy sector. Modernisation, which in the long run is the only viable strategy to keep this sector competitive at the global level, clashes with the short-term interests of the actors currently in control of the energy sector. This group of veto players, labelled a 'collective Putin' by Krutikhin, constantly interferes with political processes in order not to be forced to cede political and economic control.

The authors of this report agree that President Medvedev's attempts to promote the idea of modernisation in the Russian discourse have done little, if anything, to change the flaws of the political and economic system and to better connect state and society. On the contrary, more often than not they consider Medvedev as 'part of the problem rather than the solution' (Krutikhin).

On the other hand, the modernisation debate has encouraged the expression of discontent, first among the broader political and intellectual elite, and, after the Duma elections in December, among Russian society at large. Russians have never developed much trust in their political system. Until recently, however, this distrust was focused on political institutions, while leading political figures, and above all Prime Minister Putin, enjoyed high public support. This has been changing in the past year. The crisis of legitimacy of the political system has turned into a legitimacy crisis that directly affects its leader.

This leads to the question of who is actually demonstrating. Simon Saradzhyan and Nabi Abdullaev claim that today more than 80 percent of the Russian urban population consider themselves to belong to the middle class, which they identify as the main source of public protest. Interestingly, Lilia Ovcharova's economic analysis of the development and situation of the middle class is much less optimistic. According to her this social stratum has not grown to encompass more than 20 percent of Russian society despite the economic boom of the 2000s, and has been most severely affected by the economic crisis. This contradiction points to a double discrepancy:

the majority of people describing themselves as middle class are apparently denied access to economic resources, while at the same time the middle class as a whole is denied appropriate political representation.

Foreign policy issues do not usually play a prominent role in Russian elections. However, back in October Vladimir Putin announced the 'Eurasian Union' as a new integration initiative for Russia's neighbourhood. This idea, which should be seen in the context of Russia's aspiration to regional great power and global player status, is clearly part of Putin's election programme. Andrei Zagorski analyses the development of Moscow's more active integration initiatives in recent years and predicts that, although their success is questionable, they will feature prominently in Putin's conservative foreign policy agenda, if necessary in competition with the EU. Saradzhyan and Abdullaev suspect that while an intentional reverse of the reset in US-Russian relations is unlikely, the atmosphere may become more tense, particularly if President Obama is voted out of office at the end of the year.

None of the authors voice any doubts as to Vladimir Putin's eventual return to the Kremlin. The big question for the coming months and years is, therefore, whether the new/old political leadership will be able to respond to the changing societal realities and restore some kind of social contract and consensus to bolster its legitimacy. Putin and his entourage have two options. One is to rely on conservative and extremist forces and seek to broaden their traditional support base among conservative layers of society. The other one is to respond to the demands for more democracy and political liberalisation and modernisation and, by doing so, open the political and economic system to the emerging middle class. In a series of articles on the national question, social policy and democracy, published in several big newspapers in January and February 2012, Putin presents a mix of ideas borrowing from both sides of the political spectrum. This makes it difficult to predict which way he will go. Whether or not the elections will be free, fair and clean, however, will already be an important indicator of Russia's future development.

I. ELECTIONS AND DOMESTIC POLITICS IN RUSSIA

STATE DUMA ELECTIONS 2011 AND THE MARGINAL ROLE OF RUSSIAN PARTIES – PART 1

Aleksandr Kynev

In the Russian political system, parties – regardless of their position and programme – exert practically no influence on decision-making processes. They are largely excluded from the sphere of executive power, which is based on personal rule. Neither current President Dmitri Medvedev nor Prime Minister Vladimir Putin are members of United Russia, the ‘party of power’ which supports both of them. This phenomenon has become a political tradition in post-Soviet Russia: former President Boris Yeltsin too did not have any political party affiliation.

Since the adoption of the 1993 constitution Russia has shifted from a presidential to a super-presidential political system. The Russian president personally appoints most members of government and important bureaucrats, and, since 2005, the governors of the Russian regions. The power of parliament – the natural platform for political parties in a democratic system – is limited to the right to approve the candidacy of the prime minister, suggested by the president. While the parliament has practically no possibilities to balance the authority of the president, the latter appoints the government and can dissolve the parliament as he/she sees fit.¹

These specific constitutional provisions deprive parties in Russia of an institutional basis to promote their positions or to exert executive power by participating in government. Under such conditions party competition degenerates from a battle of ideas and programmes into a battle over positions and ambitions of, essentially, individual politicians. Russian parties at best imitate the representation of societal interests – in reality they are largely detached from society. As surveys and public opinion polls have been showing for a long time, this in itself has resulted in a massive lack of trust in political parties in Russia.²

1. In such a system the Prime Minister is little more than a bureaucrat who formally heads but does not form the government. The independence of Vladimir Putin as prime minister is due only to his personal role and position in Russian politics.

2. The negative public attitude towards parties has more historical roots in the general discreditation of political parties as such after 70 years of CPSU rule.

With a view to the State Duma elections on 4 December 2011 this paper analyses the development of party and electoral legislation which has contributed to the marginalisation of political parties in Russia.

The Russian party system in historical perspective

Political parties started mushrooming during the rather hopeful days of *perestroika* and in the early days of post-Soviet Russia. They seemed to repeat the different (parliamentarian and extra-parliamentarian) stages in the development of Western European party systems – only telescoped into a much shorter period of time. However, already in the 1990s the emergence of a personalised system of power, the degradation of civic life, the extinction of genuine electoral mechanisms as well as free political competition distorted this ‘natural’ evolution.

Early post-Soviet legislation subsumed political parties under the broader notion of ‘civic organisations’. In 1997 a new law drew a line between parties and other civic organisations by distinguishing organisations aiming to compete for political power from other political civic organisations. However, parties were still not ascribed a special status in the political system. Accordingly the number of organisations active in political competition was high: 139 organisations obtained the right to participate in the 1999 Duma elections.

In 2001 newly elected President Vladimir Putin kicked off a new round of party and electoral legislation reform. A law ‘On political parties’ established political parties as the only type of organisation admitted to regional and federal elections – which basically wiped out many parties existing at the regional level. For a party to be registered at the national level a minimum of 10,000 members as well as a minimum of 100 members in at least half of its regional branches were required. Moreover, new parties had to register their regional branches in no less than half of the federal subjects within six months. Complex mechanisms of verifying membership numbers and other logistical procedures were introduced. Given the practice of double standards which so often guides politics in Russia these rules and mechanisms made parties dependent on bureaucratic favour and benevolence.

At the end of 2004 legal provisions for political parties were considerably tightened. In 2005 parties and other organisations were prohibited from forming coalitions or blocs in order to participate in elections. As of January 2006 the minimum party membership was raised to 50 000, with a minimum of 500 members in at least half of a party’s regional branches. Legal requirements now became virtually impossible to meet, practically forcing many parties to fake membership numbers. In 2006 parties were required to undergo verification of their compliance with the new rules. As a result many choose to either dissolve or transform into civic organisations. The verification of compliance led to a wave of court cases and, subsequently more liquidations in 2007. Charges were often put forward in an arbitrary way and affected mainly opposition parties.

A law regulating party finances further increased the state's power to control political parties. Starting in January 2009, the amount of state support for parties that received over 3 percent of votes was raised from 5 to 20 roubles annually for each vote. In addition, a party receives a one-off state payment of 20 roubles per each vote cast for it if its candidate won more than 3 percent of the vote in presidential elections. This automatically implies that more than two thirds of state support for political parties goes to United Russia which gathered ca. 65 percent of the votes in the 2007 parliamentary elections and currently holds 70 percent of the seats in the Duma. Moreover, while 'strong' parties benefit from the system, weaker parties face additional financial burdens. After the 2007 vote parties with less than 3 percent of the votes were obliged to compensate *ex post* for free air time and newsprint space allocated to them during the electoral campaign. Again several parties dissolved at the threat of bankruptcy. This regulation was later changed, but not removed. Now parties with less than 3 percent of the vote lose their right of free access to the mass media in the next election campaign.

During Dmitri Medvedev's term in office the legal requirements for parties were symbolically softened. Beginning in January 2010, the minimum membership count went down to 45 000, and as of 2012 it will be further reduced to 40 000 members. However, this clearly does not change the restrictive nature of the law.

A quick look at the development of Russian parties in the past few years highlights the effects of these legislative restrictions. 44 political parties and 20 Russia-wide civic organisations competed in the 2003 Duma elections, the latter as part of coalitions. After the 2006 legislative changes the number of parties declined to 37 in 2006 and to 15 in the run-up to the 2007 Duma elections. In 2011 only seven parties will participate in the elections: United Russia, The Communist Party of the Russian Federation, The Liberal Democratic Party of Russia, A Just Russia, Yabloko (Apple), Russia's Patriots, and The Right Cause.³

Moreover, despite a number of initiatives not a single attempt to register a new political party has been successful since 2004 save for the pro-Kremlin project The Right Cause, which replaced the Union of the Right Forces (SPS), the Democratic Party of Russia (DPR), and the Civil Force. Some of the ostensibly 'new' party formations of this period, such as Russia's Patriots and A Just Russia, are in fact older parties that changed their leaderships and names. Although the court verdict dissolving the Republican Party in 2006 was declared illegal by the European Court of Human Rights in 2007 the Russian leadership did not allow the party to be reinstated. Instead, the Minister of Justice, Alexandr Kononov, proposed to its leaders that they found (and register) it anew. In August 2011, the Ministry of Justice refused to register the People's Freedom Party (PARNAS) led by the four liberal opposition politicians, Mikhail Kasyanov, Vladimir Milov, Boris Nemtsov, and Vladimir Ryzhkov.

3. An analytical overview by the same author of the seven parties competing in the Duma elections on 4 December will be published in this series shortly.

The electoral system – more barriers to party consolidation

Since 2007 the mixed (majoritarian-proportional) system with a 5 percent threshold for parliamentary elections has been replaced by a fully proportional system with a 7 percent threshold at the national and regional levels. The Duma's legislative period was extended from four to five years. Party lists are closed, leaving the voter with a choice only for or against the list as a whole. The party leadership decides on the distribution of vacant mandates among candidates independently of their place on the respective list, which favours a non-transparent and authoritarian internal decision-making process.

The shift from a mixed to a purely proportional electoral system for the election of the 450 Duma deputies also has significant implications for Russia's 83 federal subjects.⁴ The mixed system automatically guaranteed their representation through majoritarian mandate districts. Now the regions have to rely on party lists as well, and this puts many of them in a difficult situation.

Party lists contain both nation-wide candidates and candidates in regional groups. Nation-wide candidates are the first to receive mandates if a party surpasses the 7 percent threshold. For the upcoming Duma elections the number of places for nation-wide candidates on party lists has gone up to ten (from three in 2007). Consequently, the regions will receive fewer mandates. Those remaining mandates are distributed among the regional groups. Regional groups (151 for the 2011 elections) are defined by the Central Electoral Commission and correspond to a territory (a region, a part of a region, or a group of regions) with a certain share of votes. Parties are free to combine territories into a list with no less than 70 regional groups (down from 80 in 2007). Thus, regions have to compete within the parties, and particularly within United Russia as the party with the broadest regional network, to make sure they are included in the party list. At the regional level United Russia, therefore, has turned into a kind of depository for candidates of very different political orientation.

Regions with small populations are prone to manipulation as well as they will find it difficult to get their candidates on party lists at all. For instance, in 2007, the regions in the Southern federal district and the republics of the Volga region (notably Tatarstan and Bashkortan) received a disproportionately large number of mandates relative to their population. At the same time, the representation of large industrial centres such as Moscow, St. Petersburg, some of the regions in the North-West, and other parts of the Volga region (Samara and Nizhgorod regions) decreased. The republic of Dagestan and the Nizhgorod region have almost the same number of deputies in the State Duma (nine and ten respectively), but the

4. The 83 federal subjects of the Russian Federation enjoy different degrees of autonomy. They are divided along administrative and ethnic criteria into 46 districts (*oblasts*), 21 republics, nine territories (*krais*), four autonomous territories (autonomous *okrugs*), two autonomous districts (autonomous *oblasts*), and two federal cities (Moscow and St. Petersburg). Each federal subject has two representatives, appointed by the President, in the Federation Council, the upper house of the Federal Assembly of the Russian Federation.

number of voters is almost twice as large in the Nizhgorod region (2.8 million) than in Dagestan (1.4 million).

In a nutshell, the rules for mandate distribution incentivise fraud and strengthen the already overwhelming predominance of United Russia. This leads to a situation where the success of the 'party of power' on the national level depends not least on the support of the most authoritarian and corrupt regions in the country – simply because they are more efficient in manipulating the vote. It also severely inhibits the creation and consolidation of new parties which could, over time, evolve into a genuine alternative to the existing power structures.

Conclusion

A little more than a month away from the 2011 Duma elections the situation in Russia appears schizophrenic. On the one hand sociological data, opinion polls and expert analyses show that Russian society is yearning for change and modernisation. On the other hand reforms of the electoral system as well as of the legislation concerning political parties have, over the past 10 years, formed a party system which is hugely dependent on the executive power and is not able to respond to the needs of society. Russian parties in their current shape are not capable of aggregating and promoting societal interests. The party and electoral system today reflects the ruling elite's efforts to centralise and control. According to their script, the 2011 Duma elections are set to serve as a demonstration of trust in the political system as such – not in the competing parties.

However, this by no means implies that the political elite are homogenous. Rather, intra-elite conflicts are not carried out between but within the existing political parties – particularly United Russia – and they do not take the shape of political arguments but rather of personalised fights. In this sense, the leaders of 'systemic' parties are hostage to the general situation as much as those of 'non-systemic' parties – and they are all marginalised. If the country were to move towards a functioning party system the respective legislations would need to be profoundly overhauled and modernised. However, recent developments in the run-up to the parliamentary as well as presidential elections in March 2012 give little hope that this is where Russia's elite are heading.

Translation: Eugene Slonimerov

STATE DUMA ELECTIONS 2011 AND THE MARGINAL ROLE OF RUSSIAN PARTIES – PART 2

Alexander Kynev

Even a superficial look at the histories of Russian political parties reveals a high degree of instability as well as vagueness when it comes to their political programmes. This raises questions about the state of the Russian party system and the value parties bring to the political process in Russia.

Only weeks away from the parliamentary elections, this paper provides an overview of the seven parties which have been registered to compete in the 5th Duma elections. But first it examines some of the specificities of the Russian party system and the relationship between parties and the Russian state in order to give the reader a better understanding of the often arbitrary and seemingly erratic developments in Russian party politics.

The Russian party system

Compared to their Western counterparts, Russian political parties have evolved ‘in reverse order’ in the past two decades: while in Western democracies party legislation follows the formation of political parties, in Russia the formation of political parties follows the legislation. In other words the state defines the rules, and only those parties corresponding to these rules have a chance to exist and survive in the Russian political system. In the past ten years the Russian state has exploited this asymmetric relationship to expand its control over political parties by considerably tightening the laws regulating their existence.¹ In this context it is more essential for political parties to fulfil formal criteria and requirements imposed by the state than to develop the substance of their political programmes.

The media have coined the terms ‘systemic’ and ‘non-systemic’ to distinguish between parties which are registered – and thus recognised by the state – and parties lingering in an institutional limbo because the state refuses to recognise them. This distinction applies to opposition parties as well. Hence, while for instance the CPRF and A Just Russia are ‘systemic’ opposition parties, PARNAS² has been

1. For an analysis of Russia’s party and electoral legislation see Kynev, ‘State Duma elections 2011 and the marginal role of Russian parties – Part I’.

2. The People’s Freedom Party/PARNAS is a Russian opposition party founded in mid-December 2010 by Boris Nemtsov, Vladimir Ryzhkov, Mikhail Kasyanov and Vladimir Milov. It was formed from four different political movements: Mikhail Kasyanov’s The Russian People’s Democratic Union, Vladimir Ryzhkov’s Republican Party of Russia, Boris Nemtsov’s Solidarity, and Vladimir Milov’s Democratic Choice. In June 2011, the Ministry of Justice refused to grant the party registration for the Duma elections. See *Russia Profile*, 23 June 2011, <http://russiaprofile.org/politicalparties/39417.html>.

denied registration for the Duma elections and, consequently, remains stuck in a political no-man's-land.

To avoid misunderstandings it should be noted that most of the so-called non-systemic parties do not aim at bringing about any fundamental change of the political system as such. In many cases these parties have tried to achieve legal recognition, but have repeatedly been rebuffed by the state bureaucracy.

The asymmetric dependence of political parties on the state has serious implications. Not only does it mean that parties are in a weak position in the political process, but it also means that they face great difficulties in developing their political platforms and profiles. Many political actors join parties solely to be able to run for office, in essence pursuing their individual interests, thus further undermining the substantial development of those parties' programmes. Moreover, individuals very often migrate from formally left-wing to formally right-wing parties – and back. They do not choose parties on the basis of their political orientation. Rather, it is the strength and weakness of different parties in a given regional context which makes individual actors 'pick' them to pursue their own goals.

This leads to a situation where one party can at the same time take different, even contradictory positions in different regions, depending on the respective context and local candidates. Arbitrary party politics is in turn mirrored by the attitude of the Russian 'pragmatic voter' who easily switches from one party to another regardless of their alleged political profile.

The parties which will be presented in the following section are 'systemic' pro-government and opposition parties. With the exception of the three parties which were founded in the 1990s – the Liberal Democratic Party of Russia (LDPR), the Communist Party of the Russian Federation (CPRF) and Yabloko – they have come into being and acquired their current form with the backing of the Kremlin to occupy a political niche and cater to the interests of the ruling elite.

United Russia – the Party of Power

The formation of United Russia began with the merger in 2001 of the previously competing Duma factions of Unity (otherwise known as 'Medved'– 'The Bear'), a centre-right party headed by Sergey Shoigu, and Fatherland-All Russia, a centre-left bloc led by Evgeny Primakov and Yuri Luzhkov. The party obtained its current name in 2003. For the 2003 Duma elections United Russia campaigned under the slogan 'Together with the President!', thus indicating its close links with the Putin administration. After the elections the United Russia faction quickly gained a constitutional majority thanks to the mass migration of independent MPs and members of other parties.

Vladimir Putin himself headed the United Russia list for the 2007 Duma elections. The election programme was entitled ‘Putin’s Plan: a worthy future for a great country’. In the wake of the parliamentary elections, United Russia put forward Dmitri Medvedev as a candidate and in 2008 elected Vladimir Putin its chairman. It is worth pointing out that, regardless of their prominent positions within the party hierarchy, neither Putin nor Medvedev are formally members of United Russia.

Throughout the early 2000s United Russia promoted values such as ‘sovereign democracy’ and ‘Russian conservatism’.³ In the past four years, however, the party has also had to integrate some of the political statements of President Dmitri Medvedev which were considerably more liberal and reform-oriented. Ambivalent discourses and developments are also reflected in the process of internal differentiation that United Russia has been going through during the second half of the past decade. This differentiation is expressed, *inter alia*, in the creation of several thematic ‘clubs’ such as the Centre for Socio-Conservative Policy, the Liberal-Conservative Club, or the Government-Patriotic Club. However these clubs do little to clarify what the party really stands for.

At the pre-election party convention in September 2011 President Medvedev and Prime Minister Putin announced that they were to swap jobs. While Putin will run for the presidency and abstain from participating in the Duma elections, Medvedev has taken over as United Russia’s frontrunner for the Duma elections, and is due to be appointed Prime Minister in 2012.

The United Russia party list for the December Duma elections is strongly dominated by the executive power.⁴ It contains 165 acting MPs, 8 members of the federal government, 54 governors and a large number of representatives of regional and local administrations.⁵ Moreover it contains numerous names which apparently symbolise ‘national achievements’ and patriotism, such as those of athletes or cosmonauts. The number of representatives of the pro-Kremlin youth movements has increased. However, the Nashi (‘Our’) movement has apparently been replaced by an organisation called Youth Guard of United Russia and various youth parliaments and analogous structures.

The Communist Party of the Russian Federation (CPRF)

The CPRF is the successor of the Communist Party of the Russian Soviet Federative Socialist Republic (RSFSR). Gennady Zyuganov has been the party leader ever since its inception. Traditionally the CPRF is one of the strongest political parties in

3. See: <http://edinros.ru/party/history/>.

4. All party lists registered for the elections are accessible on the website of the Central Election Commission: see http://www.cikrf.ru/banners/duma_2011/polit_part/spiski.html.

5. The inclusion of representatives of the judiciary – namely the Chairs of the Supreme Courts of the republics of Bashkortostan and North Ossetia – provoked protests from civil rights activists in reaction to which the representative of Bashkortostan withdrew his candidacy.

Russia, but its share of votes has been continuously declining over the past 20 years. Partly in reaction to that, an internal dispute in 2004 led to structural changes and a significant reduction of the average age among the party's leadership.⁶ Since then, the CPRF has worked to modernise its electoral campaigns and to actively use the internet to reach out to potential constituencies of voters. Support for the party has since increased in large cities but decreased in rural areas.

In its programme (entitled 'The majority is destined to win. Return the Motherland stolen from us!'), the CPRF promotes a stronger role of the state in the political and social sphere and the nationalisation of mineral resources and other raw materials. It calls for a re-appraisal of Russia's foreign policy posture, the creation of a 'Union of Brotherhood' on the territory of the former Soviet Union, a stronger role for the United Nations and the dissolution of NATO. The CPRF demands 'genuine democratisation' of the Russian political system including a stronger role for the parliament, the restoration of regional elections, and the confiscation of property acquired through corruption. It tasks itself with representing the 'patriotic majority' of the population in the parliament and with making sure that executive power is being exercised for the sake of the common good.⁷

The Liberal Democratic Party of Russia (LDPR)

Formally the LDPR is the oldest party in today's Russia. It was founded in 1990 as the Liberal-Democratic Party of Soviet Union and was the first party other than the Communist Party of the Soviet Union (CPSU) ever to be officially registered.

Vladimir Zhirinovskiy remains the key political and ideological figure in the party and is also its frontrunner in the 2011 election campaign. The LDPR tends to take ambivalent and oscillating positions, although traditionally it is considered nationalist. For its 2011 campaign the LDPR has adopted the slogan 'For the Russians!' and focuses on nationalist ideas and regional trouble spots such as the North Caucasus and the Far East.

Regardless of its oppositional discourse in public, in the Duma it usually supports the government. The LDPR's image is shaped by political controversy, aggressive rhetoric, regular media scandals and Zhirinovskiy's occasional physical assaults against political opponents.

6. Thus, the 2011 party list is headed by a troika consisting of party leader Gennady Zyuganov, Duma deputy Admiral Vladimir Komoedov, and the Secretary of the CPRF Central Committee for Youth Yuri Afonin (34). Among the top ten of the list are CPRF Secretary for Ideology Dmitri Novikov (42), and CPRF Secretary for Nationality Policy, Kazbek Taisaev (44).

7. See: <http://kprf.ru/crisis/offer/97653.html>.

A Just Russia

A Just Russia bases its programme on ‘contemporary, democratic and effective socialism’.⁸ It calls for a more vigorous social policy that would guarantee social stability and fight poverty, corruption and United Russia’s monopoly on power. The party is a member of the ‘Socialist International’.

The emergence of A Just Russia in 2006 was closely linked to the Kremlin’s decision, around the same time, to liquidate the socialist-patriotic Motherland (Rodina) party. Headed by Dmitry Rogozin and Sergey Glaziev, this party had been created by the Kremlin as an (initially) successful attempt to rein in opposition forces, but soon escaped from the control of the Kremlin technocrats.

In order to be able to remove Rodina from the political stage the Kremlin needed a party that would fill its niche. The small ‘Russian Party for Life’, headed by Federation Council speaker Sergey Mironov, lent itself to this purpose. In the course of 2006 the Party of Life, the Motherland party and the Party of Pensioners merged into A Just Russia with Sergey Mironov as its new chairman. Between 2006 and 2008 A Just Russia ‘swallowed’ several smaller parties such as the Green Party ‘Zelyenye’, the United Socialist Party of Russia, and the People’s Party. The processes of merger and reorganisation resulted in the departure of prominent former leaders of Rodina.

After some time A Just Russia entered into conflict with United Russia and the Presidential Administration. As a result, Sergey Mironov was replaced by Nikolai Levichev as party leader. Governmental pressure and media campaigns against the party have since caused a number of activists to leave A Just Russia.

United Russian Democratic Party (Yabloko – ‘Apple’)

The United Russian Democratic Party, ‘Yabloko’, was created in 1995 by its three leaders Gregoriy Yavlinsky, Yuri Boldyrev and Vladimir Lukin.

Yabloko sees itself as being ideologically rooted in social liberalism: ‘Our aim is a society of equal opportunities, based on the principles of social justice and solidarity between the powerful and the weak. This means that the most important condition for establishing a free society in Russia is not only the unleashing of private initiative, but also a well-developed social support system’.⁹ Following its defeat in the 2007 elections, the party has been trying to pursue a policy of small steps focusing predominantly on ecological and local residential issues.¹⁰

8. See: <http://www.spravedlivo.ru/>.

9. See: <http://www.yabloko.ru/Union/program.html>.

10. See for instance http://www.yabloko.ru/publikatsii/2011/07/25_0.

Yabloko's internal organisation is hierarchical and marked by personalised rule. Formally, Sergey Mitrokhin has been the party leader since 2008. However, the party remains very much dominated by Grigory Yavlinsky who is also the frontrunner of the 2011 party list (together with Mitrokhin and 78 year old ecologist Alexey Yablokov). In reaction to this situation, during the past few years many prominent party members have left Yabloko and joined A Just Russia or United Russia. Negotiations aimed at persuading Boris Titov, the leader of the organisation Business Russia, to join the 2011 party list did not succeed. Moreover, Yabloko's campaign suffers from insufficient publicity and the fact that its candidates are not well-known in Russia's regions.

Russia's Patriots

Russia's Patriots base their party programme on what they call 'Russian patriotism' or an 'ideology that is able to unite Russia's society for achieving common national goals and challenges'. The programme itself contains an eclectic collection of leftist and patriotic slogans. 11

Party leader, businessman and former member of the CPRF, Gennady Semigin, gained some publicity with an unsuccessful attempt to stage a *coup* within the CPRF some ten years ago. After his forced departure from the CPRF he forged a coalition of several small parties which in 2005 became the Russia's Patriots party. Russia's Patriots often take positions that are supportive of the government. At the regional level it regularly engages in counter-agitation against traditional opponents of United Russia, such as the CPRF and A Just Russia.

This pro-governmental stance is also reflected in the 2011 party list which includes a large number of representatives of local and regional administrations.

The Right Cause

The Right Cause labels itself a 'democratic liberal party' targeting the Russian middle class. Under the slogan 'freedom, initiative, responsibility and development'¹² its programme assembles a broad and diverse array of political goals including pension reform, military and social reforms, restoration of regional elections, strengthening of the independence of the judiciary and a pro-European foreign policy. The party was created in late 2008 with the obvious involvement of the Presidential Administration to be a liberal substitute for the Democratic Party of Russia, the Union of Right Forces (SPS) and the Civil Power party (all dissolved because of financial

11. <http://www.patriot-rus.ru/partyProgramm/>.

12. <http://www.pravoedelo.ru/party/program>.

problems).¹³ For the first three years of its existence the Right Cause was neither active nor particularly visible in political life, not least due to internal disputes. In May 2011 the infighting was temporarily brought to an end with the election of billionaire Mikhail Prokhorov as the chairman. Rumour had it that this too happened with the support of the Kremlin.

Prokhorov's actions and leadership style caused regular scandals in the following months. Many of his decisions, including the reorganisation and purge of the party's regional branches, were heavily disputed. Prokhorov's announcement in early September that he was not ruling out his candidacy for the presidency caused another row which ended with his removal and replacement by Andrey Dunaev, who is also the frontrunner of the Just Cause party list. Prokhorov later accused the deputy head of the Presidential Administration, Vladislav Surkov, of having staged a *coup* against him.

The Moscow rumour mill entertains several different versions of what actually happened in September. One points to the cumulative effect of Prokhorov's unfortunate decisions and appointments which led to clashes with other party members and with the Kremlin. Another possible explanation for the Kremlin's decreasing enthusiasm is that, at the time, the decision to include Dimitri Medvedev in United Russia's party list might already have been taken. This would explain why all of a sudden there was no longer a need to foster an additional 'pro-presidential' party project.

In either case the scandal has severely damaged the party. Moreover, the fate of the Right Cause is a perfect example of the degree to which the Russian party system is controlled and manipulated. Political parties are obliged to fulfil the restrictive rules and requirements set up by the state to change from the non-systemic to the systemic level. This gives the state maximum leverage to limit political parties' room for manoeuvre and undermine the development of genuine opposition. When parties have overcome the hurdle of registration they are subject to even more state control. In this system Russian parties – no matter whether they are 'systemic' or 'non-systemic' – are doomed to remain weak and amorphous and will therefore continue to contribute little to the diversification and pluralisation of Russian politics.

13. Changes in legal provisions for political parties and their finances made in 2006 and 2007 complicated the situation of many smaller parties in Russia and led to court cases against and subsequent dissolutions of parties in 2007 and 2008. See Kynev: 'State Duma elections 2011 and the marginal role of Russian parties – Part 1'. See also footnote 2 on PARNAS.

	United Russia	CPRF	A Just Russia	LDPR	Yabloko	Russia's Patriots
Membership ¹⁴	2,009,937	154,244	414,558	185,573	54,911	86,394
Regional branches	83	81	83	83	75	79
Chair	Vladimir Putin	Gennady Zyuganov	Nikolay Levichev	Vladimir Zhirinovskiy	Sergey Mitrokhin	Gennady Semigin
2007 Duma elections	64.3% 315 seats	11.57% 57 seats	7.74% 38 seats	8.14% 40 seats	1.59% No seats	0.89% No seats
2003 Duma elections	37.57% 22 seats	12.61% 40 seats	/	11.45% 36 seats	4.3% 4 seats	/
1999 Duma elections	/	24.29% 113 seats	/	5.58% 17 seats	5.93% 20 seats	/
1995 Duma elections	/	22.3% 157 seats	/	11.18% 51 seats	6.89% 45 seats	/

¹⁴ All figures are taken from the website of the Russian Ministry of Justice: <http://www.minjust.ru/ru/activity/nko/partii/>.

RUSSIAN ELECTIONS AND RELATIONS BETWEEN THE CENTRE AND THE REGIONS

Natalia Zubarevich

The most significant economic and social challenges that Russia faces today are regional. In the light of the upcoming parliamentary and presidential elections this paper takes a look at the development of Russian federalism throughout the past decade. It concludes that existing problems have worsened rather than improved. The outcome of the elections is unlikely to have a positive effect on the relationship between Moscow and the Russian regions.

During his time in office, outgoing President Medvedev undertook two initiatives with the potential to (re)shape the in many ways dysfunctional and hyper-centralised relationship between the capital and the 83 federal subjects of the Russian Federation: First, he publicly criticised the ineffectiveness of Russia's over-centralised governance structures and called for decentralisation.¹ Secondly, he was more active than his predecessor and likely successor Vladimir Putin in replacing governors. Among the regional leaders removed during his presidency were political heavyweights such as the presidents of the republics of Tatarstan and Bashkortostan, as well as the mayor of Moscow. These measures, however, have done little to improve the dysfunctions of the Russian federal system. As will be argued in this paper they have even sometimes helped to further exacerbate its problems.

When he took office in 2008 Dmitri Medvedev inherited a federal structure which had been substantially altered and shaped by his predecessor Vladimir Putin between 2000 and 2008. At the end of this period, the regions had become dependent on the federal centre in all respects: politically, through the abolition of regional elections and the appointment of governors by the president after 2004; economically, through the over-centralisation of tax revenues in the federal budget and the increasing dependency of the regions on federal transfers. Moreover, during his presidency Putin had introduced a number of federally financed 'big projects' (большие проекты) and made them a priority for regional politics. Most are showcase projects such as the preparation of the 2012 APEC Summit in Vladivostok, the 2014 Winter Olympics in Sochi, or, since 2011, the expansion of the administrative boundaries of the city of Moscow and the relocation of government institutions within the new city borders. Such projects are geared towards improving Russia's image rather than contributing to regional development. The National Projects on Quality Education, Affordable Housing, Modern Healthcare and Demographic Sustainability, launched

1. See for instance Medvedev's remarks at the St Petersburg International Economic Forum in June 2011: <http://www.ft.com/cms/s/0/9d726e5e-98d0-11e0-bd66-00144feab49a.html#axzz1edfKSRQV>.

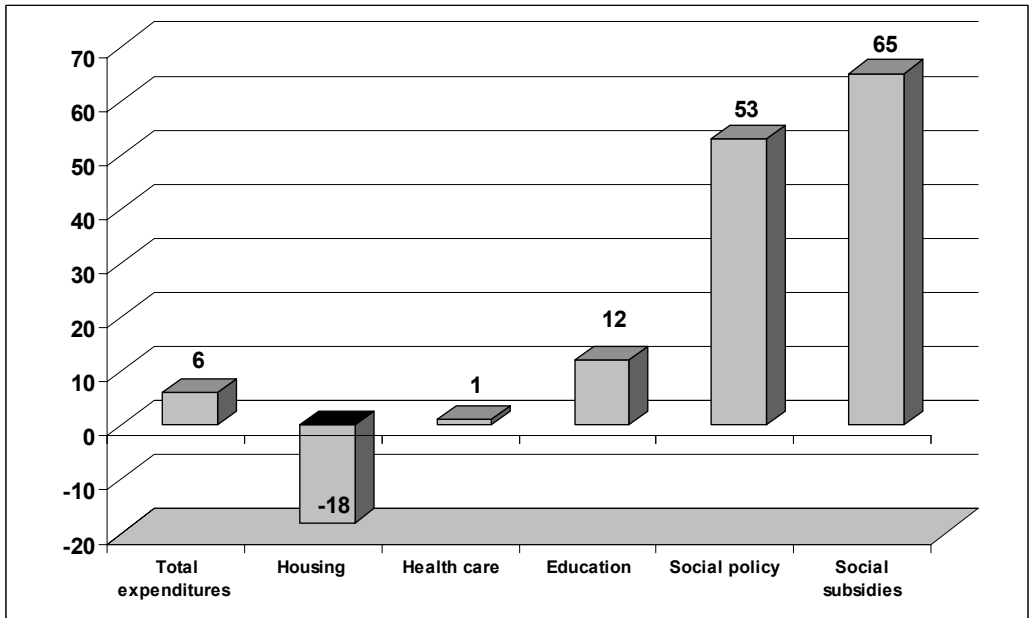
in 2006, can be counted among the 'big projects' as well.² However, due to sharp cuts in federal financing their implementation came to a near-standstill after 2008. Other instruments of regional politics, such as several 'special economic zones' created in 2007-2008, stagnated at around the same time without having had any significant effect on regional development.

Hence it was the global economic crisis rather than the policies of President Medvedev which impacted on the relationship between the centre and the regions after 2008. Due to fear of social instability, the federal government increased financial transfers to the regions by one third in 2009. The federal share of the regional budgets increased from 19 to 27 percent. However, rather than strategically targeting those regions who were most affected by the crisis, additional transfers were evenly spread across the country. Moreover, most of the money was distributed in a non-transparent way, thus further strengthening Moscow's 'manual control' (ручное управление) over the regions during Medvedev's presidency.

During the economic crisis the government prioritised the increase of state expenditure on social protection programmes, including job creation and other employment support measures. Within two years (2008-2010) this spending increased by 53 percent including a 65 percent increase in social assistance packages (see Graph 1). Regional budget spending on healthcare, however, did not increase (taking into account inflation it actually decreased) and the increase in regional spending on education did not keep up with inflation. Once again, increasing flows of money did not translate into sustainable development in the regions. Clearly, the federal centre's priority was sustaining political stability, not the growth of human capital.

However, Moscow finds it increasingly difficult to uphold this level of spending in the regions. Once the peak of the crisis was passed regional transfers immediately dropped by 7 percent in 2010, and by 1 percent between January and August 2011. Taking into account inflation, these are significant cuts. The regions are also forced to invest less and cut social spending while federal financing of Vladimir Putin's 'big projects' is growing rapidly: for instance, the Krasnodarsky and Primorsky regions (where the Sochi Olympics and the APEC Summit will take place) received 25 percent of all federal budget investments.

2. For more information, see for instance Russia's National Priorities, INSOR, http://www.insor-russia.ru/en/_priorities/national_priorities, or Institute for Complex Strategic Studies, 'The Millennium Development Goals and Russia's National Projects: Strategic Choices', Moscow 2006, www.undp.ru.

Graph 1: Dynamics of regions' budget expenditures in percent, 2010 to 2008

Source: Author's calculation based on data from the Federal Treasury.

Notwithstanding the budgetary constraints imposed on Moscow by the economic crisis, Chechnya's massive financing remains a top political priority. The *per capita* share of the federal budget was 15 percent higher in Chechnya than the average indicator for Russia's regions in the first half of 2011, whereby 90 percent of the Chechen budget consists of federal transfer funds. Federal support increased by 20 to 25 percent also for other republics of the North Caucasus (Ingushetia, Dagestan, Karachaevo-Cherkessia), but Chechnya remains at the very top of the list. At the same time economic development in those regions remains marginal and is further undermined by political instability. In the absence of an efficient development strategy, the North Caucasus has turned into a bottomless pit for federal subsidies.

Following President Medvedev's criticism of political and economic hyper-centralisation two commissions were created in mid 2011: one deals with the decentralisation of government and is headed by Deputy Prime Minister Dimitri Kozak and one is responsible for economic decentralisation under the guidance of Presidential Envoy for the North Caucasus Federal District Alexander Khloponin. As a result of their work 30 to 35 less important federal portfolios including a small amount of financing will be handed over from the federal to the regional level. However, the federal ministries will control the execution of these portfolios. Therefore, these measures

constitute cosmetic bureaucratic rearrangements rather than real decentralisation of governance and inter-budgetary cooperation.

Last but not least, the removal and replacement of regional leaders during Medvedev's presidential term have actually played into Moscow's hands. After the change of leadership in Bashkortostan state-owned companies such as Gazprom and AFK System gained ownership of important parts of Bashkortostan's oil industry. Yury Luzhkov's resignation paved the way for close associates of Putin and Medvedev who have since taken over business assets that were previously controlled by the former Moscow mayor. Furthermore, through his successor Sobyenin, the federal powers can now exert greater control of Moscow's enormous 1.5 trillion rouble budget, which is 20 percent of the total budget allotted to regions. The only exception is Tatarstan where regional authorities managed to retain control over the oil and chemical industry, as former president Shamiev succeeded in handing power over to a hand-picked successor.

These changes of regional leaderships once again demonstrate the ever-growing interdependence of power and business in Russia's regions. The loss of power equals the loss of control over business and, inevitably leads to the redistribution of property. These institutional defects have become more severe during President Medvedev's term.

Challenges for Russian federalism

Russian federalism faces six main challenges.

Russia lacks attractiveness for investors as the drop in investments spurred by the global economic crisis continues. Overall, investments in Russia decreased by 16 percent in the first half of 2011 compared to the first half of 2008, and continue to decline in most regions. Only very few regions register a growth of investment. In most of these cases, however, growth has little to do with an improvement in the investment climate. Some of the money comes from the federal budget and goes to the 'big projects' (Primorsky and Krasnodarsky regions). In others the increase is due to large business investments in the oil and gas industry (in Sakhalin and Krasnoyarsk, among others). Only in a few regions (the Kaluzhskaya and Leningradskaya regions) investment growth was triggered by active policies pursued by the regional governments which resulted in a more favourable investment climate.

Foreign Direct Investment (FDI) in Russia's regions has decreased twofold during the period from 2008 to 2010. The only exception is to be found in the Kaluzhskaya and Leningradskaya regions where new projects in the manufacturing industry are being undertaken. The trend changed in the first half of 2011, as FDI increased by a third compared to the previous year. However, this is due mainly to new oil and gas projects in Sakhalin (accounting for 20 percent of all of Russia's FDI in 2011), and in

Yamal-Nenetsk Autonomous region (10 percent). In other words economic development prospects are limited to regions holding important shares in the oil and gas sector, and regions hosting ‘big projects’ funded through the federal budget.

The informal social contract between the political leadership and Russian society is coming to an end as per capita income has started to decline. During the period of economic growth in the 2000s, a major factor of political stability was the considerable growth of income *per capita* by 10 to 13 percent annually. Even at the height of the economic crisis the decline of *per capita* income was minimal (only 1 percent in 2009) thanks to the federal-reserve funds through which pensions and welfare payments were raised. *Per capita* income decreased only in 15 to 20 regions due to sizeable cutbacks in industrial production and growing unemployment (particularly in regions with strong mechanical engineering and metallurgy industries) as well as salary decreases (in regions with gas and oil deposits).

However, during the first half of 2011, *per capita* income decreased by 1 percent country-wide as the federal centre stopped raising pensions, welfare payments and the salaries of government employees. *Per capita* income went down in 54 regions, with the biggest drop (5 to 10 percent) in the leading gas and oil regions (for instance the Tumen region), large industrial regions (the Samarskaya, Sverdlovskaya and Chelyabinskaya regions), and Moscow.

Falling income levels will inevitably have a negative effect on people’s quality of life and lead to social tensions. If it cannot stop this development, the political leadership will find it difficult to keep its part of the social contract, i.e. providing income growth in exchange for political stability and society’s passive acquiescence in government policies.

Regional job markets have not been reformed and are extremely vulnerable to potential future crises. The shock of the 2009 crisis did not result in efficient measures to solve the most pressing problems of regional labour markets, for instance inefficient employment. For the sake of political stability jobs were preserved at any cost, to the extent that restrictions were placed on local authorities’ rights to fire employees. Instead people were put on part-time work, urged to take unpaid leave, or employed in the charity sector almost everywhere, but particularly in regions and ‘mono-cities’ where production plummeted to almost zero. The situation was aggravated by a general lack of strategy and funds to encourage and channel labour migration within Russia. Despite the worsening economic context, therefore, unemployment figures fell to the pre-crisis level of 6.6 percent (based on MOT methodology) in 2011.

The quality and accessibility of social services is declining. The federal government has undertaken regional healthcare and education reforms in recent years. However, these measures are above all fiscal and aim to downsize the network of existing facilities to decrease costs. As a result the total amount of spending for healthcare in 2010 fell be-

low the amount of spending in 2008 in 19 regions. More cutbacks in social spending are planned for the next few years as federal transfers to the regions will decline.

Given the heavy depopulation in many Russian regions it is certainly necessary to downsize and adapt the education and healthcare sectors. However, currently reforms are imposed 'from above' without taking into account local conditions. As a result there is growing dissatisfaction with the supply of services, education and healthcare across the country. This is all the more problematic as education and healthcare are crucial for the development and preservation of human capital.

The over-centralised system of governance aggravates the asymmetric development across Russia's regions. With financial resources flowing back to Moscow there remains a vast divide between the capital and other regions as far as the quality of life and accessibility of services are concerned. 60 percent of all internal migrants are attracted to Moscow and the Moscow region. The concentration of the Russian population in the capital and the Moscow region is growing. Moscow's infrastructure is unable to cope with the rapid growth of its population and its implications. A particularly striking example is the collapse of Moscow's road network due to the huge increase in the number of vehicles. Only the decentralisation of political and economic governance, the downsizing of the federal state administration and the strategic development of other large cities could relieve the pressure on the capital. If things remain as they are the population in the Moscow agglomeration will only continue to grow, and related infrastructure and ecological problems will become ever more unmanageable. The envisaged expansion of the boundaries of the city of Moscow will not solve these problems. On the contrary, increased construction activity will attract an additional inflow of labour migrants.

Inefficient governance undermines regional development. The over-centralisation of competences and financial resources within the federal centre has a number of negative consequences. First, more developed and competitive regions do not dispose of sufficient resources and freedom to re-invest in industries and human capital. This lack of room for manoeuvre slows down modernisation processes both at the political and economic level. Secondly, the over-centralised system of redistribution creates fertile conditions for the emergence of rent-seeking structures in less developed regions: instead of investing in the development of the respective region, elites develop skills which allow for the extraction and distribution of resources from the federal budget. Corruption and 'manual control' only help to further entrench these mechanisms and undermine any kind of sustainable development, thus making those regions – or rather their elites – fully dependent on financial flows from the centre. Thirdly, the concentration of competences at the federal level has led to a disproportionate expansion of the federal administrative bodies. Today the number of federal bureaucrats in Russia's regions (working in local branches of federal ministries and other federal administrative bodies) is 2.5 times higher than the number of regional civil servants. Clearly, a mere decline in funds transferred from the centre

will do nothing to change or modernise this inefficient system of governance. Only greater transparency regarding the distribution of money and the delegation of more competences and responsibilities from the federal to the regional level can improve the quality of governance in Russian federalism.

Russian federalism and elections

Like previous national elections the upcoming Duma and presidential elections will have repercussions for the relationship between the centre and regions.

The regions will receive additional funding from the federal budgets to spend on social assistance and on a salary raise for civil servants. For this purpose the federal government has prepared amendments to the budget that will allow for the redistribution of 200 billion roubles before the presidential elections in March. In 2011 President Medvedev demanded that teachers's salaries be raised, thus intruding on regional competences. The yearly increase in utility costs (gas, water, electricity), which usually takes effect in January, has been postponed until July 2012.

These short-term measures will have negative consequences at the regional and local level. After the elections the regions will need to find additional resources to pay teachers' salaries. Municipalities will have to compensate for the lost income from increased utility costs which, in turn, will affect regional budgets as the majority of Russian municipalities depend on federal subsidies.

Moreover, the 2012-2013 federal budget draft foresees substantial cuts in federal transfers to the regions in the aftermath of the elections. Consequently, even less money will be allocated to social services, healthcare and education. At the same time, significant sums will go on being pumped into Chechnya as well as into the preparation of the 2014 Winter Olympics in Sochi.

Last but not least, the regional executives play an important role in the election calculus of the political leadership in Moscow. The 'effectiveness' of their rule will be rated based on the results obtained by United Russia and its presidential candidate in their respective regions. In election periods this is the only criteria of success that counts. As in 2007/2008 regions providing good results for the ruling party will receive additional subsidies. On the other hand there may be changes of governors where United Russia does not achieve the desired results. However, given the experience from the 2007/2008 election cycle and the close interdependence of political and economic structures in Russia's regions, it is very likely that governors and regional administrations will do everything in their power to ensure that the election results in their region are to Moscow's liking.

Translation: Eugene Slonimerov

RUSSIA'S MIDDLE CLASS: AT THE CENTRE OR ON THE PERIPHERY OF RUSSIAN POLITICS?

Lilia Ovcharova

The peaceful demonstrations in the wake of the Duma elections on 4 December 2011 came as a surprise not only to the international public but also to the Russian leadership. The obvious discontent of the urban population and their demand for fair elections and more political participation sheds new light on Russian society. After years of political apathy a new social stratum, often categorised as the 'Russian middle class', seems to be emerging. This may form the crucible for more profound political changes in the future. At the same time, however, there are doubts as to whether and on what basis a middle class in Russia can actually be said to exist. This paper investigates the development and current situation of Russia's middle class from an economic perspective and draws some conclusions as to its political outlook and potential for change.

Creating a middle class from scratch?

After several years of economic growth, in the middle of the last decade Russia's political leadership defined new priorities for the country's long-term development. During the boom years of the early 2000s state programmes had mainly been focused on poverty reduction. Now the enlargement of the middle class to encompass 50 percent of Russian society by 2020 became the new strategic goal for long-term socio-economic development.¹ This decision was accompanied by a debate on the distinctive features and characteristics of Russia's middle class.² Experts and policy-makers agreed that the middle class should be a layer of society displaying stable wealth (in terms of property, savings and income) and highly-developed professional skills, and should form the basis of sustainable development and modernisation.

Several years later, however, a closer look at the revenues, professional activities and 'financial strategies' of Russian households reveals that the Russian leadership's policy is still far from achieving its aim. This is not, as is often claimed, a consequence of

1. 'Konceptcija dolgosrochnogo socialno-ekonomicheskogo razvitiya do 2020g' [Concept for the long-term socio-economic development until 2020], November 2008, available at: www.ifap.ru/ofdocs/rus/rus006.pdf.

2. T. M. Maleva, L. N. Ovcharova and A. E. Shastitko, *Rossijski srednyj klass na kanune i na pike ekonomicheskogo rosta* [The Russian Middle Class Before and During the Economic Boom], (Moscow: Ekon-Inform, 2008); N. E. Tikhonova, 'Kriterii vydeleniya i opredelenie chislennosti srednego klassa v sovremennom rossijskom obshchestve' [Characteristics and size of the middle class in modern Russian society], *Demoskop Weekly*, no. 381-382, 15-30 June 2009, available at: www.demoscope.ru/weekly/2009/0381/analit01.php.

the economic crisis and the subsequent rise in unemployment and fall in real wages, but rather of the fact that, in contradiction to its declared goal, the state in the past ten years has formed a society without a middle class.³ Measured by economic criteria, the share of the middle class in overall Russian society was 20 percent in the early 2000s and stayed at that level even at the peak of the economic boom in around 2007.⁴ Thus, the middle class did not grow in size. However, it has become wealthier and its composition has changed. In contrast to the late 1990s and early 2000s, the Russian middle class today features more bureaucrats and fewer business people.⁵

Obstacles to the emergence of a middle class in Russia

There are several obstacles hindering the development of the middle class in Russia.

First, the Russian labour market is characterised by the prevalence of low-wage jobs and informal employment. In 2011 13.1 percent of the employees of large and medium-sized enterprises earned wages below the subsistence minimum. Their income did not even cover the minimum consumption requirements of one individual (see Table 1). The salaries of 42 percent of all employees remained below the minimum consumption requirements of two individuals. In education and health care, sectors with a high proportion of middle-class representatives in Western economies, this concerns more than 60 percent of employees.

3. T. M. Maleva, 'Nizhe srednego: gosudarstvo formiruet obshchestvo, v kotorom net srednego klassa' [Below the middle: The State builds a society without a middle class], *Forbes*, November 2011.

4. T. M. Maleva (ed.), 'Srednye klassy Rossii: ekonomicheskie i socialnye strategii' [The Russian Middle Class: Economic and Social Strategies], Carnegie Center Moscow, 2003.

5. T. M. Maleva, L. N. Ovcharova and A. E. Shastitko, *Rossiiskie srednye klassy nakanune i na pike ekonomicheskogo rosta* [The Russian Middle Class Before and During the Economic Boom], (Moscow: Ekon-Inform, 2008).

Table 1: Distribution of employees according to salary levels, April 2011, in percent of overall number of employees of big and medium-sized companies

Forms of economic activity	Salaries			
	all	<1MCR*	1-2 MCR	< 2 MCR
ALL	100	13.1	28.9	42.0
Agriculture, hunting and forestry	100	27.2	40.6	67.8
Fishery, fish processing	100	14.0	29.3	43.3
Extraction of minerals	100	1.8	9.5	11.3
Manufacturing	100	4.7	25.2	29.9
Extraction and distribution of electricity, gas and water	100	3.8	24.5	28.3
Construction	100	5.4	21.1	26.5
Whole and retail sales; repair of transport means and commodities	100	10.0	33.2	43.2
Hotels and catering	100	10.6	39.2	49.8
Public transport and communication	100	5.4	21.4	26.8
Financial sector	100	3.0	10.8	13.8
Real estate and renting, services	100	9.5	26.7	36.2
State administration; social insurance; extraterritorial organisations	100	4.6	18.4	23.0
Education	100	28.4	38.2	66.6
Health care and social services	100	21.7	40.1	61.8
Community services, social and personal services	100	27.6	36.9	64.5

* MCR = Minimum consumption requirement

Source: Rosstat official data on salaries, April 2011.

Secondly, employment in the Russian job market is characterised by weak contractual relations. Extreme flexibility on salaries has favoured the proliferation of non-standard forms of payment and undermined the institutionalisation and formalisation of labour relations. As a result, nearly 40 percent of all payments are considered informal (see Table 2). In 2009 at least 16 million out of 69.3 million employees were informally employed.⁶

Table 2: Structure of the money income of the Russian population, in percent

Year	All money income	In percent					
		Income from entrepreneurial activity	Salaries, including informal payment	Informal payment in percent per salary	Social benefits	Income from property	Other income
1985	100	2.7	74.8	–	16.4	1.5	4.6
1990	100	3.7	76.4	–	14.7	2.5	2.7
1992	100	8.4	73.6	–	14.3	1.0	2.7
1993	100	18.6	61.1	–	15.0	3.0	2.3
1994	100	16.0	64.5	–	13.5	4.5	1.5
1995	100	16.4	62.8	25.0	13.1	6.5	1.2
1996	100	13.1	66.5	25.8	14	5.3	1.1
1997	100	12.5	66.4	27.9	14.8	5.7	0.6
1998	100	14.4	64.9	26.2	13.4	5.5	1.8
1999	100	12.4	66.5	31.2	13.1	7.1	0.9
2000	100	15.4	62.8	24.7	13.8	6.8	1.2
2001	100	12.6	64.6	25.9	15.2	5.7	1.9
2007	100	10.0	67.5	26.1	11.6	8.9	2.0
2008	100	10.3	65.5	20.8	13.2	9.0	2.0
2009	100	9.7	65.2	24.0	14.9	8.2	2.0
2010	100	9.3	66.4	23.0	18.0	6.3	2.0

Source: *Statistical handbook*, Social Situation and Living Standards of the Russian Population (in Russian), Moscow, different years.

6. See for instance *Russian Statistical Yearbook*, 2010, p 132.

Thirdly, the emergence of a middle class is often dependent on access to income from entrepreneurial activities. It is noteworthy that when market reforms started in Russia in the early 1990s, it was emerging entrepreneurship that fostered the formation of a middle class. At the time, revenues from entrepreneurial activities accounted for approximately 16 percent of the overall income of Russia's population (see Table 2). Starting in 2001, this type of income began to shrink and continued to shrink during the boom period and the subsequent economic crisis.

Formally, entrepreneurial activities involve approximately 45 percent of all Russian households. However, this number is inflated by the fact that 40 percent of all Russian families engage in private subsistence farming. In the majority of cases income from this source remains low. Private subsistence farming is a survival model rather than a tool for entrepreneurship and vertical mobility. Only 5 percent of Russian families can rely on income from entrepreneurial activities other than subsistence farming. In other words, the overall economic environment is not favourable to the kind of entrepreneurship that could be the driver of middle class growth.

Usually bureaucratic barriers are considered the main obstacle to entrepreneurial activities in Russia. However, this is only partly true. The actual root cause of the problem is the absence of an institutional environment favourable to small and medium-sized enterprises. It is the institutional environment – or rather the lack thereof – that provides bureaucracies with the possibility to erect administrative barriers. The existence of a favourable environment and business climate allows small and medium-sized enterprises in post-industrial countries to deal with administrative barriers through more powerful structures such as banks, insurance companies, and the like. Despite the modernisation debate launched by outgoing President Dmitri Medvedev, there was no improvement of the business climate during his term compared to previous electoral periods.

Since the start of the economic crisis members of the middle class have been changing jobs more often than other social groups. In many cases job changes have been accompanied by wage reductions. Indeed, in 2008 and 2009 the middle class was most exposed to the impact of the economic crisis. After 2010 its members were able to compensate for the losses, but only if they disposed of additional informal sources of income. The perception of the material situation and prospects of middle-class households, particularly of families with children, has clearly deteriorated.

Revenue from property and financial investments is another important indicator for the existence of a middle class. In today's Russia this type of income accounts for only 5 to 10 percent of the overall income of the population (see Table 3). Moreover, it is limited to a very thin layer of society. In the mid 2000s only 2 percent of all households indicated such revenue as a significant source of income. Among middle class households their share was about 8 percent. Therefore, the overall share of households with income based on sources differing from the Soviet period remains

very small. The past few years have not seen any significant institutional or economic shifts that would contribute to the growth of that group.

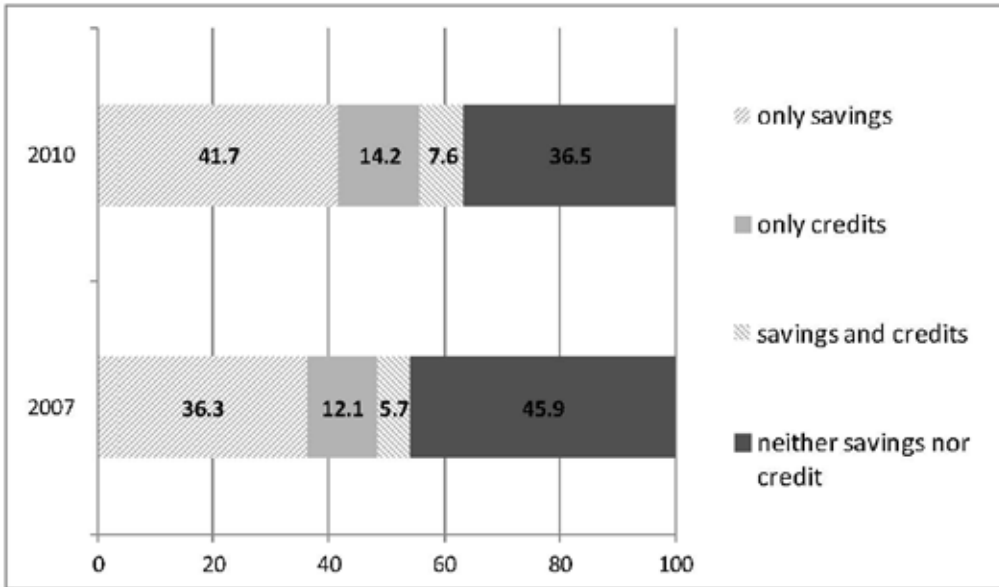
Table 3: Expenses and savings of the Russian population, in percent

	1990	1995	2000	2003	2007	2008	2009	2010
All expenses and savings	100	100	100	100	100	100	100	100
Procurement of goods and services	75.3	70.5	75.5	69.1	69.6	74.1	69.5	69.9
Obligatory payments and other expenses	11.8	5.6	7.8	8.3	11.8	12.3	10.6	10.1
Procurement of real estate	0.3	0.1	1.2	2.0	3.9	4.7	3.0	3.1
Increase of financial assets	12.6	23.8	15.5	20.6	14.7	8.9	16.9	16.9

Source: Rosstat official annual data on expenses and savings (different years).

Investment, credit programmes and savings are key drivers for the development of the middle class. Throughout the post-Soviet period, and particularly during the economic boom in the 2000s, a constant decrease in spending on goods and services and an increase in spending on financial products and of the number and volume of credits and loans could be observed. Moreover, Russians began to purchase property more actively during that period. Nevertheless, the number of Russian citizens involved in these kinds of economic activities remains limited. This is also reflected in savings strategies. The majority of Russian households either do not have any savings or credit at all, or practise very simple forms of saving and credit behaviour (see Graph 1). Around 20 percent demonstrate more differentiated ways of managing their finances, while only 3 percent have developed sophisticated strategies. The latter are to be found among wealthier households, inhabitants of big cities, and among the younger generation.

Graph 1: Share of households with different financial strategies, in percent



Source: RiDMiZh 2007, KPDKh 2010.

The economic crisis has put the relationship between credit institutions and borrowers under strain. About 20 percent of borrowers reported difficulties with payments in the wake of the economic crisis. However, and this is a rather positive development, 80 percent of them were able to overcome those problems. Loans and donations within Russian families played an important role, which confirms the persisting immense significance of social networks and intra-family transfers in Russian society. Job changes and adjusted credit agreements with banks were other solution strategies. The latter in particular indicates a healthier relationship between lenders and borrowers, which is an important positive development.

Conclusion

The Russian middle class as a social group is younger, better educated and wealthier than the average Russian population, and its members live predominantly in big cities. It is more actively involved in innovative economic sectors, and is more entrepreneurial and more sophisticated in its financial behaviour. The share of the middle class in consumption by far exceeds that of other strata of Russian society.⁷

7. T. M. Maleva and L. N. Ovcharova, 'Rekommendacii po dolgosrochnym i kratkosrochnym meram s socialnoj politike' [Recommendations for short-term and long-term social policy], *Economic Policy*, January 2010.

In recent years, however, the Russian middle class has started to display more conservative attitudes. This is, *inter alia*, due to a change in its composition, as it has become more dominated by civil servants and employees of state companies. While in the early 2000s representatives of the emerging middle class were more inclined to take risks, today this group is much more risk-averse and its members are usually not eager to take responsibility for their actions. Thus, the aspiration towards entrepreneurial careers and economic innovation has given way to greater interest in social stability.

Moreover, the Russian middle class is immersed in the Russian economic and political system. Many of its members – and particularly those within the public administration and state companies – benefit from economic and political ‘grey zones’ and informal links with state bureaucracies. Therefore, even though members of the middle class have now for the first time openly shown their discontent with political developments in the country, actual reforms may clash with the economic interests of other representatives of this social stratum. As a result, veto-players opposed to genuine reforms may be found even in the Russian middle class.

The political influence of the Russian middle class is constrained by their relatively small numbers. Their readiness to embrace change is unclear and may remain limited. Nevertheless, after the recent demonstrations the authorities will have to take its position into consideration. The big question is what price both sides will be ready to pay for sustainable reform and modernisation of the country.

Translation: Eugene Slonimerov and Sabine Fischer

RUSSIAN ELECTIONS AND THE ENERGY

SECTOR – NO CHANGES AHEAD

Mikhail Krutikhin

When Vladimir Putin and Dmitri Medvedev said they were going to swap jobs they meant just that. Dmitri Medvedev's four-year tenure as the president of the Russian Federation has hardly had any noticeable effect on the national energy industry – just as in his previous role as Chairman of Gazprom's board of directors he did little to influence the strategy and practices of the Russian gas monopoly. Both assignments had nothing to do with the actual management of the most important sector of the Russian economy. Rather, the Russian energy sector has been controlled by several clans closely linked to current Prime Minister Vladimir Putin ever since the beginning of the past decade.

The actors involved in those networks, often people who accompanied the Prime Minister through the various stages of his career in the Soviet security service and the St Petersburg city administration, form a kind of 'collective Putin' and have survived the past four years without difficulty. As will be argued below, in this context Dmitri Medvedev is little more than a pseudo-liberal figurehead disconnected from the centre of the decision-making process. More importantly and independently of the result of the forthcoming elections, the 'collective Putin' do not intend to relinquish control of the Russian energy sector in the foreseeable future.

The specificities of the Russian electoral system make it easy for the ruling elite to control the situation. As a result, this nominal change of roles between Putin and Medvedev is not going to affect the shape and structure of the energy industry, nor is it going to ameliorate the investment climate. Russia's energy sector has been run for years by the same group of people regardless of their formal positions in the government, and they will remain at the helm after the changeover. The role of the top state echelon is essentially confine to the protection of close associates, the promotion of legislation favouring their interests, and the perpetuation of a system which is based on loyalty, not efficiency.

Basically, the approaching presidential vote is not going to usher in any significant changes in the way in which the energy industry is governed.

Problems with the Russian energy sector

One flaw of the energy industry is its **structure**, which is dominated by government-backed monopolies and characterised by discrimination against private businesses, small domestic operators and international players. State-owned companies such as Gazprom or Rosneft, as well as some private companies with close links to the political leadership such as Gennady Timchenko's Novatek, enjoy privileged access to licences, upstream assets, tax exemptions etc. Foreign investors are able to operate in Russia only if they establish good working relations with members of the dominating clans. The quickest way to be awarded projects and contracts in Russia is to offer those clans stakes in respectable international companies.

Another serious problem is the deeply dysfunctional way in which the energy industry is governed. The absence of public scrutiny allows for uncontrolled redistribution of rents among the actors involved in the networks around the political leadership. Huge showcase projects are launched with little consideration of their economic profitability. For instance, the construction of the Baltic Pipeline System II started in 2009 (completion envisaged early 2012) despite criticism even from within the government. The Altai Gas Pipeline project, planned to establish a link between the gasfields in Western Siberia and consumers in north-west China, is similarly contentious for economic and ecological reasons.

The energy industry also suffers from poor quality of management. Since the ascension of Vladimir Putin and his allies to power in 2000, appointments to important positions in the Russian establishment, including the energy industry, have been made according to two criteria: personal loyalty and the ability to control cash flows. Clearly, professional skills and expertise do not fall into these categories. As a consequence people with little knowledge of the subject area invaded the upper echelons of Gazprom, Rosneft and Transneft management, with devastating effects on management quality.

Cynical rent-seeking is another explanation for erratic decision making. While private companies in Russia often operate according to market rules, state-controlled entities pursue a policy that is rarely informed by commercial wisdom. As a rule contracts funded through public investment programmes are awarded to companies owned by relatives or friends of key politicians and government officials. The aforementioned Gennady Timchenko or Arkady and Boris Rotenberg are cases in point. The latter are involved in the construction of the gas pipeline from Sakhalin to the Chinese border near Vladivostok which provides a striking example of the self-service mentality that reigns in Russia's energy economy.¹ There are currently no reliable gas deposits to fill it to commercial capacity, and there are no contracts for gas sales to China. Moreover, the government has announced it will subsidise the domestic gas tariffs in the Far East because the gas from Sakhalin is too expensive,

1. See: <http://www.reuters.com/article/2009/07/31/russia-pipeline-gazprom-idUSLV7139820090731?sp=true>.

and cover Gazprom's losses. The only beneficiary in this project is a company owned by the two Rotenberg brothers. This is a typical case of nationalisation of costs and privatisation of profits.

The Russian Energy Strategy: little change

In 2009 the Russian government adopted a new Russian Energy Strategy to cover the two decades up to the year 2030.² However, the document does little to address the various problematic issues besetting the energy sector. Based on the assumption of perpetually growing international demand, the document stresses the importance of energy security and pledges huge investments mainly from private sources in the expansion of production capacities as well as infrastructure and energy efficiency. It would be mistaken, however, to assume that this document has an impact on the shape of the energy industry and the challenges it faces. It contains some general statistical data, a loose collection of hypothetical assumptions and a long laundry list of strategic guidelines with few practical implications. In private, experts working on the Energy Strategy 2050 admit openly that this new version will be equally unrealistic in its assessments and forecasts because governmental control and censorship do not allow for an open discussion of the problems undermining Russia's energy sector.

The approach applied in the document is one of censorship and taboo. Evidently the absence of a critical debate results in a total lack of ideas on how to restructure the industry and establish a competitive and liberal environment.

Moreover, the document does not contain any serious calculation of the amount of investment needed to achieve the goals it identifies, nor does it explain where the money should come from. It does not draw a clear picture of the future production costs for oil, gas and electricity and of the respective market prices. Nobody in the government is making an effort to find answers to these crucial questions.

The attitude of the political leadership reflects this lack of strategic considerations. Contradictory official statements on any possible aspect of energy policy are a regular feature of Russian politics. Unfortunately, Russia's external energy relations are not immune to this kind of arbitrariness. Offers to Europe to expand the pipeline system that links Russia and Western Europe are followed by threats to reroute export flows to Asia if Europe shows discontent with the prices for Russian natural gas – and vice versa.³

2. For the Russian Energy Strategy up until 2030, see: [http://www.energystrategy.ru/projects/docs/ES-2030_\(Eng\).pdf](http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf). For its predecessor see: http://ec.europa.eu/energy/russia/events/doc/2003_strategy_2020_en.pdf. Currently a new version, which is supposed to cover the period until 2050, is in preparation in different government institutions.

3. See: http://rss.novostimira.com/n_1572175.html; <http://ria.ru/economy/20111003/448152301.html>.

Such erratic changes of attitude can be tactical, but in many cases they also show the incompetence of the Russian leadership. When Russian officials said they would liquefy all West Siberian gas, close the taps on Europe-bound pipes and sell LNG in North America, they were bluffing: the price of gas in the USA at that moment was about \$110 per 1,000 cubic metres while Gazprom was selling gas in Europe at the average price of \$250. Moreover, the ‘shale revolution’ was making the United States a net exporter of gas instead of a net importer. When Gazprom CEO Aleksey Miller claimed that the volume of Russian gas exports to Asia would equal the sales to Europe he was bluffing: there is neither sufficient demand on the Chinese side, nor does Russia dispose of enough available resources to reach parity. However, when the Prime Minister declares that Russian production of natural gas will reach 1 trillion cubic metres a year, he displays an absolutely unrealistic view of the industry’s capacities.⁴

In many cases, apart from inflicting significant damage on the federal budget, decisions in the energy industry harm Russia’s national interests at the regional and international level. Disputes over energy-related issues have in recent years seriously strained relations with countries such as Turkmenistan, Ukraine, Lithuania, but also the EU. It needs to be stressed, however, that it is not Gazprom which is being exploited as a political weapon by the Russian state. On the contrary, very often Russia’s foreign policy interests are sacrificed to keep Gazprom happy.

Medvedev’s attempts at reform

Dmitri Medvedev did show dissatisfaction with the situation and even stood up to Vladimir Putin on some occasions. Unlike the Prime Minister, who tirelessly promotes Russia as a perfect place for foreign investors, President Medvedev has several times stressed the negative business climate in the country.⁵

This view is widely shared by Russian and international experts. It is clear that something radical has to be done about the energy industry – and about the Russian economy as a whole – to make it a worthwhile place for investors. As international rankings demonstrate, corruption in Russia is not an occasional occurrence but a systemic illness and the situation has only got worse over the past four years.⁶

The market reaction to the news about Putin’s imminent return to the Kremlin was revealing. Expectations of capital flight from Russia immediately soared: in 2010, the outflow of capital was estimated officially at \$38.8 billion. In 2011, as the Bank of Russia predicted, it would exceed \$70 billion.⁷

4. See: <http://rosinvest.com/novosti/738491>.

5. See for instance <http://ria.ru/economy/20111008/452850473.html>.

6. See: http://www.transparency.org/policy_research/surveys_indices/cpi/2010

7. See: <http://spb.rbc.ru/topnews/02/11/2011/623313.shtml>.

Medvedev's timid attempts did not suffice to clean up the mess the 'collective Putin' had made of the national economy. It is true that in April 2011 the president ordered the removal of cabinet members from the boards of directors of state-backed corporations. But he did not dare attack Gazprom, where Putin's protégés are firmly entrenched. Although some ministers have in fact since given up their posts in the economic sector, no action has been taken with regard to the appointment of their puppets to the same offices. The departure of Deputy Prime Minister Igor Sechin from Rosneft does certainly not mean the end of the company's privileged status and priority access to mineral licences and tax reductions.

Hence, despite public statements and criticism, and some timid attempts to tackle some of the challenges, President Medvedev's policy has not had an impact on the tacit power structures embedded in the Russian energy sector, nor has it succeeded in reducing the sector's interdependence with the political establishment. In fact, Medvedev has proved to be part of the problem rather than the solution.

II. ZA CHESTNYE VYBORY! THE UNEXPECTED PROTEST MOVEMENT

1. AFTER RUSSIA'S PARLIAMENTARY ELECTIONS: EMERGING FISSURES

Sabine Fischer

Until a few days ago the agenda of the EU-Russia Summit on 15 December seemed rather positive. Russia's upcoming accession to the WTO has been seen as a great success in Brussels and is expected to provide a boost to the tricky negotiations on a new agreement between Russia and the EU. EU officials were confidently expecting negotiations about mobility and visa facilitation to progress. Other rather positive points to be discussed included possible progress in the effort to unlock the Transnistria peace negotiations and the EU-Russian partnership for modernisation.

Now, however, the summit will be overshadowed by the violent repression of the peaceful protests against election fraud in Moscow and St. Petersburg. According to Amnesty International (AI), between the day of elections on 4 December and 7 December, more than 1,000 people were detained, with many of them being held in unacceptable conditions. AI also reported beatings and mistreatment of detainees. On 7 December EU High Representative, Catherine Ashton, issued a statement expressing concern about the events and recalled the need to respect the freedom of expression and assembly. Russia, or rather, the Russian authorities, have once again proven that they are indeed difficult partners.

The thousands of Russian citizens taking to the streets of Moscow and St. Petersburg have not only surprised the Western public, but have also surprised their own political leadership. The campaign in the run-up to the elections was devoid of competition and content, thanks to the systematic exclusion and marginalisation of genuine opposition parties from the political process. After the announcement that Vladimir Putin and Dmitri Medvedev would be swapping positions at the end of September, the dominant party, United Russia, seemed all too sure that the vote was a done deal.

This reveals a striking miscalculation of the current situation and mood in Russian society by the ruling elite. It is true that the Russian economy has partly recovered from the 2008 economic crisis thanks to its foreign reserve funds and positive price development on the global energy market. But current growth rates are not comparable with the boom years of the past decade and many ordinary Russians are feeling the effects and consequences of the economic crisis in different ways.

There are two important changes in public attitudes which the Russian leadership has obviously missed. The first is that many people, particularly of the younger generation, do not compare their situation to the chaotic 1990s. Their point of reference is the early and mid 2000s, when urban Russia all of a sudden resembled a land of unlimited opportunity. The second is that the Russian leadership is no longer able to hide its inability to tackle the deeply rooted systemic problems which make the Russian state and economy so vulnerable. The Russian people are well aware of this. Public and expert debates in the past three years have shown their frustration with the inability and outright refusal of the actors dominating the political system to reform, while the modernisation debate launched by the outgoing president, Dmitri Medvedev, has done little to tame this. Many people in urban Russia nowadays consider the current political leadership a part of the problem, rather than the solution, as it is too deeply involved in corruption, mismanagement and rent-seeking. Their reaction so far has been withdrawal – into political apathy and out of the country if financial means allow it. Now, many of the people seem to have reached a point where withdrawal, at least in the meantime, is no longer an option.

The Russian leadership's miscalculation, as well as its violent overreaction, are striking and speak volumes about the huge disconnect between state and society. The Duma itself symbolises this development. The Russian parliament, in its current form, does not provide a counterbalance to executive power nor does it act as a forum for the representation and expression of the political positions and interests of different segments of Russian society: it exists to control Russian society. This is the reason why real opposition parties and political competition in general have been systematically marginalised and excluded from parliament in recent years, even though for most of the time no real alternative to United Russia existed anyway.

None of the political forces organising the street protests in Moscow and St. Petersburg would be strong enough to take power. Thanks to the repressive policy of the state over the past decade, the opposition has been atomised and is unable to present a viable political alternative. The parties active in the demonstrations have already made it clear that they do not have much in common beyond their protests against election fraud and their criticism of Vladimir Putin. There are quite a few other factors suggesting that an Arab spring scenario is unlikely in Russia: Russia's population is ageing rather than growing younger, the socio-economic situation of city dwellers is not existential, and the protests are limited to a comparatively thin layer of Russian society and do not resonate throughout the country. Even though United Russia's share of the votes in the Duma elections might have been considerably below the official results, it is still rather likely that Vladimir Putin will win the presidential elections thanks to the support he still enjoys in many segments of Russian society. But the protests signal growing outrage and frustration *vis-à-vis* a state and political elite that have lost all ability to communicate with society. And this will change the political situation in Russia in the medium and long term.

As usual the EU has little leverage to bring not Russia, but the authorities, to comply with international human rights standards. Both WTO accession and mobility are in the very interests of the demonstrators because in the medium and long run, they can improve governance and increase the openness of the Russian state and society. The EU, then, needs to press ahead in these areas. It must, however, continue to make it very clear publicly, including at the summit, that the Russian state's action in the wake of the Duma elections are unacceptable and call for an investigation of the accusations of fraud and manipulation. If Dmitri Medvedev's statements about the importance of the rule of law in the past four years were sincere, he should act accordingly before he leaves office in May 2012. EU governmental and non-governmental actors should also further strengthen their relations with Russian civil society and political parties, while offering help in the development of a more robust and pluralist party system. Again, the EU's room for manoeuvre is very limited. And so it should be. Change in Russia can and will only come from within. The peaceful demonstrations in the wake of the State Duma elections show that there is a growing potential for change. People want a different state and society.

PUTIN, THE PROTEST MOVEMENT AND POLITICAL CHANGE IN RUSSIA

Simon Saradzhyan and Nabi Abdullaev

Few leaders undertake major reforms in either domestic or foreign policy late in their rule, and Vladimir Putin – who seeks to return to the Kremlin this spring for at least six years – hardly wants to be an exception. However, should the disparate groups behind the recent unprecedented protests in Russia develop into an organised movement leading to a sustained increase in public pressure on the Kremlin, then Putin may end up pursuing far more extensive domestic political and economic reforms than he would wish.

Little doubt that Putin will return to the Kremlin

In spite of recent protests, there is little doubt that Vladimir Putin will be elected president in either the first or second round of the March 2012 presidential elections and hence return to the Kremlin. Recent opinion polls show anywhere between 40 and 50 percent of Russians prepared to vote for Putin in the elections with his closest rival Gennady Zyuganov trailing far behind; indications are that only 10 percent of Russians are ready to vote for the Communist leader. But there is also little doubt that the legitimacy of Putin's presidency – which was virtually unquestionable during his first two presidential terms – will be contested during his third term, given the scale of recent protests against his return and public anger.

There is reason to believe that the political awakening of Russia's urban middle class, demonstrated in the recent rallies that drew tens of thousands, will continue. As recently as last summer few experts predicted that this awakening would occur so soon. But then came Medvedev's September 2011 announcement that he would not be seeking a second term, thus paving the way for his mentor to return to the Kremlin. The prospect of another 12 years of Putin's rule seems to have been 'the last straw' as far as the Russian public was concerned. Even though the December 2011 elections probably did not contain much more fraud than the previous ones, tens of thousands of angry professionals took to the streets to demand a re-run of the parliamentary elections and to protest against Putin's return.¹ However, even if Medvedev had stayed on, it was only a matter of time before the Russian people demanded sweeping changes.

1. A recent nationwide poll conducted by the independent Levada Centre shows 57 percent of Russians support a ban on a third presidential term while only 22 percent oppose it. See Sergei Smirnov, 'Dvukh Srokov Dostatocno', *Gazeta.ru*, 7 February 2012.

Russia has already crossed the line of GDP per capita above \$10,000, after which the population is generally expected to begin actively demanding democratisation, as a recent study of over 100 countries by Russia's Renaissance Capital investment bank demonstrates.² (See dynamics of Russia's GDP in Chart III below.) When asked in opinion polls to what social group they belong, over 80 percent of respondents in Russia place themselves somewhere in the middle classes, according to a recent Citibank report. The report predicts that Russia's urban population, which accounts for 74 percent of the population and which is increasingly wealthy, has grown big enough to demand better governance.³

Nevertheless, an Arab Spring-like violent regime change in Russia is unlikely. Regime change of this kind could only succeed if an insurrection was staged in Moscow. Putin's popularity has, indeed, dwindled in the Russian capital. However, Moscow, unlike Tripoli or Tunis, has an abundance of economic opportunities. The rate of unemployment is considerably below the Russian national level. Other social factors that facilitate revolt, such as a 'youth bulge' and relative poverty, hardly apply to Moscow. The average age of Moscow residents was 40 years in 2011 – one of the highest of the Russian regions – and the average Moscow family owns property worth hundreds of thousands of dollars. And while representatives of the growing middle class in Moscow and elsewhere in Russia are increasingly vocal in their demands for liberalisation, better governance and an end to corruption, they want these changes to occur in a peaceful manner.⁴ And should these protesters suddenly turn violent in their demands, the authorities have the means to deal with them. Moscow has one of the greater concentrations of law-enforcement and security personnel, which includes not only municipal forces, but also federal staff headquartered in Moscow and a number of Interior Troops units deployed nearby.

Putin is ready for only cosmetic adjustments in the short term

Putin's initial reaction to the December 2011 protests, which drew together politically disparate forces, including followers of corruption fighter Alexei Navalny, ultra-nationalists, and members of established opposition parties, was dismissive. However, after initial scoffing, Putin has begun to show more signs that he is taking the public demonstrations of dissent seriously. While pro-government media and spin doctors continued their attempts to discredit protesters and play their leaders off each other, Putin began to make some gestures in the direction of liberalisation, including promises of the introduction of semi-direct elections of governors, the establishment of administrative courts to hear complaints by citizens against the state,

2. The report asserts that democracies are 'immortal' above the *per-capita* GDP level of \$10,000. 'The revolutionary nature of growth entrenches democracy', *Renaissance Capital*, 22 June 2011.

3. 'Russia's rising middle class', Citibank, 12 January 2012.

4. For a more elaborate comparison of the situation in Russia and the southern Mediterranean countries see Simon Saradzhyan and Nabi Abdullaev, 'Alternative futures for Russia: the presidential elections and beyond', *Occasional Paper* no. 92, European Union Institute for Security Studies, May 2011.

the installation of video cameras at polling stations, and even the creation of the post of a business ombudsman.⁵ Putin also made promises to ‘mobilise the middle class’s enhanced demands and its readiness to assume responsibility for its own welfare,⁶ to create 25 million new innovation-based high-tech jobs for educated Russians and to fight corruption.⁷ Putin’s protégé Medvedev proposed easing registration rules for political parties and presidential candidates intending to participate in federal elections in 2015-2016, as well as to restore popular elections of governors.⁸ Medvedev has also agreed to meet organisers of the protest rallies. The Putin-Medvedev tandem have also demoted some of the high-ranking officials that were particularly unpopular with the opposition, including Vladislav Surkov, the architect of ‘managed democracy’ and deputy chief of the Kremlin staff, and Boris Gryzlov, a top figure in the United Russia party and speaker of the State Duma.

In addition to trying to accommodate the less radical demands of the protesters through cosmetic adjustments, Putin has also moved to court those voters who engineered the success of the leftist and nationalist opposition parties at the expense of the pro-Putin United Russia in the parliamentary vote of 4 December (see Charts I and II below). He has recently promised higher wages and pensions and proposed that oligarchs pay a fee for the unfair privatisation of lucrative state assets in the 1990s. Putin has also vowed to introduce greater and tougher restrictions on migrants and installed well-known nationalist Dmitry Rogozin and conservative commentator Aleksei Pushkov as deputy prime minister and speaker of the State Duma’s international affairs committee respectively.

However, none of the measures that Putin (or Medvedev) have proposed so far suffice to create a plausible impression that the presidential vote will be free and fair, which is what Putin will need to ensure his legitimacy as president. Equally importantly, these measures do not significantly alter the system of managed democracy that Putin has built in Russia and that the protesters now want to be dismantled. Putin’s appointment of such well-known proponents of managed democracy as Sergei Ivanov and Vyacheslav Volodin to two top posts in the Kremlin administration indicates he has no intention of pursuing meaningful liberalisation of the system that Russians increasingly distrust. The share of Russians who believe that the ‘vertical of power’ which Putin has built is beneficial for Russia slipped from 38 percent in early 2011 to 30 percent in early 2012 while the percentage of those who think this cornerstone of managed democracy is harmful for Russia increased from 27 percent to 35 percent over the same period of time, according to polls conducted by the independent Levada Centre.⁹

5. ‘Putin calls for courts for complaints against state’, RIA *Novosti*, 12 January 2012.

6. Vladimir Putin, ‘Rossiya Sosredotachivayetsya’ [Russia is concentrating], *Izvestia*, 16 January 2012.

7. Alexander Bratersky, ‘Putin Pledges to Fight Own Legacy’, *The Moscow Times*, 13 January 2012.

8. Dmitry Medvedev, ‘Address to the Federal Assembly’, Official website of the President of the Russian Federation, 22 December 2011.

9. Lyudmila Sergeeva, ‘Naseleniyu nadoela vertikal vlasti’, [Vertical no longer loved], *Vedomosti*, 9 February 2012.

Putin has no appetite for structural reforms in the long run

Putin has vowed on a number of occasions to modernise Russia's stagnating economy, which lags behind the economies of global powerhouses. But while pursuing some modernisation Putin should not be expected to seriously alter the system of state capitalism that he built in 2000-2008 and that was only marginally affected by Medvedev's modernisation programme. This system is designed to protect the interests of the ruling clan by preventing any redistribution of property or loss of control over state-controlled companies that dominate the national economy. Putin's instinct will be to fine-tune rather than overhaul this system, while honouring the social contract between the Kremlin and the population.

There are a number of factors, however, that may send the Russian economy into a protracted crisis that could lead to the rupture of this contract: the dependence of the economy on energy exports (oil accounts for 50 percent of Russia's budgetary revenues) and the dominance of inefficient state-controlled giants; rising public expenditure (which have increased the budget tenfold in 11 years to account for 20 percent of GDP) and the creeping pension fund deficit (which already totals \$40 billion per year); social inequality (Russia has a Gini Coefficient of 42.2); severe regional disparities (where the GDP of one region is 440 times smaller than that of another); depopulation and labour shortages (Russia is forecast to lose 10 million workers by 2025).¹⁰ (See Chart 4 below).

Of these challenges, it is the dependence of the Russian economy on oil that may come to pose the most serious challenge to Putin in his third presidency. To break even, Russia's 2012 budget needs oil prices to average \$100 a barrel, but if fears of another global recession become a reality, prices could fall as low as \$60 – which was the figure during the previous crisis in 2008, when Russia's GDP shrank by 7.8 percent in one year, more than that of any other G-8 or BRIC country.

A combination of these flaws may lead to a protracted crisis that no band-aid solutions, such as borrowing money or trimming expenditures, would be able to resolve. Such a crisis would require deep economic and social reforms, some of which would run contrary to the interests of some of the entrenched clans that support Putin and would risk destabilising his system of governance.

No tectonic shifts in foreign policy

Russia should not be expected to initiate tectonic shifts in its foreign policy under Putin, since the latter has had a major say on most major issues during Medvedev's presidency.

10. Saradzhyan and Abdullaev, op. cit. in note 4.

Still, given Putin's taste for tongue-lashing against Western powers, his comeback may result in a toughening of Russian rhetoric *vis-à-vis* the West. The fact that Putin's power base at home has shrunk considerably in the past several years as well as the inevitable questions about the legitimacy of his upcoming election may lead him to project himself as a more fervent guardian of Russia's interests and its allies on the international scene.

It is rather unlikely, however, that Russia under a President Putin will take steps to intentionally reverse the reset in US-Russian relations even as Moscow and Washington exchange barbs over ongoing contentious issues, such as Syria and missile defence. One fundamental problem with the reset, however, is that both sides have already picked all of the low-hanging fruit. And while there is hope that Moscow and Washington will eventually work out a deal on missile defence if President Barack Obama remains in office, deep reductions in nuclear arms, including non-strategic weapons, a new round of substantive UN Security Council sanctions on Iran, or any other substantial advances in the bilateral relationship would be much more difficult to attain, especially given the approaching election cycle in the United States.

Should Obama be voted out of office, however, there will be a greater probability that US-Russian relations may sour, given that all leading Republican contenders advocate a tougher stance on issues of importance to Russia, including missile defence. Toughening of US policy towards Russia will force Putin to reciprocate also in order to secure support in the State Duma, where all opposition parties are more anti-Western than the party of power.

As for the European Union, Putin's Russia should be expected to seek deepening of economic, educational and cultural cooperation with the EU, pushing for a visa-free regime while at the same time focusing on bilateral cooperation with individual European powerhouses, such as Germany and France. The new/old Russian leadership will also, when building relations with the EU, need to take into account the fact that Russian political and business elites have personally invested in Western European assets and have family members living in the West. A protracted economic crisis may make Russia more inclined to seek cooperation with the EU, if only to attract know-how and investment to modernise the Russian economy.

Putin has already indicated that he wishes to deepen ties with the rest of Europe. For instance, while lashing out at the United States during his annual live call-in show on 15 December, Putin was much more accommodating when speaking about Europe, acknowledging that there are steps that Russia itself needs to make to integrate into Europe. 'I still believe that it is inevitable. Life itself demands integration in Europe,' he said. 'Does Russia have to do anything? Yes, it should scare its neighbours less; it should work to rid itself of this imperial image which prevents even Europe from cooperating with us'.¹¹

11. 'A Conversation with Vladimir Putin', Official website of the Prime Minister of the Russian Federation, 15 December 2011.

While pursuing closer ties with Europe, Putin should also be expected to continue cautious cooperation with Beijing, wary of China's rise, which contrasts sharply with Russia's sparsely populated and economically stagnant far eastern provinces. Putin is also to try more actively to tie down post-Soviet neighbours, primarily Ukraine, which Moscow wants to join the Eurasian Economic Community.¹²

Conclusion

Putin – who has been in power for over a decade already and who emphasises stability – will hardly want to launch deep reforms on his own during his third presidency, especially since his supporters in the bureaucratic and business elites benefit from the status quo.

However, while largely staying the course in the foreign policy sphere, Putin may have to concede to considerable changes domestically. The ongoing protest rallies demonstrate that the demand for deep and far-reaching change is growing in Russia. Some liberal figures in Putin's entourage, such as First Deputy Prime Minister Igor Shuvalov, believe that Putin is sincere in his belief that the political awakening of the middle class requires an engaged response and that he will pursue reforms to accommodate the protestors' demands during his third presidency. However, more conservative elements in Putin's team believe that the recent protests do not represent a qualitative change and that their leader does not need to drastically alter course since the majority continues to support Putin's previous policies. Some of these conservatives may even advocate using force to quash the protests if they continue past the presidential elections.

There are, indeed, grounds to believe that Putin – who in the past ordered the use of force in critical situations, such as the Beslan and Dubrovka hostage-taking crises – may employ law-enforcement and security agencies to suppress political violence.¹³ However, we believe that Putin will not resort to brutal repressive measures as long as protests continue to attract tens of thousands if only because use of force against such large numbers of people would generate a powerful backlash.

Moreover, we believe that Putin may heed demands for deeper domestic reforms should the main groups behind the ongoing protests become organised as a single force with a clear-cut common agenda to not only sustain, but to considerably increase, pressure on the Kremlin beyond the March 2011 elections on a scale similar to what Ukraine saw in the latter days of Leonid Kuchma's rule. Apart from the increase in public pressure, a deep and protracted economic crisis that would empty state coffers may drive him to pursue structural reforms not only in the economic,

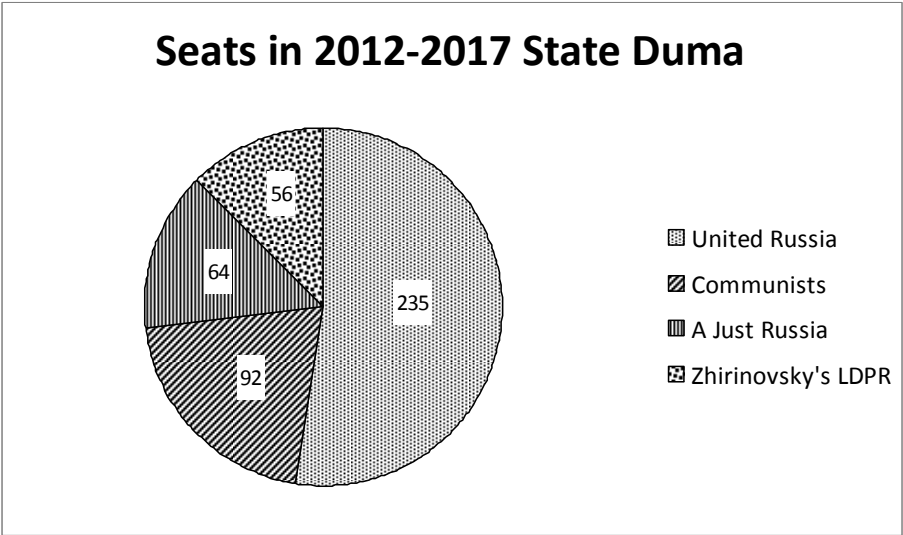
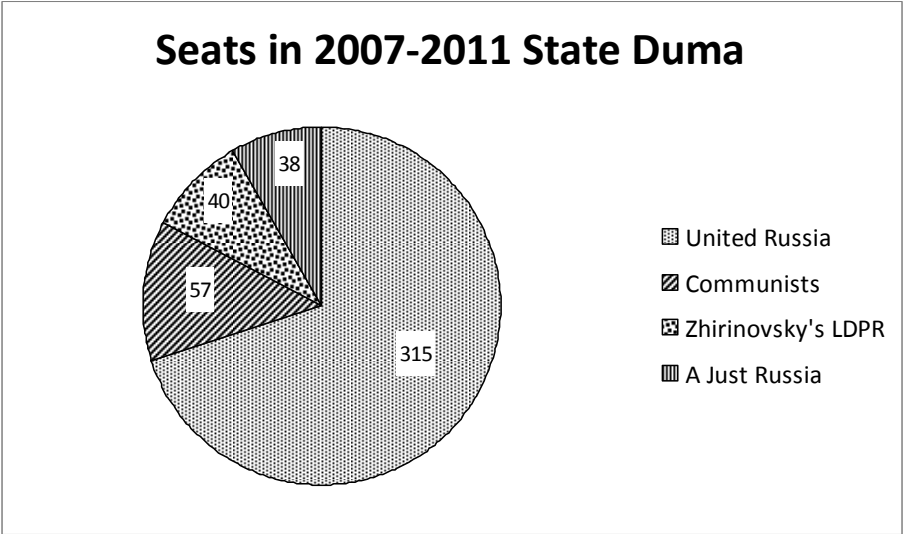
12. See Andrei Zagorski's chapter, 'Russia's neighbourhood policy', pp. 55-64 in this report.

13. It should be also noted that one of Putin's role models is Tsarist Russia's Prime Minister Pyotr Stolypin in 1906-1911 who did not hesitate to violently suppress revolutionary activities.

but also in the socio-political sphere, given the principle of no taxation without representation.

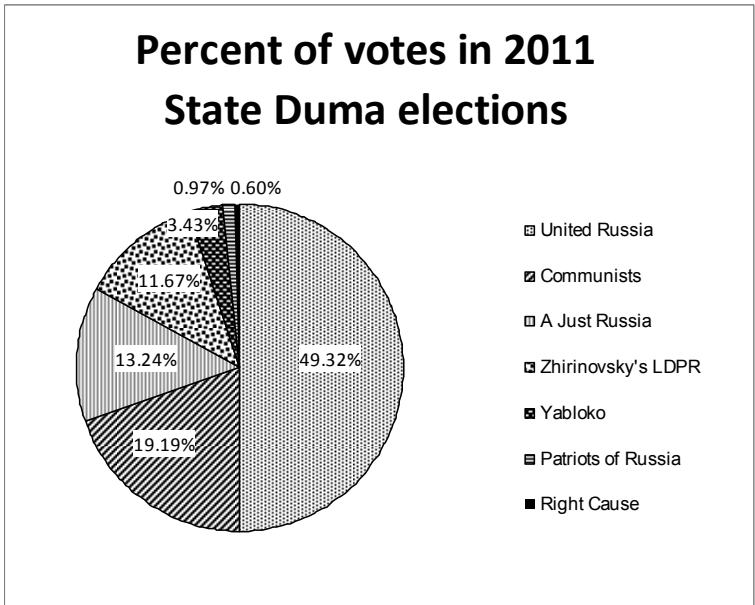
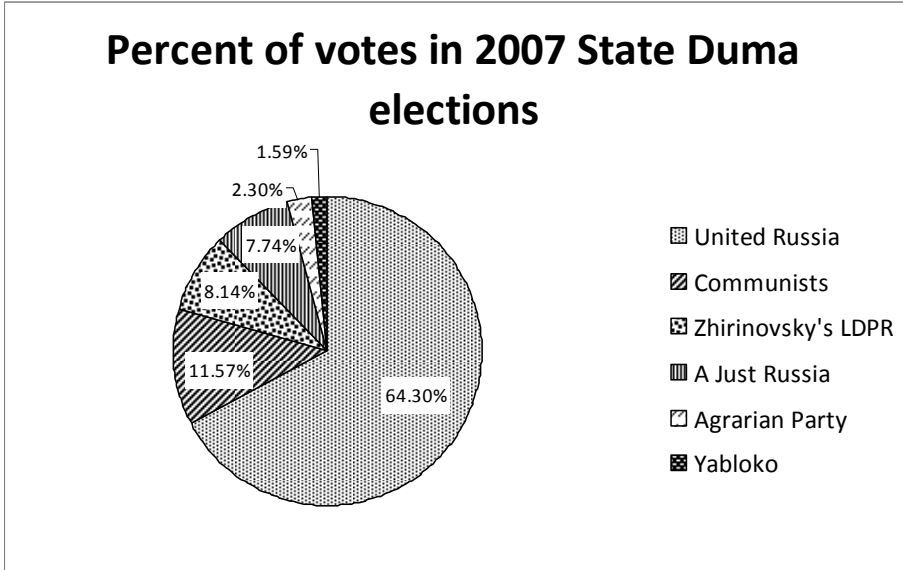
Whether Putin's government will be capable of implementing profound changes will depend on how rigid the government's social contract with the poorer sections of society is as well as on how entrenched the bureaucratic and business elites – that support him – become, when the need for such reforms becomes as critical as it did, for instance, during the final years of the Soviet Union.

Chart 1



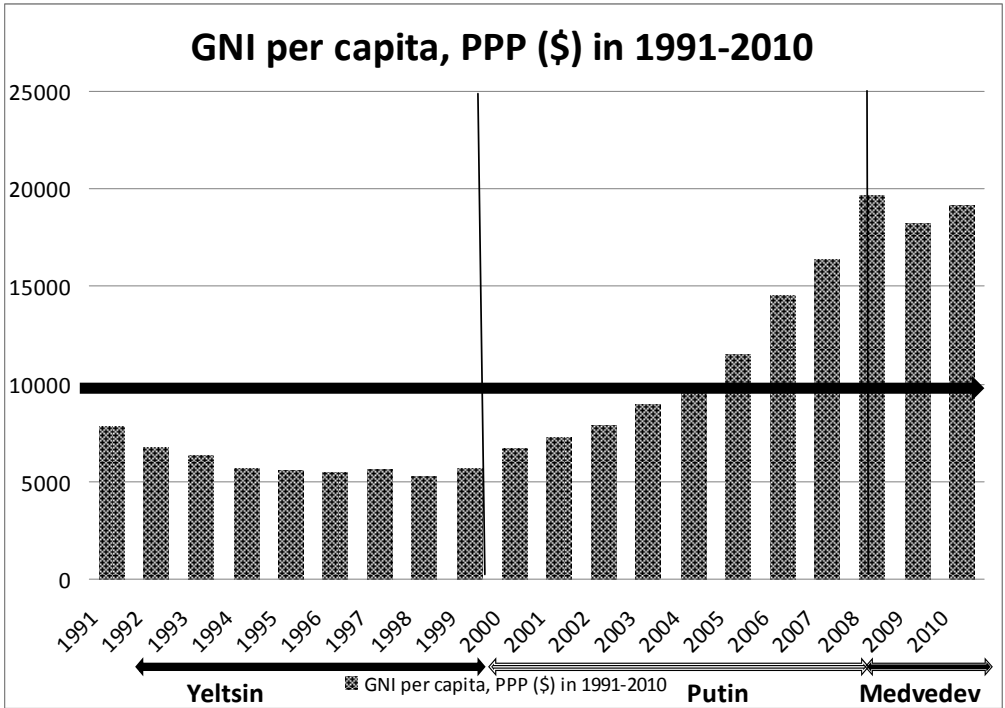
Source: Compiled on the basis of data available on the official website of the State Duma.

Chart 2



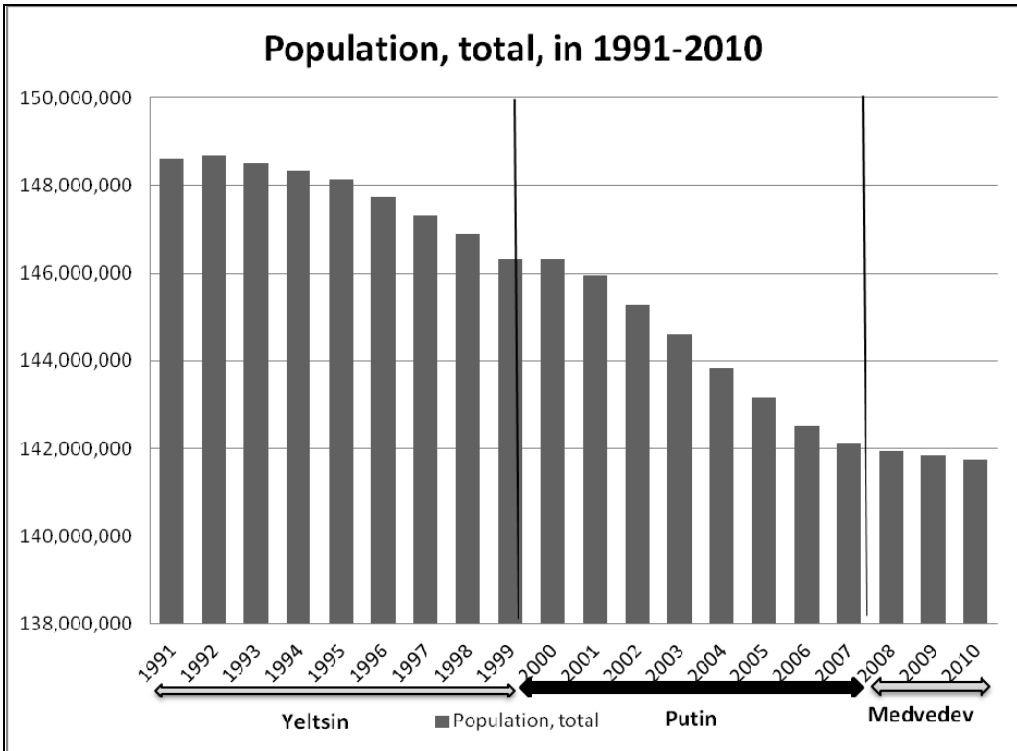
Source: Compiled on the basis of official results released by the Central Elections Committee of Russia.

Chart 3



Source: Compiled from 'World Development Indicators & Global Development Finance', World Bank, undated.

Chart 4



Source: Compiled from World Development Indicators & Global Development Finance, World Bank, undated.

III. ELECTIONS AND RUSSIAN FOREIGN POLICY

RUSSIA'S NEIGHBOURHOOD POLICY

Andrei Zagorski

Since December 2011, demonstrations for free and fair elections in Moscow and other Russian cities have indicated a strong societal demand for political change. This desire for change is focused on the domestic rather than on the external political agenda, which is traditionally more conservative. This is particularly true with regard to Moscow's policy towards its post-Soviet neighbours.

For most of its post-Soviet history Moscow has been seeking to project, both domestically and internationally, the image of a resurgent Russia reassuming the mantle and responsibilities of a great regional power. This vision is based on the assumption that Russia can only prevail in a globalised world if it succeeds in preventing further erosion of the 'post-Soviet space'. This *status-quo* thinking is deeply rooted in the mindsets of Russian political elites, resulting in a rigid zero-sum game approach shaping their attitude towards the neighbourhood.

In the past decade, Moscow and Brussels have come to quarrel over the region, as the EU has grown more influential politically and economically. Disagreements arose over energy, trade, political and security matters. In short, a kind of competition was seen to emerge between two rival centres putting forward different offers to the states in the region. Ukraine quickly became the focal point of this competition. In the 2000s tensions evolved first and foremost around security issues, for example the debate on NATO enlargement. Today the hotbed of disagreement seems to be competing trade integration schemes, namely the Customs Union (CU) and the Single Economic Space (SES) promoted by Moscow, on the one hand, and the Association Agreements and Deep and Comprehensive Free Trade Agreements offered by the EU, on the other.

Moscow's Eurasian integration policy comes with many question marks from an EU perspective. While a lot of significance is being attached to it in the official Russian discourse, actual cooperation and integration in the region seems to remain limited. In order to cast more light on these developments this paper concentrates on Russian neighbourhood policy as manifested in the establishment of the Customs Union of Russia, Belarus and Kazakhstan in 2011, of the SES in 2012, and the launching of a new treaty on free trade in the Commonwealth of Independent States (CIS). It investigates the substance and efficiency of those policies and asks about their compatibility with or, conversely, opposition to EU policies.

Challenges and opportunities of Russia's neighbourhood policy

During the presidential tenure of Dmitry Medvedev (2008–2012), Moscow saw its leadership in the neighbourhood increasingly challenged by:

- the continuous fragmentation of the 'post-Soviet Space' and declining relevance of the Moscow-sponsored institutions and norms;
- the sense of increasing competition with 'external' powers due to the effects of the outreach policy of the European Union towards Eastern Europe and South Caucasus (the Eastern Partnership in the framework of the European Neighbourhood Policy) and the economic and financial expansion of China in Central Asia;
- homegrown political instability in Central Asia which is expected to further aggravate due to the anticipated surge in security challenges associated with the withdrawal of the US and NATO from Afghanistan by the end of 2014.

Russia's standing in its neighbourhood was further affected by the war with Georgia in 2008 and the Kremlin's recognition of the independence of Abkhazia and South Ossetia – a move that not only strained Russian relations with the West but also alienated many of its neighbours by breaking the taboo of uncontested territorial integrity. As a result, almost all Russia's neighbours have sought to further diversify their external political and security relations away from Russia.

More recently, however, Moscow has regained breathing space in the neighbourhood thanks to several developments.

In 2009, the accession of Georgia and Ukraine to NATO was shelved by the Obama administration. Moreover, the EU's enlargement fatigue and the advent of the eurozone crisis convinced Moscow that the EU is highly unlikely to advance its policy more pro-actively in Eastern Europe any time soon.

The spirit of the 'colour revolutions' of the mid-2000s, which had boosted European aspirations among Russia's neighbours, gradually evaporated in the second half of the decade. The presidential elections in Ukraine in 2010, which resulted in the defeat of the most pro-European government of the past twenty years, encouraged Moscow to make another attempt to draw Kiev back into its orbit. Later in 2011, the reluctance of the EU, due to the deteriorating political situation in Ukraine, to sign the already-negotiated association agreement arguably deprived Kiev of much of its room for manoeuvre *vis-à-vis* Moscow.

As a consequence, in the last three years Russia has geared its policy towards raising the attractiveness of its offers to the neighbours. From 2009 on, Moscow pushed more resolutely for the creation of a Customs Union with Belarus and Kazakhstan, effective from 2011, and the transformation of this into a Single Economic Space from 2012. In 2011, it offered the neighbours, which, for whatever political or economic

reasons, were not prepared to join the Customs Union and the SES, the (re)creation of a Free Trade Area within the CIS. Moscow also sought to strengthen the tools available to the Collective Security Treaty Organization (CSTO) in order to increase its capacity to respond to potential domestic instabilities in member states and other security challenges in Central Asia. Last but not least, this policy was complemented by Vladimir Putin's vision of an emerging 'Eurasian Union' bringing Russia and its neighbours together in a closely integrated community of states with the ambition of becoming one of the leading centres of the global world and a major partner of the EU, the US and China in providing regional and global governance.¹

Limits to Eurasian integration

There is little empirical evidence, however, which supports the expectation that Eurasian integration will increase in the years to come. Over the past twenty years Russia has launched many similar initiatives: the 1993 Economic Union Treaty, the 1994 Free Trade Agreement, or the multilateral Customs Union, which was transformed into the Euro-Asian Economic Community (EurAsEC) in 2001. None of these previous projects achieved their declared goals. What is more, current economic and political indicators are not favourable. Today, the Customs Union and SES projects are being implemented at a moment when Eurasian integration appears even less feasible than before.

The relative importance of regional economic trade for Russia has steadily declined over the past twenty years (see figure 1). Although mutual trade has grown more recently (with the exception of the drop in 2009), this growth in regional trade was much slower than Russia's overall trade growth. The neighbours' share in total Russian exports dropped from 22 per cent in 1994 to 15 percent in 2010. Their share in Russian imports dropped from 27 to 14 percent in the same period. Recent integration efforts did not make any notable difference.

The development of Russian investment in the NIS over the past five years confirms this trend. While investments in neighbouring countries grew in absolute terms in 2008 and 2009, their share in Russia's total accumulated investment abroad has been continuously declining from 22 percent in 2003 to a mere 8.5 percent in 2009.² This indicates the declining interest of Russian businesses in neighbouring markets.

Russia's neighbours, too, have progressively diversified their trade. Although they have done so to differing degrees, they have by now become less interdependent on the Russian economy. With few exceptions, the prevailing trend in the Western CIS

1. The vision of an Eurasian Union was spelled out in an article by Prime Minister Vladimir Putin in the Moscow daily *Izvestia* later in October 2011. See: 'Novyi integratsionnyi proekt d'la Evrazii – budushchee, kotoroe rozhdaets'a segodn'a' [A new integration project for Eurasia – the future starts today], *Izvestia*, 3 October 2011. Available at: <http://www.izvestia.ru/news/502761>.

2. Calculated on the basis of data provided by the Russian State Committee for Statistics for 2003-2009.

has been an increase in trade with the European Union (see figures 2 and 3), and China's importance in Central Asian trade has been growing (see figure 4). Particularly in the past few years, China has become a crucial import partner and financier in central Asia, and a major destination for exporting Kazakh oil and Turkmen natural gas. Essentially, since 2010, Moscow has lost Turkmen gas to China and, partially, to Iran.

Russian trade analysts presume that both the absolute volumes and the relative share of Russia's trade within the former Soviet Union are unlikely to grow any time soon. The current trade structure, by which Russia exports energy resources (41–45 percent of Russian exports to the neighbourhood) and imports machines and equipment (29–39 percent) does not encourage growth unless the economies of Russia and the NIS undergo profound modernisation. Otherwise, the relative importance of mutual trade is expected to further decline or, at best, remain the same.³

The Customs Union and the Single Economic Space

Building upon the momentum created by the establishment of the Customs Union, the Single Economic Space launched in January 2012 seeks to expand cooperation of the three countries beyond trade issues. Its ultimate goal is to gradually develop a cohesive economic space allowing for free movement of goods, services, capital and labour. Seventeen agreements to this effect were introduced from January 2012. A new Eurasian Economic Commission, which started operating in February 2012, absorbed the Customs Union's Commission on trade issues while assuming wider responsibilities.

Although never admitted publicly, for Moscow, the accelerated setting-up of the Customs Union and of the SES from 2009 onwards was a response to the launch of the EU's Eastern Partnership. For Russia, which sought to consolidate its influence in the post-Soviet space, the project is of predominantly political rather than economic value. Indeed, Belarus is the only country which has vital economic stakes in both schemes (see figure 5), primarily for maintaining the benefits of direct and indirect Russian subsidies. Otherwise mutual trade between Belarus and Kazakhstan is negligible. In 2010, Kazakhstan accounted for a total 1.3 percent of the Belarusian external trade turnover. The share of Belarus in Kazakhstan's external trade was even below one percent.⁴

For Russia, the specific value of the project when it was first launched in 2003 was the inclusion of Ukraine. At the time Kiev signed a quadripartite treaty on the establishment of a Single Economic Space, but dropped out in 2006 because it was not prepared to participate in anything beyond free trade. The process stalled temporarily while Russian policy focused more on EurAsEC. The Customs Union idea was

3. Sergei Kulik, Andrei Spartak and Igor Yurgens, *Ekonomicheskie interesy i zadachi Rossii v SNG* [Economic Interests and Goals for Russia in the CIS], (Moscow: INSOR, 2010), pp. 25-26.

4. Eurostat data for 2010.

reactivated in 2009 involving only Belarus and Kazakhstan. After the 2010 presidential elections in Ukraine Moscow renewed attempts to get Ukraine on board the Customs Union with a promise of additional discounts on the price for natural gas. The Customs Union was presented to Kiev as a viable alternative to the Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union.

However, Moscow's efforts to lure Ukraine into the Customs Union and the SES have not been successful so far. As a result, and contrary to common belief, the movement towards a trilateral Single Economic Space did not promote the integration of the Russian neighbourhood. Instead, it narrowed the core of the Russian integration project by sidelining EurAsEC and its two other member states – Kyrgyzstan and Tajikistan.⁵

The CIS Free Trade Agreement

In October 2011 the heads of state of Armenia, Belarus, Kazakhstan, Kirgizstan, Moldova, Russia, Tajikistan and Ukraine signed a new free trade agreement in the framework of the CIS. It replaced the 1995 CIS free trade accord, which never materialised because the participating states could not agree on exact provisions and exemptions.

At first glance such a move seems surprising since the CIS was long considered a moribund organisation in Moscow and elsewhere. However, the new agreement demonstrates Russia's willingness to compromise on a number of unresolved issues.⁶ For the first time the countries involved agreed on a short list of three exemptions from the free trade regime – alcohol, sugar and tobacco. Even these exemptions shall be lifted as from 2015. Additionally, the parties have committed themselves to open negotiations, six months after the entry into force of the treaty, on lifting export duties and on a separate treaty governing pipeline transit through their territories.⁷

More importantly, the FTA should be seen as an encouragement to countries outside the Customs Union to keep the door open for integration with Russia. This concerns first and foremost Ukraine, which has maintained an interest in pursuing a CIS free trade regime. The main stake from a Ukrainian perspective is free trade in energy resources, allowing Russia's neighbours to purchase gas at considerably cheaper domestic Russian prices.

5. The promise to open the Customs Union to both by 2015 is repeatedly being reconfirmed in Moscow. However, even their temporary exclusion has serious economic consequences.

6. For a comparative analysis of the two agreements see: 'Analiticheskii material o Dogovore o zone svobodnoi trgovli (po sosto'ani'u na 31 okt'abr'a 2011 goda)' [Analytical material on the Treaty on the free trade area (as of 21 October 2011)], produced by the Executive Committee of the CIS. Available at: <http://www.cis.minsk.by/page.php?id=18968> (19 November 2011).

7. The Treaty enters into force 30 days after the ratification by three states parties. Ukraine was the first country to start ratification procedures in November 2011. However, by the end of January 2012 the Treaty had not yet been ratified by a single country.

Whether the new agreement holds or not remains to be seen. Three CIS countries – Azerbaijan, Turkmenistan and Uzbekistan – have so far abstained from joining. Others, such as Moldova, raise questions as to the agreement's anticipated effect. It needs to be pointed out, however, that the free trade agreement provides the countries concerned with scope for compromise because, unlike the Customs Union, it does not force them to choose between free trade with Russia and a DCFTA with the European Union.⁸ It offers a *modus vivendi* by allowing the participating states to simultaneously engage with Russia *and* the European Union.

The Eurasian Union – the future of the post-Soviet space?

The idea of a Eurasian Union was first promoted by Russian Prime Minister Vladimir Putin in October 2011.⁹ Unlike the Customs Union/SES and the CIS free trade agreement, the concept of the Eurasian Union remains vague and has not yet got beyond the drawing board stage. It is essentially limited to further developing and, eventually, renaming the Single Economic Space of Russia, Belarus and Kazakhstan.

The very vision of a Eurasian Union is based on the expectation that the attractiveness of membership of the SES will grow over time.¹⁰ It is hoped that other states, which are not yet part of the project and have limited their engagement to participation in the CIS free trade agreement, will seek accession to the SES. Therefore the idea of the Eurasian Union is based on the hope that the Customs Union and SES will gain importance. Like other Russian initiatives in the post-Soviet space, it is first and foremost a political project with unclear economic benefits for participating states.

The Eurasian Union does not yet exist in practical terms. However, Vladimir Putin's article, published before the protests in Russia started, marked the opening of his presidential campaign. It should be read as a harbinger of increased efforts to consolidate the neighbourhood around Russia, if necessary in competition with the European Union, when Putin returns to the Kremlin.

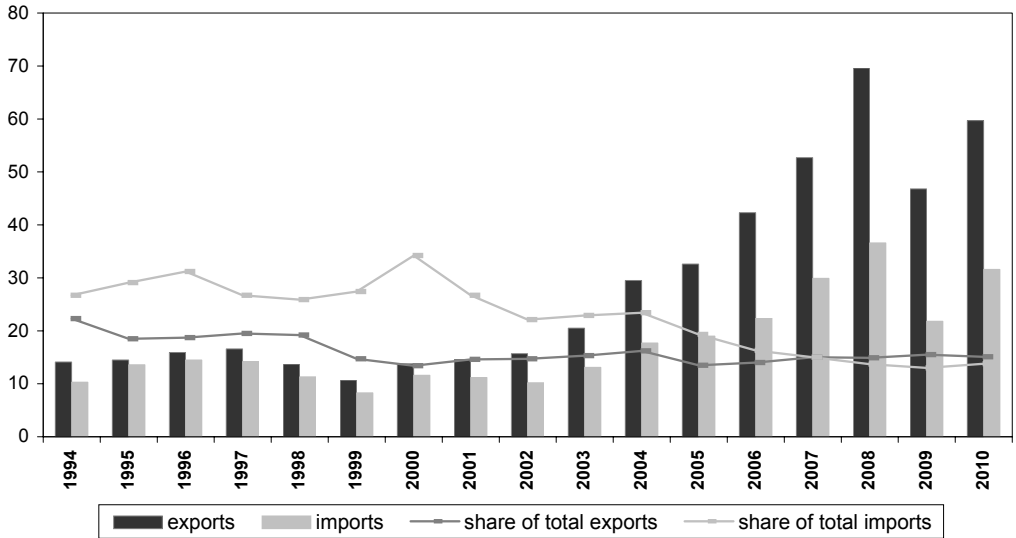
This competition largely boils down to the question of which East European and South Caucasian countries would sign a DCFTA with the European Union, and which would seek accession to the Customs Union and SES. The latter, however, have yet to prove their attractiveness.

8. See for instance 'EU Not Worried About Armenia's CIS Free-Trade Deal', available at: http://www.rferl.org/content/armenia_cis_free-trade_deal_doesnt_concern_eu/24373062.html (29 October 2011).

9. Vladimir Putin, 'Novyj integratsionnyj proekt dlja Evrazii – budushchee kotoroe rozhdetsja segodnja' [A new integration project for Eurasia - the future starts today], *Izvestia*, 3 October 2011.

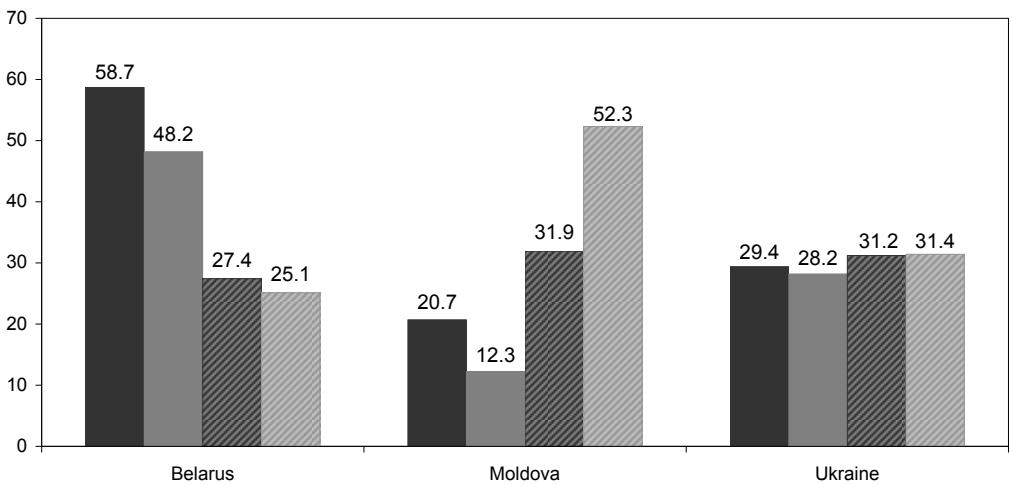
10. A first enlargement round involving Kyrgyzstan and Tajikistan is tentatively envisaged in 2015.

Figure 1
Russia's trade with NIS 1994 – 2010
(bn. of US Dollars and % of total exports and imports)



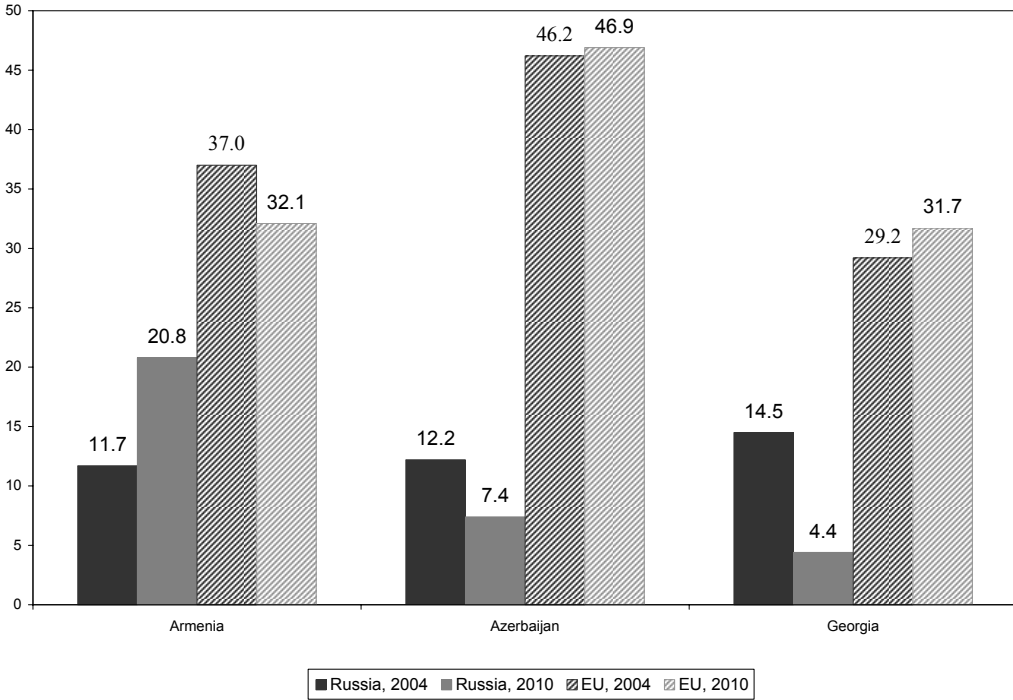
Source: Data of the Russian State Committee for Statistics, 1994–2010.

Figure 2
Share of Russia and the EU in external trade of East European countries (2004 and 2010, % of turnover)



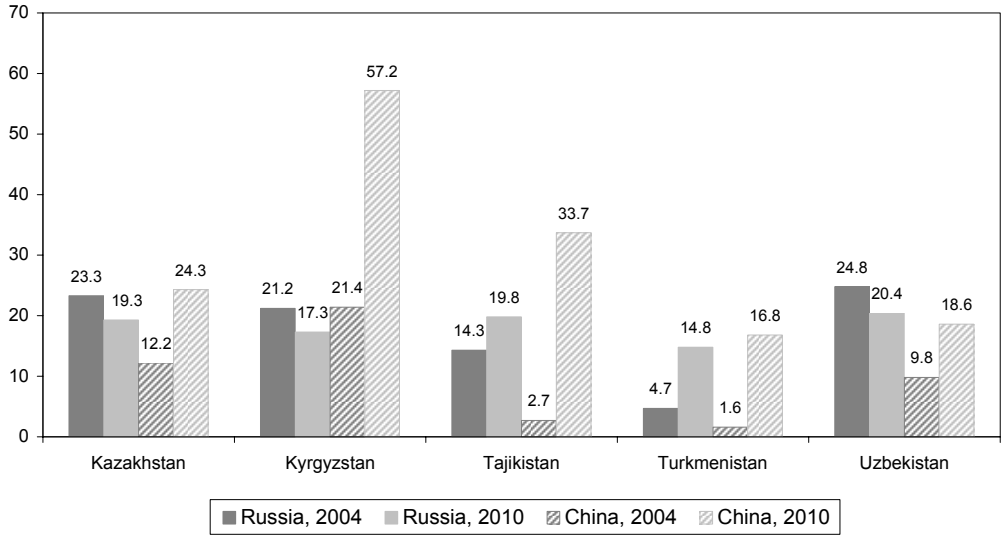
Source: Eurostat data, 2004–2010.

Figure 3
Share of Russia and the EU in external trade of South Caucasian countries
(2004 and 2010, % of turnover)



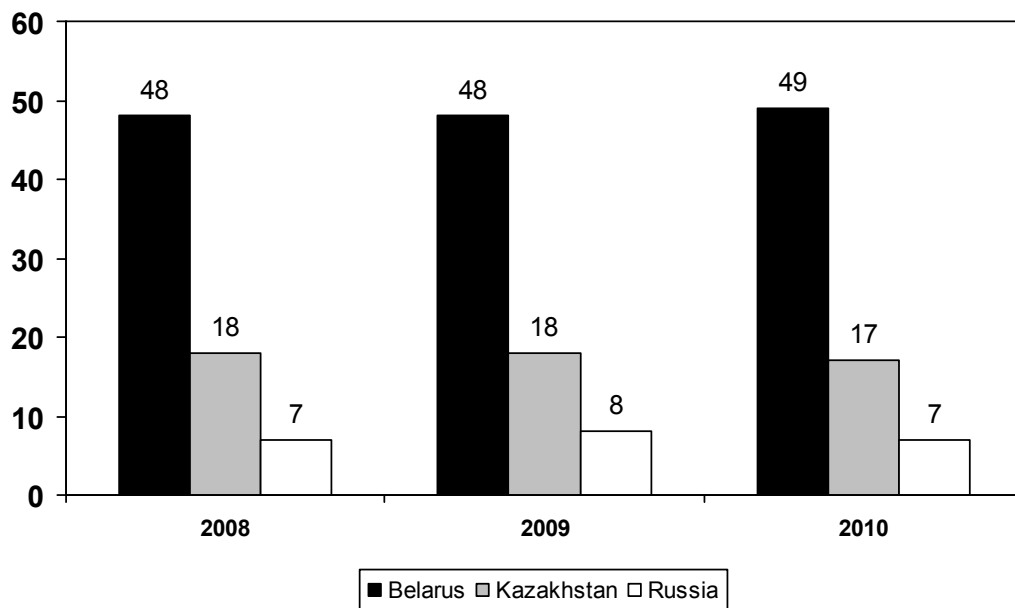
Source: Eurostat data, 2004–2010.

Figure 4
Share of Russia and China in external trade of Central Asian states (2004 and 2010, % of turnover)



Source: Eurostat data, 2004–2010.

Figure 5
Share of intra-Customs Union trade in total trade of its members
(2008–2010, % of turnover)



Source: Statistical data of the Customs Union for 2008–2010.

A CHANGING RUSSIA? IMPLICATIONS FOR EU-RUSSIA RELATIONS

Sabine Fischer

In 2009 the EU and Russia set out to normalise their relationship after the major crisis caused by the Russian-Georgian war in August 2008. However, almost three years on, this movement towards a normalisation of relations has stalled. Neither side currently considers the other as a top foreign policy priority. Together they have launched a Partnership for Modernisation (P4M), but the results are so far considered disappointing. Meanwhile Brussels and Moscow keep fretting over issues such as the so-called common neighbourhood and the EU's third Energy Package. The negotiations on the new agreement, which is supposed to replace an outdated Partnership and Cooperation Agreement, remain complicated and protracted, and so do the negotiations on mobility and visa freedom. One of the few tangible successes of recent years is Russia's accession to the WTO after almost 20 years of negotiations. It remains to be seen, however, whether or not and to what extent this will have the expected positive impact on EU-Russia relations.¹

This chapter investigates why neither side was able to realise any of the potential benefits inherent in the normalisation process embarked on in 2009 and through this ensure a more dynamic and positive trajectory for EU-Russia relations. It will also address the implications of this unfulfilled potential for relations between Brussels and Moscow.

The Russian perspective

Despite significant changes in the strategic situation in the post-Soviet space after 2008, which are generally considered positive from a Russian perspective, Moscow remains wary of the EU's movements in the region. Since 2008/2009 the focus of EU-Russian 'competition' over the common neighbourhood has shifted from security to economic and trade issues manifesting itself in competing integration projects such as the Association Agreements and Deep and Comprehensive Free Trade Agreements (DCFTA) on the one hand, and the Customs Union and Eurasian Union, on the other. Much of this crystallises around which integration vector Ukraine will pursue. From a Russian perspective this pretty much remains a zero sum game, whereby Russia loses when the EU gains, and vice versa.²

1. See for instance Dominic Fean, 'Decoding Russia's WTO accession', *Russie.NEI.Visions* no. 64, February 2012. Available at: www.ifri.org.

2. See Andrei Zagorski's contribution to this report.

After the shock of the onset of the economic crisis in 2008 and 2009, which fuelled President Medvedev's modernisation rhetoric, the temporary economic recovery in 2010 and 2011 lessened the sense of urgency among Russian ruling elites. Moreover, their attention became increasingly focused on the approaching election cycle. Election campaigns in Russia traditionally do not lend themselves to advocating *rapprochement* with the West. Instead, Vladimir Putin announced the idea of a Eurasian Union, envisaged as a new integration nucleus in the post-Soviet space and an alternative to the integration of Russia's neighbours with the European Union.³

Russian policy towards the European Union is traditionally characterised by a strong bilateral undercurrent: while developing an elaborate and often dysfunctional institutional network with the EU, Moscow has always stressed its special relationship with individual EU Member States such as Germany, France or Italy. Only on a few occasions (for instance during the Orange Revolution in Ukraine) has the Russian leadership seemed to acknowledge Brussels as the centre of the Union.

In the early days of the Lisbon Treaty Russian policy makers and observers looked at the newly emerging institutional setting in Brussels with the expectation of more coherence and less ambiguity in EU foreign policy. However, as the institutional transition in Brussels dragged on and the EU became more deeply mired in the economic crisis, bilateralism re-emerged as the more reliable option from Moscow's perspective. While the Russian public's attitude towards the EU remains generally positive,⁴ the dwindling of European economies and possible effects on EU-Russia relations are being observed carefully in Moscow.⁵ Moreover, the Russian strategic and policy community is increasingly looking towards Asia and China in particular, following the strategic reorientation of US policy: as one commentator has remarked, 'Europe's strategic marginalization with the shift of global politics to the Pacific will not be reversed, but under Putin the Kremlin will increasingly regard this as an opportunity – the weaker the European Union, the greater the opportunities for breakthroughs with individual states.'⁶ During his second presidential term Vladimir Putin put a strong emphasis on bilateral relations with individual EU Member States, principally Germany, Italy, and France. It remains to be seen whether he will try to return to this approach after the elections. The changes of leadership in Germany and Italy that have occurred in the intervening period might make it more difficult for him

3. Interestingly Putin refers to the European Union as a model for integration and to European integration as an experience Russia and her neighbours can learn from to accelerate integration within the Eurasian Union. Vladimir Putin, 'Novyj integratsionnyj proekt dlja Evrazii – budushchee kotoroe rozhdetsja segodnja' [A new integration project for Eurasia – the future starts today], *Izvestija*, 3 October 2011.

4. According to an opinion poll conducted by the Levada Centre in November 2011 71 percent of the respondents considered relations with the European Union as good (63 percent) or very good (8 percent). See: <http://www.levada.ru/01-12-2011/strana-v-sisteme-mezhdunarodnykh-otnoshenii>.

5. See for instance Darja Ciljurik, 'Moskovskij kredit dlja evrozony' [Eurozone receives credit from Moscow], *Nesavisimaja Gazeta*, 16 December 2011.

6. Fyodor Lukyanov, 'Results of Medvedev, prospects for Putin', www.rt.com, 17 February 2012.

to reactivate the close relations he had with former German Chancellor Gerhard Schroeder and former Italian Prime Minister Silvio Berlusconi.

The EU perspective

The eurozone crisis and the post-Lisbon institutional transformation have put serious constraints on EU foreign policy, including its relations with Russia. Permanent trouble-shooting has absorbed most of the attention and energy of EU leaders in the past year and a half, and left very little space for innovative thinking and action in other areas.

The European External Action Service (EEAS) became operational in 2010, but has yet to live up to its full potential. As EU High Representative for Foreign Affairs and Security Policy, Catherine Ashton, has declared many times, developing the Union's strategic partnerships with the BRICS countries and other emerging powers were among the top foreign policy priorities of the service.⁷ However, the focus of these efforts seems to be on partners like China, India and Brazil rather than on Russia.⁸ This may be due to the fact that EU-Russia relations are already highly institutionalised, while with the other countries there is more space to build and shape relations. Moreover, Russia has always been an outlier in the BRICS group and is now increasingly lagging behind the booming economies of some of the other emerging powers, which makes it less appealing a partner.⁹ The shale gas revolution in the US has triggered hopes in some EU Member States that Russia's relevance as an energy supplier for Europe will decrease in the near future.

Finally, the revolutions in the Arab world confronted Brussels institutions and EU Member States with an extraordinary foreign policy challenge in late 2010 and 2011 that since has overshadowed all other foreign policy areas. Not only has this distracted attention from the Eastern Neighbourhood and Russia. What is more important still is that Brussels and Moscow often found themselves on different sides of the political fence regarding their assessments of what was going on in the Arab world. The recent row over Syria is only the most striking example of those disagreements whereby the EU insists on the responsibility to protect the civilian populations while Moscow suspects Western actors of having orchestrated the upheavals in the first place and fears growing Western dominance in the region in the wake of another military intervention. This has not encouraged either side to seek stronger cooperation.

7. See for instance Catherine Ashton, 'Speech on EU foreign policy towards the BRICS and other emerging powers', European Parliament, Brussels, 1 February 2012.

8. See for instance European Council, Council Conclusions, 16 September 2010, EUCO 21/01/10, Brussels, 12 October 2010.

9. See for instance Ben Judah, Jana Kobzova and Nicu Popescu, 'Dealing with a Post-BRIC Russia', European Council on Foreign Relations, November 2011. Available at: http://www.ecfr.eu/page/-/ECFR44_RUSSIA_REPORT_AW.pdf.

Paradoxically, these obstacles occurred at a time when EU Member States for the first time since the 2004 enlargement experienced greater convergence of positions *vis-à-vis* Russia. The Polish-German-French *rapprochement* could have led to a policy change in 2010 and 2011. However, the EU, preoccupied as it is with economic difficulties, currently lacks the time or energy to transform these developments into a concrete policy outcome.

In other words, the EU and Russia have only partly recovered from the shock of the Russian-Georgian war in 2008. Obstacles on the bilateral as well as on the internal level have slowed down the process of normalisation. Both the Union and the political leadership in Moscow became increasingly focused on domestic issues after 2010. Moreover, despite the improvement of relations, major bones of contention have never been resolved. Brussels and Moscow continue to disagree on the situation in Abkhazia and South Ossetia. Their interaction in the so-called common neighbourhood remains strained as they are promoting competing trade and political integration schemes. No consensus exists as yet on how to handle the complex energy relations between Russia, the Eastern European transit countries and the EU. The main underlying problem is, however, that the EU and Russia have accumulated a significant deficit in reciprocal confidence over the past few years, which cannot be overcome through a rather technical Partnership for Modernisation. If Brussels and Moscow want to take the improvement of their relationship a step further, they will need to rebuild trust. This, of course, is difficult in times of domestic insecurity and shifting foreign policy priorities.

Change in Russia? The way ahead

Until very recently policy makers and observers in the EU had an almost fatalistic attitude regarding the upcoming election cycle in Russia. Putin's victory was considered a foregone conclusion, and the scope for the EU to influence the domestic situation in Russia and push for more democratic elections were seen as extremely limited if non-existent.

The mass protests following the parliamentary elections on 4 December 2011, only a few days before the EU-Russia Summit in Brussels on 14 December, took everybody by surprise. The sudden emergence of a protest movement and the ability of its organisers to mobilise tens of thousands of people over a period of several (winter) months indicates important changes afoot in Russian society. As outlined above, the different political forces involved in the protests do not share many inherent commonalities. They are (temporarily) united by the demand for greater political participation. It is questionable therefore, whether this movement would be able to form a coalition government in the unlikely event of Putin's defeat.

However, it is important to note that a desire and quest for participation exists in a society which most observers both inside and outside Russia had diagnosed as politi-

cally apathetic until very recently. Another important difference compared to previous domestic protests, besides the sheer number of demonstrators, is that so many young people took to the streets. This indicates that there is a new generation with less preference for the political stability embodied by Vladimir Putin, which may be willing to express its dissent publicly in the future. In short Putin has lost a lot of his political legitimacy. It remains to be seen how much more he will lose in the actual elections on 4 March 2012. In any event it can be assumed that his position will be considerably weaker than when he first took office in 2000.

Given the systemic weakness and lack of experience of the overwhelming majority of opposition forces and politicians, a change of leadership would most likely lead to more domestic instability. As outlined in the introduction Putin and his entourage will now have two options: to either rely on conservative and extremist forces or to respond to the demands for more democracy and political liberalisation and modernisation and, by doing so, make the political and economic system accessible to the emerging middle class. The latter would also imply more scope for oppositional political forces to develop into viable political alternatives.

From an EU perspective the latter is clearly more desirable. However, external actors such as the EU need to be extremely careful when embarking on any kind of action. Politics in Russia has a strong patriotic undercurrent, and receiving support from Western actors has often undermined the domestic position of liberal parties. It is telling in this respect that there is literally no reference to the EU or other external actors in the demonstrations – very much unlike during the colour revolutions in Georgia and Ukraine. The EU, in its own interest, also needs to preserve a workable relationship with the future Russian leadership. The continuation of projects such as deeper economic integration and visa liberalisation is in the interest of the very people now protesting in the streets of Russian cities. A policy of isolation or confrontation will not help them in their efforts to change their society and state from within.

So far the EU leadership has taken a cautious approach, moving ahead with the bilateral agenda while voicing concerns about allegations of election fraud. What is even more important than political statements, though, is increased engagement with Russian civil society. Only political pluralism and the emergence of viable political alternatives can provide the basis for sustainable political change in Russia.

Both the EU and Russia will need to reconsider the position of the respective other when setting their foreign policy priorities. For good or ill, they are destined to remain direct neighbours, interconnected through close political, economic and societal bonds. It would be politically short-sighted for either party to neglect the special importance of this relationship.

ANNEXES

Abbreviations

AI	Amnesty International
APEC	Asia Pacific Economic Cooperation
BRICS	Brazil, Russia, India, China and South Africa
CIS	Commonwealth of Independent States
CPRF	Communist Party of the Russian Federation
CPSU	Communist Party of the Soviet Union
EEAS	European External Action Service
EU	European Union
EurAsEC	Euro-Asian Economic Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
LDPR	Liberal Democratic Party of Russia
LNG	Liquefied Natural Gas
NATO	North Atlantic Treaty Organisation
P4M	Partnership for Modernisation
PARNAS	People's Freedom Party
SES	Single Economic Space
US	United States
WTO	World Trade Organisation

Notes on the contributors

Nabi Abdullaev is a researcher and deputy editor of RIA Novosti's international news department.

Sabine Fischer was a Senior Research Fellow at the European Union Institute for Security Studies, where she specialised in the EU's relations with Russia and the Eastern Neighbourhood, from 2007 to 2012.

Mikhail Krutikhin is an analyst and consultant on the oil and gas industry and politics in Russia.

Alexandr Kynev is the head of research department of the Association 'In Defence of Voters' Rights' (GOLOS), Moscow.

Lilia Ovcharova is deputy director and research director of the Independent Institute for Social Policy in Moscow.

Simon Saradzhyan is a research fellow at Harvard University's Belfer Center for Science and International Affairs.

Andrei Zagorski is Director of Disarmament, Arms Control and Conflict Resolution Studies at the Institute for World Economy and World Politics of the Russian Academy of Sciences. He is also professor at the Moscow State Institute of International Relations (MGIMO-University).

Natalia Zubarevich is a professor at the Moscow State University and Director of Regional Programmes at the Independent Institute for Social Policy.

