

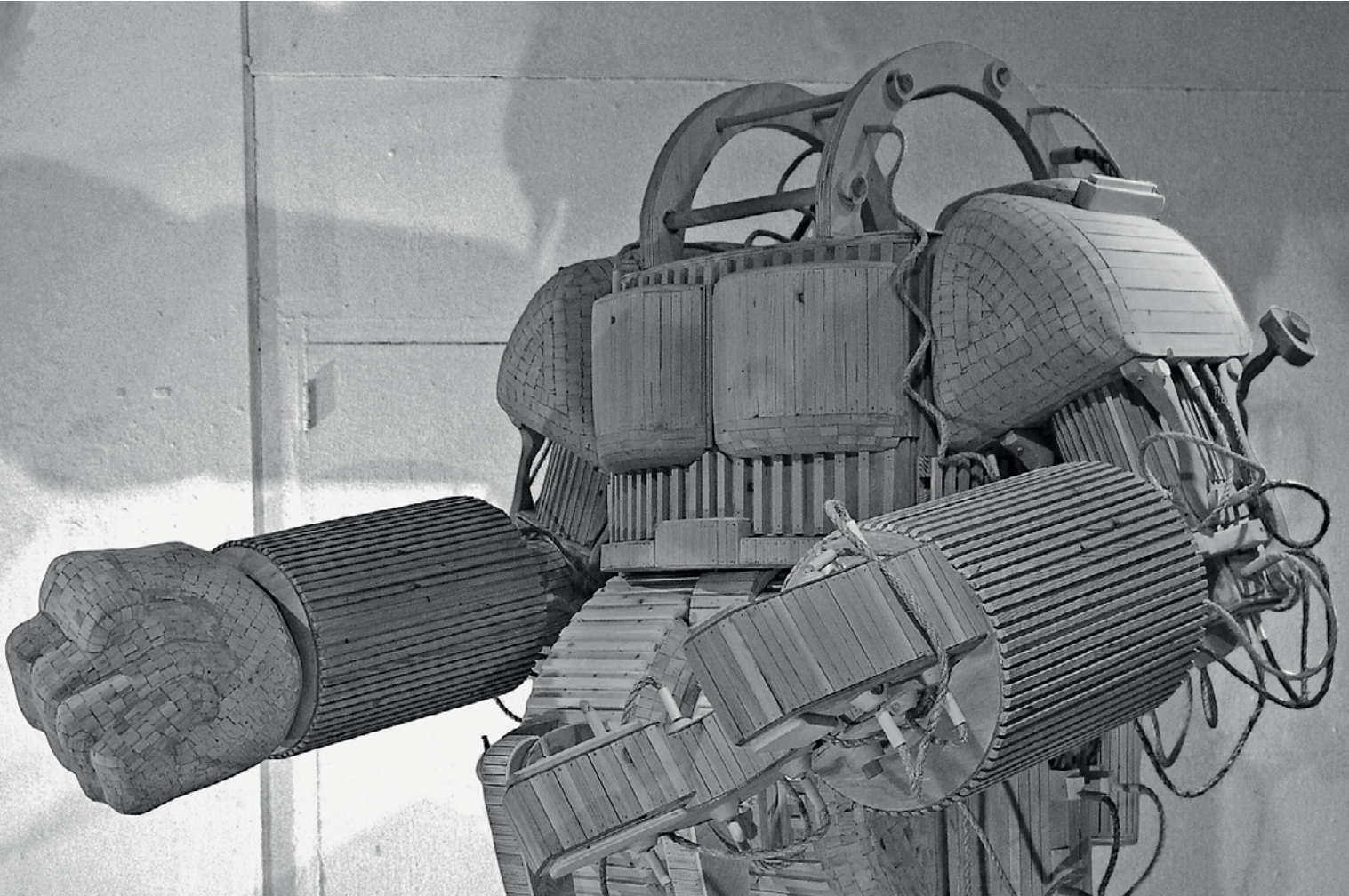
RUSSIA'S MODERNIZATION RELOADED

67

POLITICAL CONSTRAINTS ON ECONOMIC DEVELOPMENT

Katri Pynnöniemi

BRIEFING PAPER 67, 16 November 2010



ULKOPOLIITTINEN INSTITUUTTI
UTRIKESPOLITISKA INSTITUTET
THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

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- The global economic crisis exposed the vulnerability of Russia's raw-material model of development and highlighted the need for economic modernization.
- The key controversy among the political elites centres on how the modernization should be carried out and whether the current regime is actually capable of driving the change.
- Liberals argue that in the absence of a comprehensive modernization of the country's political system, it is unlikely that the stated objectives of economic modernization will be attained. Authorities reply by stressing the need for 'consolidated actions' with state participation.
- The major stumbling block of modernization is the 'hybrid' nature of the current regime. Medvedev's call for concrete and immediate actions to modernize the economy is more characteristic of playing with words and tactical manoeuvres than any real attempt to change the rules of the game.

Russia in the Regional and Global Context research programme
The Finnish Institute of International Affairs



Moscow skyline. Photo: Rob Colonna (flickr)

Economic crisis as an opportunity for change

Rumour has it that prior to his first visit to Beijing in spring 2008, President Medvedev instructed officials at the Ministry of Trade and Development to take a picture of Moscow that would aptly convey Russia's drive for modernization and innovation to his Chinese hosts. In carrying out his orders, employees from the ministry spent two months looking for a suitable place to photograph, but it is not known whether they were successful in their quest or not. Perhaps the story is only apocryphal, and no such order was ever given. Nevertheless, the anecdote has sown the seeds of doubt in the minds of the country's current leadership that there is actually not that much to see when it comes to the campaign for the 'technological modernization' of Russia.

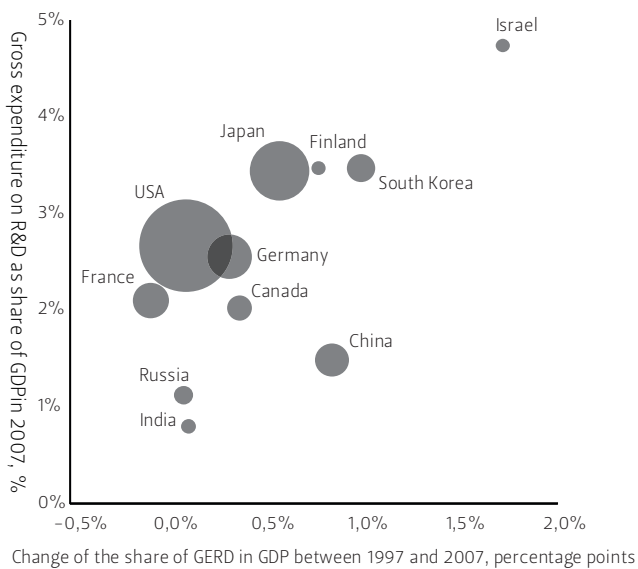
The reservations expressed towards President Medvedev's campaign for modernization stem from the understanding that far from acting as a catalyst for economic development, the Russian administrative regime is the major stumbling block on the road to a more 'innovative' and modern Russia.

The crux of the criticism expressed by the liberal economists and opposition activists is that the inefficiency of the state bureaucracy, corruption and the scale of social inertia should be subject to more complex manoeuvres than politicians simply declaring them the "bad habits" of the people. In other words, thoroughgoing political reforms, strengthening the basic institutions of democracy and market economy are required to put things right.

Having doubts about Russia's current modernization drive is not the same as denying its general significance for the country, however. All parties to this discussion agree that modernization, and improving the competitiveness of the industrial sector in particular, is crucial for the country's overall development. Either Russia modernizes its economy or it will be marginalized—ousted from the global markets of power and prestige, as well as those of modern technologies and know-how.

The key event in this regard was the global economic crisis, which exposed the vulnerability of Russia's raw-material model of development. The crisis in Russia proved to be far deeper than that of its immediate peers (the BRIC countries) and the West. Yet the recovery has been equally rapid. The loss of 7.9 per cent GDP in 2009 has already been reversed; as of this year, the economy is expected to grow by 3 or even 4 per cent annually. However, two important external factors that boosted the economic growth before the crisis are now out of the picture. Neither access to capital nor world commodity prices are likely to revert to pre-crisis levels any time soon.

The present discussion on modernization stems from the realization that the pattern of growth Russia enjoyed before the crisis should be replaced by a more intensive development strategy: Russia should become less dependent on the international commodity markets and increase the share of manufactured goods in its foreign trade. The latter objective implies that Russia will have to do more than just 'catch up' with the post-industrialized economies in the future.



Graph 1. Gross expenditure on R&D as a share of GDP in 2007 and relative change in 1997–2007, percentage points (circle size corresponds to total GERD, USD min.)

Source: PRAZDNICHNYKH ALEXEY, LIUHTO KARI: Can Russian companies innovate? – Views of some 250 Russian CEOs, *Electronic Publications of Pan-European Institute* 21/2010 / Unesco Institute for Statistics, World Bank.

A recent study conducted by the State University Moscow Higher School of Economics shows that the favourable external environment of the last decade actually helped industrial enterprises to continue doing things in the same old way, instead of seeking to change their technologies, take more risks and, most importantly, enter new international markets. This is important because “technology underperformance is among the crucial reasons behind the low competitiveness of Russian industrial firms”. The study also points to the increasing polarization of Russia’s industrial sector—industrial companies on the higher echelons have been able to improve their competitiveness whereas others have slipped even further downwards.¹

The situation is aggravated by the continuing regeneration of critical infrastructures: roads, the electricity network, pipelines, housing and other public infrastructures that were built during the Soviet era, and which have been subject to a sometimes rapid but largely spontaneous and yet partial re-arrangement during the last two decades.

After almost eighteen months of debate on modernization, it has become apparent that the initial consensus on the need for modernization has been replaced with a controversy over what it actually means. Conflicting answers to the following questions reveal the fault lines in this debate: should the modernization focus primarily on the problems

of de-industrialization rather than the ‘innovative development’ of the economy? Can Russia modernize itself by evolutionary means, or is radical modernization the only feasible option? Will an attempt to boost Russia’s competitiveness in the global markets eventually end up as the re-militarization of Russia? And finally, will the constraints inherent in the Russian political system outweigh the possibility of a ‘new start’ provided by the crisis?

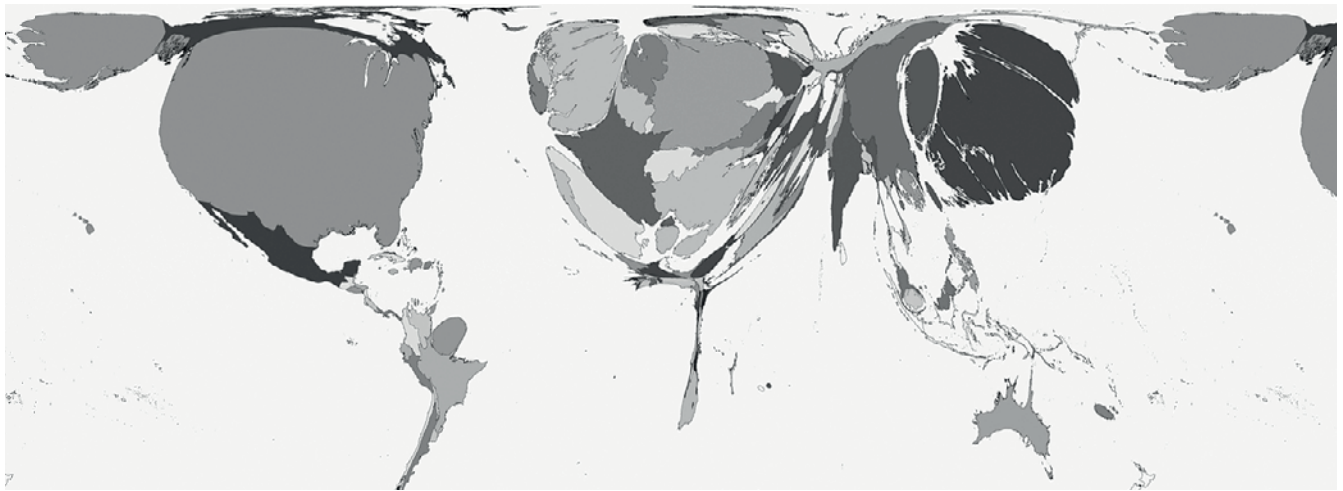
Campaign for modernization: concrete steps taken

When referring to the changes in the international and domestic sphere, roughly a year later at the Economic Forum in St. Petersburg in June 2010, President Medvedev announced that “Russia had changed”. The changes to which the president was referring on this occasion, such as the simplification of immigration regulations for highly qualified foreign specialists, the partial adoption of EU technical standards in Russia (as Russia will also continue to develop its own standards), and limiting the right to arrest businesspeople in connection with investigations into economic crimes², underscore how rough around the edges the campaign for modernization is.

The establishment of the Presidential Commission on Modernization and Technological Development

1 KUZNETSOV et al. 2010. “Russian manufacturing revisited: two rounds of surveying Russian enterprises in 2005–2009”. *HSE Policy Paper*. Moscow 2010, p.8.

2 Interestingly, a group of United Russia deputies at the State Duma recently submitted a bill aimed at increasing the pre-trial custody from 2 to a maximum of 3 months. The initiative contradicts the course advocated by the president.



Territory size shows the proportion of worldwide wealth, that is GDP based on exchange rates with the US\$, that is found there.

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of Russia's Economy in May 2009 was the first concrete step in the president's call for economic modernization.

The Presidential Commission has been instrumental in channelling the debate on modernization and, more concretely perhaps, the presidential instructions (*porytseniya*) directed at the government and respective ministries. The substantive part of the attention is directed at the five 'technological breakthrough areas', including biotechnology, cleantech (new energy sources and energy efficiency), IT and supercomputing, space and telecommunications, and nuclear technologies.

The priority areas were selected on the basis of four criteria: first, they should possess significant potential for Russia's international competitiveness. Second, they should have the capacity to create a significant multiplier effect and act as a catalyst for modernization in related industries. Third, they should be linked to the needs of defence and national security. Fourthly, they should have relevance for the well-being of the people.³

On closer inspection, the Commission's work shows that concrete instructions given by the president relate to the pharmaceutical industry, energy efficiency, actions aimed at enhancing technology trade with foreign countries, and the building of the

Skolkovo innovation city. The extent to which these instructions are actually implemented is rather modest by and large. This has prompted several counter-actions by the president, ranging from the public reprimand of responsible bureaucrats to a recent proposal to clarify the status of the presidential instructions, which are a mere formality nowadays.

A deeper point that goes beyond the civil servants' sceptical stance towards the modernization campaign touches upon the division of labour between the president and the prime minister. In May 2010 Prime Minister Putin became head of the Government Commission on High Technology and Innovation (previously known as the Government Council on Nanotechnology). With its new powers, the Commission oversees the development of the scientific-technical complex and the innovation system and makes decisions that executive agencies (ministries, government agencies, etc) are obliged to follow. What was thus created was a parallel structure to that of Medvedev's Commission. The mandate of the Government Commission is defined broadly enough to include practically everything Medvedev's Commission is about to do. With these developments, the question of coordinating the actions of the Kremlin and the White House is left open.

The most visible part of the campaign for modernization is the building of the 'innogorod' (innovative city) at Skolkovo, near Moscow. It can be seen as a manifestation of both the ambitions invested in the modernization drive and the limits of its implementation. In essence, Skolkovo is an exercise in experimenting with how to transgress the limits

3 Opening Address at the Meeting of the Commission for Modernization and Technological Development of the Russian Economy. 18.6.2009. URL: <http://news.kremlin.ru/transcripts/4506/print>. Accessed on 7.10.2010.



Photo: Nobuo Danjou (flickr)

of the political-administrative system and push them further, without dissolving the system itself. The building of Skolkovo is taking place under the watchful eye of President Medvedev. The project is managed by a special fund and governed by legislation that allows the project to be sealed off from the adjacent administrative and social environment.

The government hopes that the technical and qualitative standards that will be implemented in the innovation centre can eventually be extended to Russia as a whole. At the same time, in order for the work on innovations to start immediately, and not only after the building work on the new 'city' is completed, the law on Skolkovo stipulates that projects counted as part of the undertaking will receive funding regardless of where they are located.

The basic point being made above is that although certain key elements are in place (for example, government support for educational reform and increased investments in R&D), the system as a whole does not function. This is because it is devised in such a way that it does not encourage the free spillover of ideas, policies or technologies, and thus works against the very logic of successful imitation and innovation. Just what kind of logic the system functions under will be discussed below.

Russia's hybrid regime in stalemate

As already noted by many other commentators, 'the power vertical' in Russia does work, but only functions to a certain extent and not necessarily as a 'vertical of power'. The key contradiction is the

existence of two parallel, yet coexistent worlds and the mismatch between their operational logics. Following Richard Sakwa's terminology, the Russian system is composed of two parts, one of which is the formal constitutional order that operates under the principles of rationality and impartial legal norms. The other, the administrative regime, as Sakwa calls it, refers to the world of informal relations, factional conflict and para-constitutional political practices. In this world, structures and rules are distorted in the name of "extra-political leadership" and its presumed functionalism. The regime is both a venue for intra-bureaucratic contestation and an agent that undermines the formal constitutional order by virtue of being personalized and voluntaristic and acting beyond it.

An important insight into this notion of the "dual state" is the recognition that the two systems work in parallel with each other and it is the fundamental incompatibility of their operational logic that gives way to the 'hybridity' of Russian politics. The stalemate prevents a radical move towards authoritarian restoration or a genuinely competitive political system.⁴

Locked into this 'neither-nor' position, the president's campaign is a combination of tactical manoeuvring and camouflage. The need for such moves derives from the conceptualization of modernization as a conservative undertaking that is designed both to re-energize the country and to keep the current

4 SAKWA, RICHARD 2010. "The Dual State in Russia". *Post-Soviet Affairs*, Vol. 26, No. 3, pp. 185-191.

system as it is. The idea seems to be that Russia may revert to a 'third way' that is constrained only by its own will for development.

The rise of the developing world as an engine of growth in the world economy provides Russia with a conceptual framework within which to argue for a special 'way'. By redefining its position as one of the BRICS, Russia will acquire more room for manoeuvre with regard to what now seems unattainable (or unfeasible as the government officials like to think), namely the western path of development.

President Medvedev's definition of the five "universal standards of democracy" at the Yaroslav Global Political Forum in September 2010 is yet another opening in this direction. The standards mentioned by the president sound like the criteria for 'human development' in general, with the conspicuous absence of fair and free elections, press freedom, and the rule of law. The president argued that the Russian people are not yet ready for representative democracy. Instead, the country should adopt the practice of 'direct democracy' whereby citizens may participate in public life with the help of new technologies such as the Internet.

Medvedev's vision on citizen's participation in the public life is technocratic one. It focuses on the availability of technological basis for the public domain. As such, it does not challenge, but rather aggravates the "dual state" model and the stalemate following from it.

In conclusion: Agents and sympathizers of modernization

With such a combination of factors, the probability of a diversification of the economy is very low. What is much more likely to happen is that the slow degeneration of the economic base will continue. The sluggish pace of economic growth makes it more difficult for the ruling tandem to make populist moves, let alone unpopular ones. Even more importantly, the possible economic stagnation would jeopardize the legitimacy of a regime which, to a large extent, rests on delivering the promised rise in living standards.

Politically, the situation will remain in balance provided that the ruling tandem manages to withstand the most vocal expressions of dissatisfaction. These range from public protests in the regions to more organized attempts at collective action. As an example of the latter, in mid-September a group of State Duma deputies led by Gennadii Gudkov from the Fair Russia party established a social movement named after President Medvedev's famous article "Forward Russia". It calls for the restoration of the election of regional heads and, in more general terms, the consolidation of parliamentarism in Russia.

The group prompted a quick response from the authorities. Within a few weeks, the United Russia party had created a parallel movement aimed at bringing together "participants" of the modernization, rather than those just "sympathizing" with the cause, as Boris Gryslov, chair of the supreme council of the United Russia party, has put it.

It may be that both movements actually do work in tandem, and in a typical 'virtual politics' fashion are designed to channel growing discontent among the general public. Whether or not they succeed is another matter. Another plausible explanation for the simultaneous emergence of these two movements is that they actually reveal the real factions within the ruling tandem. If this is the case, then the question of whether one is a participant or a sympathizer of modernization takes on a whole new dimension.

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The Finnish Institute of International Affairs
ISBN 978-951-769-280-9
ISSN 1795-8059

Cover photo: "A Prosthetic Suit For Stephen Hawking w/ Japanese Steel", 2007.

Michael T. Rea, <http://www.mikerea.com/>

Layout: Tuomas Kortteinen

Language editing: Lynn Nikkanen

The Finnish Institute of International Affairs 2010
www.upi-fia.fi