FRIEDRICH EBERT STIFTUNG

The Medvedev Factor

Russia's Desire to Modernise

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November 2010

- Dmitrii Medvedev's presidency is closely connected with the modernisation of Russia. For Medvedev modernisation entails not just technical and economic innovation but also urgently needed reforms of the political system. This is what we mean when we speak of a Medvedev factor. Yet so far Medvedev has not succeeded in winning over opponents within the state for his project.

- Russia's government once again faces the key question of how to reform the country's political system without tipping the country off balance and risking the kind of destabilisation experienced by the Soviet Union. Will Medvedev succeed in winning support for the project he has initiated from broad sectors of the elite and society? The current motivation to transform Russia into an active state at peace with itself rather than one constantly trying to catch up with the West stems from the consequences of the economic crisis.

- Russian society expects the state to create a framework based on the rule of law that would ensure citizens a secure existence. Yet despite publicly espousing this idea the government is not interested in engaging in a public discussion on the country's political future. Therefore the Duma, Russia's parliament, has so far avoided holding a debate on what a modernisation programme should consist of.

- The Medvedev factor has already had an impact on foreign policy. Relations with both the United States and the new EU member-states in Eastern Europe have improved considerably. Russia has signed a new START disarmament treaty with the United States, and a modernisation partnership with the EU is a high priority for foreign policy. Medvedev's Russia clearly emphasises a western orientation.

Content

Introduction

»There are no roads in Russia, only directions«. This traditional saying originates from a time when post coaches travelling from Moscow to the provinces used to get stuck either in the mud or the snow. Nowadays asphalted roads ensure that an increasing number of small towns and villages – although by no means all, as anyone who has ventured into the Russian provinces knows – are reachable even in inclement weather. Yet a study conducted by the World Economic Forum on transport infrastructure ranked Russia as lagging far behind in terms of road-building, at 111th place (see World Bank 2010).

Therefore, apart from air travel it is the railways – historically the most important means of gaining access to Russia's huge territory – that have the task of overcoming time and space in Central Russia. In place of the comfortable but slow night trains between Moscow and St. Petersburg there is now an express link that covers the 650 kilometres between the two cities in just 3.5 hours. Ideal for business people, the new »Sapsan« (peregrine falcon) train symbolises the Russian government's desire to achieve modernisation through acceleration.[1]

President Dmitrii Medvedev (45) gave the signal a year ago with the publication of an article with the slogan-like title »Russia – Forwards«. »The goals are ambitious«, he declared to a group of foreign experts in Moscow a short time later, stating that while it was good to have made stability the priority of the past decade, this was »no longer sufficient«. A situation where the Russian economy collapsed as soon as the natural resources market plummeted was unacceptable, he said. For this reason a thorough modernisation of Russia was required – not only technical modernisation, but of course political and economic modernisation as well.

Since then hardly a week has passed without a newspaper headline containing the word »modernisation«: »Modernisation as a Cure«, »Modernisation without Unemployment«, »Bureaucracy against Modernisation«, »Accelerating Modernisation«, »Enclave Modernisation«, »Modernisation: Authoritarianism or Freedom?« and finally the not entirely unfounded fear of the »Enemies of Modernisation«.[2]

The articles accompanying the headlines evidence the great interest in the subject, its importance and urgency. This is connected with the president himself, who is now coming to personify the reforms and, above all, the hopes attached to them – for it is primarily hope that the young president has brought to Russia in the two years since he came to office, leading to the emergence of a »Medvedev factor« analogous with the Gorbachev factor.

Unlike his two immediate predecessors, Medvedev delivers his message quietly, prepared to listen and engage in dialogue with the public. He is a pragmatician who has little time for unworkable grand schemes, even if some observers regard his two projects, the struggle against corruption and the modernistion programme, as highly ambitious. This youthful man, who twitters and blogs, seems to inspire confidence in his projects, at least for the time being.

Discussions have revealed the diversity of opinions about what modernisation means, what should be modernised and – no less important – what should not. Whereas there is a broad public consensus on the need for modernisation, the parliament has so far seen no reason to hold any debate on the issue. Thus the state does what it always does: it founds a presidential commission and makes plans to create a modernisation department in the Kremlin.

A study by the Institute of Contemporary Development (InSoR) published at the beginning of the year provided an initial impetus for what a modernisation plan might encompass. The institute was created by Medvedev, who is also chairman of the Board of Trustees. In a sixty-six-page paper entitled »Russia in the Twenty-first Century: a Model for a Desirable Future«[3] the authors present to the public their vision of a Russia modelled on the West – in other words, a democratic state based on the rule of law and social principles, a state that is integrated into the western alliance, possible even as a member of NATO.

1. This term was coined by the historican Roland Cvetkovski in his study of the same name on territory and mobility in the Tsarist empire.

2. In order of mention: *Vedomosti,* 10 March 2010; *Izvestiya,* 31 December 2009; *Nezavisimaya gazeta,* 29 January 2010; *Vedomosti,* 31 March 2010; *Nezavisimaya gazeta,* 25 May 2010; *Novaya gazeta,* 12 July 2010; and *Vedomosti,* 5 April 2010.

3. Institut sovremennogo razvitiya, »Rossiya XXI Veka: obraz zhelaemogo zavtra«, Moscow 2010. A German summary can be found in IPG, no. 2, pp. 111–130, Bonn 2010.

This reawakened memories of Boris Yeltsin, whose presidency from 1991 to 2000 was associated with just such an approach. Andrei Kozyrev, Russia's first foreign minister following the end of the Soviet Union, made it his mission to integrate Russian into western structures; he failed, however, and instead NATO succeeded in expanding right up to the Russian border.

Similarly, Yeltsin's domestic reforms are regarded very critically and generally dismissed as »The Time of Troubles«, a term that harks back to Poland's brief period of rule over Russia in the seventeenth century. After all, the reforms carried out by Yeltsin's Prime Minister Yegor Gaidar made many citizens worse off, while Deputy Prime Minister Anatolii Chubais's privatisation programme created a class of the wealthy few, the so-called oligarchs.

The authors of the InSoR report, Igor Yurgens and Yevgenii Gontmakher, therefore faced sharp criticism and were accused of taking too radical an approach, of once again calling for revolution rather than evolution. The term »conservative modernisation« had already been coined as the slogan of the party congress held by the governing United Russia party in November 2009. Though actually a contradiction in terms, the slogan was invented to denote cautious modernisation that would neither challenge the existing system and power structures nor lead to destabilisation.

Others questioned the concept of modernisation altogether, saying that for cultural reasons Russia was not ready for modernisation and that in any case Russia had no need to follow this western concept. Vitalii Tretyakov, once an opinion leader as chief editor of the legendary glasnost newspaper *Moskovskie novosti* and, in the early Yeltsin years, of the caustic *Nezavisimaya gazeta,* is utterly dismissive of the idea of Russia rushing to catch up with the West, saying that history has shown this to be pointless and that what his country requires are typically Russian reforms. Attitudes of this kind are inspired by the age-old Russian desire not to be driven to modernisation but rather to take the lead.

The grey cardinal of the Russian government, first deputy chief of staff of the President of the Russian Federation and the man who coined the term »sovereign democracy«, Vladislav Surkov believes that »a miracle is possible« and that modernisation is imperative, for »today the Russian economy resembles an old armoured train without an engine«. It is still moving slowly, but will soon come to a halt.

And what then? It is better to embark now on reforms with an uncertain outcome than to do nothing and face an outcome that is certain to be bad. With such statements Surkov, known as a conservative hardliner, took the readers of the liberal business newspaper *Vedomosti* by surprise.[4] He knows what he is talking about, having written, under the pseudonym of his wife's surname, a very realistic novella about contemporary Russia with the telling title *Close to Zero* (Dubovitsky 2010).

2. Historical Background – Modernisation under the Tsars and Western Theories

The danger of coming to a halt spurred both the Russian Tsars and later the Soviet Communist Party general secretaries to launch radical reforms to modernise the Russian state and society. At both points in history the country was so backward that they had little choice. The first modernisation movement began in the seventeenth century when Peter the Great founded St. Petersburg, the so-called »window on the west«, as Russia's capital.

Catherine the Great followed suit in the eighteenth century when she granted permission for the operation of the first private printing presses, a vital instrument for the expression of independent opinions. Yet it was the relatively unpopular (in both Russia and the west) Tsar Alexander II who abolished serfdom in the 1860s and carried out legal reforms. His success stemmed from his willingness to compromise and to include his opponents in the reform process, forestalling revolutionary uprisings.

The so-called great reforms came in waves followed by long periods of stagnation. In a rather original analysis, the American Russia expert Richard Pipes attributes these reforms, which resemble sine curves, to Russia's continental climate. In Russian agriculture, periods of feverish activity in spring and summer alternate with long periods of rest in autumn and winter. Nowhere in Europe, Pipes writes, »shall we find such a lack of habit for even moderate, and well distributed, steady work as in this very same Great Russia« (Pipes 1995: 142).

4. Interview with Vladislav Surkov in *Vedomosti,* 15 February 2010.

The Soviet industrialisation programme and the collectivisation of agriculture under Josef Stalin in the 1930s, the so-called »great leap forward« in which millions of people died, may serve as an illustration of what Pipes was getting at: a sudden, extreme burst of modernisation as opposed to steady, progressive development. No doubt in part due to the horrific impact of the Second World War, decades passed before the Soviet Union began to modernise again, albeit with one famous exception: the arms industry and the space programme.

Only under the last CPSU General Secretary Mikhail Gorbachev did the Soviet Union once again experience a wave of reform and modernisation that was to have far-reaching consequences. Indeed, the shock was so great that the state did not survive and its empire disintegrated. This result could not have been predicted, and perhaps the Soviet Union would have broken up in any case. Yet any Russian government contemplating modernisation will no doubt consider these examples carefully and weigh the risks that such a policy might entail.

The modernisation theories popular among western scholars since the late nineteenth century also serve to illustrate the point of Russian vs. Western experiences with modernisation. Openness and the courage to change were considered vital conditions for successful modernisation, for which science, technology and education provided the foundation. This was associated in the twentieth century with a secular, materialistic and individualistic lifestyle that, in keeping with the zeitgeist, was considered superior to any other form of society. In other words, »modern« was anything Western Europe or the United States defined as such, and the Western method of modernisation was the only successful model.

In his book *Der philosophische Diskurs der Moderne,* German philosopher Jürgen Habermas defined »self-confidence, self-determination and self-realisation« as among the most important characteristics of the modern age. To this list one should surely add such negative developments as the destruction of nature, cultural homogenisation, the dissolution of traditions, and genocide, thus highlighting the problematic connection between the modern age and violence (see Plaggenborg 2006: 334 ff).

In this vein, the 1970s western scholars began to criticise the unwavering belief in progress and modernisation and called for the modern age to be placed in a historical context. This was followed in the 1990s by a new modernisation debate in Eastern Europe and Russia in which opponents of western-style modern reforms dismissed them as not translatable to Russia, because they did not take account of the special features of Russian society and the Russian state.

The central question is: Do industrialisation and economic advancement lead directly to social and political change? Leading theorists argue that increasing prosperity tends to stabilise democracy rather than creating it, while scholars still assume that prosperous societies have higher levels of education, communication and social justice than other kinds of societies and that this encourages the formation of a middle class. They claim that the foundation for such development lies in democratic political institutions (see Berman 2009). Yet it is precisely this claim that is so controversial in Russia.

3. Skolkovo – Russia's Modernisation Centre

While Russia possesses such democratic institutions *de jure,* they are *de facto* not always capable of working effectively. The country is governed more often than not by power and arbitrariness, rather than by laws or institutions. That is why responsibility for the innovation centre Skolkovo near Moscow, one of the centrepieces of the new Russian modernisation efforts, has been assigned not to the parliament but instead to one of the country's most influential businessmen. The justification for transferring political responsibility to a representative of the private sector, who might easily be compared with an oligarch, was that a bureaucrat would simply not be up to the task.

The job assigned to Viktor Vekselberg (53), a successful businessman and art-lover, is to establish a kind of Russian Silicon Valley and to make it a success. Vekselberg is deputy chairman of the British-Russian oil company TNK-BP and has amassed a personal fortune estimated by the US business magazine *Forbes* to be worth nearly five billion euros. He has been placed in charge of organising the development of Skolkovo at an estimated cost by 2015 of 2.76 billion euros.

The plan is to build single-family houses and attractive rental apartments for up to 30,000 people as well as

research facilities and an urban infrastructure covering an area of approximately 500 hectares. The future inhabitants of Skolkovo will receive tax breaks, and its police force and other state institutions are supposed to work »properly« – i.e., differently to the rest of the state apparatus. All these special features will require the revision of some dozen laws.

The think tank is to begin work by 2012 at the latest and is supposed to solve the problem that has plagued Russia for centuries: how to bring science and industry together. In Skolkovo the ideas generated by scientists will be turned into competitive products by companies, hence requiring the presence not only of scientists but of company representatives as well. In addition, the Russian operators hope to win the support of foreign companies for the project.

This project is associated with the name of Russian President Medvedev, who went to California last summer to visit the original Silicon Valley and meet with Apple boss Steven Jobs, who presented him with Apple's latest mobile phone. This is precisely the kind of product that is to be developed in Skolkovo, so that Russia will finally begin producing things, rather than just selling raw materials.

Medvedev's visit to the United States also served to demonstrate how seriously the Russian government is taking modernisation – and simultaneously its relationship with the West – thus spelling an end to the anti-Western sentiments that characterised Putin's second term in office. Russia is now orienting itself chiefly towards the West and less towards Asia. Just as Peter the Great once went to Holland in search of new ideas, so Medvedev three hundred years later flew to the New World. It was also an American PR agency, Ketchum, that was tasked several years ago with launching a campaign to improve Russia's image.[5]

Another element in this new image is the website Modern Russia (www.modernrussia.com), which according to the German communications agency dimap, another company concerned with promoting Russia's image, »offers precise information on the investment climate and economic opportunities for business people in Russia« as well as »exciting analyses of forthcoming opportunities by independent experts«.

4. Domestic Policy – Modernisation without Opposition

With respect to domestic policy the government still faces the same crucial question that faced Mikhail Gorbachev a quarter of a century ago, when he embarked on perestroika. Back then the Soviet leadership was confronted with a fundamental dilemma: radical economic reforms were impossible without political reforms »and that since the party leadership is afraid of political reform it is not likely, in the end, to adopt radical economic reform« (Brown 2008: 97).

Today Russia's political system no longer has any ideological superstructure and hence cannot be compared with the Soviet Union. But the dilemma remains the same: radical modernisation may have such an unsettling effect on the apparently stable political structure that it will become impossible to control the outcome of the reforms. A nightmare for the political elite.

Where then are the political actors of modernisation? Where is the M (for modernisation) generation of which Russian oligarch Mikhail Khodorkovsky (currently in detention) speaks? Can an elite that stands to benefit from maintaining the status quo really carry out reforms that bring this same status quo into question?

Some of the answers to these questions may be found in a survey conducted by the Nikkolo M Institute in spring 2008.[6] Around 1,000 representatives of the top 20 percent of the population – entrepreneurs, scientists, lawyers and high-ranking officials from the most powerful ministries (Interior, Security, the Armed Forces) – were asked to evaluate the modernisation of their country.

This elite group is primarily interested in the continuing support of the power structures – i.e., the government and the public administration – and in using that power to their own advantage: in other words, you scratch my back, I'll scratch yours. Hardly surprisingly, the respondents claimed no interest in an open society. What is sur-

5. »Piar modernizatsii (PR of modernisation)«, *Vedomosti,* 23 July 2010.

6. The information is based on a lecture given by the director of Nikkolo M, Igor Mintusov, at the conference »The Modernisation of Russia and Civil Society« held in Barnaul 19–20 June 2010.

prising is the elite's evaluation of the stabilisation policies implemented during Putin's term in office (2000–2008). Sixty-one percent said they thought the power structures had led to inefficiency, while only 29 percent were of the opposite opinion. Negative perceptions were also noted in their agreement with such statements as: »social inequality has increased« (85 percent), »the rule of law has decreased« (70 percent) and »healthcare has deteriorated« (68 percent).

And although this actually contradicted their rejection of an open society, the elite said they favoured political competition, a greater role for the parliament, the election of governors and reform of the courts. This survey shows not only how ambivalent the middle- and high-ranking political and economic decision-makers can be – but also how badly the country needs modernisation.

In the meantime the governing United Russia party has been asked by the president – who, like party chairman Vladimir Putin, is not actually a member of the party – to spearhead the movement. New staff are to be trained and modernisation projects proposed and implemented. So far Medvedev has not succeeded in appointing people close to him to key economic and political posts. This applies also to ministers and governors. His closest advisors are the economist Igor Yurgens (58), who heads the think-tank InSoR, and Arkadii Dvorkovich (38). Given the expected level of resistance, they should be compared with Gorbachev's influential and strong-willed advisors Aleksandr Yakovlev and Georgii Shachnazarov.

The word »Duma« is derived from the Russian verb »to think« (dumat'), so one might hope that the governing party, which enjoys a comfortable two-thirds majority in the Russian parliament (the Duma), would discuss a modernisation programme with the other three parties represented. Yet the parliament, as the tabloid *Moskovsky Komsomolets* scathingly put it, »makes an absent impression«.[7]

This refers to the fact that Duma sessions are attended by only a few members, who cast votes for the absent majority. Russian members of parliament have a reputation for spending more time attending to their private business interests than looking after the interests of the people. Boris Gryzlov, chairman of the Duma and a leading member of United Russia, recently let slip that the Duma is not a place for holding discussions.

Of course it is not only public discussion of policy that Russia lacks, but also the implementation of decisions already taken. According to the main control department of the president, the number of presidential decrees issued to the government rose from 1,354 in 2008 to 1,753 in 2009, an increase of 30 percent, while the implementation of the decrees rose by only 15 percent.[8] In other words the government under Vladimir Putin (58) does not always react to decrees from Dmitrii Medvedev. The president's reaction was cool: »Anyone who does not implement decrees is out on the street«.

He was certainly not referring to his prime minister, however, for the Putin-Medvedev tandem, as both have often emphasised, is cast in the same mold. But whereas Putin has the image of a strong stabilising politician, his successor is busy constructing a different image for himself: that of a moderniser who also listens. Whether he will go down in history with this image depends solely on the success of modernisation, and that in turn depends on the proverbial zeitgeist: Is Russia ripe for modernisation or can it manage without; in other words, can it continue using the old tried and tested recipes derived from the Soviet model?

The fact that bureaucracy blocks renewal is nothing new in Russia. The vertical power introduced by President Putin – i.e. the implementation of decrees issued by the centre to the regions without any lengthy discussion – is hardly tenable in a country as large as Russia. The highly varied structures of the regions, despite the appointment of governors by the Kremlin, is an obstacle to the implementation of Medvedev's ideas.

To achieve a common, nation-wide consensus about what modernisation should entail hardly seems possible, for modernisation means something quite different in big cities than it does in an independent, resource-rich region like Siberia, in the impoverished Far East or in the Muslim-dominated northern Caucasus. Given such differences, reducing the number of time zones from eleven to nine seems to be a purely cosmetic measure.

7. Gosduma imeet otsutstvuyushchii vid (The state Duma makes an absent impression), *Moskovksy Komsomolets,* 7 June 2010.

8. Ne vsegda poruchaetsya (It can't always be decreed), *Kommersant,* 17 March 2010.

In the northern Caucasus, for example, the president's special envoy Aleksandr Khloponin (45) is currently busy trying to bring about a ceasefire in the newly created Eighth Federal District, where acts of terrorism and casualties have in recent months been an almost daily occurrence in the mountainous region. Here the answer to the modernisation question is to expand tourism. But how many tourists will really want to travel to a region where the population lives in fear not only of terrorists but of the arbitrary behaviour of the security forces?

The string of contradictions is endless. While on the one hand the presidential administration is preparing a code of behaviour for government officials, on the other the high-handed president of the Republic of Bashkiria only agreed to retire if he was granted personal and financial immunity. Moreover, three members of the Duma own Maybachs and six own Bentleys – wealth inconceivable on the official salary of a Duma deputy.[9]

Or to take another example: the president has a council advising him on the development of a civil society and on human rights. By taking this council seriously Dmitrii Medvedev endows it with an importance that it previously did not have. Its former chairwoman Ella Pamfilova saw the council as a mediator between political power structures and civil society. However, she found herself continually having to justify to civil society actors why she was working together with the state and to prove what the council had achieved.

Answering the accusations and questions posed by civil society actors is not always easy, particularly when the same president who sets so much store by civil rights signs an amendment to a law that is diametrically opposed to them. Carrying the title »Prophylactic measures to be taken by the organs of the federal security service«, it is part of the law on the security service expanding the powers of the Sluzhba Besopasnosti Rossiiskoi Federatsii (FSB/Federal Security Service of the Russian Federation) to take action against persons who are suspected of being a national security risk despite having disobeyed no laws.

Human-rights activists fear this law would allow the militia and the security forces to take action against demonstrators the state does not like. In a letter to the president the council warned of the resurrection of »illegal practices of a totalitarian state«.[10] But this objection fell on deaf ears, so Ella Pamfilova tendered her resignation.

Where was the Medvedev factor here? Where was his instruction to send back the amendment to the Duma for revision? It is contradictions like these that led the opposition newspaper *Novaya gazeta* to publish an article entitled »End of the political season« (*Novaya gazeta,* 2 August 2010) with the thesis that »the hope of democratisation was premature«. In a reference to the brief period of reforms under CPSU General Secretary Nikita Krushchev in the mid-1950s, other observers declare that the »thaw« has come to an end.

Perhaps such pessimism is premature. The chief editor of the critical radio station *Ekho Moskvy,* who celebrates twenty years in the post this year, does not think much of resignations resulting from state pressure. »We should be moving in the direction of civilised dialogue between the organs of power and the people« (Interview in *Novoe vremya,* 23 August 2010).

If one subscribes to the view that there are two political camps in Russia, one wanting to press forward with modernisation, including political modernisation, while the other strives at most for technical modernisation, then recent events show that the battle is far from decided. And why indeed should it be after Medvedev has only been in office for two years?

According to InSoR Director Igor Yurgens, it is quite clear who belongs to which camp. He sees the president on the side of reform while on the other side is the »Eurasian defensive conservative position« that relies on a strong army and the oil and gas sector and expects little from the west.

Yurgens thus supports the thesis of a progressive President Medvedev and a conservative Prime Minister Putin, which sees a definite improvement in the climate vis-à-vis civil society since the young president came to office and a reduction in the campaign against dissenters. Those who support this thesis point out that a new law on the militia has been posted on the Internet for citizens to comment on and say that the Medvedev factor alone is

9. Kadrovye oschibki (Cadre mistakes), *Vedomosti,* 17 May 2010.

10. Ella Pamfilova bol'she ne daet sovetov presidentu (Ella Pamfilova has stopped giving the president advice), *Kommersant,* 31 July 2010.

responsible for the comprehensive and profound modernisation currently being considered.

Critics, however, point out that electoral fraud continues, judges rule on the basis of »telephone law« – i.e., a superior can demand by telephone that the court come to a particular decision – and demonstrators get beaten up, as do journalists the state does not like. Governors continued to be appointed rather than elected and the opposition has no chance because important issues are not debated in public, let alone in the parliament.

Only the Internet offers a refuge, but even that is threatened by the state. »Talks of modernisation and innovation and the establishment of the oligarchical Skolkovo, the Russian Silicon Valley, have nothing to do with reality«, according to a critical paper by Boris Nemtsov and Vladimir Milov, two former ministers (Nemtsov, Milov 2010: 44).

So is Russia really a uniform power, albeit one with different faces? Let us take another look at Mikhail Gorbachev. The British historian Archie Brown, one of those in the West who knew him best, has pointed out that during Gorbachev's first two years in office nothing changed apart from his style of government. But Gorbachev was capable of learning, and the real reforms began later.

5. Economic Policy – Modernisation of Production

Russia's great dependency on prices for raw materials became particularly evident during the global economic crisis of 2008. The price of oil fell to around 40 US dollars a barrel and suddenly the Russian budget had to be completely revised. Russia was saved by its large capital and currency reserves. But it is still reeling from the shock of recognising rather belatedly that an economy based on raw materials carries high risks in periods of economic instability.

InSoR has therefore outlined three economic scenarios for Medvedev in order to prepare Russia to better deal with future economic crises. The first scenario corresponds in terms of content with the government programme *Russia 2020*. However, Aleksei Vedev, head of the Centre for Strategic Studies of the Moscow Bank, regards it as risky because it assumes high growth rates that are difficult to predict in times of economic uncertainty.

The second scenario envisages the economic trends of recent years continuing, with heavy reliance on raw materials revenues, a stagnating finance and banking system and markets in other areas remaining underdeveloped. The most interesting scenario seems to be the third, that of balanced growth. Diversifying production and modernising the financial sector could take the country some way to realising the goals the government has in mind – i.e., making the ruble an international currency reserve and promoting Moscow to an international finance centre.

The sensitive financial sector is one of the main reasons why the government is making a concerted effort to modernise the country. According to the latest report by the Swiss International Institute for Management Development, Russia is not competitive internationally.[11] This evaluation has been carried out annually since 1989 and is considered very informative.

The report ranks Russia fifty-first of the fifty-eight countries surveyed in economic terms. Its showing is particularly poor in the following sectors: business efficiency (production, management), structure of the economy (prices), production effectiveness (legislation) and infrastructure (healthcare). By comparison, Singapore is at top of the table, the United States third and Germany sixteenth, while Ukraine (57) and Venezuela (58) finish at the bottom.

Another worrying factor is the high outflow of capital. In the first quarter of 2010 alone 12.9 billion US dollars left the country. Although that is less than in the fourth, crisis quarter of 2008 (134 billion US dollars) or than in the whole of 2009 (57 billion US dollars) (see E.on/Ruhrgas 2010), the outflow of capital means that Russia lacks the important investment funding so crucial to modernisation.

In 2009 total investment fell by 19 percent, although the regional distribution varied considerably. Whereas investment fell particularly sharply in Moscow and St. Petersburg, it rose in politically important regions such as

11. See the website www.imd.ch and the article Stabilno nesposobna (stably incompetent), *Vedomosti,* 20 May 2010.

Krasnodar (because of the Winter Games in Sochi in 2014) and Primorsky Krai (because of the summit of the Asian-Pacific Economic Council) (see Subarewitsch 2010).

In addition, combating the effects of the crisis has already cost the Russian state a lot of money. The state budget for 2009 was 1.2 trillion rubles (38 billion euros), almost all of which was actually spent. By comparison, GDP rose in the first quarter of 2010 by 0.6 percent over the fourth quarter of 2009.

Whereas revenues from weapons production rose in 2009 to 5.7 billion euros, production of high-quality goods in Russia's light industry sector were right down, for this branch of industry has practically ceased to exist. After the demise of the Soviet Union, Russia stopped assembling electronic goods like fridges, televisions and radios because they could no longer be sold. Clothing, too, is no longer produced in Russia and has been replaced by expensive western imports or cheap Chinese ones.

Quality products with a »Made in Russia« label would actually be an innovative modernisation achievement, »but unfortunately«, the influential scholar Vladislav Inozemtsev laments, »hardly anyone is interested in this, the sole important indicator of the success of modernisation in the fatherland« (Inozemtsev 2010). So far Russia has tended to respond to the decline in its own production by bringing foreign companies into the country, with the manufacture of its own high-quality products as a next step.

The automobile concern AvtoVas would probably not be regarded as one of Russia's showcase projects. Its production facilities are obsolete, yet its production still accounts for one percent of Russian GDP. Nevertheless, the factory with around 100,000 employees presents a special problem for the development and modernisation of Russia, because the factory city Togliatti is one of around 800 so-called mono-cities that depend on a single company and a single factory. Some 25 million people live in such cities in Russia, and their enterprises account for just under a third of Russia's total industrial production – despite the poor quality of the products manufactured there.

The continuing existence of these mono-cities threatens social peace in Russia, for if one of these enterprises runs into financial difficulties this could threaten the existence of an entire city or even a whole region. Such cities were able to survive under the central planning and fixed price system of the Soviet Union, but in a free and global market economy their future is extremely uncertain. Modernisation is possible, as a number of positive examples in Germany's eastern states have demonstrated, but opposition from local elites is likely to be strong – just as strong as the resistance to Russia's joining the World Trade Organisation, a process that has been dragging on for years. Politicians and entrepreneurs alike fear the possibly negative consequences of foreign competition for Russia's economy – and the potentially ensuing social problems.

Even after almost twenty years of transformation, too little attention is still being paid in Russia to the link between economic growth and social welfare. Thus during the months of the crisis there were repeated protests, particularly in the mono-cities. So far the troubles have always been solved with short-term injections of cash, but the underlying structural problems remain, along with the low pensions, inadequate healthcare and almost non-existent social provisions for the unemployed or victims of occupational accidents.

After the stabilisation policies of Medvedev's predecessor Putin, the population was particularly hopeful that the new president would bring about improved social provisions. Yet despite public discussion, even on state-controlled television, the government has so far not succeeded in presenting a convincing programme. Nevertheless, the political decision-makers in Moscow and locally know all too well that without reforms in this sensitive area the country will become difficult to govern, because protests will increase.

An improvement in the social situation based not on charity but on the constitution and the law would win Medvedev a great deal of approval. Reducing the shadow economy, which the World Bank estimates to be almost 50 percent of GDP, is also a task of Herculean proportions. No less difficult is the manufacture of high-quality products that would make Russia less dependent on raw materials prices and would also provide the population with greater social security in times of crisis.

6. Foreign Policy – A Modernisation Partnership with the West

The president chose the international Petersburg Economic Forum as the place to appeal to high-ranking international participants. »Russia must become an attractive country to which people from all over the world want to come in search of their special desires« (Medvedev 2010). Is this an honourable intention, wishful thinking, or pure propaganda? Can conclusions be drawn for foreign policy from Russia's approach to internal modernisation?

When it comes to Russia's image in the west, the importance of the Medvedev factor should not be underestimated, especially given his predecessor's disastrous foreign policy record. Following the secession of Abkhazia and South Ossetia from Georgia, Russia was unable to find a single partner in the East or in the West willing to recognise their independence. Not one of the former Soviet republics, not even Belarus offered their support! Although Medvedev was already in office when the Russian-Georgian war took place, he had yet to begin formulating his own foreign policy and instead was still administering the foreign policy legacy of his predecessor.

This version of the Russian special path is now over. Russia's relations with the United States have improved, resulting in a new START disarmament treaty. This treaty will not bring about any further reduction in strategic nuclear weapons, but, assuming it is ratified, it will be significant for the renewal of the Russian-American disarmament dialogue.

The new and better communication between the two states also has implications for finding a solution to the war in Afghanistan as well as for the almost permanent Iran crisis. Firstly, the supply lines for the international ISAF forces run partly through Russia and secondly, Moscow has agreed to sanctions against Iran. A press declaration issued by the Russian Foreign Ministry guarantees full control over the Iranian nuclear reactor Bushehr, which was completed with Moscow's assistance in August 2010: »This rules out the possibility of any manipulation of enriched nuclear fuel« (press declaration 2010). Nevertheless, the results after one year of »reset« are mixed. While Russia's government is rather pleased with the results, many experts, including those in the US State Department, consider them inadequate. At an annual summer meeting in Moscow, President Medvedev recommended to his diplomats that they cultivate contacts with the following countries for the purpose of modernisation: Germany, France, Italy, the EU as a whole and the United States (Medvedev 2010a). Many of these partners, particularly those in the EU, are thankful for Medvedev, because he has caused many Russia critics at home to fall silent. The Medvedev factor has thus had a much clearer impact abroad than at home.

Indeed, the impact is such that a subject that had seemed impossible for a long time after Putin's famous speech at the Security Conference in Munich in February 2007 is now being broached – Russia's membership in NATO. Russian Foreign Minister Sergei Lavrov now openly states that NATO presents no threat to Russia (Lavrov 2010), and former German Defence Minister Volker Rühe and Russian Ambassador to NATO Dmitrii Rogozin published a joint article in the *Süddeutsche Zeitung* on 15 July 2010 entitled: »Russia belongs in NATO«. Medvedev's advisor Igor Yurgens shares this opinion and has called initially for political and then for military cooperation.

When it comes to modernisation Russia looks both to the United States – hence Medvedev's visit to California – and to Europe, with which it is striving to establish a modernisation partnership. So far, however, it has failed to arouse the enthusiasm of the EU bureaucrats. A new pact between the two partners is nowhere in sight, while concrete projects such as abolishing the visa requirement have not been implemented.

What is more, each side understands the term »modernisation« differently. Whereas for the EU, reforms pertaining to the rule of law and human rights are important, Russia's highest priority is knowledge and technology transfer. A joint paper written by the scholars Andrei Zagorski and Sabine Fischer has drawn attention to this anomaly: one side talks of apples, while the other means pears.

Yet Russia's goals – efficiency, diversification, a knowledge society and foreign investment – can only be achieved in partnership with the EU. This is what President Medvedev seems to be striving for – while at the same time trying to change Russia's role as the permanent Grinch in international relations. The cautious reconciliation with Poland, as well as improved relations with the Baltic States, testifies to this.

President Medvedev and German Chancellor Angela Merkel are pursuing the idea of a Russia-EU Committee for Foreign and Security Policy. Unlike the NATO-Russia Council, such a committee would hold meetings at the ministerial level. This proposal is a preliminary result of Medvedev's initiative to renew existing European and Atlantic security structures

Russia's ambitions in the »near abroad« – i.e., the former Soviet Republics with the exception of the Baltic states – since NATO's eastern expansion remain unclear. The Kremlin is very interested in maintaining its influence, as the war with Georgia demonstrated. The change of government in Ukraine, which brought the eastward-looking President Viktor Yanukovych to power, is also regarded in Russia as a further chance to regain influence. And indeed, Russia has already succeeded in leasing its naval base at Sevastopol, home of the Russian Black Sea Fleet, until 2035, in exchange for offering Ukraine cheap gas.

The EU's Eastern Partnership Programme represents an attempt to involve the countries that lie between EU territory and Russia in a modernisation process. This runs counter to Russia's interests. However, a possible perspective might be a joint modernisation partnership between Russia, the six former republics of the Soviet Union that are part of the Eastern Partnership, and the EU, though this would depend on there being a coherent EU policy towards the east.

Moscow's refusal to comply with crisis-ridden Kyrgyzstan's request to send troops to restore order came as a surprise. This small and impoverished Central Asian country was threatening to sink into chaos. The region finds it difficult to get along with its other big neighbours like China, Iran and Turkey, so the Kremlin would seem to have the best chance of wielding influence in this region. What is more, Russia is interested in its energy resources. All the more surprising then, how calmly the Kremlin managed to agree with the White House on aid measures. Both countries operate military bases not far from the Kyrgyz capital Bishkek.

Some political observers interpreted this restrained behaviour as weakness. For example, the national-conservative publicist Aleksandr Dugin, who always has an eye on geopolitical developments, is certain that Russia's changing foreign policy bodes no good. »The United States and the West are waiting for President Medvedev's new course to take the same direction as that of Presidents Gorbachev and Yeltsin, and at some point Russia will begin to relinquish positions – in remote territories, in the near abroad and on its own territory« (Dugin 2010).

There would appear to be a wide gulf between this opinion and the official position currently being pursued. Yet both stances are the subject of continual discussion in Russia's corridors of power, and indeed the polemic dates back to the time of Peter the Great. To demand a clear statement of intentions only from Russia would be wrong, for there is cause for mistrust on both sides. Hence one cannot overemphasise the significance of the statement by Werner Hoyer, minister of state in the German Foreign Ministry, that the »traditional mistrust of Russia that still exists in Central and Eastern Europe must be overcome« (Hoyer 2010).

7. Society – the Object of Modernisation

Russian society should actually be thrilled by the state's plans to modernise the country, by the prospect of replacing an obsolete state of affairs with a new one. Yet a look at Russian history will give foreign observers, and even more so Russian citizens, cause for doubt, for it is currently unclear whether the new situation after the reforms will in fact be any better than the previous one. Moreover, how high is the price that citizens will have to pay – not so much in monetary but in emotional and physical terms?

The government has at least come to understand that in the twenty-first century, ambitious reforms can only be carried out with and not against society. The success of the project, according to presidential advisor Dvorkovich, »depends on how profound cooperation really is between the regime and society in planning concrete measures«. And of course, he adds, when it comes to innovation the third partner in the equation is the private sector.

Is Russian society even ready for modernisation, does it recognise the necessity of it and if so, what outcome does it hope for? To answer these questions the Institute for Sociology of the Academy of Sciences and the FES conducted a joint study in 2010 based on a represen-

tative survey[12] that attracted a lot of attention in Russia and was also cited on the PR website Modern Russia.

In fact the findings of the study were by no means unequivocal. What is clear is how people view the political and social situation. About three-quarters of respondents evaluated the situation in Russia as »problematic«, and only one person in six thought it was »normal«. In 2008 almost half of those asked said the situation was »normal«. Nevertheless, on average a third of citizens say their own personal situation is positive. This group is led by young people (58 percent), while among those over 60 only 18 percent shared this view.

Despite being relatively satisfied with their own lives, citizens recognise problems which impede their advancement and self-development. Accordingly, they expect modernisation to bring equality before the law (41 percent), a struggle against corruption (38 percent) and social justice (31 percent). The renaissance of Russian values or democratisation plays only a secondary role here.

While 71 percent agree that the institution of »president« is a modernisation actor and 57 percent see this role for the institution of »government«, 58 percent mistrust the militia and 53 percent mistrust the courts, seeing them as obstacles to modernisation. In other words, people hold the executive organs – rather than top-level decision-makers – responsible for the wretched state of affairs. This corresponds with the traditional Russian view, whereby the acts of the supreme ruler, be it the Tsar, the CPSU general secretary or now the president, are benign but his instructions fail to be carried out.

And indeed, all attempts at modernisation so far have failed at the implementation stage. The government is incapable of formulating and presenting reform concepts that will find broad support – in other words, modernisation is not »sexy« enough. Out of this centuries-old scepticism a group of people has evolved who officially support reforms but sabotage them in practice.

Whether Medvedev has what it takes to overcome this inherent resistance to reform has yet to be revealed. Because the president and the prime minister send different messages, the people are not sure whether reforms are really meant seriously this time, while state agencies are asking themselves what will be offered to the losers of reform. Will a compromise be found or will there be, as so often in the past, only winners and losers?

As shown not just by this survey, society perceives the state as the real brake on any reform. How can the state convince the population that it will implement reforms, when the people do not trust state officials to play a positive role (18 percent)?

Instead, people believe in God (60 percent) and in themselves (49 percent), and to some extent in fate (35 percent). The study concludes that Russian society is ready for modernisation, but because of the special features of the national mentality, the authors say this task is »more than difficult«. In this respect, they say, Prime Minister Putin is actually closer to the people than President Medvedev. A further study confirms this conclusion: it found that Russians value »security and protection by a strong state« particularly highly, but they are less willing than other peoples to take risks (Magun/Rudnew 2010). Yet reforms are always associated with risks.

When it comes to civil society actors, the situation is of course a little different. For them Prime Minister Putin stands for a revival of authoritarian rule and the enrichment of a few, while their assessment of Medvedev is changing. When he came to office there were great hopes, while now the prevailing sentiment is more realistic. People say he is a puppet of the power ministries and that Putin alone decides. Nevertheless, Medvedev still stands for a balance between the old and the new, and is seen primarily as a technocrat with roots in the university as opposed to the secret service, and as someone who responds, even if insufficiently (or so the accusation), to the sensitivities of civil society. Nevertheless, when it comes to problems, he calls a spade a spade, time and again. Although his predecessor did this too, sometimes relentlessly, people are more willing to accept it from the new president. This, too, is part of the Medvedev factor.

However, unless words are followed by deeds, he will not be around for long, for people's patience will run out. Elections to the Duma are scheduled for 2011, presidential elections for 2012. If these fail to change the political situation, then Medvedev will go down in Russian history as a failed president.

12. Rossiiskaya Akademiya Nauk, Institut Sotsiologii, in cooperation with the FES: Gotovo li rossiiskoye obschtschestvo k modernizatsii (Is Russian society ready for modernisation?), Moscow 2010.

8. Looking Ahead

As so often in history, the future of Russia holds many imponderables. There are many factors that could trigger a political or an economic crisis. Currently a stable instability prevails. In order to turn this situation into a robust stability the country is once again striving to modernise itself, primarily by importing advanced technology, but also by carrying out political and economic reforms.

Some approaches, some discussions may seem anachronistic, unfortunate, sometimes even superfluous. Yet the reform idea is of course fundamentally correct. A country whose population has no political alternatives, that seldom experiences justice, that has no social safety net, a country whose largest automobile manufacturer uses designs and technology from the 1970s and in which corruption endangers the education of future generations is urgently in need of change.

Whether Russia will be transformed into a different, a freer, a juster and a politically more stable country, depends to a large extent on Dmitrii Medvedev. This is how it works in a state with a presidential constitution. After the turbulent years of reforms under Gorbachev and Yeltsin, radical revolutionary measures would be political suicide – especially given the popularity of the era of stabilisation from 2000 to 2008.

Medvedev is in a reform conundrum. If he does nothing it will be bad for the country; if he modernises too much an influential portion of the elite will dig their heels in, and perhaps the people will too. So the president will have to seek a compromise, just as Tsar Alexander II did, by involving the critical elite in the process of change. He will have to outline clearly and precisely what modernisation is intended to achieve, and inevitably he will also have to clarify his relationship with his political godfather Putin, who as premier is still regarded by a majority of citizens as the real decision-maker. Putin stands for a »sovereign democracy« and »conservative modernisation«, terms whose content differs from the ideas that Medvedev underlined at the second Yaroslavl-Forum 2010, where he stressed turning away from paternalism and towards a democratic state based on the rule of law. Now these words must be followed by deeds, otherwise the term »modernisation« will be made a mockery of at home by caustic Russian humour and Medvedev will lose influence and recognition abroad.

The legacy of the Soviet Union still weighs heavily on Russia economically and politically. A lot has happened in the past twenty years. What remains is society's dependence on the state. The opposition, too, is accustomed to immediately holding the state responsible for anything that doesn't function, for another feature of the Russian political system is that to this day it remains unclear who makes which decisions, on whose instructions and why. The main question in no longer the famous »Who is to blame?«, but rather »Who has allowed this?«

Domestic and foreign politicians are increasingly disappointed in a president who has often enabled them to explain the *causa* Russia to critics better than under Putin. Critics say the process is running too slowly, and in any case Medvedev is just a product of the system. That is what a US Russia expert and advisor to President Ronald Reagan once said about Mikhail Gorbachev – namely, that he was a typical product of the Soviet nomenclatura, who continued to believe in it (see Pipes 1995). Was he really?

Whether the Medvedev factor will go down in history like the Gorbachev factor remains to be seen. The president still has just under two years before the next elections. He is unlikely to be able to see to completion the projects that have started by then, but he could at least point the country in the right direction, and then in his second term of office at the latest he would be in a position to take credit for a further technical achievement of Russian railways: the express route from Beijing to Berlin envisaged by Director of Russian Railways Vladimir Yakunin. This would be modernisation looking both East and West, and running mainly on that most Russian of foundations, the famous Transsiberian track.

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Imprint

Friedrich-Ebert-Stiftung
International Policy Analysis
Hiroshimastraße 28 | 10785 Berlin | Germany

Responsible:
Dr. Gero Maaß, Head, International Policy Analysis

Tel.: ++49-30-269-35-7745 | Fax: ++49-30-269-35-9248
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ISBN 978-3-86872-557-5