Russian Prospects - political and economic scenarios
## Contents:

**Part I Russian - background** ................................................................. 4

- The structure of Russian society and developments to date – a basis for the scenarios ..... 5
- The future of Russian democracy ............................................................... 5
- Russia’s economic progress ...................................................................... 6
- A lengthy reform process .......................................................................... 6
- Rising prosperity ......................................................................................... 6
- Obstacles to economic growth ................................................................. 7
- More workers – fewer old people .............................................................. 7
- Individualization ......................................................................................... 8
- Globalization ............................................................................................... 8
- Digitalization ............................................................................................... 8
- Towards innovation and network organization ......................................... 9
- Environment on the agenda ....................................................................... 9
- The Russia of the future ............................................................................ 10

**Part II Political and economic scenarios** ........................................... 11

- Political scenarios ...................................................................................... 12
- Two political uncertainty axes .................................................................. 12
  1. Return to Dictatorship .......................................................................... 15
  2. Democratic Superpower ....................................................................... 16
  3. Strong Regions ....................................................................................... 18
  4. Strong Federation .................................................................................. 20

- Economic scenarios .................................................................................. 22
- Two economic uncertainty axes ............................................................... 22
  1. Free Raw Materials ............................................................................... 24
  2. New Economic Superpower .................................................................. 25
  3. 2nd World ............................................................................................... 27
  4. New Soviet ............................................................................................. 29

- Litterature .................................................................................................. 30

**FIGURES**

- Figure 1: Political scenarios – outline (page 14)
- Figure 2: Economic scenarios – outline (page 23)
Two and a half hour’s flight from Copenhagen the plane lands in Russia’s vibrant capital, Moscow. The first barriers facing the newcomer making his way into Russian society are the Russian language and the Russian alphabet. Nevertheless, a certain sense of reassurance grows as we notice the many mobile phones in use on the street and advertisements for familiar global brands.

Freedom, democracy, and a growing affluence are parts of today’s Russia. But it’s only been 15 years since Russia was part of the Soviet Union, a realm characterized by political and cultural repression based on failed attempts at reforming an inefficient system of planned economics.

In the first part of the report we paint a portrait of Russia’s current situation and the major developmental tendencies we expect will mark the next 15 years in Russia. The second part of the report starts off with a presentation of the political and economic uncertainty axes that the scenarios are constructed from. Based on the major Russian development tendencies and the chosen uncertainty axes, we’ve created eight future scenarios for Russia in the year 2020.

The report’s major conclusions must be drawn by the reader himself. Developments along the chosen uncertainty axes are dynamic over time. Shifting political and economic development tendencies in Russia will indicate movement towards future scenarios.

Profiles for individual companies and organizations can be worked out for each scenario. What consequences will a given scenario have for, e.g., the customer base, product development, and market and business developments? Will the current strategy regarding Russia remain tenable in case of political and economic shifts towards other scenarios?

The report has been worked out in collaboration with the Copenhagen Institute of Futures Studies’ networking group Russia in the future. We have drawn ideas and inspiration from the members of this group. The report represents the opinions of the Institute, however, and the members of the networking group cannot be made responsible for the content of the report.

Enjoy the report!

Kaare Stamer Andreasen, Master of Social Science in Geography and Eastern European Studies
Jakob Kelstrup, Master of Arts in Russian and Eastern European Studies.

*Copenhagen Institute for Futures Studies, March/July 2005*
15 years ago Russia was still part of the Soviet Union, but in 1991 it again became a sovereign nation. Democracy and a market economy were introduced, and Russia became an active participant in the globalization process. Since then we’ve experienced steadily increasing trade and cultural exchange and the creation of multifarious connections between Russia and the rest of the World.

How the future will shape itself over the next 15 years is an open question. Due to technological, political, and social innovations and to the effect of globalization, the rate of change is growing in most of Russia’s social and commercial fields. These rates of change can be expected to continue to accelerate, which will put increasingly greater demands on the readiness for change of organizations, society, and the individual.

In the following section we paint a portrait of Russia’s current situation and the major developmental tendencies that can be expected to mark the next 15 years in Russia.
The structure of Russian society and developments to date – a foundation for the scenarios

In 1991, Russia became an independent nation again after having been subordinate to the Soviet dictatorship for 75 years. Today, Russia has made great strides in the democratic process. The country has held several parliamentary and presidential elections, all of them endorsed by international observers. Russia has fostered more political parties than the countries of Western Europe and has allowed a political culture and a civil society to develop. It is thus justifiable to say that Russia today is a democratic society. But despite the above-mentioned accomplishments, it is still not a fully mature democracy.

Russia's political party environment has been very volatile up through the 1990s and to this day. Parties have sprung up and disappeared again just as fast. At times the population has been under pressure from the government in the matter of freedom of speech and freedom of the press. But these lapses notwithstanding, Russia's constitution has been followed throughout all the changes. That is another reason for calling Russia a democratic country. It would, nevertheless, be pertinent to examine a couple of circumstances that illustrate where Russia may be heading politically and democratically.

The future of Russian democracy

Vladimir Putin’s term of office has been characterized by a mixture of autocracy and democracy. The autocratic aspects showed up in the way several Russian media and businessmen were harassed by the state in a way we don't see in Western Europe. Putin’s support for the political party United Russia in particular has been surrounded by a cloud of distrust. The party has a solid majority in the Russian parliament and may possibly retain it for several election periods to come. United Russia is not really a party, but rather a vaguely patriotic movement. It appears to depend entirely on Putin’s popularity and ability to unite the Russian people. The party is thus an illustration of a still immature political system of party politics in Russia today. On the other hand, it is quite possible that the political scene will change when Vladimir Putin steps down as president.

Another aspect of Russia’s democratic future is that the country needs to come to grips with its totalitarian past, just as other countries have done in the years following 1991. Many observers, analysts, and political actors judge Russia’s current state in the light of its past, and it is important for Russia to clean the slate so that it may in time create and invest in a new and more modern future.

Russia's economic progress

Russia has instituted a wide range of economic, political, and administrative reforms since it achieved independence in 1991. Production has been drastically restructured, and changes to the mechanisms of production and investment have been made.

Privatization and liberalization have given businesses entirely new guidelines and opportunities. The privatization of small and medium-sized businesses has been carried out, but the state still owns and influences a number of big companies. The long-awaited land reform has also been passed. However, privatization of the agricultural sector has not yet been carried out in practice.

Russia has an independent national bank and a floating exchange rate. Free market forces work well in large parts of the economy now that the worst cases of ultra-liberalism have been regulated. Stabilization of the large-scale economy is beginning to work out; a prerequisite for a permanently thriving Russian economy.

Russia’s trade patterns have changed considerably. Trade with the West


“Our realm is vast and fertile, but there is no peace in the land. So come ye to be kings and rule over us.”


The Duma: The lower chamber of the Russian parliament. The upper chamber is the Federation Council. The Duma has 450 members, elected by the people, who either belong to parties or are independent. At the most recent election in 2003, four parties were elected to the Duma. Putin’s support party, United Russia, controls two thirds of the seats in the Duma. This opens the possibility of a constitutional amendment that would allow Putin a third term in office.
has gone up dramatically, and trade with the old trade partners from the days of the Soviet Union has gone down. Simultaneously, the mixture of trade goods has changed both for imports and exports. If Russia is to avoid ending up as a poor industrial country, its exports must become less dominated by raw materials. Considering Russia’s well-trained labour force and relatively high level of research and education, it is likely that Russia’s exports will in time come to contain a greater degree of processed and manufactured goods, but this restructuring will take a long time.

**A lengthy reform process**

Russia is still in the middle of major reform processes involving many parts of society. Over the next 15 years one can expect the production apparatus to change towards more processed goods, more high-tech goods, an altered agricultural structure, etc. Major changes in trade patterns can be expected, particularly increased trade with the EU and Asia. Russia has excellent prospects for increased export of consumer goods and other processed goods. Nevertheless, raw materials will probably still dominate exports for a number of years to come.

Russia’s trade surplus is primarily due to oil export. In addition, there have been occasional periods with shrinking imports and not just growing exports. The many unrealistic prices compared to the global prices, especially in the energy field, have helped exports in a quantitative sense. However, market forces have gradually regulated both the value of the Rouble and prices in most categories, which will hurt exports temporarily but will ensure fair prices.

The reforms have had some negative ramifications, primarily a social crisis among the Russians. There has been a reduction in productivity and a growing black economy and currency flight. Also, crime and corruption has grown, which could eventually threaten the future of the reforms.

**Rising prosperity**

A continued rise in Russian prosperity is to be expected, although economic growth is very dependent on prices for oil, gas, and other raw materials on the global market. Up towards 2020, prosperity is expected to rise as a result of increased knowledge, new and improved technology, and more efficient organizational structures, and also as a result of the international division of labour. Prosperity in relative terms compared to a number of Asian countries will probably go down as a result of the very high growth rates in those countries. Compared to Western European countries, prosperity will probably grow as Russian growth rates will probably exceed Western European growth rates for a number of years yet.

The development and extent of the Russian middle class will become more and more important to Russia’s future prosperity. The spread of incomes must be expected to broaden over the next 15 years, mostly as a result of rising incomes for the middle and upper classes in the big cities. This may result in demands by the many underprivileged voters for greater economic equalization and the creation of a Russian social welfare state.

Through the next 15 years, a large part of Russia’s middle class will still live in Moscow and St. Petersburg. It is important to realise that a lopsided economic distribution between the metropolitan areas and the outlying regions has created an unequal situation where cities like Moscow and St. Petersburg are prime movers in the economic development while other cities and regions have fallen behind. This situation is unlikely to change in the immediate future.

If the lopsided economic development continues, the result will be a more pronounced discord between the centre and the periphery. If the regions do not benefit from the economic growth, some of them may come to question the use of belonging to a united Russian state. It is thus possible that Russia, despite Vladimir Putin’s attempt to prevent it, may face increasingly assertive

---

*Following Russia’s economic crisis in 1998 came five years with an average annual economic growth of 6.5 %. Russia’s GDP is US$ 1.282 trillion ppp (purchasing power parity). In comparison, Denmark’s GDP is US $167.2 billion ppp. Russia’s per capita GDP is US $8,900 ppp, less than one third of Denmark’s per capita GDP.*

*Source: (2003 estimates) CIA, 2005*

*Statistics should often be viewed with caution, not least in Russia. IMF and Goskomstat, Russia’s governmental bureau of statistics, have previously ‘documented’ that the service sector has become the largest sector in the Russian economy. However, the World Bank has worked out a statistical re-evaluation of GDP adjusted for transfer prices. It shows that industrial production (including raw material extraction) still constitutes the largest part of the GDP and that it clearly is the most productive sector of the Russian economy. Russia hence continues to be very dependent on energy price fluctuations on the global market.*

regions, which could affect the next 15 years’ worth of economic and political developments negatively.

**Obstacles to economic growth**

There are a number of obstacles to continued economic growth in Russia. The close ties between economics, politics, and administration are not conducive to an optimal allocation of resources or to equal business opportunities for all. A growing bureaucracy will also hamper economic growth.

Russia has a poorly developed banking sector, a number of technical trade barriers, and a very inefficient customs service. When Russia becomes a member of WTO, as it is expected to do soon, it will have to abolish the existing price differences on energy that hitherto has favoured Russian production and transport.

If Russia joins WTO and negotiations with EU provides the necessary conditions, and if Russia is not subjected to too great internal and external stresses, it may reasonably be expected that in the years to come the Russian GDP will grow annually by 5-8 percent. This could result in a GDP for 2020 that will be 2 to 3 times greater than for 2005.

One important precondition for the abovementioned development is that the necessary framework for future trade with the EU can be created. There is, among other things, a need for an improved material infrastructure, new agreements, improved and more transparent Russian legislation, suppression of corruption, removal of trade and investment barriers, and a weeding out of technical trade barriers. Countries that participate in the regional and international division of labour see trade growth rates that exceed their GDP growth rates. Given the abovementioned expected growth of GDP, the value of Russia’s foreign trade could be 7-10 percent annually. The development of foreign and domestic investments will be of crucial importance. In the spring of 2004, President Putin promised new schemes for the promotion of foreign and domestic investments. A drastic increase in investments will allow the Russian economy and foreign trade to change from a medieval scenario to a high-growth scenario with two-digit growth rates in the years leading to 2020.

Russia can also achieve new influence on the global financial markets through its new trade and investment patterns and through membership of various international organizations. Full membership of WTO will integrate Russia into the international trade and division of labour, and Russia will derive greater benefits from globalization. This will open the way for later membership of other organizations with varying degrees of economic integration.

**More workers – fewer old people**

Russia’s population is in decline. In the long run this will affect Russia’s development profoundly, but Russia can look forward to 15 years where more and more people will contribute to the country’s economic advancement and where fewer and fewer have to be supported. For the next 15 years the country’s labour market will have a positive population intake. Up towards 2020 the generations that retire are relatively small and they are replaced by large generations of well-educated young people who have grown up in a post-Soviet Russia. ‘The Lost Generations’ that grew up in the USSR are today between the ages of 35 and 60. During the next 15 years they will continue to be a large part of the labour force and of management.

The generations that will reach teenagehood in the period up to 2020 are relatively small. On the other hand, a steady increase of births is likely to occur during the next 15 years as a result of the large generations that today are between the ages of five and 25. This development does, however, depend on a number of factors, particularly the social developments in Russia.
**Individualization**

Individualization will have a growing effect on Russia’s development. Among the forces that drive individualization are the growing prosperity, society’s economic development, and globalization. However, Russia cannot be expected to undergo individualization as swiftly and pervasively as in EU and US. A number of generations grew up under the USSR, and not everyone has adapted equally fast.

Viewed from a religious-deterministic perspective, part of Russia’s history, sociology, and psychology can be explained by Russian Orthodox Christianity. The Russian Orthodox Church has not been through a reformation and does not, in principle, question the Bible, the Power, or the Truth. Hierarchical structures and the submission of the individual to Church and State are potent concepts.

Individualization will affect individual Russians and private interpersonal relationships. It will also affect businesses profoundly in the coming years. Affluent customers will increasingly demand individual and unique products, just as is happening in the rest of Europe. Individualization will be evident in the gradual dissolution of the traditional consumer segments. Even today the segmentation models are beginning to have to give up because the consumers can no longer be sorted into internally consistent groups. Individualization will manifest itself as a demand from the workers for individual attention. Businesses will also experience an increasing degree of personnel turnover. Tomorrow’s workforce can handle more changes than today’s.

**Globalization**

During the next 15 years the question of globalization will be a subject for debate in Russia. Part of the role globalization plays in Russia is the role the medias play and their ability to inform and communicate. Unlike in Central and Eastern Europe, where many media are in private or foreign hands, the Russian media are still subject to considerable interference from the State.

Globalization could provoke counter-reactions in Russia and foster a growth of nationalism. As the former Soviet Union broke up, people in Russia turned to various new sources of identity and sense of belonging. The most important of these have been civil rights, religion, consumption/liberalism, and nationalism. Developments in the field of globalization suggest Russia may experience a more inward-looking predilection involving a stronger sense of nationalism, especially in the domestic political rhetoric.

A lot will depend on the State’s attempt to control the speed of globalization. Russia’s impending membership in the WTO and accession to various international treaties will firmly link the country to the coming global development and international division of labour.

**Digitalization**

Digitalization is both the latest phase in a long automation process where machines have replaced manual labour and the latest link in the development of communication methods that are growing steadily more interactive. When digitalization really makes a breakthrough in Russia, it will remove several existing geographical and physical limitations.

Digitalization will change the daily life of the Russians and the way they communicate and organize. Work processes will change greatly in the next 15 years. Businesses and customers will interact with the internet in far more situations than most people can imagine today, and work processes at home and in daily life will become automated.

IT and digitalization will greatly influence development of the Russian regions. It may make it possible for Russia to spread economic developments out more, making investments and trade in the Russian regions more attractive. Development of IT and digitalization in Russia will be influenced by globalization. It will also depend on investments in research and development in the tech-
nological field; these have been scant compared to other investments in Russia since the 1990s. And it will depend on development of small and medium-sized businesses, in the West traditional groundbreakers in many fields of research. Foreign investments and transfers of knowledge will likewise be very important.

**Towards innovation and network organization**

As digitalization, automation, and robotizing spreads, a mounting number of tasks will join the list of tasks that can be performed without the physical presence of a human being. Hence work will increasingly be about matters of development, innovation, customer relations, and other forms of cooperative interaction. As a result, knowledge and the application of knowledge will become more important. This will affect the qualifications sought by the labour market, the way work is organized, and the physical surroundings. It will also affect how the Russians live, how they act as customers, and how they spend their leisure hours. The Russian population is fairly well educated, and there is a steadily rising attendance of medium and advanced education.

As globalization and international and regional division of labour grows, network organization will also increase, including internal business networking as well as with other interpersonal relations. This will affect large parts of the business world; the way society is run, and private life.

The Russian society and labour market is still very hierarchically organized. It will take a long time before any major changes towards networking become reality in Russia. Rapid introduction of new organizational structures and work procedures have not always turned out equally well in Russia. It is to be expected that new organizational structures and work procedures will gain ground in the future, but it must also be expected that more authoritative and hierarchical structures will exist in parallel.

**Environment on the agenda**

There is heightened awareness in Russia of the costs that modern life imposes on the environment and on people directly. A greater focus on values in general and issues like health and environment in particular may hence be expected in the future. More information, greater environmental awareness, and an overall rise in prosperity will all contribute to a greater consciousness of environmental and health problems in tomorrow’s Russia.

In the years since Russia gained its independence there has been a drop in air and water pollution as a result of dismantling of obsolete industrial plants. Despite this there remain great environmental problems in Russia, particularly some regional disaster areas that cause concern in the West and increasingly also in Russia.

Russia’s accession to the Kyoto Protocol and presumed upcoming membership of WTO will set a new agenda for Russian energy and environmental policies. Over the next 15 years, there will be a steadily increasing need for environmental improvements and for Russian participation in international programs and agreements. And important aspect of this issue is the Russian attitude to environmental and health problems. A lot will depend on developments in the public sphere, including efforts by environmental groups to raise the environmental consciousness of their fellow Russians. And that, in turn, depends to a great extent on the State’s willingness to accept active public participation in environmental concerns.

Experiences from the late 1990s and up to today have not been encouraging. Various groups have been denied access to environmental and health information that the constitution grants them the right to. A greater environmental consciousness among the people and the State will require a more conciliatory attitude between the two parties.

Various parts of Russian society can expect an increased commercialization
towards 2020, leading to a growing private sector. If Russia joins WTO, even more privatization and abrogation of more State aid and public subsidies within the service sector can be expected.

The Russia of the future

One possible scenario has the geopolitical events of the next 15 years turning Russia into an even more important strategic partner to the West. Russia’s integration with the Western world is a possibility, but will require political courage and resolve in both the EU, the US and Russia. If developments proceed along the lines that they are currently following, Russia will most probably be a member of WTO. Towards 2020, Russia can expand its links to NATO, EU and APEC, China, Japan and the countries of ASEAN as well as US.

Russia will most likely experience an increasing rate of change within most sectors of society in the next 15 years. Some of the consequences of this are a need for more flexible organizational structures and demands for a greater ability to handle multifarious functions on the part of public bureaucracies and private enterprises. The rate of acceleration for the Russian community and for its economy will depend on what liberal-economic initiatives the State will take and on how the Russian bureaucracy develops.

If Russia develops in the direction of autocracy and planned economies, the future will be markedly different. Russia will not derive the full economic, political, and social benefit of globalization. If government interference with private enterprise continues, it will impact negatively on Russia’s economic development. It may also interfere with the efforts of other former Soviet states to integrate themselves further with the political and economic structures of the World. This may be anything from mild pressure, like blocking imports from and economic aid to neighbouring countries, to direct military measures.

Russia will not turn to using military means against the EU and the US unless in dire extremity. Since Russia is on its way to becoming an indispensable economic, trade, and business partner in the globalization process for both European and other global actors, Russia is unlikely to wind up in a military confrontation with NATO in the next 15 years.

Russia cannot be expected to develop into one single, unambiguous economic or political system during the next 15 years. It is more likely that we will see Russia steer a course between different forms of economic liberalism and protectionism and between democracy and autocracy. In the next section we will cover some of the uncertainties of Russia’s future and set up scenarios for various possible developments.

APEC – Asian Pacific Economic Cooperation

ASEAN – Association of South East Asian Nations, formed in 1967 for the purpose of promoting cooperation in the economic field and in the field of security politics
Part II
Political and economic scenarios

In the preceding section we described Russia’s development up to the present and the broad developmental trends that can be expected to characterise the country for the next 15 years. The description includes the credible and reasonably safe expectations. In this section we focus on the fundamental uncertainties on respectively the political and the economic front.
Basic uncertainties concerning Russia’s future
When you consider the future, you’re seldom interested in the factors that you’re sure about. The really interesting factors are those you cannot be certain of.

We have identified a number of political and economic uncertainties that we believe will have a profound effect on Russia’s future. The uncertainty axes are briefly described in the introductions to the chapters about respectively the political and the economic scenarios. As developments along the chosen uncertainty axes are dynamic over time, we have decided to keep the description of them brief. The reader will have to analyze and revise developments in the course of time.

Based on the chosen uncertainty axes we’ve worked out various political and economic scenarios for Russia’s possible futures AD 2020.

Political and economic scenarios
Scenarios are depictions of possible futures based on the present and on the influences and major trends that affect the market.

We have worked out a political scenario cross and an economic scenario cross. The scenarios are based on major uncertainty axes connected with respectively political and economic developments. The result is eight different scenarios, each of which outlines a different possible developmental outcome for Russia. As a prelude to the two scenario crosses, the report analyzes the various uncertainties.

It is quite possible that none of these scenarios will turn out to resemble the actual future, but they provide interested parties with the tools to evaluate how various future outcomes would affect their organization or company and to monitor crucial indicators and trends.

Profiles
The reader can work out profiles for the individual company and organization for each scenario. This will enable him or her to evaluate how each scenario would affect the individual company and organization and to identify new potential business opportunities and crucial indicators and trends.

Political scenarios
The political scenario cross for Russia A.D. 2020 is based on two uncertainty axes. One axis concerns whether Russia moves towards a more centralized form of government or towards a more decentralized form of government. The other axis concerns whether Russia moves towards an autocracy or towards a democracy. Below is a brief presentation of the trends that pull political developments in Russia in different directions.

Based on Russia’s major developmental trends and on the selected uncertainties we’ve worked out four different political scenarios. They are presented first in a point-by-point summary followed by a closer look at each.

Two political uncertainty axes
I. Centralized political power or decentralized political power? Many Russians view the dissolution of the Russian Federation as a nightmare. This is one of the reasons why many forces support centralized power structures. Since Putin came to power, political power in Russia has become more concentrated. The Russian constitution grants great powers to the office of the president, and Putin has taken advantage of that. Russia has experienced a greater political consensus, but also a growing sense of apathy towards the political life. Putin has clipped the wings of the Federation Council, and the seven

SCENARIOS CAN BE USED FOR:
- Identification of challenges in the environment
- Strategic planning, product development and marketing
- Developing, evaluating and testing all sorts of strategies and innovations
- Identification of different segments
- Developing focused challenges
- Preparing research and scanning
- Establishing a common platform for learning, development and communication
'super-governors' are appointed directly by the Kremlin. Up until the parliamentary elections in 2007 and the presidential election in 2008 we can expect Russian policy to be centrally decided, and there are prospects of constitutional amendments that will consolidate the current Russian power structures. Whether or not the next election terms will bring a decentralization of power and more democracy will depend on a number of factors that can be used as indicators of what scenarios that are most likely for Russia towards 2020.

Looking five to fifteen years ahead, there are several factors that point towards the development of a more decentralized political structure. Growing prosperity and political stability lead to a growing civil society. Combined with growing individualization this leads to a more mature political atmosphere. In the long run, Russia could well develop a decentralized, democratic political tradition. A lot depends on how the civilian sector develops and how it comes to view such moral codes as business morals and political principles. The growing Russian middle class will have a great deal of influence on the political development. If the middle class is politically inactive, it will not serve to create the foundations for a decentralized political regime in Russia. Another force that will pull in the direction of greater decentralization of political power is pressure from the federal components. We may experience a growth of identities on a level below that of the nation, e.g. solidarity based on growing regional, religious, or ethnic fellowship.

II. Autocracy or democracy? The Russian constitution grants great powers to the president. During Putin’s terms of office there have been a number of autocratic tendencies, and the influence of the security services has increased. There have been accusations of a growing number of human rights violations, and freedom of speech has been threatened. Putin’s administration has the full support of the Duma, which is dominated by the party United Russia. Currently, Russia effectively has a one-party system, and it is difficult to imagine any powerful opposition in the near future. The civilian sector is relatively weak and is not a potent opponent to the existing power structures. The economic-political power elite has consolidated its power for the time being. The parliamentary elections of 2003 created a parliament that is very loyal to the Kremlin. In March 2004, Putin appointed Mikhail Fradkov to the post of prime minister. He is known as a skilled bureaucrat and cannot be expected to take any independent initiatives or oppose Putin in any way. He will preside over a cabinet with limited authority.

In the long run it is likely that Russia will move towards a more democratic stance. The mounting prosperity and greater globalization and individualization will pull towards democracy. A lot depends on what the Russian middle class thinks about the political developments and on how much it contributes towards creating a more transparent and balanced market economy. Russia already has a constitutionally guaranteed parliamentary system, and in the long run a greater political pluralism must be expected. The upcoming elections to the Duma and to the office of president could turn out more diverse than the previous ones and result in a more politically mature and differentiated government. Despite recent events, Russia still has considerable freedom of speech, and the private sector is growing. Russia’s integration with the global economy and its increased cooperation with the EU and the US will help strengthen Russian democracy. The EU can be expected to place demands on Russian democracy and human rights as the economic integration proceeds apace.
1. Return to Dictatorship

THE STATE: Strong president, economy and foreign and security policy run from the Kremlin.

CIVILIAN SECTOR: Limited freedom to organize. The president determines the rate of development in the civilian sector.

POLITICAL CULTURE: Limited freedom of speech. People are apathetic about political involvement. Mounting pressure on individual enterprise.

REGIONAL DEVELOPMENT: Weak regions and a strong central power. The wealthy regions profit from state monopoly on power. Nepotism and cronyism tie regions and centre together.

FOREIGN RELATIONS: Russia is more of a regional power than a superpower. It endeavours to dominate the remains of the SNG economically. Security policy is conducted through alternative conduits to NATO and the EU. Relations with the EU and the US are strained, but there is no serious confrontation.

ECONOMY: The economy is inefficient. Globalization isn’t taking hold, which hampers the Russian business world’s attempts to profit from economic interaction with the rest of the world.

2. Democratic Superpower

THE STATE: Russia is a democratic superpower in 2020. There is a strong president and efficient legislative, executive, and judicial institutions.

CIVILIAN SECTOR: Russia has a flowering civilian sector: un fettered media, lively NGO activity, and human rights are steadily improving.

POLITICAL CULTURE: The people of Russia display considerable political activity. They mainly exercise their political influence through interest groups and political parties.

REGIONAL DEVELOPMENT: The federal components look to Moscow. The Federation Council is quite weak.

FOREIGN RELATIONS: Russia is a member of all the important organizations, including WTO. Russian values are very compatible with Western values.

ECONOMY: Effective political guidance helps economic developments in Russia. The country is integrated into the global economy and hence benefits from the influence of globalization on trade, research, and economic growth.

3. Strong Regions

THE STATE: Growing disagreement between the regions caused by their desire for a looser link to the Federation. A strong president, but major opposition from regional leaders and parliaments.

CIVILIAN SECTOR: Internal power struggles in the individual regions caused by decentralization hampers developments. The state still has some control over the media.

POLITICAL CULTURE: There is an undemocratic spirit where personal connections and cronyism are dominant among the governments at both the federal and the regional level.

REGIONAL DEVELOPMENT: Russia is threatened by separatist sentiments. Local rulers administer their territories as they see fit. The regions have assumed greater authority in fields like taxation, business policies, and labour market.

FOREIGN RELATIONS: The Far Eastern regions of Russia turn to East Asia; certain southern regions turn to various Islamic states in Central Asia. The Western regions are the most attractive to Western investors.

ECONOMY: This is a disaster scenario for many international enterprises, as they will be cut off from traditional export markets in Russia. Russia sees an even more lopsided economic development.

4. Strong Federation

THE STATE: Internal regional obstacles vanish and the Russian regions become integrated. Structure of government is federal with limited presidential authority.

CIVILIAN SECTOR: An active, nationwide civilian sector. Democratic developments provide individuals and various interest groups with greater encouragement to participate in the political process.

POLITICAL CULTURE: The individual citizen has a closer connection to politics. A democratic political culture is prevalent at the federal level and in government circles.

REGIONAL DEVELOPMENT: Moscow delegates power to the regions. Increased decentralization increases the risk of dissolution of the federal system.

FOREIGN RELATIONS: Russia’s openness towards the rest of the world has allowed globalization free range in Russia. Russia is a Eurasian nation, albeit very much influenced in its foreign relations by its membership of WTO and its cooperation with NATO. The federal components turn in different directions.

ECONOMY: The Russian economy is dominated by large conglomerates. The regions take advantage of their respective specialties. Market economy has come to Russia in earnest and created many small and medium-sized businesses.
**1st political scenario:**
**Return to Dictatorship**

In 2020, Russia is run by a strong presidential cabinet supported by the security apparatus. Economic, foreign, and security policy is run by the Kremlin. The Duma is dominated by a one-party system and the Federation Council has no real powers. Nationalism is a watchword, and that results in hardball diplomacy towards the SNG countries.

The constitution speaks of a democratic country, but reality is different. The president interferes at will with the business of the Duma while it becomes more and more difficult for the Duma to influence presidential decisions. Personal contacts and ‘Kremlinology’ dominate the political landscape. There are frequent replacements at the top of the political hierarchy. The autocratic and centralistic regime has evolved into an inefficient government characterized by nepotism, corruption, etc.

**Progress of Nationalism and Christianity**
Following the collapse of the Soviet Union, Russia has known four major icons: Democracy, Capitalism, Religion, and Nationalism. Large segments of the population have become disappointed with democracy and capitalism. But the Russian Orthodox Church has experienced a renaissance. This has the full backing of the regime. The autocratic government considers the Church to be a source of social stability and moral rearmament. As an additional benefit, the Church can alleviate the worst social problems. The regime’s support of orthodox Christianity serves to legitimise the government to large parts of the population.

On the other hand it creates internal tension between the orthodox Christians and those relatively large segments of Russian society that have other faiths. The regime’s other ‘pillar of legitimacy’ is Nationalism. Political messages are full of patriotic sentiments and reverence for history and Russian culture.

Russia’s autocratic government is characterized by a lack of freedom of speech, which is reflected in a weak and stunted civilian sector. The president sets himself up in judgement over the civilian sector.

**Political cronyism and disaffection**
The population is discouraged from political activity beyond voting in the elections that are mandated by the constitution. The limited freedom of speech and the persecution of opposition politicians keep many Russians from participating actively in public affairs. Politics is marked by cronyism and has become a remote issue for the average citizen. The citizens are apathetic and distanced from the political establishment. Political groups only express themselves occasionally. Politics is regarded as something insincere, corrupt, and vicious. The Russian Federation has weak regions and a strong central power. Moscow and St. Petersburg are the leading political and economic powerhouses, and there is growing dissatisfaction in many of the federal components. But there are no political channels to express that dissatisfaction through, and the weakly organized civilian sector cannot organize much opposition to the central government. Any opposition that can be interpreted as being separatist is dealt with harshly.

It is primarily the rich regions that benefit from the government’s monopoly on power, particularly the regions where the government’s sources of income are greatest. Skilled bureaucrats run these regions as business enterprises. Elsewhere regional leaders hold their positions by virtue of strong political and economic ties to the Kremlin. The federal components are not much inclined to break with the federation, as centralization impedes separatist tendencies and opportunities. An additional impediment is the increasing economic dependency of the regions on the rulers in the Kremlin.
Regional superpower
In international matters, Russia acts very independent and feels little responsibility towards international agreements. Russia is not a superpower but a regional power. Russia’s dominant position regarding the SNG is primarily based on economic factors, but Russia does not hesitate to play up its military power as well. Foreign policy debate in Russia has its share of aggressive rhetoric. The debate is primarily intended for domestic political manoeuvres, however, since the government derive a lot of its legitimacy from patriotism. Russia’s foreign policy leads to constant disagreements with the NATO countries. Russia’s security policy tries to get a counterweight to NATO in coalitions that include the still existing, but militarily weak, SNG. At the same time Russia tries to forge relationships with certain Asian countries in order to extract concessions from NATO and the US. OSCE is one forum where Russia tries to influence the European NATO members. The situation between Russia and the US remains below the level of an outright confrontation, however.

Soviet conditions
The greater part of Russia’s GDP is derived from industrial production and raw material extraction, and these are obviously the most productive sectors of the Russian economy. Increase in productivity is primarily a result of growth in industrial production and raw material extraction, followed by growth in the rest of the economy. Productivity increases in the service sector are small compared to those in the industrial sector.

Russia’s centralized and autocratic government has led to an inefficient economy. Arbitrary government interference with the economy has scared away most foreign investors. Russia is experiencing declining effects of globalization and its economic growth rates are low. Existing policies reduce the benefits that the Russian business community can derive from trading and cooperating with countries outside Russia’s close sphere of interest. The cocksure and – in its own estimate – powerful Russia works against the other regions in the international competition for work and capital, which impedes continued economic growth. It is not easy for Russia to abandon this position, as it needs to see itself as a counterpart to the West. The situation is almost a return to the USSR of earlier times where the geopolitical power struggle was an important pillar of support for the State.

A homogenous lower middle class
Russia is a stable, coherent country. It has no large, broad middle class or a big upper class, but instead a comparatively large homogenous group of people who belong to the lower middle class. Russia is self-sufficient in most fields, and most Russians maintain a decent standard of living. However, in the more remote areas consumption is governed by supply rather than demand, due to fluctuating production rates.

2nd Political Scenario: Democratic Superpower
It has now been 30 years since Russia re-emerged as a sovereign nation following three-quarters of a century under the dictatorship of the Soviet Union. Russia has evolved into a democratic superpower closely integrated in the global network. Effective legislative, executive, and judicial institutions run the country. The constitution grants the president great powers, but the Federation Council and the Duma have great influence. Economic, foreign, and security policy is shaped by the president via the Kremlin. Russia has thus developed into a mature, demo-cra-
tic member of the international community. At the same time, the cultural identity of the Russian people and society remains distinctive despite its leavening of the secular, global way of life.

The Russian nation is firmly based on a constitution that emphasises the democratic interaction between government and people. Compared to the constitutions of most European democracies, that of Russia grants relatively wide powers to the president while the parliament wields a more low-key but still considerable political authority. The constitution is democratic and there is separation between the legislative, executive, and judicial branches of government.

**Democracy rules**

The Russian civilian sector flourishes and human rights are constantly being improved. There is a lot of activity at the NGO level. The full spectrum of possibilities in the field of communications is being utilized and there is a lot of political activity. The media play an ever increasing role, both television, press and on the Internet. They have become independent actors in an active public life, although some political interference can still occur, especially in connection with presidential and parliamentary elections.

Democracy has fostered a more and more sophisticated political culture. The Russians have become more politically active and also exercise their influence more in associations, societies, and clubs, as well as in political parties and other organizations. The democratic political culture at the national level is thus matched by a similar culture at the grassroots level.

Political parties select local politicians and candidates in regional elections as candidates for national elections. The headquarters of all parties are located in Moscow. Russia’s 89 regions interact primarily with Moscow and only to a limited degree with other regions and neighbouring countries. Through a centrally controlled political centre in Moscow, Russia’s regions all enjoy some political status. The regions all have their representatives in the Federation Council in Moscow, although the council is quite limited in its authority compared to that of the president and that of the Duma. There are still some regions that strive for more independence from Kremlin, but there are no outright separatist sentiments in the Russian Federation.

**Global player**

Russian production and trade with the outside world is showing a steady growth. Russia is integrated into the global economy and benefits considerably from the international division of labour. Russia is an active member of all the important international organizations, including WTO. Russia’s ideals and foreign policies are highly compatible with Western interests. Russia has developed close connections to other countries, especially to the EU. The EU is Russia’s biggest trade partner, and Russia has received some major trade concessions from the EU concerning Russian goods and services to the European Union. Russia’s next largest trade partner is China. As economic growth rates are higher in Asia than in Europe, Russia is increasingly turning eastwards. Russia’s position as bridge between Europe and Asia is growing more and more important and creates additional economic activity.

Russia is a member of WTO and of the expanded G8 cooperation; these are considered important forums for maintaining Russia’s economic and political interests. Russia’s membership of the WTO has liberalized the Russian market and contributed to generating the high economic growth rates we have seen for the last two decades. Russia’s integration into the global economy leads to growing foreign investments. The membership of WTO has contributed to a change in Russia’s investment climate, foreign trade, and economic structures. Integration with the global economy has modernized Russia’s economic political institutions. Efficient leadership and simple rules encourage Russia’s economic growth.

**A nation of consumers**

**Global player**

Russian production and trade with the outside world is showing a steady growth. Russia is integrated into the global economy and benefits considerably from the international division of labour. Russia is an active member of all the important international organizations, including WTO. Russia’s ideals and foreign policies are highly compatible with Western interests. Russia has developed close connections to other countries, especially to the EU. The EU is Russia’s biggest trade partner, and Russia has received some major trade concessions from the EU concerning Russian goods and services to the European Union. Russia’s next largest trade partner is China. As economic growth rates are higher in Asia than in Europe, Russia is increasingly turning eastwards. Russia’s position as bridge between Europe and Asia is growing more and more important and creates additional economic activity.

Russia is a member of WTO and of the expanded G8 cooperation; these are considered important forums for maintaining Russia’s economic and political interests. Russia’s membership of the WTO has liberalized the Russian market and contributed to generating the high economic growth rates we have seen for the last two decades. Russia’s integration into the global economy leads to growing foreign investments. The membership of WTO has contributed to a change in Russia’s investment climate, foreign trade, and economic structures. Integration with the global economy has modernized Russia’s economic political institutions. Efficient leadership and simple rules encourage Russia’s economic growth.

**A nation of consumers**

NATO cooperates closely with Russia, and even closer strategic cooperation is expected. Russian membership of NATO has become a realistic goal. Russia still has strategic interests in Central Asia and participates with the Central Asian countries in a joint security forum that also cooperates with NATO. Russia is thus a global player and a match for other global and regional actors.
The superior economic conditions enjoyed by the business world have fostered a lot of new small and medium-sized businesses. Employees are motivated to do well because wages and wealth grow when productivity and innovation grow. The many people who start up new businesses have a growing effect on the Russian economy.

Automation is driving down the direct production costs, but the costs of product development, information management, consumer relations, storytelling, and communication is steadily rising. This creates new demands for locating and fitting up offices, apartments, leisure facilities, infrastructure, etc.

Russia’s middle class wield purchasing power and is catered to by domestic and foreign businesses alike. Retail trade is dominated by big companies, Russian and international, but there is also a rich and varied selection of local shops with a broad selection of goods. As a natural result of society’s growing economic and material wealth products are increasingly promoted on feelings rather than function. Consumption is thus governed by intangible qualities. Russia has turned into a society where many have the extra reserve they need to be free to choose between different lifestyles. Such a choice is a natural feature of Russia’s prevailing democratic culture.

Democracy forever?
Most Russians accept and approve of the view that Russia’s global destiny is to be a great power with roots in democracy and free enterprise. Those two concepts have become deeply embedded in Russian society, and the tools that are required to safeguard the individual against the social disadvantages of the societal development are in place. In this scenario most people firmly believe that a system of democracy and free enterprise is extremely viable. A crucial factor is the patience the Russians display towards the sometimes-pitiless costs of globalization, such as the struggle against unemployment and the growing inequalities between the social classes. In times of trouble, Russians have been wont to play the Nationalism card or to long for the fairness of earlier days, but this tendency is in decline and the Russians are working towards a political consensus.

3rd Political scenario: The Regions
The year is 2020, and Russia is dominated by the regions. Times are hard for democracy, and government is more restrictive today than it was 15 years ago. But it is a bureaucratic and inefficient government constructed of a plethora of hierarchical systems. In this scenario, regional differences have led to a situation where the central government is losing power and breaking down in some areas.

The Federation is straining at its seams
Disagreements between the regions, especially the 21 autonomous republics with their own elected presidents, get in the way of overall federal policies. The Federation Council demands more power vis-à-vis the Duma, which just reduces the ability of the Federation to influence tax policies, security policies, and other vital policies even more. The President is still strong, but his occasional demonstrations of autocratic power incite the regions to act on their own accord in various political and economic matters. This creates an unintentional decentralization between the centre and the periphery in Russian politics.

Civil society does not benefit directly from the greater decentralization, since the government still controls media and television to some degree. Some political and non-political groups display a certain amount of activity on the federal and the regional levels, but their activities are hampered by suppression and internal power struggles caused by decentralization in the individual regions. The
weakness of civil society means that there is no scope for the development of a vigorous democratic tradition. Rather the reverse, as an undemocratic culture, where personal connections and cronyism are part of daily life, flourishes at the government level in federation and regions alike.

**Regional autocrats**

Russia’s unity is threatened by various forces of dissolution, and a string of local leaders has arisen who run their territories as they please. The regions disagree about foreign and security policy, and more and more the regional rulers fail to keep the agreements they’ve reached concerning common policy. This undermines the authority of the central government, which looks like it is devolving into a toothless discussion group, even in the case of economic questions of obvious importance to everyone.

The hard work and the associated frustrations have eroded the overall cooperation between the regions, and many of them are experiencing stagnation or decline of the economy. Everyone blames someone else for mistakes, and the regions have begun to oppose each other openly. Russia is experiencing a growing disintegration.

The regions are dissatisfied with Moscow and desire greater autonomy. In a number of domestic matters they’re already exercising such autonomy. Tax policy, employment policy, and trade policy are topics that increasingly are handled by the individual regions, especially the autonomous republics. The regions that are rich in raw materials demand greater control over their economies and their resources. Separatist sentiments are growing in several places, particularly in the Caucasus.

**An isolated Russia**

The Federal government grimly attempts to conduct a common foreign policy in the face of regional differences. It wants to be accepted as a superpower despite the fact that the country is falling apart. More and more the regions go their own ways in matters of foreign policy. Thus the far Eastern regions turn towards China and Southeast Asia; the Southern regions increasingly turn towards Islamic countries in the Middle East and Central Asia; and the Western regions turn towards EU and receive most of the investments from the countries in the EU.

The Russian economy is stagnating. There is no substantial middle class, but growing poverty. The big cities dominate, since the political and economic elites gather there. A few regions with lots of raw materials prosper and the food-producing regions experience a little growth, since there is little import of food. But most of the regions experience very small or even negative economic growth.

**Lopsided investments**

The growing regionalization means that areas close to EU receive the most investments, as it is safer to invest there. The Eastern regions develop economic ties to China and other Asian countries, but still develop at a slower rate that the Western regions. This leads to further economic inequalities in a Russia that is already threatened with dissolution.

Most Russians are covered as far as the basic necessities of life are concerned, but a sizable group live at the subsistence level, and many live in environmentally unsound surroundings. The stagnant economy and growing unemployment cause unrest, but attempt to organise opposition to regional regimes are dealt with harshly. The Russian production and service economy is based on the domestic market and is poorly developed. Some sectors are protected by import restrictions. The big raw materials companies are state owned, but there are growing regional demands for local ownerships. Barter economy is on the rise. A large part of the population supplements their diet with crops from kitchen gardens and wild berries and mushrooms. The opportunities for social advance-
ment are meagre, and feelings of hopelessness lead, among other things, to continued massive alcohol and drug problems.

**Russia, the problem child**

In international forums Russia is considered a ‘problem child’. Anxious eyes try to spot solutions that will allow the country to extricate itself from its current stagnation, all the while Russia tries to use its membership of various international political and economic organizations to obtain political and trade concessions. It is obvious that it is hard for Russia to solve the predicament presented by the way the structure of its government has evolved. The central government’s lack of success, the growing separatism of the federal subjects, and the depressing development of the Russian economy lead some people to doubt that the Russian Federation will survive as a united nation in the long run.

**Autocratic democracy**

In the long run, the autocratic features of the relationship between federation and regions will not be enough to keep a Russia plagued by growing regional differences together. But, strangely enough, a stronger and more consistent central leadership would be able to keep the Federation together by encouraging regional democracy and refraining from impeding the freedom of action of the regions. Such a combination of autocracy and democracy might turn out to be the way out of a scenario with a disintegrating Russian Federation.

**4th Political Scenario: The Federation**

Russia’s old central structures are withering away as the borders disappear and Russia’s regions as well as the Russian people increasingly assume areas of responsibility from the state and integrate across the former borders. The Russian Federation has a president with reduced powers. The Federal subjects have assumed great political and economic authority from the state, but exercise this authority within a common set of guidelines and responsibilities. The Federation has evolved into something resembling an umbrella organization, watching over common interests, but granting wide autonomy to individual Federal subjects. Political and economic networks are being developed at regional and local levels as more and more of the central government’s former functions become decentralized.

**A mellow state**

The central government serves as an overall regulator for looking after the common political and economic interests of the Russian Federation. Its most important functions are to collect taxes from the 89 regions, to work out a fair distribution between more and less affluent districts, to create a just welfare state based on sound principles of free enterprise and democracy, and to block out supranational foreign and security policies. The Presidency is an important political office, but the President does not have unlimited authority over the regions. The Presidency is the foundation on which a future united Russia rests. The Federal legislative assembly is a two-chamber parliament with an extensive inter-party lobbying system; it is the prime forum for regional interests, on a par with the national parliaments of Western Europe.

There is a vibrant civilian society in the regions, as the development of democratic traditions has allowed various interest groups to manifest. This, in turn, means that a great number of society-related interests are being taken care of by NGOs that cross the borders between the regions and autonomous republics.

A democratic political culture exists at both the Federal and Regional
level, thanks to a more decentralized political evolution. Politics have become more interesting and less predictable. This has caused politics to become more real to the individual citizen and the state to become an object of scrutiny to the population.

**Plans for greater regionalization**

The Federal subjects in the West, the South, and the East turn to different parts of the outside world. There is a danger that this growing regional integration will run off the rails and result in increased internal tensions and tendencies towards dissolution in the Russian Federation. Political developments have put the regions in a position to gain concessions from Moscow. There is a certain amount of rivalry among the regions with high economic growth, but it is a rivalry that reflects the penetration of free enterprise from West to East.

Russia is a Eurasian nation with a desire to cooperate with Western, Middle Eastern, and Asian partners alike, although membership of the WTO and cooperation with NATO and the US does dominate the agenda for foreign policy. That leaves the SNG association more or less defunct. Every member state of the old Soviet Union has found its way towards some sort of protection in matters of economy and security, and some of them have done so by turning to Russia, so Russia occasionally acts on behalf of certain former USSR states, such as Belarus, on the world stage.

**Internationalization of the raw material sector**

Russia’s business life has become more diversified, with a wider geographical spread of investments and production. Despite political intentions of spreading investments to all corners of Russia and of creating adequate public services everywhere, the more marginal parts of Russia still experience a steady population decline. Urbanization and a steady migration towards growth centres in Western Russia have caused vast tracts of Russia to become very sparsely settled. These districts have inadequate trade and substandard public services, which causes the process to continue.

**A historic autonomy**

Russia’s Federal subjects have achieved a high degree of economic autonomy and political self-rule within the framework of a federated Russian nation. This has not been seen before in the history of Russia. Preserving this situation requires continuous reasons why the Federal subjects should want to remain in the Federal community. One such reason would be that the Federal government supported the economic autonomy of the Federal subjects and refrained from interfering with regional economies in order to further its own arbitrary economic policies. Another important reason would be a fair redistribution policy, both in relation to the creation of a Russian version of the welfare state and in relation to various forms of subsidies for regional development. The last part is important, but also something of a minefield, since the districts that don’t receive any subsidies tend to feel slighted.

**A viable marriage?**

One hotly debated question in the domestic debate is whether Russia can survive as a nation with a loose central authority and regions that look across the borders for economic advantage. A lot will depend on the degree of political maturity in the regions concerned. If the regions develop an implicit understanding of Moscow’s role as the conductor of a united Russian foreign policy and as the arbiter of the guidelines for the common economic policy, then the regions can concentrate on the economic growth.

---

**INTERNATIONAL BUSINESSES ARE BOOMING**

The Russian economy is kept together by the big conglomerates, which make use of the varied special competences of the regions. Many small and medium-sized businesses service these regional and global giants, while others manufacture niche products and design goods for both global and local markets. In this scenario, international businesses experience a very substantial growth in Russia.

Free enterprise has really created a competitive Russia, even across the regions. The decentralized development between the centre and the periphery has caused some regions go solo with their economic developments. We see a broad network of businesses crisscrossing Russia, cooperating in trade organizations, and having close ties to the business world in investment-ready countries.

The danger in this scenario is that doubts will arise as to who charts the overall political guidelines in Russia. Is it the centre in Moscow, or are we talking about different levels across regional boundaries? A lack of transparency concerning this subject can have major impact on the investment opportunities of international businesses and on their inclination to invest in the Russian regions.
Economic Scenarios

The economic scenario cross for Russia A.D. 2020 is based on two uncertainty axes. One concerns whether Russia evolves towards a market economy (free enterprise) or whether it evolves towards a planned economy. The other uncertainty axis concerns whether Russia’s economy becomes based on raw material production or whether it becomes a differentiated production and service economy. Below is a brief presentation of the trends that pull economic developments in Russia in different directions.

Based on Russia’s major developmental trends and on the selected uncertainties we’ve worked out four different economic scenarios. They are presented first in a point-by-point summary followed by a closer look at each economic scenario.

Two economic uncertainty axes

I. Market economy or planned economy? Russia has experienced sweeping economic and political reforms, but they haven’t really become consolidated yet, and the shape of the future is still uncertain. In spring of 2004, Putin promised more economic reforms and new programs to encourage investments. Legislation and institutions are more or less in place, but there is still no detailed framework of laws and administrative rules to protect the rights of private investors. Most business legislation is already in place, and once the various institutions have been established, they will be able to enforce the law more efficiently than is presently the case. Russian membership of WTO will most likely consolidate and improve a market economy.

Looking back on Russia’s developments towards a market economy over the last 15 years, it seems unlikely that Russia would turn back to planned economy, the defunct system of the Soviet Union. But it is important to consider the governmental interference with the activities of private companies that has taken place in recent years and how the country’s business and economic life has become more subject to political attention as a result. Boris Yeltsin’s time in office during the 1990s was a time of mass privatization that may not always have been fairly carried out, but nevertheless the period was one of lessening political interference with the business world. Under Vladimir Putin this trend has reversed. The energy sector has been nationalized, and other attempts have been made at government interference with sectors that worked well enough without it (e.g. telecommunication). It is thus not unlikely that the next five to ten years (Putin’s remaining time in office and the next term under his successor) may lead to a more ‘take-charge’ government that feels entitled to decide when it is ‘sensible’ to impose restrictions and guidelines on the private sector. This may reduce foreign investments in Russia and cause a lack of confidence in the transparency of the Russian market.

II. Raw material based economy or differentiated production and service economy? Russia possesses some of the World’s largest oil and gas deposits, and its economy is very sensitive to price fluctuations. Russia’s positive economic growth depends primarily on high oil prices on the global market. Unless Russia begins to diversify its production infrastructure further and to invest in other sectors, it may experience externally generated economic shocks from time to time. A prolonged sizable reduction in the price of oil would throw Russia into an economic recession that if worst came to the worst could result in a crisis of similar scope as that of 1998. In 1998 the value of the rouble plummeted as a result of a massive flight of capital brought about by a loss of confidence in the Russian market. Following that, international trade with and investments in Russia fell drastically, and Russia experienced a major economic decline in many sectors. Paradoxically, despite the country’s huge deposits, its dependence on oil and gas is one of the

“[I intend to force Novo Nordisk out of the Russian market, and I’ll do it, too. My nephew Igor has now been elected to the Federation Council, our Parliament’s upper house, where he is deputy chairman of the Health Committee. Novo Nordisk has no political contacts.]”

Vladimir Bryntsalov, oligarch in the Russian medical drug industry, member of the Duma.

Source: Libak, 2004, p. 125
greatest uncertainties connected with future political and economic developments. Decentralization and liberalization of foreign trade are of crucial importance to Russia’s future economic relations with the outside world. If they continue apace, Russia will in time become fully integrated with international division of labour and international trade. A lot depends on Russia’s ability to change its industry from being mostly based on raw materials to a more diversified industrial structure. Also a trustworthy legal system needs to be implemented. Infrastructure and the service sector should constitute a greater part of the overall GDP structure in order to reduce Russia’s vulnerability to the price of oil on the global market and to increase Russia’s ability to compete on the global market. Russia would be able to attract more foreign investors if the country sent out unmistakable signals to the outside world about introducing a more transparent law of ownership and about constructing a more liberal and diversified financial sector. It is likely that over the next 15 years, the country will build a healthier and more flexible industrial sector on top of its current economic mainstay, the raw materials sector.

**FIG. 2: ECONOMIC SCENARIOS – OUTLINE**

**MARKET ECONOMY**

1. **Free Raw Materials**

   **ECONOMY:** Big international and Russian companies dominate raw materials sector. Infrastructure is poorly developed, except in areas that support extraction and distribution of raw materials.

   **MARKET:** The business sector sees a lot of business in the raw materials sector and a well-developed retail business in the economic growth areas. In the peripheral areas, a sort of barter economy dominates. Consumer prosperity fluctuates concurrently with the international raw material prices.

   **REGIONAL DEVELOPMENT:** Russia’s economic development is lopsided, with Moscow, St. Petersburg, and the regions that are rich in raw materials having higher economic growth than the rest of the regions.

   **FOREIGN RELATIONS:** Russia is a member of WTO and has tight trade relations with the EU.

2. **New Economic Superpower**

   **ECONOMY:** The economy is very dynamic, and Russia is a heavyweight in the global economy. The middle class is extensive and powerful and the workforce is well-educated and motivated.

   **MARKET:** Russia has become a modern market characterized by great competitiveness. There’s a great amount of domestic production and big Russian retail chains. Consumption reflects the growing prosperity.

   **REGIONAL DEVELOPMENT:** Growth in regional interconnectedness at all levels. Tendency towards the Eastern regions are aligned with Asia, the Western with Europe, and the Southern with the Middle East, the Caucasus and Central Asia.

   **FOREIGN RELATIONS:** Russia is a member of WTO. It is also more economically transparent. Russia receives big FDI due to reduced risks on the Russian market. Russia is moving towards membership of the EU.

3. **2nd World**

   **ECONOMY:** Considerable government tampering with the economy. Government supervision of national and international economic transactions is often controlling and bureaucratic.

   **MARKET:** The big raw materials companies are state-owned. Unemployment is high. Infrastructure is likewise state-owned, and economic stagnation occurs in a number of places. Some imports and exports are subject to massive government regulation.

   **REGIONAL DEVELOPMENT:** The big cities dominate, as that is where the economic elite lives. There are big differences between regions. Those with raw materials are favoured and the rest get relatively small investments.

   **FOREIGN RELATIONS:** Exports are dominated by energy and raw materials, and Russia is not a member of the WTO. Foreign retail chains are only present to a limited degree.

4. **New Soviet**

   **ECONOMY:** Russia is largely self-sufficient, but its goods are often not competitive on the global market. Supplies of goods depend on the planned economic objectives of internal competition between different manufacturers and products.

   **MARKET:** Major government interference with the economy. The workforce is well trained, but poorly paid. Innovators face a hostile environment.

   **REGIONAL DEVELOPMENT:** The regions compete on comparative advantages. Political relations are often more important than economic arguments.

   **FOREIGN RELATIONS:** Exports are hampered by Russia not being a member of WTO. Many foreign companies do, however, establish production in Russia, provided the proper legislation is in place. There may be special investment incentives for foreign companies in certain regions. ‘Joint venture’ is the most common form of foreign investment.
1st Economic Scenario: Free Raw Materials

The Russia of 2020 has a working liberal economic system, but it has failed to develop a differentiated production and service economy. The raw material-dominated industrial complex still constitutes a substantial part of the Russian economy. Russia is hence very sensitive to fluctuations in global raw materials prices. In times of global recession the Russian economy is weak and dependent, and in global boom periods the Russian economy booms. The purchase power of Russian consumers rises and falls almost synchronously with global raw materials prices.

Market Economy at Half Steam

Market forces control Russia’s economic and industrial development, but the country has failed to diversify its foreign and domestic investments and thus develop a more differentiated industrial structure. One of the reasons for this is that Russia still hasn’t modernized its investment laws and the entire bureaucratic and administrative organization sufficiently to encourage far more foreign investments over and above the big investments in the oil and gas sector.

Although membership of WTO has helped improve conditions for foreign investments in the Russian economy, it is still subject to too much government interference with sensitive parts of the energy sector. But Russia is still the EU’s biggest trade partner and deeply integrated with the global market.

Hampered Middle Class

The development of a strong middle class has been hampered by a lack of diversification of domestic industry. As a result, the development of a Russian middle class to carry Russia into the 21st Century and contribute to a strong economic growth is not much further along than it was 15 years ago. The Russian consumer society is geographically unevenly distributed. Unequal regional development and the lack of investments across sectors has given the economic growth centres in two or three regions in European Russia a greater selection of goods than the rest of the regions.

There is steady migration from rural to urban areas, as the regions around Moscow and St. Petersburg still lag behind the growth centres. The labour market is riddled with moonlighting, and there is major unemployment outside the raw materials sector. In addition, there’s not the same flexibility concerning changes in occupation in Russia as there is in Western Europe.

David vs. Goliath

Russia is experiencing lopsided economic development; the resource-rich regions do much better than other regions. Some attempt is made at regional redistribution and balancing of economic resources, but Moscow, St. Petersburg, and the resource-rich regions do better than the rest.

The central government keeps a tight rein on the regions to prevent the resource-rich regions from seceding. Most regions are quite far from being self-sufficient and have to participate in inter-regional division of labour.

In Russia’s struggle between the centre and the periphery, the richest regions succeed at the expense of those with fewer resources, those that don’t have the economic clout to negotiate with Moscow for privileged status.

Oil sets the agenda

The high oil prices and Russia’s sale of gas to the EU still provide a positive trade balance. Unfortunately, not enough of the profits from oil and gas have been reinvested in other sectors than the energy sector. The money contributes to a continued economic growth in Russia, but the Russian growth rates are relatively small compared to those of e.g. China and India.
Large parts of the raw materials sector are under the control of multinational companies. The greatest foreign investments in Russia have been in the oil and gas sector. The latter is still partly state property. The pipeline network has been partially modernised, but the Russian government has refused to invest extraordinary capital. The export of gas to the EU is the biggest source of income for the Russian state. There has thus been little real improvement in the climate of investment, except for the mandated WTO regulations that Russia has had to introduce.

The most mature part of the market is thus the raw materials sector, where we see a lot of business and a well-developed retail business in the economic growth areas. The economy is booming in the districts where the raw materials sector dominates. There’s little unemployment as most of the labour market here revolves around the raw material sector and its associated service jobs.

**WTO has no effect on exports**

Russia still imports large quantities of foreign goods. Due to the membership of WTO, Russia has been unable to protect or develop its domestic industry as much as it would have liked. The membership allows Russia to export more of its domestic production, but lack of investments on the domestic front has rendered the country dependent on imported goods. This dependence on imports combined with the poor selection of goods in the peripheral districts has led to comparatively high prices on consumer goods. The financial sector has experienced a boom in loans by Russian consumers, and the financial sector in turn has invested more in the private sector. The WTO membership has thus had a positive effect on the financial sector.

**2nd Economic Scenario:**
**New Economic Superpower**

In this scenario, Russia has grown into a heavyweight in the global economy by 2020. Russia contributes strongly to globalization and is clearly part of international business life. Many Russian companies are players on the global scene. The Russian economy is very dynamic and has many participants. The former economic structure dominated by the raw materials sector has been replaced by a more diversified economic and industrial structure. More and more small and medium-sized private companies crop up.

**Things are going well**

The emergency measures that were introduced to the Russian economy after the turn of the Millennium, among them a stabilization fund to soak up oil revenues, has led to large foreign investments across the sectors. This in turn has led to noticeable modernization and economic growth in areas like physical infrastructure, telecommunication, and the service sector. Russia’s middle class has grown, and the country possesses a well-educated, motivated, flexible, and globally oriented workforce. Russia is growing steadily stronger in areas like research, innovation, and development. The country has a strong domestic production plus a great growth of export-oriented production. Business life is characterised by strong national and international competition. Many small and medium-sized businesses have appeared, and private enterprise flourishes as never before. The government is very anxious to create good conditions for entrepreneurs.

**Growing regions**

The Russian market is mostly characterised by great competitiveness. Two manifestations of this are a great amount of production for the domestic market.
and gains made by big modern Russian retail chains at the expense of the international chains. Foreign retail chains were too hesitant about expanding their businesses in the Russian regions, and the Russian chains took advantage of that to exploit the ‘first mover’ initiative in these areas. As the purchasing power of Russian consumers has grown greater and greater, this strategy has enabled the local chains to report greater profits than foreign chains. Regional expansion of retail trade has caused the income and employment figures of big cities other than Moscow and St. Petersburg to grow too. The Volga region, the Urals, and the Southern and Eastern regions in particular show high growth rates.

A typical market economy

There thus is a lot of business-to-business trade going on. The black economy’s share of the Russian economy has grown smaller due to e.g. more transparent tax rules, increased encouragement for investments, and reduced government interference in economic activities. It is no longer as necessary for local and foreign investors alike to have good political and administrative connections in the Russian business world in order to do business as it was 10-15 years ago, another sign that Russia has become a typical self-regulating market economy. The implementation of a functioning legal system has been of great importance.

A more differentiated production and service economy has generated greater international confidence in the Russian market. Hence, in 2020, far more investments are made in Russian business. At the turn of the millennium, foreign direct investments (FDI) in Russia lagged far behind investments in other emerging economies, like the Chinese and South East Asian economies, but by now they’ve reached a much higher level and are on a par with the Central and Eastern European nations in terms of per capita FDI.

The confidence in the Russian market is a consequence of careful attention paid to long-term improvements to the investment climate. This attention has resulted in more transparent property rights and investment laws plus a greater transparency regarding official handling of investment cases.

WTO shows the way

Russia’s membership of WTO has forced it to improve the investment climate. Thanks to WTO, foreign investors perceive lessened risks associated with Russia’s business world, although there is still some way to go before reaching Western standards and corruption is still to be found in certain parts of the Russian business world. Russia experiences increasing foreign and domestic investments in the shape of portfolio investments and direct investments.

Russia has a transparent market with international accounting standards. Many Russian companies are quoted on the international stock exchanges. Faith in the Russian market, combined with the global economic success of Russian companies, generates opportunities for global actors to make big money on the expanding Russian market. Various foreign and domestic investments have led to a gradual shift in the Russians’ choice of employment. Where the oil and gas sector used to generate the greatest income and contributed the biggest share of the GDP, in 2020, the workforce is spread more evenly across various sectors. Service jobs thus play a greater part in the economic growth.

Prosperity and contentment

The Russian people are generally content with the way things are. The rising economic standard of living, the excellent prospects for the future and the many fine opportunities make for an optimistic and dynamic Russia. Globalization is perceived as something positive that, at the same time, can be used to reflect Russia’s unique qualities. People take pride in being Russian, and Russian culture is in focus. The prosperity also benefits Russia’s marginal districts. Geographical location is less important in a digital age. Remote villages in
Eastern Siberia participate on equal terms in the international knowledge society. Since a growing part of production is intangible, all the Russian regions participate in the global production.

There is a tendency towards economic dispersion in Russia. The Eastern regions turn more and more towards Asia, the Western regions towards Europe. However, this does not foster burgeoning separatist sentiments. Federated Russia is firmly embedded in regional political activities. The outlying regions contribute more and more to the Federal budget. Russia has achieved political maturity, and an efficient public administration provides an equal distribution of resources.

3rd Economic Scenario: 2nd World

In this economic scenario, the Russia of 2020 is characterised by government interference with the economy. Not the same interference that was common during the Soviet era, but still with some of the same signs. The Russian economy is still based on raw materials, and only feeble developments have been made towards a more differentiated production and service economy. The Russian economy is growing very slowly, almost not at all. Russia’s business life is dominated by great oligopolies, and there are growing internal inequities and lopsided economic growth. Bureaucracy, political cronyism, and corruption are basic facts of life.

Fettered market economy/signs of planned economy

The economic initiatives that were launched after Russia’s independence created a broad foundation designed to help the economy of all of Russia’s industrial sectors mature, but the process has been mired by Russia’s growing dependence on high global oil and gas prices. Russia has failed to reinvest the income from its oil in other sectors of the economy. As a result the country remains dependent on the raw materials sector. Gas and oil are thus the mainstays of economic growth. However, investments in the gas sector have been inadequate and parts of it have yet to be modernised.

The Russian economy is becoming more and more planned; many of the former state companies that were privatised in the 1990s are back in government hands. The state has also taken over majority ownership of industries that were showing excellent growth rates, like telecommunication, oil, and finance. This is partly a product of protectionist measures by the Russian government and partly in consequence of the government’s desire to have powerful economic negotiation tools at its disposal. The effects can be seen in Russia’s relations with the outside world, such as cooperation with WTO and trade with e.g. the EU.

Russia’s attempt at restructuring its economy towards a market economy has thus failed. Membership of WTO is still not in the cards, due to mounting protectionism. A powerful bureaucracy runs the public administration. The economic structure is hierarchical with the raw materials sector and the machinery of state on top, and on the bottom the less important production and service sectors, whose growth rates more or less depend on the fluctuating growth rate of the raw materials sector. The state of Russia’s market depends on the global economy, as the country has failed to attract enough foreign investments to develop a differentiated industrial structure.

More CIS, less EU

Because of its vulnerability, Russia regularly imposes trade restrictions on trade partners like the EU and China. The trade partners retaliate, and the result is ongoing trade disputes. So Russia has turned its gaze towards the CIS countries. Cooperation in the CIS has received a new lease of life because
several of the member states see advantages from closer economic cooperation. Russia’s neighbours in the CIS area experience the same sort of fluctuating growth rates as Russia and likewise have trouble becoming truly integrated in the global economy. The only exception is Ukraine, whose independent economic profile is moving it closer to the EU; as a result, the country is attracting large foreign investments.

**Poor climate for entrepreneurs**
The hopes from the start of the 2000s for development of a big middle class in Russia have not come true. The inequalities between different classes of Russian society have become worse. Unemployment is high, and the funds allocated to education and research are inadequate. There’s no demand for well-educated employees outside the raw materials sector and the administration. Conditions within the service and production sectors are bad, and the climate for entrepreneurs is poor. Even though Russia needs well-educated workers, it can’t offer them decent salaries or the degree of modernization that would be needed for their further development. Hence there is a relatively large amount of brain drain as well-educated people seek employment abroad.

**Barter and black economy**
Russia is experiencing great regional inequalities. Some of the nation’s 89 regions and peoples were not included in the economic plans and only serve as extraction areas for raw materials. Hence barter is growing more and more prevalent in these areas, and the black economy looms large in the economically marginal regions. For this reason, official economic statistics do not give a true picture of the development of the Russian society.

As regards infrastructure, Russia is still lagging behind the goals that were formulated at the start of the millennium and compared to the expectations held by many prognoses. Russia has failed to develop its transport and distribution system adequately because the expected foreign investments failed to appear and because there have been no reinvestments outside the raw materials sector.

At the same time, Russia has failed to attract the amount of foreign capital that had been expected to its retail sector. Foreign retail chains have withdrawn from the country because of an unstable investment climate and impenetrable legislation, particularly in the field of ownership law.

**Inertia and bureaucracy**
Russia has not been able to keep up with the economic growth rates of the richest countries and looks more and more like a second-world country. Russia’s labour market is characterised by a wage-earner culture. There are no encouragements and no opportunities for social advancement. The state’s interference with and regulation of the economy has created an efficient, but rigid bureaucracy. The many rules and courts hinder the activities of entrepreneurs. Business advisors find it necessary to be able to offer customers access to strong personal networks linked to authorities and trade.

**4th Economic Scenario: New Soviet**

It’s Russia in the year 2020. Russia has developed a differentiated production and service economy and its dependency on raw materials has eased. There is considerable government interference with the economy. This interference has resulted in massive economic planning, and several sectors are protected by tariff walls, subsidies, and other government measures. Russia is trying out an industrialization strategy based on import-substituting industrialization in
order to achieve complete independence. The goal is to create a combination of import-substituting industrialization and export-oriented industrialization. However, the attempt is not succeeding too well, and Russia is at a crossroad between protectionism and dependency on imports.

**Economic growth but no international competitiveness**

Russia has grasped the necessity of reinvesting oil incomes from the stabilization fund in other sectors than the raw materials sector, so the service sector and small and medium-sized businesses show high growth rates. On the surface Russia thus has a differentiated production and service economy. However, the state frequently takes control of formerly privatised companies, especially in the oil sector, telecommunication, and the dairy sector. Not because these companies are failing, but because of state interference and tax policies.

Although developments have been more along the lines towards a differentiated economy, there’s still not a sound differentiated economic structure in place; local products are seldom competitive on the global market thanks to increasing protectionism and erection of tariff barriers.

Russia makes considerable use of domestic investments, including domestic entrepreneurs, who have become numerous. However, the result is a more inward-turning Russian production cycle that is more suited to domestic markets than to the global market. The result is that Russia still has a big demand for foreign goods and can only show a small positive trade balance.

**Corruption is alive and well**

The regions have become better integrated with the overall economic development. As a result, foreign investments are more distributed among the regions and don’t just wind up in the big growth areas round 3-4 cities. The competition among regions is becoming fiercer and fiercer. A region’s effectiveness depends on political contacts and the state bureaucracy. The Soviet legacy of corruption and bureaucracy of the public sector is still with us.

**WTO accommodations**

Russia is not a member of WTO, but it has still had to adjust its economic development according to WTO regulations. Although the country is self-sufficient with most products, a big demand for certain foreign products and industrial spare parts makes it necessary to trade with the outside world. That’s why the EU is still a major trade partner of Russia, in spite of protectionist measures such as import quotas and trade barriers being frequent features of this commercial relationship. Russia hasn’t got the foreign investments it needed to strengthen domestic production and make Russian goods dominant on the global market. Instead it has used oil revenues to reinvest in domestic production, which has created an economically differentiated, not internationally sound industrial infrastructure.

Joint ventures are the most important and most frequent form of foreign investment. The central authorities encourages joint ventures, but they’re still not particularly attractive to foreign investors, since investors have very little influence on the running of the business.

**A flexible currency**

Russia’s planned economy leads to a centrally fixed currency that goes up and down according to how it will aid Russian exports. So when economic growth lags behind, the currency is lowered to make it easier to sell goods on the global market, while in boom times the currency is raised to protect domestic production. This makes Russia a less attractive country for foreign investors. The laws are unclear and sometimes hostile to investors from abroad.
Regionalization, internationalization, and centralization

The close ties between the individual regions have served to modernise infrastructure and distribution network. There are still parts of Russia that has not benefited from this development, though: the most remote areas, where raw materials extraction is of great importance, but where not enough resources have been allocated to modernise the distribution solutions and warehousing facilities of retail chains. As a result, you can find a few regions that cooperate closely with neighbouring regions and constitute small business enclaves with political contacts to the state as important assets.

Russian exports are hampered by not being a member of WTO. Consumer goods are primarily exported to the CIS countries and to 3rd world countries. Furthermore, exports are still dominated by raw materials whose global prices still influence the degree of economic growth in Russia. Russia is experiencing a small, but by no means insignificant, market in connection with Business-Business, as the central decision-making processes frequently make themselves felt in the business world, both on the regional and the national level. The Business-Consumer market is relatively small for foreign businesses because domestic businesses cover all areas and get preferential treatment. Business-Government is in many cases vital and cover political contacts plus contacts to the regional and federal bureaucracies.

NEW SOVIET

Russia’s economy seems not to have progressed much since the days of the Soviet Union. Although the country is seeing more world trade and globalization, it is a very closed Russia that seems to strive for economic self-sufficiency but refuses to realise the necessity of securing foreign investments to achieve that goal.

Literature


