



International Conference
20 March 2014

THE CHALLENGES FOR RUSSIA'S POLITICIZED ECONOMIC SYSTEM

arranged by

SWEDISH DEFENCE RESEARCH AGENCY, FOI

and

SWEDISH CHAMBER OF COMMERCE
FOR RUSSIA & CIS

at

MANNHEIMER SWARTLING

Norrlandsgatan 21
Stockholm

PROGRAMME

8.30- Registration and coffee

9.00-9.20 Opening: Björn Riese, Mannheimer Swartling; Susanne Oxenstierna, FOI; Heinz Sjögren, Swedish-Russian Chamber of Commerce.

Special guest: **Veronika Bard Bringéus**, Sweden's Ambassador to Russia.

9.20-10.50 **SESSION 1 ECONOMIC SYSTEM**

Chair: Silvana Malle, Professor Emeritus of Economic Science, Verona University

Clifford G. Gaddy & Barry W. Ickes, Brookings Institution and Pennsylvania State University	Putin's Rent Management System and the Future of Addiction in Russia
Vladimir Gimpelson & Rostislav Kapeliushnikov, Higher School of Economics (HSE), Moscow	Between Light and Shadow: Informality in the Russian Labour Market
Andrei Yakovlev, HSE, Moscow	State-Business Relations in Russia after 2011: "New Deal" or Imitation of Changes?

10.50-11.10 Coffee break

11.10-12.45 **SESSION 2 INSTITUTIONS, PRODUCTIVITY AND ENTREPRENEURSHIP**

Chair: Anders Fogelklou, Professor of Law, Uppsala University

Susanne Oxenstierna, Swedish Defence Research Agency, Stockholm	Russia's Economic Decline. Are stronger Institutions the Remedy?
Masaaki Kuboniwa, Hitotsubashi University, Tokyo	The impact of Total Factor Productivity and Institutional Weakness on Russia's Growth Retardation
Ruta Aidis, George Mason University	Is Russia an 'Entrepreneurial Society'? A Comparative Perspective

12.45-13.45 Lunch

13.45-15.15

SESSION 3 REGIONAL DEVELOPMENT

Chair: Ann-Mari Sätre, Associate Professor of Economics, Uppsala Centre for Russian and Eurasian Studies (UCRS), Uppsala University

Nataliya Zubarevich, Moscow State University (MGU) & Independent Institute for Social Policy, Moscow	Regional Development and Inequality: Factors and Trends
Robert Ortung, George Washington University	Center-Periphery Relations in the Development of Russia's Arctic Energy Resources
Carol Scott Leonard, Oxford University & HSE, & Irina Ilina, HSE, Moscow	Russian Regional Finance: Managing Resource Abundance. A case study of Khanty-Mansyisk

15.15-15.45 Coffee break

15.45-17.15

SESSION 4 DEMOCRACY AND THE ECONOMY

Chair: Michele Micheletti, Professor of Political Science, Stockholm University

Richard Sakwa, Kent University	Crisis of Russian Democracy: From the Dual to the Triple State?
Jens Siegert, Heinrich Böll Stiftung, Moscow	Russian Civil Society. Recent Developments
Carolina Vendil Pallin, Swedish Defence Research Agency (FOI)	Managing Citizens instead of Subjects

17.15-17.30 Final words and closing of the conference.

SHORT BIOGRAPHIES



VERONIKA BARD BRINGÉUS is Sweden's Ambassador to Russia since 2012. Before this appointment she was head of Sweden's permanent delegation to OSCE and held senior positions at Sweden's Embassies in Vienna, London, and Bonn.



SUSANNE OXENSTIERNA, Dr., is a senior economist in the Russia project 'RUFs' at the Swedish Defence Research Agency, FOI. She worked as an international expert with the Russian Ministry of Finance in the 1990's and the Ministry of Development and Trade in the 2000's. Recent publications are 'Russia's Economic Modernization', Nordisk Östforum, 26:1, 2012, and Russian Energy and Security up to 2030 with Veli-Pekka Tynkkynen (eds), Routledge, December 2013.



HEINZ SJÖGREN is Chairman of the Swedish-Russian Chamber of Commerce. Heinz Sjögren has vast experience in banking, most recently from Swedbank 1996-2009, where he among other things was Regional Manager for Eastern Europe. Prior to that at SEB between 1988-1996, he was Head of the Representative office in Moscow during the years 1990-1992 and Head of the Trade Finance Dept. 1994-1996.



RUTA AIDIS PhD. is a Senior Fellow at the Center for Entrepreneurship and Public Policy (CEPP) at George Mason University and Associate Researcher at Kaunas University of Technology. She is also VP Research for the GEDI Institute. She has conducted extensive comparative research in former Soviet countries. Her research focuses on institutional environment and entrepreneurship development. In 2013, she spearheaded the creation of the first ever index measuring female entrepreneurship development (Gender-GEDI) which includes Russia.



CLIFFORD G. GADDY is Senior Fellow at the Brookings Institution, Washington, DC. He is an economist specializing in Russia, holds a joint appointment as senior fellow in the Foreign Policy program's Center on the United States and Europe and the Global Economy and Development program. He is a co-founder and senior scientific advisor of the joint Russian-American Center for Research on International Financial and Energy Security (CRIFES), based at Penn State University.

BARRY W. ICKES is Professor and Associate Head of the Department of Economics and Director of the Center for Research on International Financial and Energy Security (CRIFES) at the Pennsylvania State University, and Nonresident Senior Fellow at the Brookings Institution, Washington, DC.



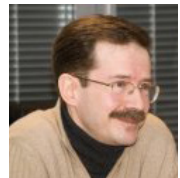
VLADIMIR GIMPELSON is the Director of the Centre for Labour Market Studies and Professor at the Higher School of Economics (HSE) in Moscow. He has studied various aspects of labour market development in the transition countries with special focus on Russia. Among his multiple publications is the book *The Russian Labour Market Between Transitions and Turmoil*, Rowman & Littlefield, 2001.



ROSTISLAV KAPELIUSHNIKOV is Chief Researcher at the Institute of World Economy and International Relations, the Russian Academy of Sciences (IMEMO), in Moscow and the Deputy Director of the Centre for Labour Market Studies at the HSE in Moscow. His areas of interest include labor economics, institutional economics, economics of transition.



ANDREI YAKOVLEV is the Director of the Institute for Industrial and Market Studies at HES, Moscow. He was awarded his PhD in Economics and Statistics at Moscow state University (MGU) in 1992. His research interests are comparative studies in corporate governance, industrial policy and the political economy of reforms. Among his publications is *Organization and Development of Russian Business: A Firm-Level Analysis*, Palgrave, 2009.



MASAAKI KUBONIWA is a Professor at Institute of Economic Research, Hitotsubashi University in Tokyo. He received a Ph. D from Hitotsubashi University and Honorable Doctor from Central Economics and Mathematics Institute, Russian Academy of Sciences. He is an executive officer of the Association for Comparative Economic Studies.





NATALIA ZUBAREVICH is a Professor at Department of Geography at Moscow State University (MGU). She is also Director of the Regional Program of the Independent Institute for Social Policy. Her key qualifications are economic and social development of Russia's and CIS' region; human development; and urban and rural development.



ROBERT ORTUNG is an Associate Research Professor of International Affairs and the Assistant Director of the Institute for Russian, European, and Eurasian Studies at The George Washington University Elliott School of International Affairs. He is also a visiting fellow at the Center for Security Studies at the Swiss Federal Institute of Technology Zurich. He is the managing editor of *Demokratizatsiya: The Journal of Post-Soviet Democratization* and a co-editor of the *Russian Analytical Digest* and the *Caucasus Analytical Digest*.



CAROL SCOTT LEONARD is a Professor and Department Chair at the Higher School of Economics, Moscow (HSE), and Emeritus Fellow of St. Antony's College, Oxford. She was US Treasury economic and budget advisor to the Russian Ministry of Finance 1993-1996. She is author of *Privatization in Transition in Russia in the Early 1990s*, Routledge, 2013, and the prize-winning *Agrarian Reform in Russia: The Road from Serfdom*, Cambridge, 2011.



IRINA ILINA is Professor of Regional Studies and Director of the Institute of Regional Studies and Urban Planning at HSE. She is a former Deputy-Major of Moscow, and she led a winning Franco-Russian team in the competition for planning strategies for 'Greater Moscow'. Her book on One-Profile Towns is forthcoming this year.



RICHARD SAKWA is Professor of Russian and European Politics at the University of Kent and an Associate Fellow of the Royal Institute of International Affairs, Chatham House. Recent books include *Russian Politics and Society* (Routledge, 4th edn 2008); *Putin: Russia's Choice*, Routledge, 2nd edn 2008; *The Quality of Freedom: Khodorkovsky, Putin and the Yukos Affair*, Oxford University Press, 2009, and *The Crisis of Russian Democracy: The Dual State, Factionalism, and the Medvedev Succession*, Cambridge University Press, 2011.



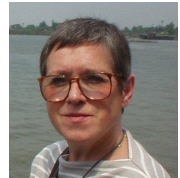
JENS SIEGERT holds a Master in Political Science. From 1988 to 1999 he worked as a journalist and since 1993 he is based in Moscow. Since 1999 he works as the Director of the Moscow office of the Heinrich-Böll-Stiftung. He is an expert on Russian domestic and foreign politics with a special focus on civil society issues.

CAROLINA VENDIL PALLIN is Deputy Research Director at FOI. She holds a Ph.D. from the London School of Economics. Her previous positions include Senior Research Fellow at the Swedish Institute for International Affairs and Expert Advisor for the Swedish Defence Commission. Vendil Pallin is also a member of the Royal Swedish Academy of War Sciences.



CHAIRS

SILVANA MALLE is Professor Emeritus of the University of Verona. Her main fields of research are Economic Development, Transition Economics and Political Economy. She is the Director of the Centre of International Studies in 2011 after leading since early 1990 the CEWSEI, Centre for East-West Studies and European Integration at the Department of Economic Science, University of Verona. She is also senior honorary fellow of CREES (Centre for Russian and East European Studies) – University of Birmingham, U.K.



ANDERS FOGELKLOU is Professor Emeritus, at the Centre for Russian and Eurasian Studies at Uppsala University. He has a Ph.D from Uppsala University. In 1994 he was appointed Professor in East European Law and Society. Between 2000 and 2004 he was Professor in Comparative Constitutional Law at Riga Graduate School of Law. His research interests are focused on Russian law and society.



ANN-MARI SÄTRE is an Associate Professor and economist specialized in the structure and performance of the Soviet/Russian economy. She is a senior lecturer and researcher at the Centre of Russian and Eurasian Studies at Uppsala University (UCRS). Her current research focuses on poverty, local development and gender issues in Russia. Her most recent publications concern women's work in contemporary Russia.



MICHELE MICHELETTI is Lars Hierta Professor of Political Science at Stockholm University. She was a member of the SNS Democratic Audit and has contributed to several parliamentary investigations in Sweden and conducted research for and advised Swedish civic associations and political parties. Her publications include Civil Society and State Relations in Sweden (1995) and Political Virtue and Shopping: Individuals, Consumerism, and Collective Action (2003).



ABSTRACTS

1. ECONOMIC SYSTEM

Putin's Rent Management System and the Future of Addiction in Russia

CLIFFORD G. GADDY, BROOKINGS INSTITUTION & BARRY W. ICKES, PENNSYLVANIA STATE UNIVERSITY

Russia's political economy is characterized by the distinctive system for managing its resource rents established by Vladimir Putin. Clifford Gaddy and Barry Ickes explain this system and examine its likely future evolution. They provide a framework for analyzing key variables and underlying trends by asking questions such as: How well can the system cope with the fundamental uncertainty of the prices of the resources? What are factors impacting decisions about the future volume of production of the resources? How robust are the current priorities for use of the rent? How stable is the current arrangement for managing the small number of individuals who nominally own sources of rent - the 'oligarchs'.

Between Light and Shadow: Informality in the Russian Labour Market

VLADIMIR GIMPELSON, HSE AND IZA, AND ROSTISLAV KAPELIUSHNIKOV, HSE AND IMEMO

Informality has become a salient feature of the Russian labour market. Economic growth in Russia in the 2000s almost doubled the country's GDP but brought little in terms of additional formal employment. More precisely, the growth was accompanied by substantial reallocation of labour to the informal sector while formal employment was on gradual decline. This raises a set of research and policy-related questions: What is the role of institutions in this productivity reducing reallocation? Who were the most exposed to informality and its associated outcomes? What are the implications of this expansion of informality for wage inequality, social mobility and earnings opportunities? The paper attempts to provide some answers to these cumbersome and uneasy questions.

State-Business Relations in Russia after 2011: 'New Deal' or Imitation of Changes?

ANDREI YAKOVLEV, HSE

In 2011-2012 Russian government introduced a number of measures to improve the investment climate, e.g. the creation of Agency for Strategic Initiatives; the establishment of an ombudsman for entrepreneurs' post in Kremlin administration; government road maps for easier management of construction permits, access to electricity, and the international trade activity of firms. As a result, in November 2013, the World Bank stated significant improvement of Russia's position in its 'Doing Business' rating. However, at the same time, Russia faces strong capital

flight, and entrepreneurs complain about predatory policy of federal agencies and regional authorities. The paper investigates the reasons for changes of politics and the contradictions in implementation of the new policy. The preconditions for real improvement of the business climate in Russia are considered.

2. INSTITUTIONS, PRODUCTIVITY AND ENTREPRENEURSHIP

Russia's Economic Decline: Are Stronger Institutions the Remedy?

SUSANNE OXENSTIERNA, FOI

After the post-crisis recovery in 2010, the growth rate of the Russian economy has declined dramatically and is down at 1.3 per cent in 2013. Recession in Europe and the world economy is part of the explanation, however, much of the stagnating growth is due to the longstanding structural imbalances and vast inefficiencies caused by the politicized economic system under Vladimir Putin. Could stronger institutions spur growth? The paper investigates the potential implications of Russia's rent dependent economic system on modernization and attempts to reform institutions, business climate and economic governance.

The impact of total factor productivity and institutional weakness on Russia's growth retardation

MASAAKI KUBONIWA, INSTITUTE OF ECONOMIC RESEARCH, HITOTSUBASHI UNIVERSITY IN TOKYO

Presented here is an analysis of the impact of total factor productivity (TFP) and institutional weakness on the present growth retardation in Russia. First, I present the short-run and long-run movements of TFP by using the estimation of production function. Second, I report the relationship between TFP and growth in the present Russian economy. Third, I consider the impact of institutional weakness on Russia's growth, employing the World Bank's Worldwide Governance Indicators (WGI).

Is Russia an 'entrepreneurial society'? A comparative perspective

RUTA AIDIS, SENIOR FELLOW, CENTER FOR ENTREPRENEURSHIP AND PUBLIC POLICY, GEORGE MASON UNIVERSITY

At first glance, the institutional environment for entrepreneurship development in Russia looks bleak. In the World Bank's Worldwide Governance Indicators (WGI) Russia's already relatively weak position in 1998 and 2004 has further deteriorated for four out of the six measures used. The specific situation for entrepreneurship

development in Russia is analyzed based on results of the Global Entrepreneurship Monitor (GEM) supplemented by survey data from the Flash Eurobarometer which included Russia in 2012. We utilize a comparative perspective to explore Russia's current situation and to provide insights into the future prospects for Russia as an entrepreneurial society.

3. REGIONAL DEVELOPMENT

Regional Development and Inequality: Factors and Trends

NATALIA ZUBAREVICH, MGU & INDEPENDENT INSTITUTE FOR SOCIAL POLICY

The vast Russia's territory intensifies spatial contrasts of socio-economic development. The main competitive advantages for Russian regions are the mineral resources availability, agglomeration (scale) effect accelerating the big cities development as well as institutional factors e.g. capital status of the biggest city Moscow etc. and to some extent geographic location. From the mid-2000s Russia demonstrated decline of regional inequality, but negative institutional factors weakens this trend.

Center-Periphery Relations in the Development of Russia's Arctic Energy Resources

ROBERT ORTTUNG, THE GEORGE WASHINGTON UNIVERSITY ELLIOTT SCHOOL OF INTERNATIONAL AFFAIRS

This paper examines the development of the relationship between Moscow and the regions during the post-Soviet period by examining a case study of the relationship between Moscow and the Yamal-Nenets Autonomous Okrug, the most important region for producing natural gas. In addition to the state institutions, the analysis will include a focus on the corporations involved. The paper examines how Kremlin policy works to develop the region and the consequences for the local economy and environment. The focus will be on urban development and the provision of social services. A preliminary hypothesis is that extensive centralization makes it difficult to develop the resources in an environmentally effective manner.

Russian Regional Finance: Managing Resource Abundance. A Case Study of Khanty-Mansyisk

CAROL SCOTT LEONARD, OXFORD UNIVERSITY & HSE & IRINA ILINA, HSE

This paper is part of a larger project on governance and growth in Russia's regions and examines a case study of the Khanty-Mansyisk budget strategy for diversification and growth in an oil abundant region. As Russia's economy grows more concentrated, 'partial centralization', the modern and reformed regime in Russia, aims to promote local initiative while also fiscal equalization. Federal spending recently enjoyed considerable success during the financial crisis. Since 2009, it has weaned regions off federal subsidies. This case study asks if capacity building is effect on one oil-abundant region, or is growth constrained by federal budget policies.

4. DEMOCRACY AND THE ECONOMY

Crisis of Russian Democracy: From the Dual to the Triple State?

RICHARD SAKWA, KENT UNIVERSITY

Russia remains locked in an extended moment of transition, giving rise to a dual state and economy and a stalemated political order. Two regulatory regimes in the political and economic sphere coexist, which in short-hand we can label the democratic and the dirigiste, allowing neither free rein and their inherent ordering principles of both are stymied. The long-term balance between the constitutional state and the administrative regime is in danger of allowing the development of a dangerous third arm, the corruption associated with the third state of crony capitalist relations where meta-corruption dissolves into extensive veal corruption.

Russian Civil Society. Recent Developments

JENS SIEGERT, HEINRICH-BÖLL-STIFTUNG

The relationship between Russian Civil Society Organisations (NGOs) and the state is mixed and complex. In some respects the NGOs are the advance party of a Russian middle class, developing new, integrative rules of participation, which might help the country on its way to modernize both, society and economy. Since 2000, the Kremlin tried at least three times to integrate them into its corporate system: 2001 by organizing a 'Civil Forum', 2005-2006 by adopting a repressive law on NGOs and 2012-2013, by means of the so named Foreign Agents Act. The outcome of the recent attempt to suppress NGOs has to be awaited yet, but there is a good chance that the NGOs will be successful again.

Managing Citizens instead of Subjects

CAROLINA VENDIL PALLIN, FOI

A growing section of the Russian population put forward new demands on the country's authorities. This group in society appear to partly embrace new sets of values and to abandon old attitudes that have long been dominant among the population. Catering for these new groups or finding ways of not doing so will be one of the main challenges ahead for Russian authorities both on the federal, regional and local level. The paper will, first, analyse opinion polls and attitudes among different sections of the Russian population, second, look into strategies that the authorities have employed so far to meet the new demands that emerge from significant sections of society.

SWEDISH DEFENCE RESEARCH AGENCY, FOI

FOI is one of Europe's leading research institutes in the areas of defence and security. FOI has 1 000 highly skilled employees with varying academic background. There are physicists, chemists, engineers, economists, political scientists, historians, mathematicians and philosophers, lawyers, and IT technicians. FOI's core activities are research, methodology and technology development, analyses and studies. FOI is an assignment-based authority under the Swedish Ministry of Defence. Because FOI is assignment-based, we price and sell our services at competitive rates.

RUFS is the "Russia project" (www.foi.se/russia) and the largest project at the Department for Security Policy and Strategic Studies at FOI. Apart from Russia, the research at the department focuses on the Baltic countries, Euro-Atlantic security, Africa and Asia. In addition to security analysis, strategic studies of political, economic and military development are conducted.

Research in RUFS includes Russian domestic, security and foreign policy; Russian economic development; Russian energy; and developments in other CIS countries. Every year a number of reports, popular publications, international scientific articles and books, are produced by a team of eight senior and junior scholars. RUFS' primary client is the Swedish Ministry of Defence. Every two-three years, the project conducts a ten-year assessment of Russian military capability. RUFS has cooperation with a number of scientific institutions e.g. Gaidarinstitute in Moscow, FFI in Norway, CAST in Moscow and Aleksanteri Institute in Helsinki.

THE SWEDISH CHAMBER OF COMMERCE FOR RUSSIA & CIS

The Swedish Chamber of Commerce for Russia and CIS (www.swedishrussian.com) is an information and contact organization. The mission is to promote trade and economic cooperation between Sweden and Russia and CIS as well as to work as a forum for new ideas and exchange of experiences. The member companies have a deep experience of the Russian and Swedish markets.

The Chamber has a broad network including contacts with Swedish and Russian companies and organizations, the Swedish Ministry for Foreign Affairs, Business Sweden, SITE-Stockholm School of Economics, the Trade Delegation of the Russian Federation, among others. A newsletter, issued ten times a year, covers information about business opportunities and trade as well as current events in Russia and CIS. A membership in the Chamber is a company membership which enables all persons in the member company to take part of information, meetings, events, and other activities.

The origin of the Chamber was *The Committee for Furthering Trade between Sweden and the Soviet Union* that was established in 1968 on the initiative of the Swedish Export Association (Exportföreningen) and the Swedish Federation of Trade (Grossistförbundet Svensk Handel) that were the Chamber's principals 1968-1995. In 1991, the name was changed to *Sweden-USSR Business Council*. At the Annual General Meeting in 1995 it was decided to change the Council to a Chamber of Commerce.