



RAWI ABDELAL
SOGOMON TARONTSI

Russia: Revolution and Reform

La Russie ne boude pas; elle se recueille [Russia is not sulking; she is collecting herself].

—Prince Alexander Mikhailovich Gorchakov, Russian foreign minister (1856–82)

Millions of Russians feared poverty, hundreds of thousands expected layoffs, and firms contemplated heavy losses just a few months into Dmitry Medvedev's presidency, which had marked post-Soviet Russia's third transfer of power in the spring of 2008. The relative prosperity of the past eight years seemed, all at once, precarious. Perhaps, as had happened so many times before, Russia would plunge into chaos. Would this new crisis undermine Russia's hard-won stability?

The crisis had begun relatively innocuously in July 2008 with the withdrawal of some investors following the criticism by Prime Minister Vladimir Putin and law-enforcement agencies of three major Russian companies for price-fixing. The government had only been trying to rein in inflation, but past experience had taught investors that tough talk by Putin could result in arbitrary litigation. Then in August, the Russian army crossed into neighboring Georgia in response to the latter's attack on South Ossetia, a disputed territory allied with Russia. The five-day war seemed to spook investors: Russian equity markets fell some 35%, and \$50 billion of capital fled the country.¹ Russian stock indexes lost another 50% in September as the financial crisis in the United States reverberated across the world.²

The U.S. crisis, a global liquidity crunch, and worldwide recession sharply cut the demand and prices for Russia's main exports: oil, natural gas, and metals. The demand for the ruble, the Russian currency, fell, and so did its worth in relation to the dollar. The biggest Russian corporations, mostly exporters of commodities, faced takeover by foreign lenders after having accumulated massive amounts of foreign currency-denominated debt. By October, banks had stopped lending, thereby paralyzing small and medium-size businesses.³ By November, Russia was engulfed by a severe economic crisis.

Medvedev's heavy burden was to formulate the government's response. For Russia, the crisis would inevitably be a test not only of the country's model of capitalism but of its political system as well. The 1990s had been chaotic and economically calamitous but had also witnessed the death of the Soviet Union and the birth of new liberties for a Russian society that had never known them before. The first decade of the new century had been more stable, but arguably at the cost of excessive political centralization.

Professor Rawi Abdelal and Research Associate Sogomon Tarontsi, A.M., prepared this case. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2010 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to www.hbsp.harvard.edu/educators. This publication may not be digitized, photocopied, or otherwise reproduced, posted, or transmitted, without the permission of Harvard Business School.

The Age of Revolution

For Russians like Medvedev, the global economic crisis of 2008 was yet another cataclysm since Mikhail Gorbachev set off a program of gradual modernization soon after ascending to Soviet leadership in 1985.⁴ Alas, there had been many. Gorbachev sought to strengthen the Soviet Union and its Socialist system by selectively loosening the control of the state over political and economic life. So when the 21-year-old Medvedev graduated from Leningrad State University's law department in 1987, Gorbachev's policies of *perestroika* and *glasnost* brought freedoms of which Soviet society had been deprived for seven decades. Freedom of speech, assembly, and worship, among others, were increasingly tolerated by Soviet authorities. Soon, small nonstate enterprises were permitted. In politics, the first competitive elections promised greater democracy and accountability.

Gorbachev's reforms precipitated escalating, multipronged attacks on the Communist Party of the Soviet Union (CPSU)—essentially the embodiment of the Soviet state authority that held together a massive Communist empire, based on one-party rule and a command economy. As the cracks in the edifice multiplied and widened, the country, its empire, and its system began to crumble. In the time it took Medvedev to earn a doctorate in civil law from his alma mater between 1987 and 1990, the country had profoundly changed.

In March 1990, the Congress of People's Deputies, the highest legislative body in the Soviet Union at the time, repealed the constitutional provision granting the CPSU a monopoly on power and instituted the presidency of the USSR, to which Gorbachev was elected by the deputies. Gorbachev and his democratic allies succeeded in removing the CPSU from power but, fatefully, failed to institute effective authority in its place. As Soviet citizens gained the freedom to discuss, print, elect, vote, assemble, worship, and travel for the first time, they were also increasingly deprived of guaranteed enforcement of law and order and rudimentary economic security.

The country risked continued political and economic fragmentation. The fall of CPSU removed a centralizing institutional mechanism that had neutralized the powers of the 15 union republics vis-à-vis the center, embedded in the formally federal structure of the Soviet Union. Although demand for greater autonomy in several of the 15 union republics intensified into demands for full-fledged independence, Gorbachev, in contrast to his policy toward Eastern Europe, was determined to preserve the union. Sending troops to Tbilisi (April 1989), Baku (January 1990), and Vilnius (January 1991), Gorbachev sought, if necessary, to coerce unity, to no avail. In August 1991, hard-liners in the bureaucracy tried—and failed—to remove Gorbachev from power in a desperate coup to prevent the disintegration of the Soviet state.

The disintegration of the USSR was spurred by the drive for greater autonomy by the largest union republic, the Russian Soviet Federated Socialist Republic (RSFSR) under the leadership of Boris Yeltsin. Demoted by Gorbachev from high-ranking positions, Yeltsin reentered politics in 1989 as a deputy in the RSFSR's legislature and became its chairman in May 1990. In June 1991, Yeltsin was elected to the newly created position of the president of RSFSR for a five-year term, the first Russian leader to be chosen by a direct popular vote.

Yeltsin, urging radical changes, told RSFSR legislators in October 1991, "The period of movement by small steps is over. We now need a reformist breakthrough." That breakthrough, as envisioned in a plan drawn up by the economist Yegor Gaidar, sought no less than a social revolution that would erase in one stroke all vestiges of the planned economy: lifting price controls, eliminating trade restrictions, setting hard budget constraints for firms, and creating private property. In view of the degree of nationalization in the Soviet Union, the last of these goals would constitute the "largest divestiture of state resources anywhere in history."⁵ The revolution, as Yeltsin saw it, would quickly bring prosperity to the Russian people. It would be different from Gorbachev's cautious half-

measures and more akin to the modernization of Peter the Great.⁶ The ruthless 18th-century tsar had famously tried to implant in Russia the seeds of Western modernity, mainly technological advancements that had organically developed over several centuries in northern Europe. There was nothing organic in Peter's methods: he simply decreed modernity.

On November 1, 1991, the Congress of People's Deputies of RSFSR vested in Yeltsin extraordinary powers for 12 months, powers such as the right to issue decrees even if they contradicted existing legislation, as well as the opportunity to appoint provincial heads directly. On December 8, the leaders of the Russian, Ukrainian, and Belarusian Soviet republics signed an agreement that effectively dissolved the Soviet Union. The Alma-Ata Protocol signed on December 21 by 14 Soviet republics (Georgia was absent) confirmed the end. The USSR was replaced by 15 independent states.

On January 1, 1992, Medvedev, like millions of his compatriots, woke up in a different country. The RSFSR became the Russian Federation. The "reformist breakthrough" began in earnest the next day with the removal of price controls. Privatization of 50% of small and medium-size enterprises was planned within six months; large firms were to be turned into stock companies for impending sales of their shares to the public. The civil law in which Medvedev specialized was in a state of permanent change. Medvedev at this point had been working for the government of his native Petersburg⁷ for a year and half. Anatoly Sobchak, a former professor of law who had been elected chairman of the city council on a platform of liberalization, invited his former student to join his team as a legal adviser. Medvedev joined a group of experts headed by Vladimir Putin, 11 years his senior, also a native of the city, a graduate of Leningrad State University's law department, and a student of Sobchak's.⁸

Putin had been an intelligence officer in the KGB, the Soviet security service, working undercover in East Germany when the Berlin Wall fell. A soldier of empire, Putin returned in January 1990 disillusioned, he would later admit, with the KGB and the incompetence of the Soviet leadership. Putin enthusiastically accepted Sobchak's offer of employment at city hall. Putin seemed to have accepted the inevitability of the collapse of the Soviet Union; with Sobchak, he supported Yeltsin against the hard-liners during the August 1991 coup. As the portraits of Lenin were being replaced by the portrait of Yeltsin, Putin opted instead for a likeness of Peter the Great, depicted in his later years, when the tsar laid the foundation of the empire. Peter's legacy was, evidently, manifold.

Yeltsin, like Peter, was brash and impatient. His confrontation with the federal legislature over the design of a new constitution boiled for much of 1993,⁹ exploding on October 4, when the army, acting on Yeltsin's written order, stormed the parliament building, forced its evacuation, and arrested the parliamentary leaders. The Russian voters endorsed Yeltsin's constitution with 58% of the vote on December 12.¹⁰

The adoption of the 1993 constitution in one bold step tossed aside the remnants of Soviet institutions and laid institutional foundations for a new Russia that unambiguously stipulated a political system based on democratic procedures and liberal rights; an economic system based on private property and the free market; and a federal system of relations between the center and the provinces. In December 1993, however, Russia was neither a democracy nor a market economy, and restive provinces were tearing the federation apart. Thus Russia began its quest to fulfill the promise of its first constitution.¹¹

Made in the Kremlin: Politics without Parties

The 1995 Duma elections were the first major vote in the context of the new, explicitly democratic and liberal political system provided by Yeltsin's constitution.¹² These elections revealed, however,

that Russia did not yet have a system of political parties: voters found 43 parties on the ballot, and about half of the votes were cast for parties that received less than the 5% necessary to get into the Duma.¹³

The CPSU was the only institutionalized party that Russia could have potentially inherited from the Soviet Union. The Communist Party of the Russian Federation (*KPRF* in Russian), created in 1993 and headed since then by Gennady Zyuganov, took over the CPSU's mantle. The KPRF was the only well-organized party with grass-roots support. But the party's antisystemic views endangered Yeltsin's democratic-capitalist project. The Kremlin in the spring of 1995 created two parties: one (Bloc of Ivan Rybkin) with leftist views to erode the vote for the Communists and another (Our Home Is Russia) with rightist views to support Yeltsin's policies in the legislature. Bloc of Ivan Rybkin failed, winning only 1.1% of the party list vote, while Our Home Is Russia established a modest presence in the State Duma with 10.1% of the vote.¹⁴ The Communists held their majority.

Yeltsin did not lead, let alone join, any party, in part because he thought that the president should be above party politics, but also because a strong, institutionalized party might have incubated challengers to his leadership.¹⁵ This approach robbed Yeltsin of support in the legislature, however, and undermined his efforts to implant a democratic polity in Russia. Lack of an effective party organization that would champion Yeltsin's candidacy in the 1996 presidential elections would also make the victory much harder.

Yeltsin had decided to run for reelection in late 1995, although public opinion polls had showed that the harsh economic measures and ongoing violence in a separatist province, Chechnya, had left him with a meager 5% support among voters. In the spring of 1996, Yeltsin considered postponing the elections until 1998 by decree but was forced to give up the idea after his own legal advisers, aides, key government officials, influential businesspeople, and foreign leaders strongly objected. Yeltsin then campaigned vigorously against his main opponent, Zyuganov of the KPRF. The incumbent's standing steadily improved, and he won the election in two rounds on June 15 and July 3, though he suffered two heart attacks between the rounds. Yeltsin's health deteriorated during second term.¹⁶

Appeasement and War: Tying the Federation Together

Even before the collapse of the Soviet Union, Yeltsin tried to halt the metastasis of regional separatism within Russia.¹⁷ He had sent the interior troops to Chechnya after it declared independence in November 1991. Throughout that year, Yeltsin had also been negotiating the Federative Treaty between the federal center and the 89 Russian provinces, many of which, true to the spirit of the time, had been asserting greater autonomy (*suverenitet*) from the center.¹⁸ In late March 1992, the Russian federal government and provinces, with the exception of Chechnya and Tatarstan,¹⁹ signed the treaty, which was eventually superseded by the 1993 constitution.²⁰

The constitution, which had reaffirmed the status of Chechnya and Tatarstan as subjects of the federation, was supposed to have definitively settled the balance of power between the federal government and the regions. In reality, the federal government was unable to impose fully its authority in the country. The provinces tried to increase their autonomy to the fullest extent possible. Appeasement of the most unruly provinces soon led to greater demands from the rest. For example, once Yeltsin allowed direct elections of presidents in the republics, regions felt disempowered, and so by December 1995 gubernatorial elections became commonplace. (See **Exhibit 1** for an illustration of Russia's federal structure.)

A few provinces, flagrantly disregarding the new constitution, did not seek permission from Moscow at all and claimed that their laws took precedence over federal law. At least a dozen provinces actually violated federal laws; the Kremlin's count was 30. Sixteen claimed the right to conduct an independent foreign economic policy. Nine claimed the right to control the natural resources within their territory. According to the Ministry of Justice, between 25% and 35% of provincial legislation did not conform to federal laws or the constitution. Regional fragmentation hampered the economic development of the country as a whole since goods could not always move freely across regional borders. Provinces often failed to transfer to Moscow the federal center's share of tax revenue or negotiated favorable deals.²¹

President Yeltsin, anxious to hold the fragile federation together, signed a number of bilateral treaties with various republics and regions, each redefining authority that was supposed to have been settled in the constitution. A number of these bilateral treaties rearranged authority over taxes, costing the federal treasury hefty sums. In 1994, when provinces enjoyed the greatest autonomy, they kept 70% of taxes, up from 47% in 1992.²²

Power-sharing treaties, often incongruent with the spirit, if not the letter, of the constitution, seemed to have been an effective political ploy to forestall the fragmentation of Russia in the 1990s. Tatarstan, one the most defiant provinces, abandoned serious efforts to secede after the 1994 treaty²³ and concentrated, per Yeltsin's advice, on acquiring as much "sovereignty" (read "autonomy") as it could "swallow."

Yeltsin, however, failed to appease Chechnya, whose bloody rebellion continued. Yeltsin ordered the army and interior forces to induce compliance in Chechnya in the winter of 1994. Insofar as the constitution stipulated Chechnya to be part of the Russian Federation, the coercive operation purported to restore constitutional order in the breakaway province. Yeltsin feared that Chechen independence would initiate a chain reaction leading to the breakup of Russia.

The invasion began on December 11. The military quickly secured physical control of parts of the republic, but real political control remained elusive. The leaders of the rebellion turned to guerrilla warfare. A brutal war dragged on for years with no conclusive end in sight. As the death toll mounted into the tens of thousands, Russian public opinion turned against the war, even more so after atrocious acts of terrorism outside of Chechnya brought the war close to home.²⁴ In August 1996, Russian authorities and Chechen representatives signed a cease-fire agreement that postponed the decision of the key question of Chechnya's status until 2001. The rebels meanwhile controlled Chechnya.

Market Revolution: Fiscal Incapacity and the Birth of Oligarchy

Yeltsin's push to establish capitalism in Russia soon began to undermine the fiscal health of the state. Economic reforms produced prolonged recession, deindustrialization, and widespread poverty, which in turn contracted the tax base. The new, more complex economy was also harder to tax: there were more producers of different types; the new firms tended to be small enterprises offering services; informal activities and barter schemes flourished.²⁵ The Kremlin's having traded tax concessions for political acquiescence further undermined the federal budget. Furthermore, the state lacked the administrative capacity to collect those taxes that were still formally due. According to one study, "In the mid-1990s only 8% of large enterprises paid their taxes with money, 63% paid in kind, and 29% paid nothing at all."²⁶

In March 1995, a group of private bankers proposed a solution to Yeltsin's fiscal problems. Vladimir Potanin, head of Oneksimbank, in consultation with others, suggested that the banks offer

the Russian government a large loan for one year. As collateral, the banks would hold and manage the state's blocks of shares in 29 large Russian firms, most of which were state-owned oil and minerals producers. The block of shares in each firm was to be distributed to a specific bank to hold in trust after an open and competitive auction, or "pledge auction," as the government called it. The proceeds of each auction were "loaned" to the Russian government. If, at the end of the year, on September 1, 1996 (after the summer's presidential elections), the Russian government elected not to repay the loan, ownership of the blocks of shares would be transferred to the winners of the pledge auctions, who would have been holding and managing the shares.²⁷ In August, Yeltsin agreed.

For the most part, the banks colluded among themselves in advance which bank would bid for each block of shares. The outside bidders were disqualified on technical grounds by the state agency in charge of public property, the GKI. Of the 12 pledge auctions held, one of the more controversial cases involved Norilsk Nickel, a conglomerate the holdings of which produced 20% of the world's nickel and 40% of its platinum. On November 17, 1995, the auctioneer, Onexsimbank, won the auction of Norilsk Nickel's shares, bidding \$170.1 million, up from a starting price of \$170 million set by the GKI. The GKI had disqualified the only other bidder, which, as it turned out, had offered \$355 million. Thus, Potanin, the creator of the pledge auctions plan, received one of its largest prizes.

This "loans-for-shares" scheme turned other bankers into industrialists, who found themselves, by the stroke of a pen, in control of the commanding heights of the Russian economy. Firms associated with Boris Berezovsky, for example, acquired a controlling stake in the Sibneft oil company for \$100.3 million (up from a starting price of \$100 million), after a competing bid of \$175 million was disqualified because the bank guarantee was not properly signed. Mikhail Khodorkovsky's Menatep, in another example, acquired a 45% of the Yukos oil company for \$159 million (up from a starting price of \$150 million) and then another 33% for \$150.1 million (up from a starting price of \$150 million).

The rise of Khodorkovsky, Berezovsky, Potanin, and other so-called oligarchs from ordinary Soviet citizens to barons of industry in a few years was as controversial as it was historically exceptional. Khodorkovsky, for example, was only 32 when his bank acquired the Yukos oil company. A son of Moscow engineers, the future billionaire had studied chemistry in the university and prepared himself for advancement in the Communist Party hierarchy by sharpening his leadership skills in his institute's branch of Komsomol, the Communist Youth League. But like many future captains of Russian industry, Khodorkovsky had opted to take advantage of the opportunities for small-scale entrepreneurship unexpectedly available in the Gorbachev era. In 1991, Khodorkovsky had also sided with Yeltsin against the coup plotters.²⁸

The "loans-for-shares" arrangement netted the government \$800 million, a temporary patch on the gaping fiscal hole. But Yeltsin also received multifaceted support from the oligarchs in the 1996 presidential elections: from financing of the campaign to favorable coverage by oligarch-owned media. The oligarchs lent their unqualified support to Yeltsin on the assumption that Zyuganov's victory would carry an existential threat to their property and possibly their safety.

In the longer run, however, "loans for shares" exacerbated the fiscal problems. Tax evasion by individuals and firms, big and small, continued unabated during Yeltsin's second term, in part because the taxes were burdensome, introduced and abolished arbitrarily by federal and provincial authorities.²⁹ The government in 1996 realized that, pending a major tax reform, the fastest route to revenue was to target the 20 largest firms that together owed taxes worth some 4% of GDP.³⁰ But "loans-for-shares" made the oligarchs more influential than ever, and they successfully lobbied the legislature, pressured the state agencies, and manipulated courts to obstruct the tax reform.³¹ The government was forced to issue a newly created government bond, which generally yielded 30% to 40% a year, eventually reaching 150%.

The state's incapacity to break free from this vicious cycle reached a crisis point in the summer of 1998. On August 17, Prime Minister Sergey Kirienko announced that the government would default on its domestic debt, devalue the ruble, and impose a moratorium on repaying foreign private debt. The crisis caused a temporary paralysis of the payments and settlements system and ruined the balance sheets of the large private banks, the holdings of which were primarily in government bonds. Russians experienced a sharp drop in real income, living standards, and employment.³²

The Transfer of Power: "Operation Successor"

The default of August 1998 marked the lowest point of the preceding decade's seemingly endless succession of political and economic crises in Russia. Weary of upheaval and dislocation, Russians were disillusioned with their new system. Their leader seemed to be at his nadir. Highly unpopular, Yeltsin approached retirement from politics gravely ill, his working day limited to a few hours. Yeltsin managed, however, to steer the course of history one last time.

On August 9, 1999, Yeltsin appointed Vladimir Putin prime minister and let the public know that he would prefer to see Putin as the next president. Putin had relocated to Moscow after Sobchak had lost his reelection bid for the governorship of Petersburg in 1996.³³ Out of a job, Putin once again had done some soul-searching about what would come next. He had chosen to remain in government service, accepting, with former Petersburg colleague Aleksey Kudrin's help, a job in the presidential administration. Yeltsin then had promoted Putin to head of the Federal Security Service (FSB in Russian), one of the agencies that had replaced the KGB.³⁴

Yeltsin's last gambit, almost everyone believed, would likely fail. The public knew little of Putin, whose popularity rating did not exceed the margin of error. The contest, it appeared, would be between the KPRF and Fatherland-All Russia in the December 1999 Duma elections and their respective leaders, Zyuganov and Evgeny Primakov, in the June 2000 presidential elections. The Fatherland-All Russia (OVR in Russian) electoral bloc, a quasi-party created in August 1999 by Moscow mayor Yury Luzhkov and Tatarstan's governor Mintimer Shaimiev, attracted governors and industrialists alike eager to get on the bandwagon of the next party of power.

The Kremlin responded by cloning OVR: in October it unveiled an alternate bandwagon, the Unity electoral bloc. Thirty-two governors jumped aboard immediately. Throughout the autumn, the two state-controlled television networks began a relentless attack against OVR, Primakov, and Luzhkov. NTV, the third national network (controlled by oligarch Vladimir Gusinsky, who sided with OVR), launched its own propaganda war against Putin and Unity.

Putin's strong leadership style and personal appeal, in the interim, became apparent to Russian voters from his resolute response to renewed instability in the North Caucasus.³⁵ Putin launched the second Chechen war, the aim of which was to crush the rebellion completely, install a compliant government, and definitively extend Moscow's authority to the province.³⁶ Putin's merciless prosecution of the war was not universally appreciated, but within Russia the vast majority of the citizenry seemed to welcome the possibility of a definitive, if bloody, resolution of their civil war.

By November, Unity had overtaken OVR in polls. By December, Putin's popularity had climbed above 50%. The legislative elections confirmed these trends: OVR took 13.3% of the party list vote; Unity, 23.3%.³⁷ Yeltsin then resigned on New Year's Eve, thereby triggering constitutional provisions that made Putin acting president and moved the presidential election from June to March 2000.³⁸ On March 26, Putin faced Zyuganov, Grigory Yavlinsky, and Vladimir Zhirinovskiy (Primakov and Luzhkov had dropped out of the race). With 52.94% of the vote, Putin won the election in the first round.³⁹

The Age of Reform

At his splendid inauguration ceremony on May 7, 2000, Putin was vested with impressive constitutional powers,⁴⁰ which in practice had been emasculated. The restoration of those de facto powers became his priority, powers he seemed to regard as a panacea. Putin's prosecution of the Chechen war had been the first act in this grand project and emblematically captured its essence: the restoration of the constitutional order. The war in the North Caucasus also symbolized the methods—ruthlessness and cunning—with which Putin advanced his goals. Less conspicuous were the carrots—accommodation (often temporary)—that the president combined with sticks to neutralize resistance. Although Putin often moved quickly, incapacitating opponents by surprise, blitzkriegs were only a tactic in a strategy characterized most of all by gradualism. A decade of cataclysms led Putin to value reform over revolution. Stability became the mantra of the Putin era.

Putin confronted a formidable group of stakeholders certain to lose power should the president succeed in reestablishing the authority of the executive branch of the federal government: provincial leaders; the oligarchs; foreign lenders that had insisted on economic and policy terms; foreign investors that had concluded production sharing agreements, exempting their firms from the jurisdiction of the Russian legal system; and Communists in the Duma.

Still, Putin had a few power resources of his own. Among them was Unity's significant influence in the Duma, which for most of Yeltsin's presidency had opposed the executive branch. The coercive agencies of the federal government had been consolidated during the second Chechen war. The so-called power ministries—the army, the federal police, the office of the prosecutor general, and the intelligence agencies—coalesced informally around Putin, while the president filled his staff with *siloviki*, representatives of power ministries. The Petersburg liberals, colleagues from the mayor's office and other acquaintances from the president's hometown, formed another important part of his team: Putin appointed Aleksey Kudrin, for example, minister of finance; German Gref became minister of economic development and trade; Aleksey Miller took over Gazprom, the natural gas producer, as its chief executive; and Igor Sechin, Putin's deputy in Sobchak's office, served as the new president's aide and deputy in various capacities.

On behalf of Putin, Sechin had made a phone call to Dmitry Medvedev in October 1999 inviting him to Moscow. The then-prime minister offered Medvedev a post in his government. Medvedev agreed, giving up his teaching duties and law career for the position of the prime minister's deputy chief of staff, an office headed by Dmitry Kozak, another former Petersburg colleague. When Putin became president, Medvedev moved into the Kremlin, where he combined his main duties as the president's deputy chief of staff with the chairmanship of Gazprom's board of directors. In October 2003, Medvedev replaced Alexander Voloshin, a Yeltsin-era holdover, as chief of staff.⁴¹

Putin benefited from the rejuvenating effect of the 1998 financial crisis on domestic manufacturing.⁴² Putin's ascent to power coincided with rising prices for Russia's main exports—oil and natural gas—boosting the nation's income. After nearly a decade of chronic budget deficits, the government's budget registered a surplus in 2000 for the first time in Russia's post-Soviet history.

Building the State: Act I

Oligarchs and the Putin rules Soon after Putin's election, federal agencies initiated criminal prosecution of some of the oligarchs and their businesses. The tax police accused Lukoil CEO Vagit Alekperov of improprieties. The Moscow branch of the prosecutor's office filed a lawsuit seeking to overturn the outcome of the pledge auction of Norilsk Nickel. In May, the offices of firms belonging

to Gusinsky were searched. Then on June 13, 2000, the government arrested Gusinsky on embezzlement charges.

Gusinsky's imprisonment shocked the business community and gave credence to rumors about the imminence of a sweeping review of privatization results. The oligarchs, with the exception of long-time rival Berezovsky, openly condemned Gusinsky's arrest and prepared for a collective meeting with Putin to clear the air and demonstrate their resolve. Putin spelled out his approach at the seminal July 28 meeting: privatizations would not be revisited; the oligarchs would not interfere in politics; and economic policy and legislation would be liberalized.⁴³ Boris Nemtsov, one of the meeting's organizers, solemnly declared afterwards, "The revolutionary period has just ended."⁴⁴

Gusinsky's charges were dropped after three days of incarceration in the Butyrka prison. The media magnate fled to Spain, where he revealed that in prison he was forced to sell his stakes in his media assets to Gazprom, his creditor. The prosecutor general soon reopened the criminal case but could not arrest Gusinsky, who remained in Spain. Gazprom, meanwhile, consolidated its control over NTV. The Kremlin's control of Gazprom helped to ensure compliant editorial policy at NTV.

More important than NTV, however, was the ORT television channel. Russia's most widely watched television network was nominally controlled by the state, a majority shareholder, but in practice oligarch Berezovsky, a minority shareholder, dictated the editorial policy. As the former alliance between Putin and Berezovsky unraveled over policy differences and ORT increasingly turned hostile toward the new president, the Kremlin moved to assert control by the end of summer. The prosecutor general immediately reopened criminal cases against the oligarch. Berezovsky initially refused to relinquish his ORT shares, at the same time taking the precaution of departing Russia, but eventually sold his shares in ORT as well as his stake in the Sibneft oil company for \$1.3 billion to Roman Abramovich, a fellow oligarch. Berezovsky was, in 2010, still wanted by the police in Russia.⁴⁵

The state coffers Putin revived momentum toward tax reform, which had stalled during the last years of Yeltsin's presidency. The second part of the tax code⁴⁶ became law in August 2000 and introduced new rates and taxes: a 13% flat tax on personal income (replacing the progressive income tax); a unified social tax (replacing numerous social taxes); a corporate profit tax of 24% (down from 35%); and a value-added tax of 18% (down from 20%). The reform also introduced a mineral extraction tax. The taxation system in general was simplified and rationalized.⁴⁷ The government consulted big business, especially energy companies, to set the rates.⁴⁸ Together with administrative reforms aimed at improving tax collection, the reform generated more revenue. The government's revenues from personal income tax, for example, rose 26% in 2001.⁴⁹

The power vertical Putin remained unyielding on Chechnya. In February 2000, Aslan Maskhadov, who had become president of Chechnya in 1997 when the central government lost control over the republic, was charged with terrorism and treason. In June 2000, Putin established direct presidential rule in the rebellious republic, where 60,000–80,000 federal troops remained, and appointed Akhmad Kadyrov as the head of interim administration. Kadyrov had fought the federal forces as a militia commander in the first Chechen war but abandoned insurgency and offered his support to Moscow in 1999.

The leaders of other provinces nervously expected that Putin would abolish direct gubernatorial elections, but Putin categorically denied harboring such intentions. The president, however, took other tangible measures to wrest power from the provinces. In January 2000, Putin, in his capacity as acting president, invoked the prerogative to supervise regional governments' foreign economic relations. In May, the Kremlin created seven federal districts, each comprising several provinces. Presidential appointees heading each federal district enforced the subordination of provincial

government institutions to federal agency representatives in the provinces. The federal treasury, in particular, boosted the capability of its provincial offices to control the flow of tax revenue. In the summer, Putin raised the federal government's share of tax income from 50% to 70% and ensured that the easily levied value-added tax would flow only to the federal government.⁵⁰

At the same time, Putin introduced a plan to reform the Federation Council, the upper house of the parliament where two senators—the governor and the speaker of provincial legislature—represented each province. The reform called for each province to be represented by senators designated by the governor and the legislature. The change would not only diminish the visibility of governors and speakers in national politics but also strip them of immunity from criminal prosecution, an important limitation, especially in view of the second provision of the reform: the president would be given the right to dismiss governors or dissolve regional legislatures for violations of federal law. The president could from then on appoint a new governor while the old one was facing criminal charges and was suspended.⁵¹ The Duma approved the legislation. The Federation Council vetoed it. The Duma then overrode the veto. As compensation, Putin formed a consultative body, the State Council, where governors held six-month rotating membership.⁵²

The Constitutional Court after June 2000 issued numerous rulings demanding that regions bring their constitutions into compliance with the Russian constitution, in one case declaring, “The subjects of the Russian Federation do not have sovereignty, which from the start belongs to the Russian Federation in general.” The response in the republics ranged from alacrity to calls for more consultations, and the brazen defiance of the past was largely absent.⁵³ Over the next several years, almost all of the Yeltsin-era power-sharing agreements were nullified.⁵⁴

United Russia The first election reform of the Putin era came in force in July 2001 with the adoption of the law “On Political Parties,” which encouraged amalgamation by stipulating that a registered political party must have a minimum of 10,000 members in a minimum of 45 out of Russia's 89 regions. The Kremlin then proceeded to amalgamate the party of power, in the same month engineering a merger of the pro-Putin Unity with former rival OVR into a new party, United Russia. The president conditionally supported United Russia: he attended the founding congress in December but did not join. United Russia, in contrast, wholeheartedly supported Putin and his agenda.

During the next several years, United Russia expanded its influence in the provinces by taking on a role previously delegated by the Kremlin to the governors: micromanaging relations among thousands of elites.⁵⁵ United Russia's entrenchment in the provinces was enhanced by a 2002 reform that required at least half of the seats in provincial legislatures to be filled from party lists. The governors could continue to support candidates in these elections through patronage, but many of these candidates had to be put on some party's list. The Kremlin then enticed the governors to run at the head of United Russia party lists. The governors, whose sources of independent power had eroded, by 2003 found it more advantageous to cast their lot with United Russia.⁵⁶

The opposition parties on the left and on the right failed, in contrast, to unite. Some even splintered, often with the tacit encouragement of the Kremlin. The Communist Party failed to transform itself into a social-democratic party and attract new supporters to augment its aging electorate.⁵⁷ United Russia, endorsed by the president and buoyed by favorable television coverage, emerged as the undisputed leader in the 2003 Duma elections on December 14. The outcome of the Duma elections altered the candidate field in the March 2004 presidential elections. No opposition party nominated a strong candidate,⁵⁸ and Putin was ultimately reelected with 71% of the vote.

Building the State: Act II

Exile, jail, and taxes Putin had deftly forced into submission most rival sources of power, but pockets of significant resistance remained. One individual in particular, Mikhail Khodorkovsky, an oligarch ruling over a vast financial-industrial empire, including the Yukos oil company, refused to play by the new rules. In 2002, Khodorkovsky successfully lobbied the Duma to abandon legislation that would raise oil excise taxes. In 2003, he pressured the government to give energy companies additional breaks, reportedly threatening German Gref, the economics minister, “Either you withdraw that law or I will make sure you are sacked.”⁵⁹ Khodorkovsky allegedly ignored the Kremlin in business deals with strategic implications.⁶⁰ In 2003, Khodorkovsky began to fund opposition political parties.⁶¹

The federal government fired a warning shot in July by arresting Platon Lebedev, a close associate of Khodorkovsky’s, on embezzlement charges. Khodorkovsky was arrested in October and charged with fraud, forgery, and tax evasion. After the arrest, Putin reportedly offered Khodorkovsky a choice between exile and jail. “I’d rather be a political prisoner,” Khodorkovsky told an associate, “than a political refugee.”⁶² Thus began an epic known as the Yukos affair.

As the trial of Khodorkovsky and Lebedev proceeded, their assets worth \$14 billion frozen by the prosecutor general, the government pushed through the Duma another major tax reform. The new regime made it harder for energy companies to hide profits and changed the structure of tax payments. The tax rates were set to adjust with fluctuations of oil prices in international markets.⁶³ (See **Exhibit 6** for a description of the formula.)

Oil prices soared at the time of the reform, and the government’s coffers quickly swelled. The record budget surpluses were channeled into the Stabilization Fund, established in January 2004. The objectives of the fund, according to the Ministry of Finance, were to balance the budget when oil prices fell below \$27 a barrel and to absorb “excessive liquidity” and insulate the economy from “the volatility of raw material export earnings.”⁶⁴ As the Yukos affair unfolded, the government was busily paying off its debts. The government decided in 2005 to repay—early—\$3.33 billion of its debt to the International Monetary Fund (IMF), \$15 billion as part of its debt to the Paris Club, and \$4.3 billion for the debt to Vnesheconombank (VEB) that the Ministry of Finance amassed in 1998–1999 to meet its obligations to foreign creditors. Russia fully settled its debt to the Paris Club with an additional \$22 billion in 2006.

After an 11-month trial, Khodorkovsky and Lebedev were sentenced in May 2005 by a Moscow court to nine years in a Siberian labor camp for privatization fraud, embezzlement, and corporate and personal tax evasion. Yuganskneftegaz, the main production unit of Yukos, was auctioned in December 2004 to settle back taxes, while the rest of the assets were sold off in 2007. State-owned Rosneft acquired Yuganskneftegaz and other important assets of Yukos in auctions that, by most accounts, appeared to be prearranged.

The role of Rosneft raised doubts about the sincerity of the law-enforcement agencies in fighting corporate crime. The Yukos affair appeared to some as a hostile takeover by Putin and his allies. Suspicion was fueled by the election of long-time Putin aide Igor Sechin as the chairman of the board of directors of Rosneft in July 2004, at the time a minor firm.⁶⁵ As more government officials with a background in the secret services took over the management of state-owned corporations, the impression of widening corruption intensified. Putin himself was not immune to charges of corruption, particularly to unproven allegations of a secret ownership stake in Gunvor, a Swiss-registered oil trader.⁶⁶ (See **Exhibits 8a-c** and **9**.)

Cracks in the power vertical The pacification of Chechnya remained a major challenge. In March 2003, the federal government organized a referendum on the status of the republic. Eighty-eight percent of eligible voters took part in the plebiscite, with 96% voting in favor of remaining in the Russian Federation. Kadyrov was then elected president of the republic of Chechnya on October 5 with 80% of the vote. Neither Moscow nor the republic's leadership, however, succeeded in stamping out the insurgency. The rebels carried out horrific terrorist attacks in Chechnya and beyond, often with the help of suicide bombers.⁶⁷

The assassination of Kadyrov in May 2004 proved that stability still eluded the authorities. Escalating terror attacks shattered the fragile peace. Before the election of Alu Alkhanov, Moscow's preferred candidate, in the presidential elections at the end of August, female suicide bombers brought down two airplanes, killing more than 90 passengers. Scores died when another suicide bomber exploded her bomb outside a Moscow metro station.⁶⁸ On September 1, Chechen terrorists took hostage more than 1,200 people, half of them children, in a school in Beslan in North Ossetia. More than 300 died after special forces attacked the terrorists in response to an explosion inside the school. Chechen insurgent fighter Shamil Basayev claimed responsibility for all of these acts.⁶⁹

The Beslan tragedy prompted the government in Moscow to enact swiftly a law that cancelled direct elections of governors.⁷⁰ These measures, taken together with prior expansion of United Russia in provincial politics, further strengthened the structure of control of the Kremlin over the subjects of the federation. By 2008, United Russia established itself as a dominant political force at federal and provincial levels. United Russia formed a majority in all provincial parliaments, and 78 of 83 governors belonged to the party (consolidation had reduced the number of the units in the federation from 89 to 83).⁷¹

Patching the power vertical By 2005, rulers in the Kremlin could justifiably have celebrated their triumph in nearly monopolizing power in Russia. The smooth management of the 2003 Duma and 2004 presidential elections, the adamant confrontation with the oligarchs, adroit cooptation of the governors, and overflowing state coffers enabled the president to extend state authority in Russia on a scale unmatched in the nation's post-Soviet history. The Kremlin had constructed an elaborate power vertical to establish stability.

A wave of so-called "color revolutions" in the former Communist countries caused a sense of disquiet in Putin's circle, however. Color revolutions took place in Georgia (Rose, 2003), Ukraine (Orange, 2004), and Kyrgyzstan (Tulip, 2005). In each case, elections of incumbents were disputed; civic resistance movements, with active youth participation, mounted massive street demonstrations, in the face of which the incumbent leaders resigned. Russian officials viewed these events as covert operations by Western governments to install pro-Western regimes under the pretext of struggle against authoritarian, corrupt leaders by advocates of liberal values, particularly nongovernmental organizations and student activists. Russian rulers disapproved. First, the very idea of a "revolution" ran counter to the concept of "stability," the central thesis of Putin's policy. Second, Western governments, in the Russian estimation, had violated the sovereignty of these countries.

The Kremlin's fears that a color revolution was not inconceivable in Russia were aggravated by growing street protests. Thousands of pensioners took to the streets in the capital and other cities in the spring of 2005 to protest Putin's neoliberal social reforms. The monetization of social benefits, in one example, replaced free transportation rights with monetary grants far below real costs. The next spring, some 125,000 angry people in more than 360 cities protested against utility and housing price hikes. Freedom of Choice, Moving without Putin, KPRF, Say NO!, Youth Yabloko, and other opposition parties and groups outside of the Kremlin's control often organized these rallies.⁷²

Putin's experts in political technologies advanced measures to insulate the power vertical from destabilization from below and abroad. Putin's associates put forward the concept of sovereign democracy, which implied that Russia's sovereignty prevented foreign governments and actors from verifying and passing judgment on the quality of democracy in Russia. The January 2006 law on nongovernmental organizations (NGOs) granted authorities broad powers to sanction civil society groups and tighten oversight over foreign financing of NGOs.⁷³ Opposition youth organizations were countered by the creation of the pro-state youth organization Nashi (Ours) in March 2005. Nashi rapidly grew with the backing of the Kremlin and corporate financial support. Large demonstrations organized by Nashi honed its ability to fill the streets with supporters of the regime in case the December 2007 parliamentary and the March 2008 presidential elections unfolded according to a color revolution scenario. Not leaving anything to chance, the ideologists in the Kremlin created a second party of power, Just Russia. The party espoused a moderate socialist ideology to appeal to left-leaning voters dissatisfied with United Russia's neoliberal social policy. Just Russia was led by Sergey Mironov, chairman of the Council of Federation and a Putin loyalist. The party received some \$100 million from Gazprom and the presidential administration.⁷⁴

"Operation Successor": Encore

Opponents of the government tried to mobilize opposition against the regime ahead of the legislative and presidential elections. Former prime minister Mikhail Kasyanov formed the People of Democracy and Justice party. Former Duma deputy Vladimir Ryzhkov set up the Republican party. Former chess champion Garry Kasparov created the Other Russia party. None of them succeeded in drawing mass support. Police violently dispersed "dissenters' marches" organized by Kasparov in Nizhny Novgorod, Moscow, and Petersburg in March and April 2007. Nothing even remotely resembling a color revolution took place.

Still, new electoral rules enacted in May 2005 changed the playing field for United Russia again. According to the new law, all 450 members of the lower house for the first time would be elected by party lists based on proportional representation.⁷⁵ On the one hand, eliminating single-mandate districts tightened Moscow's control over regional candidate nominations; on the other hand, it made it harder for United Russia to claim the same number of seats it had gained in the 2003 elections. Since Putin had been more popular than United Russia—even voters on the left who disapproved of the government's policy supported Putin personally—Putin announced in October that he would head United Russia's party list. Putin still did not, however, join the party.

The party's popularity immediately grew in opinion polls. In the Duma elections on December 2, voters gave United Russia a landslide victory (see **Exhibits 10** and **11**). By this time, it had already become clear that Putin would honor his pledge not to change the constitution and run for a third term, as had been widely speculated. One week later, Putin finally put an end to the uncertainty over his choice of successor. On December 10, 2007, representatives of four pro-Kremlin parties visited Putin in his office and asked him to support the candidacy of First Deputy Prime Minister Dmitry Medvedev for the presidency.⁷⁶ Putin agreed and thus ensured the success of his long-time protégé in the contest for the highest office in Russia to take place in March.

Medvedev won in a landslide (see **Exhibits 12** and **13**).⁷⁷ He had campaigned on a platform of stability and continuation of Putin's policies. As a direct manifestation of the latter, Medvedev promised voters that he would offer the post of the prime minister to Putin. After the election, Putin accepted Medvedev's offer to head the government. After Medvedev's inauguration on May 7, Putin went to his new office to direct the work of the Russian government, the composition of which had changed almost not at all.

The State and the Crisis

In September 2008, as the economic crisis threatened to bring back a time of troubles, the government began to intervene, allocating funds from reserves to inject liquidity. The Central Bank of Russia, meanwhile, used its reserves to manage the depreciation of the ruble to prevent a rapid drop. The bank concurrently fought inflation by raising interest rates. As the crisis deepened, a more comprehensive plan employing a broad range of instruments was unveiled in November.

The government decided to use \$215 billion from the Stabilization Fund to finance the anticrisis plan, consisting of 55 different measures. Among them was the instruction to the Russian central bank and the economics ministry to channel funds to the most important sectors of the economy, including the military-industrial complex, agriculture, automobile, aircraft, agricultural machinery industries, and construction. Other initiatives included export tariff reductions on oil and oil products (\$14.8 billion); direct state investment in the stock market (\$7 billion); \$62 billion to VEB (Vnesheconombank) to support business capital and refinance foreign debt; direct subsidies to financial institutions, including key sectoral banks (\$5 billion); recapitalizing commercial banks (\$19 billion); subsidized credits to key banks, at 8% until 2020 (\$38 billion); temporary deposits and credits to commercial banks (up to \$88 billion); and mortgage support (\$2.4 billion). By the end of the year, the government had provided more than \$140 billion in aid.⁷⁸

The provisions of the November 2008 plan were carried out by the summer of the next year, and a new plan for 2009–2010 was unveiled.⁷⁹ At the end of 2009, the government concluded that the country had “passed the acute phase of the crisis” and congratulated itself for effective policy measures while also acknowledging other “crucial factors” such as rising prices for hydrocarbons and the revival of Southeast Asia.⁸⁰ The government also noted the falling inflation rate and lack of social disturbances. This reprieve was temporary, however, for the government also pointed out the underlying structural weaknesses (see **Appendix A**):

The economy is still dominated by those factors that provoked its fast and rapid fall in the first place, notably a dependence on global commodities’ export prices, low domestic demand, and Russian industry’s inability to satisfy it, as well as a weak financial system and a lack of long-term loans. . . . This means that as things stand further growth will be unstable because short-term internal economic risks have not been removed.⁸¹

Of Sulking and Collecting

President Medvedev stressed the need to eliminate the structural risks mentioned in the government report through comprehensive modernization. Medvedev, in his programmatic article “Go Russia!” published on September 10, 2009, spelled out his vision for transforming Russia. (He later elaborated on these points in his address to the Federal Assembly.) First, the president offered a critical assessment of the state of affairs:

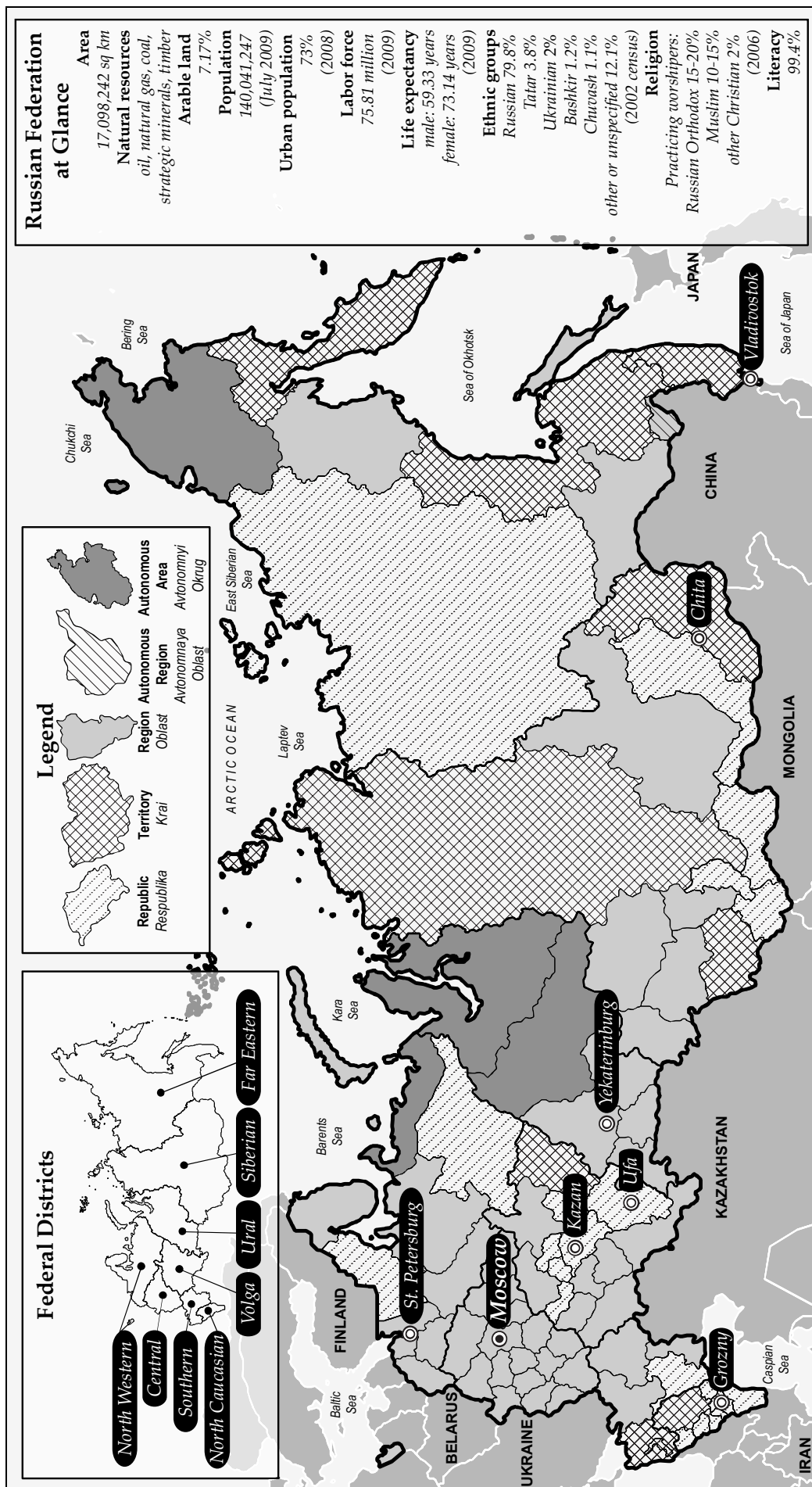
Twenty years of tumultuous change have not spared our country from its humiliating dependence on raw materials. . . . With a few exceptions domestic business does not invent nor create the necessary things and technology that people need. . . . This is why production declined so much, more than in other economies, during the current crisis. This also explains excessive stock market volatility.

Medvedev then argued that although much was accomplished in the past several years (“It is not a half-paralyzed, half-functioning country as it was ten years ago”), Russia was doomed if it failed to

continue to change. The president emphasized the need for a holistic approach; to cure economic ills, one must also treat other conditions: “a semi-Soviet social sphere, fragile democracy, negative demographic trends, and unstable Caucasus.” Medvedev thus explicitly linked economic modernization with political modernization. (See **Appendix B** for more excerpts.)

Medvedev in the end exhorted his readers: “We will act patiently, pragmatically, consistently, and in a balanced manner. And act now: act today and tomorrow. We will overcome the crisis, backwardness, and corruption. We will create a new Russia. Go Russia!”⁸²

Exhibit 1 Map of Russia



Source: Casewriters' illustration. The "Russian Federation at Glance" inset is compiled from Central Intelligence Agency, "Russia," *World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>, accessed February 2010.

Exhibit 2 Russia's Leaders: Heads of Key Political Institutions, as of March 2010

		Date of Appointment
EXECUTIVE BRANCH		
President	Dmitry Medvedev	May 7, 2008
Secretary of the Security Council	Nikolay Patrushev	May 12, 2008
Chief of Staff of the Presidential Executive Office	Sergey Naryshkin	May 12, 2008
Prime Minister	Vladimir Putin	May 8, 2008
First Deputy Prime Ministers	Igor Shuvalov	May 12, 2008
	Viktor Zubkov	May 12, 2008
Deputy Prime Ministers	Sergey Ivanov	May 12, 2008
	Dmitry Kozak	October 14, 2008
	Aleksey Kudrin	September 24, 2007
	Alexander Khloponin	January 19, 2010
	Igor Sechin	May 12, 2008
	Sergey Sobyenin	May 12, 2008
	Alexander Zhukov	March 9, 2004
Federal Ministers		
Culture	Alexander Avdeyev	May 12, 2008
Regional Development	Viktor Basargin	October 14, 2008
Education and Science	Andrey Fursenko	March 9, 2004
Healthcare and Social Development	Tatyana Golikova	September 24, 2007
Industry and Trade	Viktor Khristenko	May 12, 2008
Justice	Alexander Kononov	May 12, 2008
Foreign Affairs	Sergey Lavrov	March 9, 2004
Transport	Igor Levitin	May 20, 2004
Sport, Tourism, and Youth Policy	Vitaly Mutko	May 12, 2008
Economic Development	Elvira Nabiullina	May 12, 2008
Interior	Rashid Nurgaliyev	March 9, 2004
Defense	Anatoly Serdyukov	February 16, 2007
Communications and Mass Media	Igor Shchegolev	May 12, 2008
Energy	Sergey Shmatko	May 12, 2008
Civil Defense, Emergencies, and Disaster Relief	Sergey Shoigu	May 18, 2000
Agriculture	Yelena Skrynnik	March 12, 2009
Natural Resources and Environmental Protection	Yury Trutnev	March 9, 2004
Director of the Foreign Intelligence Service (SVR)	Mikhail Fradkov	October 9, 2007
Director of the Federal Security Service (FSB)	Alexander Bortnikov	May 12, 2008
LEGISLATIVE BRANCH		
Chairman of the Council of Federation	Sergey Mironov	December 5, 2001
Speaker of the State Duma	Boris Gryzlov	December 29, 2003
JUDICIAL BRANCH		
Chairman of the Constitutional Court	Valery Zorkin	February 21, 2003
Chairman of the Supreme Court	Viacheslav Lebedev	July 1989
Chairman of the Supreme Commercial Court	Anton Ivanov	January 26, 2005
INDEPENDENT AGENCIES		
Prosecutor General	Yury Chaika	June 23, 2006
Chairman of the Central Bank	Sergey Ignatiev	March 20, 2002

Source: Compiled from respective institutions' official websites.

Exhibit 3 National Accounts of Russia, 1991–2009

	1991	1992	1993	1994	1995	1996	1997	1998	1999
GDP (RR billion)	n/a	n/a	172	611	1,429	2,008	2,343	2,630	4,823
GDP (% real change)	-5.0	-14.5	-8.7	-12.7	-4.1	-3.6	1.4	-5.3	6.4
Real GDP (\$ billion at 2005 prices)	802	686	626	546	524	505	512	485	516
GDP per head (\$ at PPP)	8,958	7,830	7,324	6,528	6,391	6,287	6,492	6,226	6,741
GDP deflator (2005=100)	n/a	n/a	0.97	3.95	9.64	14.05	16.17	19.17	33.04
Structure of GDP (% of GDP)									
Consumption	n/a	n/a	44.9	46.7	52.1	52.0	54.8	57.5	53.5
Government spending	n/a	n/a	17.4	22.4	19.1	19.5	21.1	18.7	14.6
Investment	n/a	n/a	20.4	21.8	21.1	20.0	18.3	16.2	14.4
Exports	n/a	n/a	n/a	27.7	29.3	26.1	24.7	31.2	43.2
Imports	n/a	n/a	n/a	22.9	25.9	21.9	22.5	24.6	26.2
Gross national savings rate (%)	n/a	n/a	31.3	28.4	27.7	26.4	22.0	15.0	27.4
Current-account balance (% of GDP)	n/a	n/a	4.3	2.8	2.2	2.8	0.0	0.1	12.6
Industrial production (% change)	n/a	n/a	n/a	-8.5	-3.6	-5.3	2.1	-5.2	11.1
Oil production (million barrels a day)	9.3	8.0	7.1	6.4	6.2	6.1	6.1	6.1	6.1
Oil reserves (billion barrels)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	55.8	59.2
Exchange rate (RR per \$, period average)	0.0	0.2	1.0	2.2	4.6	5.1	5.8	9.7	24.6
Consumer prices (% change)	n/a	1,571.1	874.3	307.5	197.5	47.9	14.7	27.7	85.7
Lending interest rate (% on loans up to one year)	n/a	n/a	n/a	n/a	147.4	91.4	32.0	41.8	39.7
Long-term bond yield (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	87.4
Labor productivity growth (%)	-3.1	-11.2	-8.4	-9.7	-1.1	-3.0	2.3	-2.7	7.7
Total factor productivity growth (%)	8.3	-8.4	-7.3	-10.9	-3.1	-4.9	0.1	-5.7	5.3
Average real wage index (RR, 2005=100)	112.1	80.5	81.6	73.6	55.0	61.8	64.6	58.1	44.6
Population (in millions)	148.5	148.6	148.4	148.4	148.4	148.2	147.9	147.7	147.2
Labor force (in millions)	n/a	74.9	75.1	73.9	70.9	72.6	72.1	72.2	73.7
Recorded unemployment (%)	n/a	n/a	n/a	7.0	8.3	9.3	10.8	11.9	13.0

Exhibit 3 (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP (RR billion)	7,306	8,944	10,818	13,243	17,048	21,625	26,904	33,103	41,256	39,016
GDP (% real change)	10.0	5.1	4.7	7.3	7.2	6.4	7.7	8.1	5.6	-7.9
Real GDP (\$ billion at 2005 prices)	568	597	625	670	719	765	823	890	940	866
GDP per head (\$ at PPP)	7,609	8,224	8,801	9,694	10,746	11,861	13,239	14,746	15,963	14,900
GDP deflator (2005=100)	45.50	53.00	61.22	69.85	83.88	100.00	115.51	131.48	155.17	159.30
Structure of GDP (% of GDP)										
Consumption	46.2	49.4	51.2	50.5	50.2	49.6	48.5	48.4	48.4	54.4
Government spending	15.1	16.4	17.7	17.6	16.7	16.6	17.1	17.2	17.3	20.3
Investment	16.9	18.9	17.9	18.4	18.4	17.7	18.5	21.1	22.3	20.2
Exports	44.1	36.9	35.3	35.2	34.4	35.2	33.7	30.3	31.7	28.2
Imports	24.0	24.2	24.5	23.8	22.1	21.5	21.0	21.7	22.1	20.5
Gross national savings rate (%)	36.7	33.0	28.5	29.0	30.8	31.0	30.9	30.2	31.7	21.8
Current-account balance (% of GDP)	18.0	11.1	8.4	8.2	10.0	10.9	9.6	6.0	6.2	3.9
Industrial production (% change)	11.8	5.0	3.8	7.0	7.3	4.0	3.9	6.3	2.1	-10.8
Oil production (million barrels a day)	6.5	7.0	7.6	8.5	9.2	9.4	9.6	9.9	9.8	9.9
Oil reserves (billion barrels)	59.6	64.6	69.0	72.6	75.1	79.1	79.3	79.4	n/a	n/a
Exchange rate (RR per \$, period average)	28.1	29.2	31.3	30.7	28.8	28.3	27.2	25.6	24.9	31.7
Consumer prices (% change)	20.8	21.5	15.8	13.7	10.9	12.7	9.7	9.0	14.1	11.7
Lending interest rate (% on loans up to one year)	24.4	17.9	15.7	13.0	11.4	10.7	10.4	10.0	12.2	15.0
Long-term bond yield (%)	35.2	19.4	15.8	9.1	8.3	8.1	7.0	6.7	7.5	10.5
Labor productivity growth (%)	8.0	3.1	4.9	5.3	5.8	6.4	5.4	5.4	4.8	-5.8
Total factor productivity growth (%)	9.5	4.3	4.9	5.9	6.6	6.0	5.8	5.2	3.8	-4.4
Average real wage index (RR, 2005=100)	52.7	63.2	73.4	80.5	88.8	100.0	114.4	133.0	148.2	144.2
Population (in millions)	146.6	146.0	145.3	144.6	143.8	143.1	142.6	142.4	141.8	141.4
Labor force (in millions)	70.7	72.3	71.4	72.6	73.2	73.4	74.3	75.1	75.8	75.8
Recorded unemployment (%)	10.6	8.9	8.0	8.6	8.2	7.6	7.2	6.1	6.4	8.4

Exhibit 3 (continued)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Federal government budget (RR billion)									
Revenue	n/a	n/a	26	82	232	282	343	326	616
Expenditure	n/a	n/a	35	143	275	356	437	472	667
Budget balance (% of GDP)	n/a	n/a	-5.8	-10.0	-3.0	-3.7	-4.0	-5.6	-1.1
Debt									
Public (federal government's total debt, RR billion)	n/a	27	130	408	593	885	1,165	3,404	4,213
Public debt (% of GDP)	n/a	n/a	76	67	41	44	50	129	87
Medium- and long-term (more than one year, \$ million)									
Public (public sector's or publicly guaranteed external debt)	55,155	64,152	101,270	107,824	101,582	101,916	106,542	121,574	121,188
Private (private sector's external debt)	0	0	0	0	0	0	1,905	22,163	22,583
IMF debt	0	989	2,469	4,198	9,617	12,508	13,231	19,335	15,238
Repayment of medium- and long-term debt, excluding IMF debt (\$ billion)									
Official creditors	1	0	0	1	2	3	3	3	1
Private creditors	12	1	2	3	4	4	3	6	5
Reserves (\$ million)									
Foreign-exchange reserves	16	1,954	5,835	3,980	14,383	11,276	12,895	7,801	8,457
Gold, national valuation	2,798	2,578	3,059	2,525	2,824	4,047	4,889	4,422	3,998
Trade									
Exports (\$ million)	54,700	42,374	57,633	67,826	82,913	90,564	86,895	74,443	75,551
of which (% share),									
Oil, fuel, and natural gas	n/a	n/a	n/a	41.1	40.2	45.2	47.3	41.0	43.3
Metals	n/a	n/a	n/a	26.1	25.2	22.6	23.5	26.5	25.1
Machinery and equipment	n/a	n/a	n/a	8.3	9.6	9.5	10.6	10.9	10.6
Chemicals	n/a	n/a	n/a	8.0	9.4	8.2	8.2	8.3	8.2
Imports (\$ million)	45,600	36,865	46,830	50,451	62,603	68,093	71,983	58,015	39,536
of which (% share),									
Machinery and equipment	n/a	n/a	n/a	27.0	25.1	21.9	26.0	26.7	25.3
Food and agricultural products	n/a	n/a	n/a	21.2	20.9	17.0	18.5	18.6	20.5
Chemicals	n/a	n/a	n/a	7.5	8.1	9.7	10.6	11.4	12.4
Metals	n/a	n/a	n/a	5.2	6.4	6.8	5.3	5.5	5.6

Exhibit 3 (continued)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Federal government budget (RR billion)										
Revenue	1,132	1,594	2,205	2,583	3,426	5,125	6,273	7,781	9,276	7,336
Expenditure	1,029	1,322	2,054	2,355	2,696	3,512	4,284	5,987	7,571	9,662
Budget balance (% of GDP)	1.4	3.0	1.4	1.7	4.3	7.5	7.4	5.4	4.1	-6.0
Debt										
Public (federal government's total debt, RR billion)	3,985	3,863	4,551	4,004	3,958	3,075	2,359	1,764	2,563	2,489
Public debt (% of GDP)	55	43	42	30	23	14	9	5	6	6
Medium- and long-term (more than one year, \$ million)										
Public (public sector's or publicly guaranteed external debt)	110,989	103,765	96,059	99,028	103,404	76,827	56,427	70,396	66,169	72,457
Private (private sector's external debt)	21,762	22,326	28,514	41,121	63,369	125,953	153,604	220,673	264,650	251,467
IMF debt	11,613	7,433	6,481	5,069	3,562	0	0	0	0	0
Repayment of medium- and long-term debt, excluding IMF debt (\$ billion)										
Official creditors	2	5	5	5	6	21	28	2	1	1
Private creditors	5	7	7	11	13	17	21	36	67	42
Reserves (\$ million)										
Foreign-exchange reserves	24,264	32,542	44,054	73,175	120,809	175,891	295,568	464,379	412,547	427,000
Gold, national valuation	3,708	4,080	3,739	3,763	3,732	6,349	8,164	12,012	14,533	15,000
Trade										
Exports (\$ million)	105,036	101,886	107,302	135,930	183,209	243,800	303,551	354,403	471,606	303,302
of which (% share),										
Oil, fuel, and natural gas	50.3	51.2	52.4	51.6	54.1	63.2	64.8	65.2	68.6	n/a
Metals	21.2	14.3	13.9	12.8	15.6	14.0	13.8	13.5	11.7	n/a
Machinery and equipment	8.8	10.2	9.4	7.9	6.7	5.5	5.8	5.0	4.9	n/a
Chemicals	7.0	7.3	6.9	6.2	5.9	5.9	5.6	5.5	6.5	n/a
Imports (\$ million)	44,862	53,765	60,967	76,070	97,382	125,433	164,280	223,488	291,861	192,700
of which (% share),										
Machinery and equipment	24.1	26.2	27.3	25.6	29.5	34.6	39.9	43.9	52.7	n/a
Food and agricultural products	16.5	16.9	17.0	14.7	13.2	13.9	13.1	11.7	13.2	n/a
Chemicals	13.6	14.0	12.6	12.0	11.7	13.0	13.2	12.0	13.1	n/a
Metals	6.2	5.6	4.8	4.8	5.3	5.4	5.9	6.6	6.9	n/a

Source: Compiled using data from RosStat; *International Financial Statistics*, International Monetary Fund; *EIU Country Data*, Economist Intelligence Unit.

Note: "RR" stands for Russian rubles. \$ are U.S. dollars. "N/a" indicates that no data is available. All numbers are rounded; some numbers are estimates.

Exhibit 4 Russia's Balance of Payments, 1994–2008 (billions of U.S. dollars)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CURRENT ACCOUNT	7.8	7.0	10.8	-0.1	0.2	24.6	46.8	33.9	29.3	35.4	59.5	84.6	94.7	77.0	102.4
Goods net	16.9	19.8	21.6	14.9	16.4	36.0	60.2	48.1	46.9	59.9	85.8	118.4	139.3	130.9	179.7
Exports	67.4	82.4	89.7	86.9	74.4	75.6	105.0	101.9	111.2	135.9	183.2	243.8	303.6	354.4	471.6
Imports	-50.5	-62.6	-68.1	-72.0	-58.0	-39.5	-44.9	-53.8	-64.3	-76.1	-97.4	-125.4	-164.3	-223.5	-291.9
Services net	-7.0	-9.6	-5.4	-5.9	-4.1	-4.3	-6.7	-9.1	-9.9	-10.9	-12.7	-13.8	-13.6	-19.6	-25.1
Credit	8.4	10.6	13.3	14.1	12.4	9.1	9.6	11.4	14.0	16.2	20.6	25.0	31.1	39.4	51.3
Debit	-15.4	-20.2	-18.7	-20.0	-16.5	-13.4	-16.2	-20.6	-23.9	-27.1	-33.3	-38.7	-44.7	-59.1	-76.4
Income net	-1.8	-3.4	-5.4	-8.7	-11.8	-7.7	-6.7	-4.2	-7.0	-13.2	-12.8	-18.9	-29.4	-30.8	-49.2
Credit	3.5	4.3	4.3	4.4	4.3	3.9	4.8	6.8	5.8	11.1	12.0	17.5	29.8	47.4	59.0
Debit	-5.3	-7.6	-9.8	-13.1	-16.1	-11.6	-11.5	-11.0	-12.8	-24.2	-24.8	-36.4	-59.2	-78.1	-108.2
Current transfers net	-0.2	0.2	0.1	-0.4	-0.3	0.6	0.1	-0.8	-0.7	-0.4	-0.8	-1.0	-1.5	-3.5	-3.1
Credit	0.3	0.9	0.8	0.4	0.3	1.2	0.8	0.7	1.5	2.5	3.5	4.5	6.4	8.4	11.0
Debit	-0.5	-0.7	-0.7	-0.8	-0.6	-0.6	-0.7	-1.6	-2.2	-2.9	-4.3	-5.5	-7.9	-11.9	-14.1
CAPITAL AND FINANCIAL ACCOUNT	-27.4	-6.6	-20.8	2.3	-12.2	-17.8	-23.6	-13.1	-14.5	2.0	-6.8	-11.7	3.3	84.8	-135.8
Capital account	2.4	-0.3	-0.5	-0.8	-0.4	-0.3	10.7	-9.4	-16.6	-1.0	-1.6	-12.8	0.2	-10.2	0.5
Credit	5.9	3.1	3.1	2.1	1.7	0.9	11.5	2.1	2.4	0.6	0.9	0.7	1.0	1.4	1.6
Debit	-3.5	-3.5	-3.5	-2.9	-2.1	-1.2	-0.9	-11.5	-19.0	-1.6	-2.5	-13.4	-0.8	-11.6	-1.2
Financial account	-29.8	-6.3	-20.3	3.1	-11.9	-17.5	-34.3	-3.7	2.1	3.0	-5.1	1.0	3.1	95.0	-136.3
Direct investment net	0.4	1.5	1.7	1.7	1.5	1.1	-0.5	0.2	-0.6	-1.8	1.7	0.1	6.6	9.2	20.3
Abroad	-0.3	-0.6	-0.9	-3.2	-1.3	-2.2	-3.2	-2.5	-4.0	-9.7	-13.8	-12.8	-23.2	-45.9	-52.6
Domestic	0.7	2.1	2.6	4.9	2.8	3.3	2.7	2.7	3.4	8.0	15.4	12.9	29.7	55.1	72.9
Portfolio investment net	0.0	-2.4	4.4	17.6	6.0	-1.6	-13.2	-0.7	4.9	-4.5	0.6	-11.4	15.7	6.0	-34.7
Assets	0.1	-1.7	-0.2	-0.2	-0.3	0.3	-0.4	0.1	-1.0	-2.2	-3.8	-10.7	6.2	-10.0	-7.9
Liabilities	-0.1	-0.7	4.6	17.8	6.3	-1.9	-12.8	-0.7	6.0	-2.3	4.4	-0.7	9.5	16.0	-26.8
Other investment net	-30.2	-5.3	-26.4	-16.2	-19.4	-17.0	-20.6	-3.3	-2.3	8.7	-7.3	12.5	-19.1	79.6	-120.5
Assets	-20.0	-0.6	-28.1	-20.7	-14.9	-13.3	-17.5	0.1	-4.7	-15.9	-26.6	-33.3	-49.4	-59.8	-177.2
Liabilities	-10.2	-4.7	1.7	4.5	-4.5	-3.7	-3.1	-3.4	2.5	24.5	19.3	45.8	30.3	139.3	56.7
Net errors and omissions	0.4	-8.7	-7.3	-8.8	-9.4	-8.5	-9.3	-9.6	-7.6	-9.2	-5.9	-7.9	9.5	-12.9	-11.9
Change in reserve assets	1.9	-10.4	2.8	-1.9	5.3	-1.8	-16.0	-8.2	-6.8	-26.4	-45.2	-61.5	-107.5	-148.9	45.3

Source: Compiled from *International Financial Statistics*, International Monetary Fund.

Note: In "Change in reserve assets," positive numbers indicate a decrease, and negative numbers indicate an increase.

Exhibit 5a Tax Revenue Collected by Federal and Provincial Governments, 2008 (billions of rubles)

	Collected by			
	Federal Government	Provincial Governments	Federal Off-Budget Funds	Provincial Off-Budget Funds
Tax on company profits	761.13	1,752.04	n/a	n/a
Personal income tax	n/a	1,666.32	n/a	n/a
Unified social tax	506.77	0.19	310.92	153.02
Value-added tax	998.39	0.29	n/a	n/a
Value-added tax on imported goods	1,133.82	n/a	n/a	n/a
Excise taxes	125.24	189.44	n/a	n/a
Excise taxes on imported products	35.26	n/a	n/a	n/a
Personal property tax	n/a	10.12	n/a	n/a
Company property tax	n/a	323.57	n/a	n/a
Transport tax	n/a	53.11	n/a	n/a
Tax on gambling business	n/a	26.43	n/a	n/a
Land tax	n/a	80.22	n/a	n/a
Tax on mineral resource extraction	1,604.65	103.36	n/a	n/a
including,				
<i>hydrocarbons (oil, natural gas, natural gas condensate)</i>	1,591.83	79.02	n/a	n/a
<i>diamonds</i>	n/a	4.94	n/a	n/a
Royalty stipulated in production sharing agreements	18.36	0.96	n/a	n/a
Water tax	13.02	n/a	n/a	n/a
Fees for the use of fauna and aquatic biological resource objects	1.49	0.77	n/a	n/a
Stamp duties	33.68	14.22	n/a	n/a
Customs duties on imports	625.57	n/a	n/a	n/a
Customs duties on exports	2,859.29	n/a	n/a	n/a
including,				
<i>crude oil</i>	1,784.80	n/a	n/a	n/a
<i>natural gas</i>	490.21	n/a	n/a	n/a
<i>petroleum products</i>	522.60	n/a	n/a	n/a
<i>other products</i>	61.69	n/a	n/a	n/a
Customs fees	28.19	n/a	n/a	n/a
Income from the export of uranium	7.62	n/a	n/a	n/a
Other income from foreign economic relations	64.27	n/a	n/a	n/a
Income from the use of state property	150.54	273.47	16.22	0.27
Fees for the use of natural resources	111.77	25.09	n/a	n/a
Income from government services	114.03	40.71	0.51	0.04
Income from sale of assets	22.12	110.14	0.01	n/a
Income from the collection of administrative fees	4.54	3.62	n/a	n/a
Penalties and compensation	8.18	22.04	0.60	n/a
Income from financial investments	0.02	80.17	n/a	n/a
Other taxes and revenues	8.44	1,369.80	1,615.61	373.26

Source: Adapted from the 2008 budget implementation report by the Federal Treasury of Russia.

Note: Numbers are rounded. "N/a" stands for "non-applicable." Off-budget funds (Pension Fund, Fund of Social Insurance, Fund of Compulsory Medical Insurance, and State Fund of Employment) kept revenues and expenditures outside the main budget framework. Excise taxes were mainly levied on some types of alcohol, wine, beer, tobacco, gasoline, diesel fuel, lubricants, cars, and motorcycles.

Exhibit 5b Budgetary Allocations to Federal and Provincial Governments, 2008 (billions of rubles)

	Appropriated to			
	Federal Government	Provincial Governments	Federal Off-Budget Funds	Provincial Off-Budget Funds
Defense	1,040.85	2.76	n/a	n/a
National security and law enforcement	835.56	256.53	n/a	n/a
Economic development	1,025.02	1,233.55	n/a	n/a
Housing and communal services	129.54	1,023.69	n/a	n/a
Environmental protection	10.17	21.06	n/a	n/a
Education	355.00	1,292.19	17.01	0.01
Arts, motion pictures, and mass media	88.85	221.74	0.01	0.00
Healthcare	807.63	520.12	n/a	56.06
Fitness and sport	46.76	264.40	0.01	435.11
Social security and pensions	293.64	762.49	2,711.03	1.04
Interbudgetary transfers	2,674.63	210.56	168.96	30.86
Budget balance (deficit or surplus)	1,705.05	-54.37	355.49	5.80

Source: Adapted from the 2008 budget implementation report by the Federal Treasury of Russia.

Note: Numbers are rounded. "n/a" stands for "non-applicable." Interbudgetary transfers were subsidies to provinces to equalize their budgets.

Exhibit 6 Taxation of Oil Revenues**Mineral Resource Extraction Tax formula**

2002	RR340 × K per ton	$K = (UPB - 8) \times P/252$	P: \$/RR exchange rate
2004	RR347 × K per ton	$K = (UPB - 8) \times P/252$	UPB: price of Urals crude oil in U.S.
2005	RR419 × K per ton	$K = (UPB - 9) \times P/261$	dollars per barrel
2009	RR419 × K per ton	$K = (UPB - 15) \times P/269$	

Export Duty on Crude Oil Exports

The federal government determined the tariff every two months per formulas laid down in a federal law. Since 2004, the maximum duty the government could charge was set as follows:

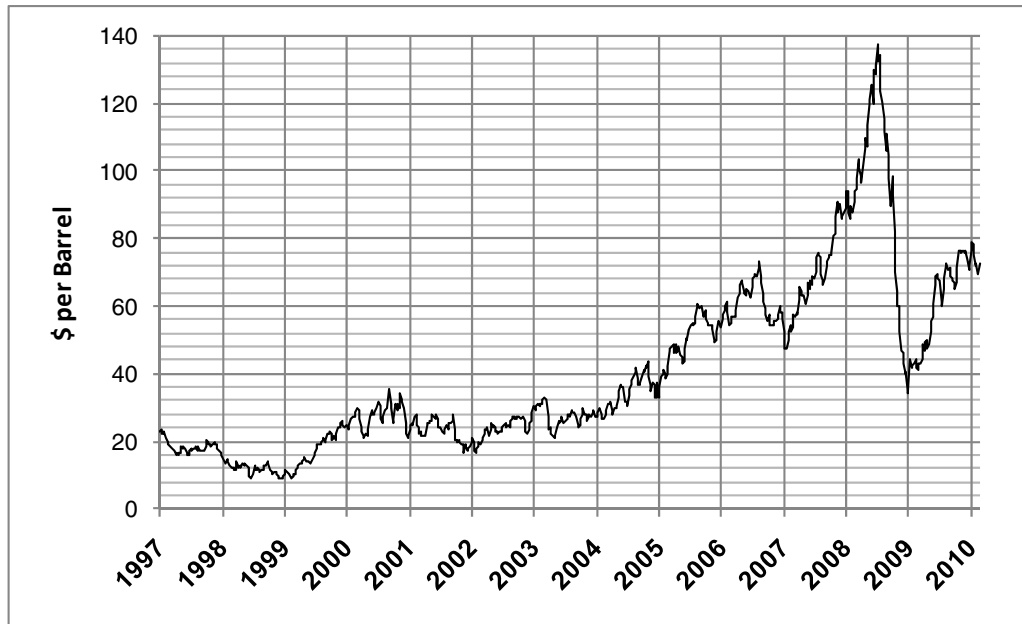
<i>If the average price of a ton of Urals crude (UPT) in the preceding two months was...</i>	<i>Then the maximum customs duty could be...</i>
less or equal to \$109.5	\$0
between \$109.5-\$146	$0.35(UPT-109.5)$
between \$146-\$182.5	$\$12.78 + 0.45(UPT-146)$
more than \$182.5	$\$29.2 + 0.65(UPT-182.5)$

In January 2008, for example, the government set the duty at \$333.8 per ton, raised it to \$459.9 in July, and lowered it to 287.3 in September. In December 2008, the price-monitoring period was reduced to one month. As of February 2010, the duty was \$253.6 per ton.

Source: Adapted from Michael Alexeev and Robert Conrad, "The Russian Oil Tax Regime: A Comparative Perspective," *Eurasian Geography and Economics* 50, no. 1 (2009): 97–98; Brenton Goldsworthy and Daria Zakharova, "Evaluation of the Oil Fiscal Regime in Russia and Proposals for Reform," IMF Working Paper, IMF, February 2010, <http://www.imf.org/external/pubs/ft/wp/2010/wp1033.pdf>, accessed February 2010; Government of the Russian Federation, Decisions no. 5 (January 14, 2008), no. 547 (July 21, 2008), no. 699 (September 19, 2008) and no. 818 (February 24, 2010).

Notes: "RR" stands for Russian rubles. \$ are U.S. dollars.

The Mineral Resource Extraction Tax was introduced in 2002 in place of resource restoration payments, royalties, and excises. The 2005 increase in base price followed elimination of value-added tax on oil exports.

Exhibit 7 Urals Crude Oil Spot Prices, 1997–2010 (U.S. dollars)

Source: Exhibit created by casewriters based on data from U.S. Energy Information Administration, <http://tonto.eia.doe.gov/dnavpet/hist/LeafHandler.ashx?n=PET&s=WEPCURALS&f=W>, accessed February 2010.

Exhibit 8a Top 20 Russian Companies in 2009

Rank in 2009	Rank Change	Industry	2008			
			Revenue	Operating profit	Net profit	Assets
1	-	Gazprom	3,519	1,260	771	7,169
2	-	Lukoil	2,652	338	225	2,100
3	+1	Rosneft	1,699	320	274	2,277
4	+1	TNK-BP	1,278	196	130	843
5	-2	Russian Railways	1,102	66	13	3,505
6	+1	Sberbank	700	-	98	6,736
7	+2	Severstal	552	104	51	660
8	-2	Surgutneftegaz	547	113	144	1,116
9	+3	Evrast Group	502	92	48	571
10	+3	Tatneft	444	2	8	393
11	-	AFK Sistema	411	78	2	857
12	-2	UC Rusal	377	-	-	-
13	-5	Norilsk Nickel	344	-5	-14	612
		TAIF	292	-	-19	-
14	+3	Novolipetsk Steel	288	100	56	413
15	+6	VTB	277	-	5	3,697
16	-1	Transneft	275	127	73	963
		Gazprombank	266	-	-68	1,852
17	-3	Sviazinvest	264	43	26	436
18	-2	Magnitogorsk Iron & Steel Works	260	29	27	417
		MTS	252	79	48	307
19	+1	Vimpelkom	249	62	13	462
20	+3	Mechel	245	63	28	353

Source: Compiled from "500 krupneishikh kompanii Rossii," *Finans*, September 28–October 4, 2009, <http://www.finansmag.ru/95128>, accessed February 2010.

Note: Financial indicators are in billions of Russian rubles. All numbers are rounded. In 2008, one dollar was worth on average 24.85 rubles.

Exhibit 8b Top 20 Wealthiest Businesspeople in Russia in 2010

Rank in 2010	Rank Change		Worth, \$ billion	Principal Investments
1	+2	Vladimir Lisin	18.80	Novolipetsk Steel
2	-1	Mikhail Prokhorov	17.85	ONEXIM (assets in mining, energy, innovative technology, etc.)
3	-1	Roman Abramovich	17.00	Millhouse Capital (various assets, incl. Chelsea Football Club)
4	+1	Suleiman Kerimov	14.50	Nafta Moskva (assets in mining, telecommunications, etc.)
5	+1	Mikhail Fridman	14.30	Alfa Group (various assets, incl. TNK-BP oil company)
6	+2	Oleg Deripaska	13.80	Basic Element (incl. UC Rusal, aluminum producer)
7	+3	Alisher Usmanov	12.40	Metalloinvest (steel and mining)
8	-4	Vagit Alekperov	10.65	Lukoil (private oil company)
9	+5	Aleksey Mordashov	10.00	Severstal (steel)
10	-3	Vladimir Potanin	9.95	Interros (various assets, incl. Norilsk Nickel)
11	+4	German Khan	9.05	Alfa Group, TNK-BP
12	-3	Dmitry Rybolovlev	8.50	Uralkali (chemicals)
13	+4	Victor Vekselberg	8.35	Renova (various assets, incl. TNK-BP and UC Rusal)
14	+7	Victor Rashnikov	8.00	Magnitogorsk Iron & Steel Works
15	+12	Andrey Melnichenko	7.50	EuroChem (chemicals), SUEK (coal mining)
16	0	Aleksey Kuzmichev	7.10	Alfa Group
17	+26	Vladimir Yevtushenkov	6.50	AFK Sistema (various assets, including MTS cellular carrier)
18	+5	Leonid Mikhelson	5.90	Novatek (private natural gas producer)
19	+29	Sergey Popov	5.20	MDM Bank; SUEK
20	-9	Leonid Fedun	5.10	Lukoil

Source: Compiled from "Reiting rossiiskikh milliarderov 2010," *Finans*, February 15-28, 2010, <http://www.finansmag.ru/95610>, accessed February 2010.

Note: The names of businessmen whose firms received government assistance as part of anti-crisis measures are bolded. All individuals in this list acquired their assets through privatization. The worth figures are expert estimates.

Exhibit 8c Russia's Top 20 Wealthiest Businesspeople Who Created Their Business from Nothing

Rank in 2010	Rank Change		Worth, \$ billion	Principal Investments
34	+52	Andrey Molchanov	3.15	LSR Group (real estate, construction and building materials)
37	+5	Sergey Galitsky	2.65	Magnit (chain of hypermarkets)
43	-14	Aleksey Ananiev	2.30	Promsvyazbank (financial services)
44	-14	Dmitry Ananiev	2.30	Aleksey Ananiev's brother and business partner
45	+16	Igor Kesaev	2.30	Mercury (food and tobacco distribution)
48	-12	Andrey Rogachev	1.90	Macromir (real estate)
51	+72	Oleg Burlakov	1.60	Novoroscement (cement production); oil industry
52	-11	Rustam Tariko	1.60	Russian Standard (banking)
53	+23	Alexander Mamut	1.55	Euroset (cellular retailer)
54	+108	Vadim Yakunin	1.55	Protek (health and beauty product distribution)
55	-17	Alexander Girda	1.50	Andrey Rogachev's business partner
57	+7	Vadim Kharitonin	1.45	Pharmstandard (pharmaceuticals)
62	+92	Igor Rudinsky	1.30	SIA International (pharmaceuticals)
68	+23	Alexander Dzaparidze	1.15	Eurasia Drilling (onshore drilling)
70	+107	Dmitry Mazepin	1.10	Sibur, Uralkhim (chemicals)
72	+8	Alexander Svetakov	1.10	Absolut Bank
75	-29	Vladimir Gruzdev	1.00	The Seventh Continent (retail chain)
76	-26	Yury Zhukov	1.00	PIK Group (real estate)
79	+29	Nikolay Maksimov	0.96	Maxi Group (metals); Sberbank
80	+315	Arkady Rotenberg	0.93	SMP Bank

Source: Compiled from "Reiting rossiiskikh milliarderov 2010," *Finans*, February 15-28, 2010, <http://www.finansmag.ru/95610>, accessed February 2010.

Note: The category "Created business from zero" used by *Finans* magazine was not the same as the "self-made" designation prevalent in *Forbes'* lists. The latter's aim was to distinguish individuals who inherited their wealth from those who acquired it in their lifetime. In the post-Soviet context, all wealthy Russians could be considered as self-made. The "Created business from zero" category, however, set apart those businesspeople who started a new business from those who acquired a formerly socialist property through privatization. The worth figures are expert estimates.

Exhibit 9 State Involvement in the Economy in Russia and Developed Countries, 2008

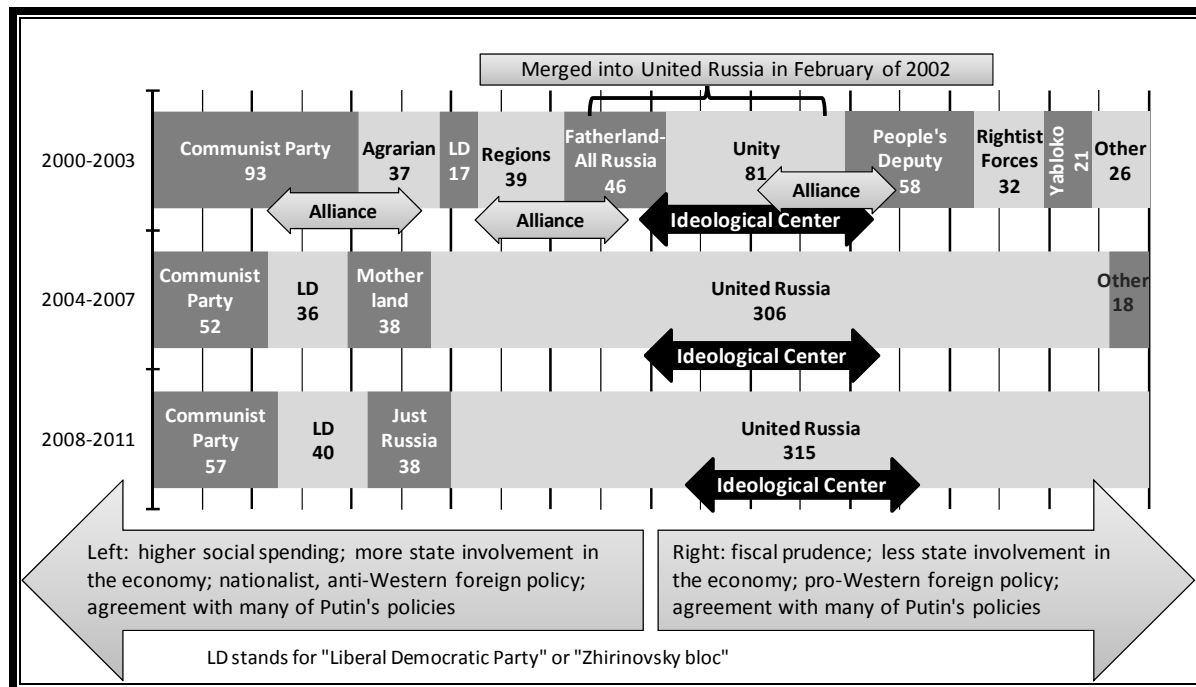
	Russia	OECD Average	OECD Emerging Markets ^a	Euro Area ^b	United States
Control of the Economy by the State					
State control	4.39	2.03	2.54	2.19	1.10
Public ownership	4.28	2.91	3.46	3.08	1.30
Scope of public enterprise sector	4.64	3.10	3.54	3.23	2.25
Direct control over business enterprises	4.19	2.86	3.67	2.93	0.68
Government control in infrastructure sectors	4.02	2.76	3.18	3.08	0.99
Involvement in business operations	4.50	1.15	1.61	1.30	0.90
Use of command and control regulation	4.00	1.52	1.94	1.88	1.30
Price controls	5.00	0.78	1.29	0.71	0.50
Barriers to Entrepreneurship					
Barriers to entrepreneurship	1.78	1.41	1.91	1.26	1.24
Regulatory and administrative opacity	1.00	1.00	1.18	0.64	0.19
Licenses and permit system	2.00	1.78	2.00	1.20	0.00
Communication and simplification of rules	0.00	0.22	0.35	0.09	0.38
Administrative burdens on start-ups	2.32	1.53	2.70	1.61	0.99
Administrative burdens for corporations	2.33	1.62	2.79	1.60	0.75
Administrative burdens for sole proprietor firms	3.00	1.61	2.75	1.78	1.25
Sector-specific administrative burdens	1.64	1.35	2.55	1.46	0.97
Barriers to competition	2.01	1.69	1.87	1.53	2.53
Legal barriers	2.00	1.07	1.14	0.81	1.14
Antitrust exemptions	1.16	0.50	0.61	0.00	2.25
Barriers to entry in network sectors	2.22	1.94	2.29	1.69	3.07
Barrier to entry in services	2.67	3.25	3.43	3.61	3.64
Barriers to International Trade and Investment					
Barriers to trade and investment	3.11	0.59	1.04	0.50	0.18
Explicit barriers to trade and investment	2.62	0.99	1.70	0.87	0.37
Foreign ownership barriers	3.50	1.29	1.68	1.38	1.11
Discriminatory procedures	1.38	0.54	1.09	0.24	0.00
Tariffs	3.00	1.13	2.33	1.00	0.00
Other barriers	3.60	0.18	0.38	0.13	0.00
Regulatory barriers	3.60	0.18	0.38	0.13	0.00

Source: Organization for Economic Co-Operation and Development, "OECD Economic Surveys: Russian Federation," July 2009, pp. 133, 139, 148.

Note: Index scale of 0-6 from least to most restrictive.

^aCzech Republic, Hungary, Korea, Mexico, Poland, Turkey.

^bAustria, Belgium, Finland, France, Germany, Italy, Luxembourg, Netherlands, Portugal, Spain.

Exhibit 10 Composition of the State Duma, 2000–2008

Source: Exhibit created by casewriters based on data from the State Duma of the Federal Assembly of the Russian Federation, the Central Election Commission of the Russian Federation, and Dmitry Kamyshev, "Rebiata-dekabriata," *Vlast*, December 8, 2003.

Note: The first two Dumas (1993-1999) were dominated by the Communist party, which largely opposed the legislative agenda of President Boris Yeltsin. In the December 1999 elections, however, the voters gave pro-Putin Unity a significant mandate that broke the hold of the Communists over the legislature. Initially, Unity and the Communist Party jointly divided the power in the Duma. Unity also made tactical alliances with other parties on issues opposed by the Communist Party. The rapprochement between former arch-rivals Unity and Fatherland-All Russia rendered accommodation with the Communist Party redundant, and so in April 2002, the pro-Putin parties and liberal parties Union of Rightist Forces and Yabloko redistributed the committee chairmanships to the detriment of the Communists.

The distribution of seats among parties and deputy associations slightly varied during each term as some deputies switched their affiliations, as permitted by Russian law. The first four Dumas (1993-2007) were elected by a mixed electoral system: 225 seats were allocated to the winners of the plurality of votes in single-member districts, while another 225 seats were distributed among parties in proportion to the share of the vote they received nationwide, provided that a party received at least 5% of the vote. Before the election of the fifth Duma (2008-2011), a new system was enacted, whereby all 450 members were from then on to be elected by party lists based on proportional representation. The threshold was increased to 7%. At the same time, the changes to the law on political parties gave an advantage to larger parties.

In December 2008, the constitution was amended to extend the term to five years.

Exhibit 11 Ideology of the United Russia Party

Excerpts from Boris Gryzlov's article "Two Parties in One: Questions on the Ideology of United Russia." (Gryzlov was the speaker of the State Duma and head of the United Russia fraction.)

On the strong, autonomous state as a guarantor of Russian sovereignty. "Our ideology rests on obvious facts, on commonsense: only a strong state is capable of protecting its citizens. A weak state will have to conduct domestic and foreign policy that serves the interests of other countries, not those of its own people. In the 1990s Russia went through a period of not having its own policy, of making one-sided concessions to the West, and of recklessly copying foreign experience. This did not lead to anything good. . . . One cannot avoid the fact that a sovereign state today is a pretty expensive undertaking: one need only estimate current levels of expenditure on the armed forces. The path that some countries have taken, involving direct funding of the state apparatus from abroad, is not for Russia. For a state to be financed by other states is, in my view, rather humiliating. Another possible threat is when poorly paid officials are put on the payroll of oligarchs or live off bribes. There are certain limits to economizing on officials' salaries. But irrespective of the size of expenditures they must be transparent."

On the centrist values as a unifying force. "We have built up our party by stressing unity, not division. From the start, United Russia has been a party of unification based on shared values. Neither parties on the right nor parties on the left have succeeded in achieving this. Although a weak center formerly led to the polarization of society, now the political center has enabled the country to emerge from crisis and develop successfully. . . . Political values that unite the citizens of a country are to be found not on the left and not on the right but in the middle of the political spectrum. Extremes, radicalism, and class struggle do not unite; they divide."

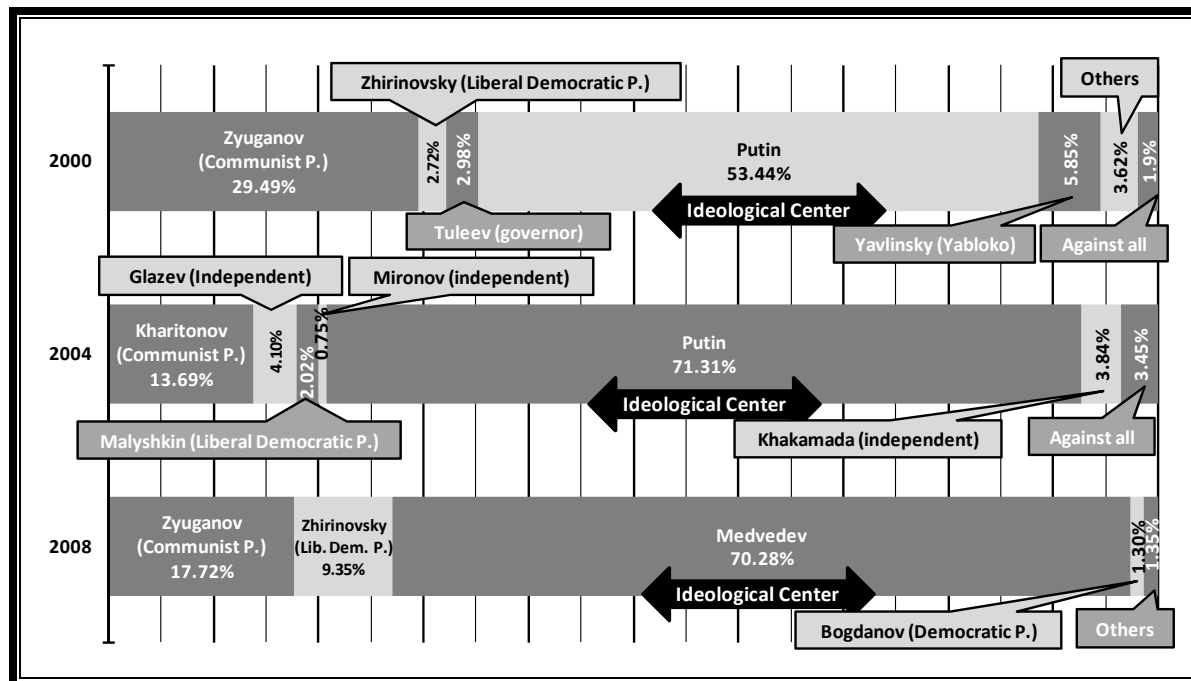
"We advocate social partnership and interact both with trade unions and with business associations. There have been examples of parties that strove to attract only business people, only rural residents, only inhabitants of large towns or of certain regions. Some of them skirted the edges of discrimination; until recently, moreover, the laws assisted precisely such forces (by giving scope to tiny, trifling parties). There are countries where parties are created along ethnic and religious lines. For our country this tendency is not simply unacceptable but dangerous. Therefore we fight it, both through our activity and by legislative means. At the legislative level, this means the prohibition of discrimination, the minimum requirement for the size of a party, and the requirement that a party should have a presence throughout the country. It also includes the transition to a proportional system—with regional groups in party lists."

"Among the laws that we have adopted, some are regarded as ideologically right-wing and some as ideologically left-wing. Our criterion is not whether a law is right-wing or left-wing, but whether it will strengthen the state, help the country compete better in the world, or improve the life of the majority. We rely on Russia's experience and traditions, not on abstract, speculative conceptions. Centrism and normal, healthy conservatism are not only our ideology but also the style of our work."

On the centrality of the strong state for economic development. "In the 1980s and 1990s emphasis was placed on a certain model of development—the 'Washington consensus,' which demanded a minimal role for the state and broad liberalization and privatization. The state was supposed to confine itself to balancing the budget and fighting inflation. Our liberals also succeeded in applying this model. All hopes were set on the global market, on its invisible hand. This system underwent massive failure in South America, in Asia—and in 1998 in Russia, too. At the same time, we see examples of successful models of modernization: postwar Western Europe, Japan, China. These countries made an economic leap. In other words, the same strategy of government intervention in the economy that Roosevelt conducted in the United States yielded better results than the retreat of the state from the economy. Political stability facilitated successful modernization. In fact, in many of these countries power remained for a long time (and, indeed, still remains) in the hands of a single party: the Liberal Democratic Party in Japan or the Gaullists in France. In the global economy it is necessary to rely on one's own state, and not on the invisible hand of the market or on other countries. That is the chief lesson for our society."

On the concept of "sovereign democracy" and inadmissibility of "color revolutions." "Russia's political system satisfies the criteria for democracy no less than the political systems of other democratic countries do. . . . The concept of sovereign democracy was also needed because it was contrasted from the start with the doctrine of the export of democracy. The export version of democracy throws democracy itself backward, leaving nothing besides the label—if only because the question of power in such cases is decided not at elections but in the streets, in the interests not of the citizenry but of outside forces."

Source: Boris Gryzlov, "Two Parties in One: Questions on the Ideology of United Russia," *Russian Politics and Law* 46, no. 5 (September–October 2008): 84–91.

Exhibit 12 Russian Presidential Elections, 2000, 2004, and 2008

Source: Exhibit created by casewriters based on data from the Central Election Commission of the Russian Federation.

Note: In December 2008, the constitution was amended to extend the presidential term to six years. The two-term limit remained in force.

Exhibit 13 Power and the Public: Russian Voters' Attitudes in Opinion Surveys (%)

Assessment of the Economy								
	1996		2000		2004		2008	
	Pocket	Socio	Pocket	Socio	Pocket	Socio	Pocket	Socio
Improved	13	12	22	32	19	33	31	34
No change	36	32	50	44	59	51	52	46
Worsened	50	48	27	18	21	9	16	11
Nonanswer	1	8	1	6	1	7	1	9

Assessment of How They Fared as a Result of the Reforms Carried Out in the 2000s								
	2008							
Won or mostly won	26							
Lost some, won some	37							
Lost or mostly lost	23							
Nonanswer	14							

Assessment of How They Fared as a Result of the Economic Reforms Carried Out in the 1990s								
	2000		2004		2008			
Won or mostly won	6		13		11			
Lost some, won some	17		24		25			
Lost or mostly lost	70		52		46			
Nonanswer	7		11		18			

Assessment of the Economy by Putin Voters								
	2000 President		2004 President		2007 Duma		2000s	
	Pocket	Socio	Pocket	Socio	Pocket	Socio		
Improved	26	40	20	41	36	42	34	
No change	51	42	60	46	53	42	37	
Worsened	23	12	18	6	11	7	15	
Nonanswer	0	6	1	6	1	9	14	

Positions Attributed to Vladimir Putin on Market Reform vs. Socialism								
	By Whole Population			By Putin Voters				
	2000	2004	2008	2000	2004	2008		
Return to socialist economy	1	1	1	1	1	1	1	
(Middle response)	4	5	5	5	4	3		
Continue, deepen market reforms	77	79	84	79	83	87		
Nonanswer	18	16	11	15	12	9		

Positions Attributed to Vladimir Putin on How Russia Should Treat the West								
	By Whole Population			By Putin Voters				
	2004	2008		2004	2008			
As an enemy	0.3	0.4		0.3	0.2			
As a rival	5	12		5	12			
As an ally	68	68		73	70			
As a friend	12	9		10	9			
Nonanswer	16	11		11	9			

Source: Timothy J. Colton and Henry E. Hale, "The Putin Vote: Presidential Electorates in a Hybrid Regime," *Slavic Review* 68, no. 3 (Fall 2009): 489-497.

Note: "Pocket" and "socio" stand for "pocketbook" and "sociotropic" assessment, respectively. Responders were asked to assess the state of the economy in the preceding 12 months as it had impacted them personally ("pocketbook") or the society as a whole ("sociotropic").

Appendix A

Diversification of Exports and Economic Growth

A reduction of the share of raw materials in total exports would insulate an economy from the negative effects of unpredictable fluctuations of commodity prices in international markets. In addition, several economists discovered a positive link between diversification of exports in general and economic growth. The rates of growth, in turn, correlated with the type of exported products: the higher the share of manufactured products and their technological sophistication, the higher the growth rates.⁸³

A number of the fast-growing countries, among them the so-called Asian Tiger economies, successfully diversified their exports while engaging in technologically sophisticated production. They initially duplicated the technological and business know-how of advanced economies by integrating into existing international production networks (IPNs) and facilitating foreign direct investment (FDI). Several decades later, domestic firms in these developing countries turned away from imitation and began to innovate, directly competing with companies based in the advanced economies.⁸⁴

Exhibits A-1 and **A-2** show the structure of exports of the post-Communist countries as well as five emerging economies (Brazil, China, India, Indonesia, and Mexico), included for comparison. The exports are categorized according to the level of technological sophistication:

- **Primary and Resource-Based Products (PRBP):** *livestock, metals, oil, and gas* (mostly extractive activities that required simple processing of primary products);
- **Low-Technology Products (LT):** *textiles* and other products that similarly involved long-existing technology and low-skilled labor. Low barriers to entry;
- **Medium-Technology Products (MT):** *automotive manufacturing, chemicals production, base metals processing, and engineering*. Manufacturing of these products, which usually constituted the greater part of exports of medium- and high-income economies, depended on the supply from multiple firms. These industries tended to involve moderately sophisticated technologies, research and development (R&D), and labor skills. The multinational corporations (MNCs), FDI, and IPNs played a prominent role;
- **High-Technology Exports (HT):** *electronics (computers, computer components, audio-visual equipment, and office equipment)* in **HT1** subgroup and *pharmaceuticals, advanced power generation equipment, aircraft, optical and other precision instruments, and measurement equipment* in **HT2** subgroup. HT products were based on the most sophisticated technologies that required high R&D investment, and corresponding technological infrastructure and technical skills. While both HT1 and HT2 products were designed in high-income countries (at the higher value-added stage), the final assembly of HT1 products took place in low-wage areas, given their high value-to-weight ratio. Thus, MNCs and IPNs were important for HT1 exports. HT2 products, in contrast, tended to be manufactured domestically throughout the production chain.⁸⁵

“N of RCA” in **Exhibits A-1** and **A-2** indicates number of activities in which an economy enjoyed Revealed Comparative Advantage, an index that shows whether a country had a comparative advantage with respect to a certain product.

Exhibit A-1 Structural Changes in Export Activities, 1997–2006

Country	High-technology, N of groups = 19				Medium-technology, N of groups = 71				Low-technology, N of groups = 45				Primary and resource-based products, N of groups = 125				Percentage change in medium and high technology (1997–2006)
	1997		2006		1997		2006		1997		2006		1997		2006		
	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	
China	9	15.6	9	33.7	15	17.9	22	22.1	35	46.5	37	31.5	44	20.0	28	12.7	22.2
Poland	3	7.3	4	8.8	27	23.6	29	39.9	25	33.6	21	21.3	56	35.5	42	30.0	17.7
Slovakia	4	6.1	4	15.5	36	35.2	28	41.9	18	30.6	21	19.9	38	28.1	25	22.7	16.1
Hungary	6	19.4	8	30.4	25	34.0	25	38.9	18	17.8	10	10.0	47	28.8	28	20.7	15.9
Romania	3	2.5	4	5.7	20	20.8	20	32.3	25	49.2	27	35.3	31	27.5	31	26.7	14.7
Czech Rep.	5	10.0	6	18.5	45	39.5	35	43.3	28	27.0	25	19.7	47	23.5	23	18.6	12.2
Latvia	4	9.1	2	7.9	12	9.0	13	16.5	19	30.5	25	24.7	36	51.4	35	51.0	6.2
Slovenia	6	12.8	6	14.4	30	36.0	30	40.3	27	28.3	22	22.8	33	22.9	25	22.6	5.9
Indonesia	1	5.2	0	6.8	9	8.8	14	12.5	16	16.8	13	16.0	33	69.2	44	64.8	5.2
India	2	5.2	4	5.8	9	11.3	14	15.4	28	38.1	31	28.0	39	45.4	51	50.9	4.7
Estonia	4	13.3	4	16.9	14	20.5	14	21.1	14	23.2	16	18.5	46	43.0	30	43.5	4.2
Georgia	3	2.7	3	8.4	11	31.8	13	30.1	3	4.0	3	3.5	31	61.5	23	58.0	4.0
Ukraine	2	4.3	4	3.6	15	32.1	16	36.6	12	25.5	12	25.7	43	38.1	35	34.1	3.9
Brazil	0	4.7	2	7.7	23	27.4	21	26.1	17	12.7	11	9.6	49	55.1	50	56.7	1.6
Lithuania	2	7.4	2	7.0	20	24.9	21	26.8	20	22.5	18	19.2	49	45.2	43	47.0	1.4
Mexico	7	23.2	7	25.4	22	38.2	27	36.8	17	16.7	12	11.2	29	21.9	22	26.6	0.8
Armenia	3	6.3	0	1.1	13	14.3	3	20.0	7	9.5	5	8.7	21	69.8	11	70.2	0.5
Russia	1	2.1	1	1.5	8	10.7	5	8.5	4	6.7	3	3.7	28	80.4	25	86.3	-2.8
Kazakhstan	1	2.1	1	2.4	7	8.8	4	4.3	3	10.8	4	3.5	35	78.3	29	89.8	-4.2
Azerbaijan	1	1.3	0	0.2	7	8.2	2	4.3	2	2.9	0	1.0	21	87.6	15	94.6	-5.0
Bulgaria	3	6.3	1	5.7	20	20.1	16	15.5	23	26.2	19	27.4	49	47.4	40	51.3	-5.1
Kyrgyzstan	2	6.4	1	3.4	7	10.4	5	7.4	5	4.6	8	12.0	32	78.7	33	77.2	-6.0
Moldova	1	10.0	0	3.0	8	10.9	8	7.1	6	9.0	17	38.6	34	70.1	29	51.4	-10.9
Belarus	2	5.4	2	2.5	28	41.8	16	28.6	20	23.3	14	13.1	38	29.6	16	55.9	-16.1

Source: R. Connolly, "The Structure of Russian Industrial Exports in Comparative Perspective," *Eurasian Geography and Economics* 49, no. 5 (2008): 596.

Exhibit A-2 Structural Changes in High-Technology Export Activities, 1997–2006

Country	High-technology 1, N of groups = 11				High-technology 2, N of groups = 8			
	1997		2006		1997		2006	
	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports	N of RCA >1	Percent of total exports
China	5	13.3	8	31.1	4	2.3	1	2.6
Poland	2	5.6	3	7.5	2	1.7	1	1.3
Slovakia	2	4.1	4	14.4	2	2.0	0	1.1
Hungary	5	17.1	6	26.1	1	2.3	3	4.3
Romania	2	1.7	3	4.6	1	0.8	1	1.2
Czech Rep.	3	6.9	5	16.3	3	3.1	1	2.1
Latvia	3	6.1	1	4.1	1	3.1	1	3.8
Slovenia	4	6.8	4	6.4	2	6.0	2	8.0
Indonesia	0	4.7	0	6.2	1	0.5	0	0.5
India	0	2.2	2	2.6	2	3.0	2	3.2
Estonia	2	11.3	3	15.9	2	2.0	1	1.1
Georgia	1	1.4	1	0.6	2	1.3	2	7.8
Ukraine	2	2.3	2	2.3	2	1.9	2	1.4
Brazil	0	2.6	1	4.4	0	2.1	1	3.2
Lithuania	1	4.9	2	5.3	1	2.5	0	1.7
Mexico	7	21.5	6	23.0	0	1.7	1	2.4
Armenia	2	4.2	0	0.6	1	2.2	0	0.6
Russia	1	1.6	1	0.9	0	0.5	0	0.7
Kazakhstan	0	0.7	0	0.1	1	1.4	1	2.3
Azerbaijan	1	1.0	0	0.1	0	0.2	0	0.1
Bulgaria	2	3.1	1	3.3	2	3.1	0	2.4
Kyrgyzstan	1	4.3	1	2.7	1	2.0	0	0.8
Moldova	0	1.8	0	1.1	1	8.2	0	1.9
Belarus	2	3.4	2	1.7	2	1.9	0	0.7

Source: R. Connolly, "The Structure of Russian Industrial Exports in Comparative Perspective," *Eurasian Geography and Economics* 49, no. 5 (2008): 599.

Appendix B

Excerpts from Dmitry Medvedev's Article "Go Russia!"⁸⁶

On social ills that inhibit creative energy and restrict progress in Russia: "Centuries of economic backwardness and the habit of relying on the export of raw materials, actually exchanging them for finished products. Peter the Great, the last tsars and the Bolsheviks all created—and not unsuccessfully—elements of an innovative system. But the price of their successes was too high. As a rule, it was done by making extreme efforts, by using all the levers of a totalitarian state machine.

Centuries of corruption have debilitated Russia from time immemorial. Until today this corrosion has been due to the excessive government presence in many significant aspects of economic and other social activities. But it is not limited to governmental excess—business is also not without fault. Many entrepreneurs are not worried about finding talented inventors, introducing unique technologies, creating and marketing new products, but rather with bribing officials for the sake of 'controlling the flows' of property redistribution.

Paternalistic attitudes are widespread in our society, such as the conviction that all problems should be resolved by the government. Or by someone else, but never by the person who is actually there. The desire to make a career from scratch, to achieve personal success step by step is not one of our national habits. This is reflected in a lack of initiative, lack of new ideas, outstanding unresolved issues, the poor quality of public debate, including criticism. Public acceptance and support is usually expressed in silence. Objections are very often emotional, scathing, but superficial and irresponsible. Well, this is not the first century that Russia has had to confront these phenomena."

On the ends and means: "The impressive legacy of the two greatest modernizations in our country's history—that of Peter the Great (imperial) and the Soviet one—unleashed ruin, humiliation and resulted in the deaths of millions of our countrymen. It is not for us to judge our predecessors. But we must recognize that the preservation of human life was not, euphemistically speaking, a government priority in those years. Unfortunately, this is a fact. Today is the first time in our history that we have a chance to prove to ourselves and the world that Russia can develop in a democratic way. That a transition to the next, higher stage of civilization is possible. And this will be accomplished through non-violent methods. Not by coercion, but by persuasion. Not through suppression, but rather the development of the creative potential of every individual. Not through intimidation, but through interest. Not through confrontation, but by harmonizing the interests of the individual, society and government . . . In the coming decades Russia should become a country whose prosperity is ensured not so much thanks to commodities but by intellectual resources: the so-called intelligent economy, creating unique knowledge, exporting new technologies and innovative products."

On five strategic vectors for the economic modernization of Russia: "First, we will become a leading country measured by the efficiency of production, transportation, and use of energy. We will develop new fuels for use on domestic and international markets. Secondly, we need to maintain and raise our nuclear technology to a qualitatively new level. Third, Russia's experts will improve information technology and strongly influence the development of global public data networks, using supercomputers and other necessary equipment. Fourth, we will develop our own ground and space infrastructure for transferring all types of information; our satellites will thus be able to observe the whole world, help our citizens and people of all countries to communicate, travel, engage in research, agricultural and industrial production. Fifth, Russia will take a leading position in the production of certain types of medical equipment, sophisticated diagnostic tools, medicines for the treatment of viral, cardiovascular, and neurological diseases and cancer."

On the importance of political modernization: "I also think that technological development is a priority public and political task because scientific and technological progress is inextricably linked with the progress of political systems . . . Russia's political system will also be extremely open, flexible, and internally complex. It will be adequate for a dynamic, active, transparent, and multi-dimensional social structure. It will correspond to the political culture of free, secure, critical thinking, self-confident people. As in most democratic states, the leaders of the political struggle will be the parliamentary parties, which will periodically replace each other in power. The parties and the coalitions they make will choose the federal and regional executive authorities (and not vice versa). They will be responsible for nominating candidates for the post of president, regional governors, and local authorities. They will have a long experience of civilized political competition: responsible and meaningful interaction with voters, inter-party cooperation and the search for compromises to resolve acute social problems. They will bring together in one political entity every element of society, citizens of all nationalities, the most diverse groups of people and territories of Russia endowed with ample powers . . . The political system will be renewed and improved via the free competition of open political associations. There will be a cross-party consensus on strategic foreign policy issues, social stability, national security, the foundations of the constitutional order, the protection of the nation's sovereignty, the rights and freedoms of citizens, the protection of property rights, the rejection of extremism, support for civil society, all forms of self-organization and self-government. A similar consensus exists in all modern democracies."

On the pace of change: "This year we started moving towards the creation of such a political system . . . Not everyone is satisfied with the pace at which we are moving in this direction. They talk about the need to accelerate changes in the political system. And sometimes about going back to the 'democratic' nineties. But it is inexcusable to return to a paralyzed country. So I want to disappoint the supporters of permanent revolution. We will not rush. Hasty and ill-considered political reforms have led to tragic consequences more than once in our history. They have pushed Russia to the brink of collapse. We cannot risk our social stability and endanger the safety of our citizens for the sake of abstract theories. We are not entitled to sacrifice stable life, even for the highest goals. In his time Confucius remarked: 'Impatience in small matters destroys a great idea.' We have all too often experienced this in the past. Reforms for the people, not the people for reform. At the same time this will displease those who are completely satisfied with the status quo. Those who are afraid and do not want change. Changes will take place, but they will be gradual, thought-through, and step-by-step. But they will nevertheless be steady and consistent."

On the foreign influence on the internal development of Russia: "Russian democracy will not merely copy foreign models. Civil society cannot be bought by foreign grants. Political culture will not be reconfigured as a simple imitation of the political traditions of advanced societies. An effective judicial system cannot be imported. Freedom is impossible to simply copy out of a book, even a very clever one. Of course we'll learn from other nations—from their experiences, their successes and failures in developing democratic institutions. But no one will live our lives for us. Nobody is going to make us free, successful, and responsible. Only our own experience of democratic endeavor will give us the right to say: we are free, we are responsible, we are successful."

On the openness to the world: "The modernization of Russian democracy and establishment of a new economy will, in my opinion, only be possible if we use the intellectual resources of post-industrial societies. And we should do so without any complexes, openly and pragmatically. The issue of harmonizing our relations with western democracies is not a question of taste, personal preferences, or the prerogatives of given political groups. Our current domestic financial and technological capabilities are not sufficient for a qualitative improvement in the quality of life. We need money and technology from Europe, America, and Asia. In turn, these countries need the opportunities Russia offers. We are very interested in the rapprochement and interpenetration of our cultures and economies."

Endnotes

¹ R. E. Ericson, "The Russian Economy in 2008: Testing the 'Market Economy'," *Post-Soviet Affairs* 25, no. 3 (2009): 215.

² Ibid.

³ Ibid., pp. 222–225.

⁴ The following account, unless otherwise noted, is based on Rawi Abdelal, "Russia: The End of a Time of Troubles?" HBS No. 701-076 (Boston: Harvard Business School Publishing, 2001).

⁵ Timothy J. Colton, *Yeltsin: A Life* (New York: Basic Books, 2008), p. 233.

⁶ Ibid., pp. 226–227.

⁷ Leningrad reverted to its original name of Saint Petersburg by a popular decision on June 12, 1991.

⁸ Dmitry Medvedev, "Biographiia," Russian president's website, <http://medvedev.kremlin.ru/biography>, accessed February 2010.

⁹ The new Russia at this point was governed by the 1978 Soviet constitution, amended several hundred times by the Congress of People's Deputies during the Gorbachev era. The chaotic state of Russia's institutions made it not only imperative to adopt a new constitution but also impossible to achieve without conflict, for both the president and legislature could claim supremacy over each other based on existing legislation. In March 1993, the legislature tried but failed to impeach Yeltsin. In April, a nonbinding referendum expressed trust in Yeltsin and his policy and favored reelection of the parliament. In July, a Yeltsin-appointed constitutional committee approved a draft constitution. On September 21, Yeltsin issued decrees that dissolved the parliament and called for new elections on December 12. The same day the Constitutional Court declared Yeltsin's decrees unconstitutional. The next day, the parliament passed resolutions replacing Yeltsin with Vice President Rutskoy.

¹⁰ Per transitional provisions of the constitution, the voters also elected a new legislature, the State Duma, on that day.

¹¹ Article 1 of the constitution declared that "The Russian Federation/Russia is a democratic, federal, law-bound state with a republican form of government." In a reversal of the principles enshrined in the Soviet constitution, the Russian constitution explicitly permitted private ownership of property, including land and natural resources, according to terms set by a federal law. Only courts could deprive owners of their property. The fundamental law also reversed the Soviet ban on entrepreneurial activities for profit and prohibited monopolization and unfair competition (art. 8.2; 9.2; 34.1-2; 35.1-4; 36.1-3). The constitution guaranteed freedom of speech and mass communication (explicitly banning censorship), freedom to form associations, and freedom of peaceful assembly. The constitution, however, banned speech instigating social, racial, national, or religious hatred, strife, or supremacy; allowed restricting freedom of information to protect state secrets, as defined by federal law; and prohibited associations seeking to change the constitutional system by force, to undermine the territorial integrity of Russia, or to instigate social, racial, national, and religious strife (art. 13.4-5; 29.1-5; 30.1; 31).

¹² The 1993 State Duma elections did proceed according to new rules but they were provisional in nature and took place simultaneously with the referendum on the constitution.

¹³ O. J. Reuter and T. F. Remington, "Dominant Party Regimes and the Commitment Problem: The Case of United Russia," *Comparative Political Studies* 42, no. 4 (2009): 506.

¹⁴ G. B. Robertson, "Managing Society: Protest, Civil Society, and Regime in Putin's Russia," *Slavic Review* 68, no. 3 (2009): 513–514.

¹⁵ Colton, 2008, p. 350.

¹⁶ The votes were distributed in the first round as follows: Yeltsin 36%, Zyuganov 32%, Alexander Lebed 15%, Grigory Yavlinsky 7%, and Vladimir Zhirinovskiy 6%. Before the second round, General Lebed endorsed Yeltsin in exchange for the appointment as secretary of the Security Council. In the second round, voters gave

Yeltsin 54% and Zyuganov 41%. Political scientists have attributed Yeltsin's victory to several factors, including, "an intentional polarization of the race to capitalize on anticommunist sentiment, pork-barrel spending and machine politics, biased mass media, a strong and energetic campaign, and manipulation of the set of opponents." Those who voted for Yeltsin "believed the economy and the state of democracy were improving; approved of Yeltsin's performance in office; attributed competence or other positive leadership traits to Yeltsin; espoused pro-market and pro-democracy views; showed signs of openness to western influence; were partisans of the pro-presidential party, Our Home Is Russia; professed Orthodox faith; and came from more urbanized or northern parts of the country." See T. J. Colton and H. E. Hale, "The Putin Vote: Presidential Electorates in a Hybrid Regime," *Slavic Review* 68, no. 3 (2009): 476.

¹⁷ Ironically, Yeltsin at the same time sabotaged Gorbachev's efforts to preserve the USSR. Yeltsin refused to sign the Union Treaty between the 15 Soviet republics that would have preserved the union because he objected to a federal tax. Gorbachev responded in disbelief: "In this case we will not have a federation." Quoted in Colton, 2008, p. 195.

¹⁸ The Russian word *suverenitet* ("sovereignty") in this historical context mostly implied autonomy within a federation or a confederation. *Nezavisimost'* ("independence") designated full independence.

¹⁹ In early March 1992, Tatarstan in a referendum approved provisions that effectively would turn the province into a separate state.

²⁰ The constitution declared Russia to be a federation with 89 equal subjects—21 republics, 6 territories (*krai*), 49 regions (*oblast'*), 2 federal cities (Moscow and Saint Petersburg), 1 autonomous region, and 10 autonomous areas (*okrug*). Since 2005, several subjects merged, forming 46 regions, 9 territories, and 4 autonomous areas. The number of republics, federal cities, and autonomous regions remained unchanged. Thus, as of this writing, the Russian Federation consisted of 83 subjects.

²¹ According to the constitution, the constitution and federal laws applied in the entire territory of the Russian Federation and if provincial legislation contradicted federal laws, the latter would take precedence. The president could also suspend the normative acts of the provincial executives, pending a court decision (art. 4.2; 15.1; 65.1; 76.1-6; 85.2.). The subjects of the federation could exercise full power in areas outside of federal or joint jurisdiction, delineated by the constitution as well as federative or other treaties concluded by the federal and provincial authorities (art. 11.3; 73). To the jurisdiction of the federal authority were allocated, among others, the rights to amend the constitution and adopt and implement federal laws; to ensure the integrity of a single economic space; to conduct foreign policy; to provide for common defense; and to enforce criminal and civil law in the entire territory, etc. (art. 8.1; 71). Under the joint purview of the federal and provincial governments were, among others, the issues of possession, use and disposal of land, subsoil, water, and other natural resources and legislation on subsoil and environmental protection, etc. (art. 72.1). The constitution stipulated that a federal law would define the system of taxes paid to the federal budget as well as the general principles of taxation (art. 75.3). The republics had the right to establish their own state languages and use them for official purposes together with Russian, the state language of the country (art. 5.1-2; 68.1-2).

²² H. Appel, "Is It Putin or Is It Oil? Explaining Russia's Fiscal Recovery," *Post-Soviet Affairs* 24, no. 4 (2008): 305–306.

²³ "Kazan' stala khoroshim primerom dlia Groznogo," *Kommersant*, February 16, 1994.

²⁴ On June 14, a group of Chechen terrorists headed by Shamil Basayev held a hospital in the southern Russian city of Budennovsk hostage for days, demanding pullout. The terrorists escaped unharmed, leaving 126 dead behind. Colton, 2008, p. 292.

²⁵ Appel, 2008, p. 303.

²⁶ *Ibid.*, pp. 305–306.

²⁷ Technically, the pledgees then had the right to sell the shares through another auction. The Western media called this arrangement "loans-for-shares." The details are now widely available. See, for example, Ira W.

Lieberman and Rogi Veimetra, "The Rush for State Shares in the 'Klondyke' of Wild East Capitalism," *George Washington Journal of International Law and Economics* 29, no. 3 (1996): 737-768.

²⁸ Andrew Meier, "Who Fears a Free Mikhail Khodorkovsky?" *New York Times*, November 18, 2009.

²⁹ "By 1997, the tax code consisted of nearly 200 different taxes augmented by 1,200 presidential decrees and government orders; 3,000 legislative acts; and 4,000 regulatory acts and instructions from ministries and agencies. In addition, regional governments added more than one hundred of their own additional taxes to the system." Gerald Easter, "Building Fiscal Capacity," in *The State After Communism*, eds. Timothy Colton and Stephen Holmes (Lanham, MD: Rowman and Littlefield, 2006a), p. 32.

³⁰ Appel, 2008, pp. 305-306.

³¹ Ibid.

³² The August crisis was blamed on a number of factors, some external to Russia, others internal. The Russian government tended to blame falling oil prices. Russians also pointed out that the Asian financial crisis of the summer of 1997 seemed to have made foreign investors in emerging markets skittish. Although the IMF supported the Russian government's attempt to maintain its currency peg to the dollar, others argued that the ruble, after having experienced several years of real appreciation of the exchange rate, was overvalued. Some critics suggested that the government's borrowing had been excessive and that the government's debt was too costly and too short-term. The months leading up to August 1998 also had been tough for the Russian stock market, which had declined 90% by July 1998 after its 1997 high.

³³ For the sake of brevity, we refer to all chief executives of the subjects of the Russian Federation as governors. Considering Russia's complex federal structure, the chief executives of subnational units were called differently, depending on the type of province. The heads of republics, for example, were called presidents, while heads of regions were referred to as governors. The chief executive of Moscow—one of the two federal cities on par with republics and regions—was known as the mayor. The chief executive of St. Petersburg—the second federal city—was headed by a governor.

³⁴ Vladimir Putin, "Ot pervogo litsa. Razgovory s Vladimirom Putinim," Russian president's website, <http://archive.kremlin.ru/articles/bookchapter7.shtml>, accessed February 2010.

³⁵ In August, Chechen fighters had occupied parts of neighboring Dagestan with the aim of creating an Islamic state in the area. In September, bombings had razed residential buildings in Moscow and two other cities, killing hundreds of people. Putin linked the bombings to the Chechen terrorists and blamed the government of de facto independent Chechnya for the spread of lawlessness and terror.

³⁶ Reuter and Remington, 2009, pp. 515-517.

³⁷ Ibid.

³⁸ According to the constitution, the authority of the president would pass to the prime minister in case of the president's incapacity or resignation, whether voluntary or following impeachment. The acting president should then ensure that presidential elections take place within three months, during which time the acting president could not dissolve the State Duma, appoint a referendum, or initiate constitutional amendments.

³⁹ Putin gained among voters who thought the economy was doing well, professed loyalty to the Unity bloc, placed themselves on the right of the political spectrum, and preferred postreform political and economic systems to those of the past. Colton and Hale, 2009, pp. 477-479.

⁴⁰ The Russian constitution has been described as semipresidential. The president would be directly elected by all voters for no more than two four-year terms (art. 81.1-2). The president could dissolve the State Duma, the lower house of the federal legislature, if the latter rejected the president's candidate for the prime minister three times; if it expressed no confidence in the government twice within three months; or if the government asked for a vote of confidence in the State Duma, the latter expressed no confidence, and the president rejected the State Duma's decision. The president in the case of dismissal had to set a date for new elections so the lower house would start working within four months. The State Duma could not be dissolved during the year after it was

elected; from the moment it started the process of impeachment of the president; when state of emergency or a martial law operated in the entire country; or during the six months before the expiration of the president's term (art. 84; 103.1; 109.1-5; 117.3-5). The Russian president had also been vested with the power of nomination to key appointments, including of the chairman of the government (prime minister), confirmed by the State Duma; high courts' judges, confirmed by the Council of Federation, the upper house of the federal legislature (art. 83; 128.1-3; 102.1); the prosecutor general, confirmed and dismissed by the Council of Federation (art. 83; 102.1; 129.1-3); and the chairman of the Central Bank, confirmed and dismissed by the State Duma (art. 83; 103.1). Among the checks against the president were the provisions of impeachment. For the president to be impeached, the charges of high treason or another grave crime against the president had first to be approved by a 2/3 majority in the State Duma. Then, two high courts had to certify the legality of the charges: the Supreme Court had to authenticate the elements of crime, and the Constitutional Court had to look into observance of procedures. The Council of Federation then could impeach the president within three months with 2/3 votes (art. 102.1; 103.1).

⁴¹ Medvedev, "Biographiia."

⁴² The domestic industries benefited from the devaluation of the ruble in the wake of the crisis.

⁴³ Konstantin Smirnov, "Zachem oni tuda khodiat," *Vlast*, May 21, 2002.

⁴⁴ Big businesses at the meeting were represented by the following individuals: Vagit Alekperov (Lukoil), Kakha Bendukidze (OMZ), Vladimir Bogdanov (Surgutneftegaz), Taimuraz Bolloev (Baltika), Oleg Deripaska (Rusal), Mikhail Fridman (Alpha-bank), Mikhail Khodorkovsky (Yukos), Oleg Kiselev (IMPEKSbank), Vladimir Kogan (Promstroibank), Vladimir Lisin (Novolipetsk Metallurgy), Aleksey Mordashov (Severstal), Vladimir Potanin (Interros), Nikolay Pugin (GAZ), Sergey Pugachev (Mezhprombank), Evgeny Shvidler (Sibneft), Semen Vainshtok (Transneft CEO), Victor Vekselberg (SUAL), Rem Viakhirev (Gazprom), Dmitry Zimin (Vypelkom). The government, in addition to Putin, was represented by the following individuals: Prime Minister Mikhail Kasyanov, Deputy Prime Minister Aleksey Kudrin, Minister of Economic Development German Gref, and president's Deputy Chief of Staff Dmitry Medvedev. "Kto priglashen k prezidentu," *Kommersant*, July 27, 2000; "Oligarkhov v Kreml'e sovsem obnuli," *Kommersant*, July 29, 2000.

⁴⁵ "Berezovskii, Boris," *Lentapedia*, <http://lenta.ru/lib/14159604/full.htm>, accessed February 2010; Viktoriia Arutiunova and Yelena Tregubova, "V efire—programma teleperedachi negosudarstvennykh aktsii ORT," *Kommersant*, September 5, 2000; "Prezidentu Rossiiskoi Federatsii Vladimiru Putinu. O svbode slova i aktsiiakh ORT," *Kommersant*, September 5, 2000.

⁴⁶ The first part of the Russian tax code outlined general principles and taxpayer rights. It came into force on January 1, 1999.

⁴⁷ Appel, 2008, pp. 308–309.

⁴⁸ Easter, 2006a, p. 42.

⁴⁹ Appel, 2008, pp. 309.

⁵⁰ D. Mitin, "From Rebellion to Submission: The Evolution of Russian Federalism under Putin," *Problems of Post-Communism* 55, no. 5 (2008): 53–57.

⁵¹ Ibid.

⁵² Ibid., pp. 54–57. The Russian constitution stated that federal laws should specify the election procedure for both chambers of the Federal Assembly, the Council of Federation and the State Duma (art. 95-96). To become a federal law, a bill would have to be passed by the State Duma and the Council of Federation, and signed by the president. The State Duma could overwrite a rejection by the Council of Federation by 2/3 majority, sending it directly to the president. Bills vetoed by the president had to be reintroduced in the parliament. Approved by 2/3 majority in both houses, the bill would become a law (art. 104-107). Federal constitutional laws had to be approved by 3/4 majority in the State Duma and 2/3 majority in the Council of Federation. The president could not veto this type of law (art. 108). An example of a situation in which a federal constitutional law would be required was the procedure on how high courts should form and function (art. 128.1-3). The constitution

envisioned several courts at the top of the judicial branch. The Constitutional Court would decide whether legislation enacted at all levels of the federation and by any branch of government corresponded to the constitution and would resolve disputes on jurisdiction matters (art. 125.1-2; 125.3-7). The Supreme Court was the highest court of appeal for criminal, civil, and administrative cases, while the highest appellate court for economic disputes was the Higher Arbitration Court (art. 126; 127). The rules for adoption of federal constitutional laws also applied for adoption of constitutional amendments. The latter, however, carried an additional requirement: approval by 2/3 of provincial parliaments. Articles 1-16 (Fundamentals of the Constitutional System), 17-64 (Rights and Freedoms of Man and Citizen), and 134-137 (Constitutional Amendments and Review of the Constitution) could not be amended (art. 135.1-3; 136).

⁵³ Mitin, 2008, pp. 57–58.

⁵⁴ Ibid.

⁵⁵ Reuter and Remington, 2009, p. 519.

⁵⁶ Ibid., pp. 516–519.

⁵⁷ In August 2003, the nationalist-patriotic factions under the leadership of Sergei Glazev defected to create the People's Patriotic Union. That party, led by Glazev, joined forces with Motherland, led by Dmitry Rogozin, in the December 2003 elections and competed for many of the same votes sought by the Communists. On the right, the liberal parties Union of Right Forces (SPS in Russian) and Yabloko failed to overcome their differences and either merge or at least agree on a common election platform. Yabloko members viewed Union of Right Forces as the party of oligarchs, while the latter was suspicious of the former's social democratic instincts.

⁵⁸ The KPRF leader Zyuganov chose not run, endorsing instead relatively unknown Nikolai Kharitonov; Liberal Democratic Party of Russia (LDPR) leader Zhirinovskiy ceded the honor to his bodyguard, Oleg Malyshev; Irina Khakamada (SPS) and Sergei Glazyev ran without the endorsement of their own parties; no candidate from Yabloko ran. Colton and Hale, 2009, pp. 479-480.

⁵⁹ Appel, 2008, p. 314, n12.

⁶⁰ Among them, an initiative to build a private oil pipeline to China; an offer to sell 40% of Yukos to an American oil consortium; and the potential merger of Yukos and Sibneft

⁶¹ Meier, 2009.

⁶² Ibid.

⁶³ Appel, 2008, pp. 308–309, 311, 315.

⁶⁴ The money accrued in the fund through an automatic transfer of 95% of the natural resource extraction tax and 100% of the crude oil export duty above \$27/bbl. The fund was under the purview of the Ministry of Finance, but some of revenue was invested by the Central Bank of Russia in safe foreign government securities.

⁶⁵ "Sechin, Igor'," *Lentapedia*, <http://lenta.ru/lib/14160890/full.htm>, accessed February 2010.

⁶⁶ "Gennady Timchenko and Gunvor International BV," *The Economist*, July 30, 2009; Alexander Smotrov, "The Economist utochnil formulirovki stat'i o Timchenko i kompanii Gunvor," *RIA Novosti*, July 30, 2009, <http://www.rian.ru/economy/20090730/179241944.html>, accessed February 2010; "Excerpts: Gunvor's Timchenko on His History, Putin and Gunvor," *Wall Street Journal*, June 11, 2008.

⁶⁷ In August 2000, a bomb exploded in Pushkin Square in the heart of Moscow. In May 2002, another bomb killed scores of people in Dagestan. In October 2002, Chechen terrorists took a Moscow theater hostage mid-performance. More than 100 hostages died in the rescue operation by special forces. A wave of suicide bombings between May and September 2003 in Chechnya and beyond killed more than 150 people.

⁶⁸ "Alkhanov, Alu," *Lentapedia*, <http://lenta.ru/lib/14160019/full.htm>, accessed February 2010.

⁶⁹ "Basaev vzial na sebia otvetstvennost' za terakty v Rossii i podrobno rasskazal o Beslane," *Izvestiia*, September 17, 2004.

⁷⁰ According to the new rules, the president would nominate a governor to be confirmed by the provincial parliament. The president and the provincial parliament would have to hold a month-long consultation if the legislature rejected the nominee twice. Should the consultation fail to resolve the disagreement, the president then would have to present a new nominee, appoint an interim governor for six months, or dissolve the provincial legislature. Reuter and Remington, 2009, p. 511.

⁷¹ Mitin, 2008, pp. 54–57.

⁷² Robertson, 2009, pp. 532–533, 536–537.

⁷³ Federal Law No. 18-FZ, "On Introducing Changes to Several Legislative Acts of the Russian Federation," signed into law on 10 January 2006.

⁷⁴ L. March, "Managing Opposition in a Hybrid Regime: Just Russia and Parastatal Opposition," *Slavic Review* 68, no. 3 (2009): 514–518; "Khronika istoricheskogo razvitiia," Just Russia party website, <http://www.spravedlivo.ru/information/hronic/>, accessed February 2010.

⁷⁵ Other changes: only registered parties could contest the election. The party could be registered if it showed that it had at least 50,000 members in half of Russia's regions, up from 10,000 required by the 2001 law. Election blocs—coalitions of two or more parties joining forces in the election—were banned. Only parties that received 7% of the vote could be represented in the Duma, up from the 5% threshold.

⁷⁶ Medvedev was appointed to this position in November 2005.

⁷⁷ Besides Medvedev, three other candidates were able to register to contest the presidential race. Gennady Zyuganov, the leader of KPRF, and Vladimir Zhirinovskiy, the leader of the LDPR, registered easily because as representatives of parties elected to the Duma they were not required to present two million signatures. Mikhail Kasyanov, former prime minister who had served in Putin's government until February 2004, was refused registration because many of the signatures were considered to be invalid. A virtually unknown Andrei Bogdanov, however, was registered, fueling suspicion that his candidacy was secretly promoted by the Kremlin to give an appearance of pluralistic elections. Bogdanov, like Kasyanov, campaigned on a liberal platform. Considering that Zhirinovskiy and his party, despite fiery rhetoric, had always been loyal to Putin and that Bogdanov was a marginal candidate, Zyuganov was the only candidate who represented the opposition.

⁷⁸ R. E. Ericson, "Antikrizisnye mery pravitel'stva Rossii 2008–2009 gg. Spravka," *RIA Novosti*, September 14, 2009, http://www.rian.ru/crisis_spravki/20090914/185012904.html, accessed February 2010.

⁷⁹ Ibid.

⁸⁰ "The Anti-Crisis Guidelines of the Government of the Russian Federation for 2010," Russian Government's Web site, <http://premier.gov.ru/eng/anticrisis/3.html>, accessed February 2010.

⁸¹ Ibid. As early as 2001, Putin warned about the danger of the dependence of the Russian economy on raw materials. In his address to the Federal Assembly, Putin said, "Conditions for ensuring a sustainable high growth rate have unfortunately still not been created. . . . It is clear that if we do not start taking action today, including by carrying out structural reforms, we could end up going into a lengthy period of economic stagnation tomorrow. Our economy is still based primarily on natural resources rather than on manufacturing. The additional revenue we receive from exports is either eaten up, feeds the capital outflow or, at best, gets reinvested in the same raw materials sector. The fuel and energy sector accounted for more than 60% of all industrial investment last year. This happened partly because no effective use was found for export revenue in other sectors of the Russian economy. Inflow of capital is hindered by high risks linked to contracts not being fulfilled and an undeveloped financial market infrastructure. Incentives are limited, there is no trust, and as a result, our economy is not modernizing, it is staying stuck where it is and is even coming to rely even more on raw materials exports, and thus is even more dependent on cyclical factors." Vladimir Putin, "Annual address to

the Federal Assembly of the Russian Federation," April 3, 2001, Russian President's website, http://eng.kremlin.ru/speeches/2001/04/03/0000_type70029type82912_70660.shtml, accessed February 2010.

⁸² Dmitry Medvedev, "Go Russia!" Russian President's website, http://eng.kremlin.ru/speeches/2009/09/10/1534_type104017_221527.shtml, accessed February 2010.

⁸³ These claims have been summarized in R. Connolly, "The Structure of Russian Industrial Exports in Comparative Perspective," *Eurasian Geography and Economics* 49, no. 5 (2008): 596. The author cited the following studies: R. Hausmann, L. Pritchett, and D. Rodrik, "Growth Accelerations," *Journal of Economic Growth* 10, no. 4 (2005): 303–329; R. Hausmann, J. Hwang, and D. Rodrik, "What You Export Matters," Harvard University website, April 2006, <http://ksghome.harvard.edu/~drodrik/hhr.pdf>, accessed May 13, 2008; J. Imbs and R. Wacziarg, "Stages of Diversification," *American Economic Review* 93, no. 1 (2003): 63–86; B. F. Jones and B. A. Olken, *The Anatomy of Start-Stop Growth* (Cambridge, MA: National Bureau of Economic Research, NBER Working Paper No. 11528, 2005); B. Klinger and D. Lederman, *Discovery and Development: An Empirical Exploration of "New" Products* (Washington, DC: World Bank, Policy Research Working Paper 3450, 2004); Sanjaya Lall, "The Technological Structure and Performance of Developing Country Manufactured Exports, 1985–1998," *Oxford Development Studies* 28, no. 3 (2000): 337–369; D. Rodrik, "Industrial Development: Some Facts and Policy Directions," in *Industrial Development for the 21st Century: Sustainable Development Perspectives*, United Nations Department of Social and Economic Affairs (New York: United Nations, 2007).

⁸⁴ Connolly, 2008, p. 601.

⁸⁵ Connolly, 2008, pp. 592–593.

⁸⁶ Dmitry Medvedev, "Go Russia!"