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Russia's Economy under Putin: From Crony Capitalism to State Capitalism

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Vladimir Putin's career at the helm of Russian politics started in 1999 and will likely continue beyond 2018, the year of the next presidential elections. Under President Putin's leadership—the longest of either the Soviet or modern Russian era—the Russian economy has shifted from crony capitalism to state capitalism, distinguished by five features.

First, state ownership in sectors like finance, energy, transportation, and the media have increased—reversing a previous trend towards more private property (Åslund 2014). The role of the state in industry has also been strengthened through the creation of vertically-integrated national champions.[1]

Second, strategic energy exports are increasingly used as instruments of foreign policy. In Europe, Russia has undermined the rival gas pipeline project Nabucco—which was supposed to supply Central and Southern Europe—by buying Turkmen gas and redirecting it into Russian pipelines. Russia also diversified its exports to include markets in China, Japan, and Korea by building the Trans-Siberian oil pipeline, as well as the Sakhalin–Khabarovsk–Vladivostok gas pipeline in the Russian Far East. Under Putin, Russia has also restored its nuclear industry, with $50 billion allocated from the federal budget to nuclear power since 2003. Nuclear projects—for example in Bulgaria, Hungary, and Slovakia—serve as diplomatic weapons.[2]

Third, plentiful revenues from extractive industries have obfuscated the need for structural reforms in Russia since 2004, the end of Putin's first presidential term. Pension, healthcare, and education reforms have stalled, and efforts to decentralize public finances were reversed towards the end of his second term in 2008. With economic growth stagnating recently, however, reforms may become a necessity.

Fourth, the share of extreme wealth in the Russian economy has risen, with 111 Russians on the 2014 Forbes World's Billionaires list, up from 42 a decade earlier. These billionaires may account for as much as a third of the country's wealth (Credit Suisse 2014). Large infrastructure projects like the Sochi 2014 Olympics, the 2018 World Cup, and the Kerch Strait bridge linking Russia with Crimea, are entrusted to a group of billionaires with close links to the president.

Fifth, Putin's assertive foreign policy has incurred economic sanctions by the European Union and the United States. So far, the Russian economy has weathered these sanctions better than most economic analysts predicted. Still, the resulting stagnation has brought about a policy of import substitution. This has increased corruption for government-funded projects, especially in procuring financing for projects with dubious rates of return, and has reduced access to new technologies in many industries. Retaliatory trade policies have increased the prices of basic food and consumer products and have made it more difficult for foreign companies to invest and operate in Russia.

Putin has resuscitated part of the Soviet Union economic space under the new Eurasian Economic Union that came into force in January 2015. Its ambition is to integrate Russia with

1. Examples of such companies include Rosselhozbank, Sberbank, and VTB in banking; Gazprom, Rosneft, and Transneft in energy; Rosatom and Rosnano in high technology; Aeroflot and Russian Railways in transportation; Avtodor in construction; and United Aircraft Corporation in machinery and equipment.

2. Damien Sharkov, "Nuclear power is Russia's new weapon of choice," *Newsweek*, April 28, 2015.

former Soviet republics—Armenia, Belarus, Kazakhstan, and Kyrgyzstan currently covered, with Tajikistan and Uzbekistan invited—and form an economic bridge to Asia.

In recent years, the Russian economy has slowed down. In 2009–14, growth averaged 1.5 percent—the lowest rate since the collapse of the Soviet Union. The latest World Bank forecasts for Russia for 2015 suggest a 3 percent economic decline, followed by 1 percent growth in 2016 and 2.5 percent growth in 2017. This trajectory is better than what analysts suggested just a few months ago,[3] but weak growth is still a cause for concern.

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EU and US policymakers are at a crossroads on how to deal with Russia's economy under Putin. Since introducing economic sanctions in 2014, they have faced increasing pressure from their business communities to lessen sanctions or else risk losing markets to Chinese and other Asian companies. Such losses are already taking place, especially for infrastructure project financing and in the energy and high-technology sectors.[4]

THE YEARS OF CRONY CAPITALISM AND THE RISE OF PUTIN

Vladimir Putin's most enduring legacy will be his strongman's attitude towards running Russia. Looking at Russia's postcommunist path, it is easy to understand why he was anointed as successor to the ailing President Boris Yeltsin. With the advance of market economic reforms in the early 1990s, privatizing state assets created the first wave of billionaires, who obtained much of the country's riches for little money (Shleifer and Treisman 2001). The logic of the privatization process was to create domestic support for reforms and to avoid simply handing assets to foreign investors who would have paid more (Djankov 2014).

The reformers' goal was achieved, but at a high cost. Russia soon faced popular discontent against crony capitalism and increasing public debt, as privatization did not result in significant budget revenues. Could Russia have followed a different transformation path? The answer is no. The microeconomic transformation in Russia was more difficult than in Eastern Europe for three reasons.

First, political pressure from the former communist elite was stronger in Russia than in most postcommunist countries. As a result, the government under reformist prime minister Yegor Gaidar lasted only a little over half a year; the transformation effort was not given a fair chance. The second difficulty in Russia's economic transformation process was the presence of abundant natural resources—natural gas, oil, and metals—which served to dampen support for reforms. Revenues from these sectors could cover up inefficiencies in other sectors, making most politicians less inclined to make hard transformational decisions. Also, this wealth greatly increased corruption during privatization auctions where natural resource assets were at stake (Shleifer 2005).

Third, the collapse of the Soviet Union more or less simultaneously with the start of the economic transformation process meant that political attention in Russia was divided—for example the war in Chechnya took a heavy toll on successive governments—and that the psychological atmosphere was less positive than in Eastern Europe (Aven and Kokh 2013).

For these reasons, the transformation to a market economy in Russia was a stop-and-go process. The initial privatization program, implemented between 1993 and 1994 during Yegor Gaidar's term as prime minister and then as deputy prime minister, transferred shares in most firms from the government to managers, workers, and the public. It was similar in spirit to the voucher privatizations in other postcommunist countries. The loans-for-shares scheme, started in 1995 prior to the presidential election early in the following year, provided for the transfer of ownership in several state-owned natural resource enterprises to major businessmen in exchange for loans to the government. It led to the creation of large financial-industrial groups with influence on the government: for example, the business empires of Boris Berezovsky, Vladimir Gusinsky, Mikhail Khodorkovsky, and Vladimir Potanin. In other words, it cemented crony capitalism in Russia.

Yeltsin won the 1996 presidential election, but the desire for further reforms had waned and public finances were in a precarious state. In mid-1998 Russia tried unsuccessfully to renegotiate its debt with its creditors, and after this attempt failed, declared a moratorium on paying its debts. The result was a collapse of the payments system and immiseration of a large part of the population. The free market fell out of favor, as the nation was looking for a strong hand to protect it from instability.

Enter Putin, whose career in the secret police gave him an aura of determination and strength. At the same time, Putin

3. In its spring 2015 forecast the World Bank suggested a decline of 3.8 percent in 2015 and a further decline of 0.3 percent in 2016 (World Bank, "Russia Economic Report 33: The Dawn of a New Economic Era?" news release, April 1, 2015).

4. Leonid Bershidsky, "Russia's Pivot to China Is Real," Bloomberg, June 25, 2015.

boasted some liberal credentials. He described communism as "a blind alley, far away from the mainstream of civilization."[5] His work in the St. Petersburg city government, working alongside reformers like Anatoly Chubais and Alexei Kudrin, gave him the support of economic liberals, who were prominent in the years of Yeltsin's presidency.

And indeed, during his first run as Russia's president, Putin pursued some liberal reforms. For example, he enacted a flat income tax of 13 percent, a reduced profits tax, and new land and legal codes. During Putin's first premiership and two presidential terms (1999–2008), fueled by these and previous reforms, real incomes in Russia rose by 250 percent, while real wages more than tripled and unemployment and poverty more than halved.

However, little changed in terms of unequal opportunity at the top of the economic ladder. A new group of billionaires—such as Gennady Timchenko, Vladimir Yakunin, Yury Kovalchuk, and Sergey Chemezov—with close personal ties to Putin emerged. They replaced the cronies close to the Yeltsin family, resulting in the exile of Boris Berezovsky and Vladimir Gusinsky; other crony capitalists such as Roman Abramovich and Arkady Rotenberg joined Putin's camp. This shift presaged the end of crony capitalism and the start of state capitalism, where the state either owned the main productive assets outright or they were held by personal friends of the president, who would put their companies at the disposal of the state in exchange for government contracts, access to easy credit through state-owned banks, and the protection of their wealth.

INCREASED STATE OWNERSHIP

The watershed moment in the reversal from crony capitalism towards increased state ownership of the Russian economy occurred when billionaire Mikhail Khodorkovsky was arrested and charged with fraud in October 2003. The government also nationalized the shares of his oil company Yukos, citing tax evasion.[6] This case soured investor sentiment on the security of private property (Åslund 2007). However, it boosted Putin's popularity, as the case tapped into the deep resentment towards the newly rich and the idealized memories of the Soviet Union that were prevalent among Russian citizens. It further paved the way in the next decade for a rapid increase in government ownership in the media, energy, and banking sectors, with state-owned national champions rising in other sectors, eventually dominating high technology, transportation, and machinery and equipment.[7] For example, while in 2005 the share of private commercial banks in total assets was nearly 70 percent, by 2015 it had shrunk to half that percentage (Aven 2015). The increase in state ownership made attempts at institutional reforms pointless—state-owned companies and their managers simply do not depend on courts and regulatory agencies. Their governing ministries determine their behavior and dictate their operational and financial actions.

By mid-2015, about 55 percent of the Russian economy was in state hands, with 20 million workers directly employed by the government, equal to 28 percent of the workforce.

After nationalizing Yukos, the Russian government started taking control of privatized companies in "strategic" sectors such as oil, aviation, construction, power generation equipment, machinery, and finance. For example, in June 2006 the government took 60 percent control of VSMPO-AVISMA, a company that produces two-thirds of the world's titanium. In 2007, United Aircraft Corporation, a company that is 51 percent government controlled, combined all Russian companies producing aircraft. In 2011, majority state-owned Sberbank bought Troika Dialog, the fastest-growing private investment bank operating in Russia.

By mid-2015, about 55 percent of the Russian economy was in state hands, with 20 million workers directly employed by the government, equal to 28 percent of the workforce (Aven 2015). This is the highest share in 20 years, after the two privatization waves in the early and mid-1990s. In comparison, 22 percent of the workforce was employed by the government in 1996. After last year's EU and US sanctions on some sectors of the Russian economy, this share is increasing, as companies and sectors that previously depended on private financing from abroad now resort to financing from state-owned banks, and in case of continued difficulties, their ownership is shifted to the government's hands. The longer the economic sanctions last, the more private businesses will be squeezed out and the higher the share of the Russian economy will be converted into state ownership.

5. David Remick, "Watching the Eclipse," *New Yorker,* August 11, 2014.

6. Khodorkovsky remained in prison for over a decade, until early 2014.

7. Yakov Pappe and Ekaterina Drankina, "How Russia Is Nationalized: The Oil Sector," *Kommersant*, September 19, 2007.

ENERGY AS FOREIGN POLICY

In the past decade, European countries have become more dependent on Russian energy sources. Some European countries—like Finland, Estonia, Bulgaria, and Slovakia—depend nearly 100 percent on Russian gas supplies. Others, like Greece and the Czech Republic, receive three-quarters of their gas supplies from Russia. The dependence on Russian energy has been growing in Western Europe as well. The North Stream pipeline, constructed in 2011–12, brings gas from Russia to Germany and constitutes about 30 percent of Germany's gas supplies (Eurostat 2015). Gas from North Stream also reaches France and the Netherlands.

Russia's primary foreign policy aim with energy is to foster closer relations with China and Japan.

Another example is the now cancelled South Stream pipeline, a project that aimed to bring Russian gas to Central Europe and Italy, bypassing Ukraine. This project would increase the share of Russian gas supplies to Austria and Italy considerably. As a first step, Russia undermined the rival pipeline project Nabucco by buying Turkmen gas and redirecting it to Russian pipelines.[8] As a second step, in 2014 Russia's Gazprom signed bilateral contracts with governments and companies alongside the route of the pipeline and started construction. However, Gazprom refused to apply European energy legislation to the new pipeline, and in December 2014 work on the South Stream project was frozen. Recently, Slovak prime minister Robert Fico proposed a restart in some sections of the pipeline, a policy favored by the current Austrian, Bulgarian, and Serbian governments as well.

In May 2015 Russia's Gazprom announced that gas would start flowing through a new pipeline, Turkish Stream. Its initial capacity would be about 16 billion cubic meters, a quarter of the eventual full capacity. Since the announcement, Russian and Turkish energy officials have been scrambling to catch up with these lofty political intentions. There are at least three hurdles to overcome. First, Turkish officials openly say that environmental analyses could last well into 2017. Second, there is also the issue of who picks up the tab, which is calculated at $19 billion for the seabed installation and another $2 billion for the land installation. Gazprom has stated it would fully cover the underwater part, yet the Russian company's main priority for the coming years is clearly the "Power of Siberia" pipeline to China, with projected costs of $55 billion.[9]

Third, the projected capacity of Turkish Stream is four times larger than Turkey's current needs. The pipeline will run at a large loss if it is extended to Ankara only; hence, Russia is seeking to extend it through Greece and possibly on to Italy. In June 2015, Greek prime minister Alexis Tsipras signed an agreement with Putin to extend Turkish Stream through Greece.

Russia's primary foreign policy aim with energy, however, is to foster closer relations with China and Japan and overall reorient Russia towards Asia. One example is the Power of Siberia gas pipeline project, signed in May 2014 between Russia and China. Construction was launched in Yakutsk by Putin and Chinese deputy premier minister Zhang Gaoli. The construction of the underwater pipeline from Vladivostok to China has already started. The Power of Siberia project aims to shift the economy of Eastern Russia towards Asia and lead to less dependence on Europe as a strategic ally.

LACK OF STRUCTURAL REFORMS

In April 2015, Russian finance minister Anton Siluanov announced that without a major pension reform, next year's budget would be in jeopardy. Shortly afterwards, Putin's press secretary Dmitry Peskov said that nothing of the sort would take place.[10]

The topic of pension reform has come up so often in the last decade in Russia that even informed readers may think such a reform has already taken place. Not so. In 2004, a large working group developed a detailed reform plan, which was lauded by international institutions and local experts. The government also made positive noises, implying that the plan would be adopted very soon. Ten years later, Russians are still waiting. The wait is also on for reforms in health care, the decentralization of fiscal powers, the judicial system, and public procurement policies.

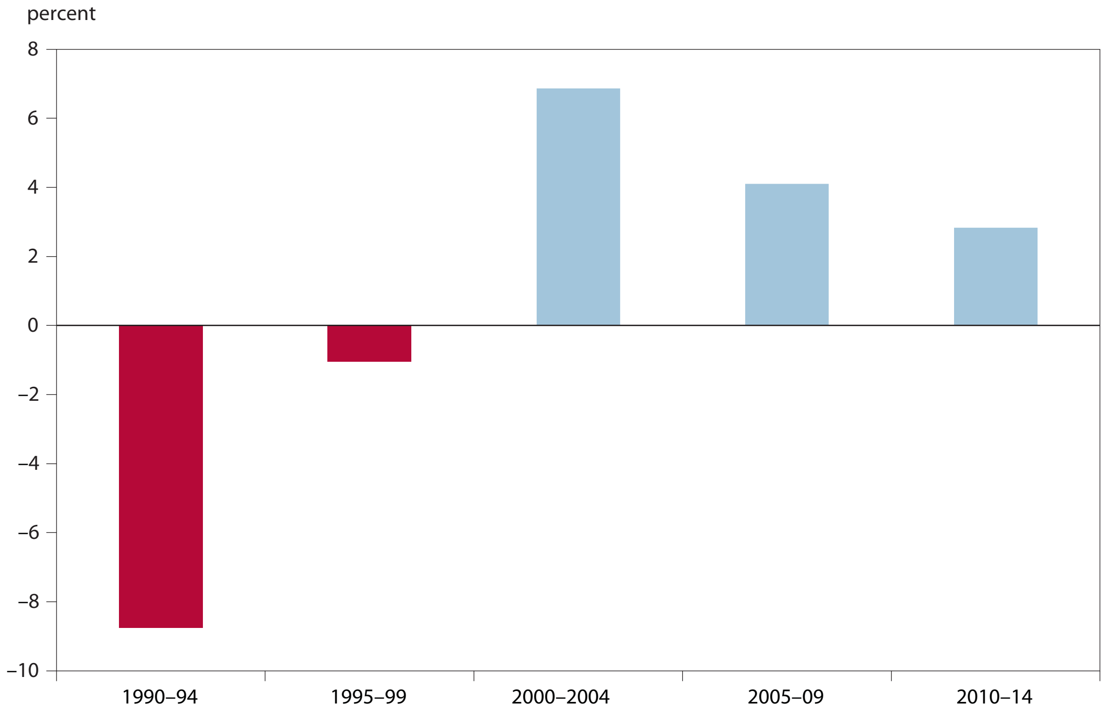
For any significant structural reform to occur, three conditions need to be in place. First, the country has to be experiencing some fiscal or social difficulties, so that unpopular reforms can take center stage. Second, reforms typically happen early in a government's term. Unpopular decisions are unlikely to be taken shortly before elections. And third, the government needs to have professed reformers.

8. Nabucco was an attempt to reduce dependence on Russian gas by directly tapping gas fields in Central Asia and bringing this energy to Europe through a new pipeline across Eastern and Southern Europe. In 2013, however, the project was canceled because insufficient quantities of gas were dedicated to it.

9. Szilvia Batkov, "'Power of Siberia': Russia's Rising Eastern Gas Empire?" *EurAktiv*, February 16, 2015.

10. TASS, "Kremlin Reminds Retirement Age Issue to Be Examined Thoroughly," April 14, 2015, http://tass.ru/en/economy/789350 (accessed September 15, 2015).

Figure 1 Annual GDP growth, by 5-years intervals, 1990–2014



Source: World Bank, available at http://data.worldbank.org/indicator/NY.GDP.MKTP.KD

Russia satisfies the first two conditions—the economy is in recession, thanks to sanctions, last December's currency devaluation, and the rise of monopolies. The next elections are over two years away, but who the next president will be is hardly in doubt. So there is time to implement reforms. What is needed are reformers—a rare breed in Russian politics and government, not seen for at least a decade.

The question is why Russia no longer has reformers. The answer is that in the absence of political competition, there is no incentive to implement unpopular reforms. Reformers are elected to implement structural transformations in the economy in hard times, when politics as usual have shown their impotence. But if reformers cannot win elections, as has been shown repeatedly in Russia, then the desire to be a reformer is not present either. Combined with Putin's populist stance after 2003, needed sectoral and structural reforms have simply been shelved.

The main supporter of reviving structural reforms is former finance minister Alexei Kudrin, Putin's one-time colleague in St. Petersburg's municipal administration. Even Kudrin recognizes, however, that in the absence of political competition in Russia, it is unlikely that structural reforms can take place.[11]

However, the last five years have witnessed a significant slowdown in Russian economic growth (figure 1). The OECD growth forecast for this year is a decline of 3 percent, followed by a modest growth of about 1 percent in 2016 (OECD 2015). The World Bank projects an economic contraction by 2.7 percent in 2015, before reaching 0.7 percent growth in 2016, and 2.5 percent in 2017.[12] Sources of further growth are difficult to discern. Decentralizing economic policy may be the most promising path, yet it would likely require yielding some political autonomy to administrative regions, something Putin is not prepared to give. The pivot to Asia, and in particular China, may increase economic opportunities in Russia's Far East, but these may come only with significant infrastructure investment. The most likely economic scenario is a prolonged period of stagnant growth.

RISING SHARE OF EXTREME WEALTH

Since the start of Putin's term in power, the share of extreme wealth in the private sector has been steadily increasing. This is in part because nationalizing some strategic assets has made

11. Olga Kuvshinova and Philip Sterkin, "Kudrin Presents a Reform Program to the Russian Upper House," *Vedomosti*, June 3, 2015.

12. World Bank, "World Bank Revises Its Growth Projections for Russia for 2015 and 2016," news release, June 1, 2015.

their private owners rich—for example, the owners of Troika Dialog and oil company TNK-BP became billionaires overnight. Rising commodities prices in the past decade have also converted ownership of such assets into vast fortunes. Finally, two dozen businessmen with close connections to Putin made fortunes by winning infrastructure projects.

There are more billionaires residing in Moscow than in any other city in the world (Freund 2015). Recent economic sanctions on Russian financial institutions and some sectors of the economy have reduced this number—many Russian billionaires have shifted their domiciles to Tel Aviv, London, or Zurich and have transferred their money abroad. Economic sanctions are, however, a reason for the rising share of extreme wealth in Russia. When the ruble was substantially devalued in December 2014, the super rich could afford to shift their assets into foreign currency so that many of their assets did not decline in value.

Closeness to Putin substitutes for the rule of law that usually protects private property in mature democracies. Such protection is mercurial, however. On occasion, billionaires fall out of favor and their assets are up for grabs. For example, the owner of conglomerate Sistema, Vladimir Yevtushenkov, lost two-thirds of his $8 billion fortune in November 2014 on charges of securities fraud. Such cases encourage other billionaires to settle abroad, reminiscent of the outflow of the super rich experienced at the beginning of Putin's term.

ASSERTIVE FOREIGN POLICY

Putin's assertive foreign policy towards Ukraine has brought about heavy economic sanctions on Russia's financial and energy sectors and on sectors or companies perceived to be military related or belonging to close friends of the president. These sanctions, implemented in two steps in 2014, also have significant indirect negative effects. In particular, they have effectively dried up fresh capital in the Russian economy. Large state-owned companies or companies with close ties to politicians have managed to substitute private for state financing, in the form of access to state-owned banks or special import-substitution schemes promoted by some Russian ministries. Private businesses without political ties, on the other hand, have experienced severe financing constraints. The subsequent ruble devaluation has exacerbated the credit crunch as interest rates spiked in early 2015 to over 20 to 25 percent for business loans. These effects point in one direction: prolonged economic stagnation.

In response to Western sanctions, Russia has barred certain agricultural products from the European Union and the United States. The selection of these trade barriers suggests a careful calculation: Trade losses fall disproportionately on small Baltic and East European economies. Sanctions on items that might have had a bigger impact on the European Union, such as cars or luxury products, were avoided—perhaps for fear of further alienating Germany, Italy, and France, Putin's supporters in the past. These reciprocal sanctions have mainly increased consumer inflation—expected to surpass 15 percent for 2015, according to the Russian Ministry of Finance.

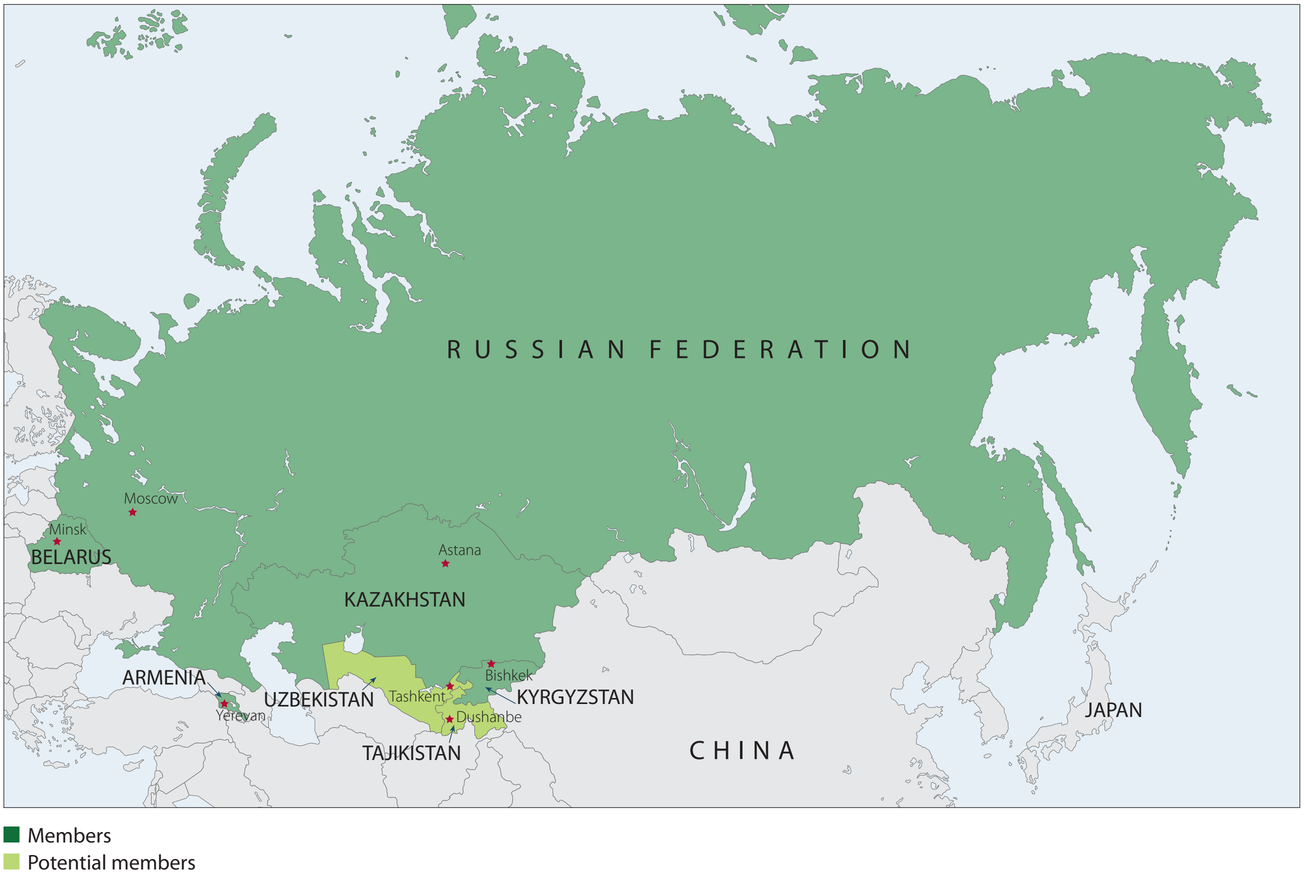
Reciprocal sanctions have affected other consumption items as well, particularly tourism. For example, in the first half of 2015 the number of Russians traveling abroad fell 37 percent relative to a year earlier, according to the Russian Federal State Statistics Service. Fewer Russians went skiing in Europe: Russian tourism dropped by 27 percent to Austria, by 52 percent to Finland, and by 43 percent to France. Early summer vacation sign-ups also showed a significant decline in tourism to Thailand, Bulgaria, Greece, Spain, the United Arab Emirates, and other beach destinations. As another example, about one third fewer new cars have been sold so far this year relative to 2014.[13]

Perhaps most worrisome, economic sanctions and the subsequent devaluation of the ruble have made investing in technology from abroad more expensive—nearly 60 percent more relative to the pre-sanctions period. Also, the Russian government is reducing public investment in infrastructure in an attempt to cut overall expenditures by about 10 percent. This cutback will dampen growth because returns on infrastructure investment are higher than on any other public expenditures. In the absence of significant private or public investment, the Russian economy may continue to stagnate for years to come. Still, the negative effects of the economic sanctions are accruing primarily to private businesses. In some sectors, state ownership is rapidly expanding at the expense of private initiative. This is hardly what the West meant to achieve with economic sanctions.

Another of Putin's attempts at assertive foreign policy is the creation of the Eurasian Economic Union, which went into effect January 1, 2015, and includes Armenia, Belarus, Kazakhstan, Kyrgyzstan (since May 2015), and Russia. In effect, the Eurasian Economic Union serves a dual purpose—it advances Putin's imperial ambitions across the former Soviet Union and also serves as a bridge towards economic cooperation with Asia. During the past year, economic union has been increasingly used to substitute American and European financing for Russian companies with financing from China.

13. Jan Tsinoeva, "Hyundai-Kia Has Gone against the Market," *Kommersant*, August 28, 2015.

Figure 2 The Eurasian Economic Union, September 2015



With a total population of almost 200 million people and a GDP of over $4 trillion at purchasing power parity, the Eurasian Economic Union is a significant economic zone, which soon may also comprise Tajikistan and perhaps Uzbekistan (figure 2). Turkmenistan has declined the invitation to join. The Eurasian Economic Union allows for free movement of workers and a single market for construction, retail, and tourism. The union has created a court in Minsk, Belarus; the Eurasian Development Bank in Astana, Kazakhstan; and has opened offices in Astana, Minsk, Bishkek in Kyrgyzstan, and Yerevan in Armenia. It will extend its single market to 40 other sectors, with pharmaceuticals next in line for 2016. So far, the union has been a success, moderately increasing trade flows among the participating countries, and bringing some trade facilitation reforms to the policy agenda, reforms that have failed in the individual member countries before.

Putin has also used the Eurasian Economic Union as a tool to increase trade with East Asia. In 2014, the union commenced talks for official trade cooperation with the Association of Southeast Asian Nations (ASEAN). Recently, it signed a free trade agreement with Vietnam. The Eurasian Economic Union is similarly active in China's "New Silk Road" project, with a number of infrastructure investments linking China to Europe through member countries signed or under way. For example, China is investing $5.8 billion in the construction of the Moscow-Kazan high-speed railway and another $8.2 billion on infrastructure projects in Kazakhstan. As part of the Eurasian Economic Union agreement with China, Sberbank—Russia's biggest lender—signed a facility agreement with the China Development Bank in the amount of $1 billion.[14]

CONCLUSIONS

In the 15 years of Vladimir Putin's rule, the Russian economy has reverted to state ownership of key industries like finance, energy, and the media. Other industries—such as construction, transportation, and high technology—have fallen into the hands of business people close to the president. Overall, there

14. Alexander Gabuev, "The Eurasian Silk Road Union: The Path towards Russo-Chinese Consensus?" Carnegie Moscow Center, June 8, 2015.

is more extensive state control over economic activity in Russia today than in the immediate postcommunist era 20 years ago.

The West's 2014 sanctions on Russia have brought about economic stagnation, and with few visible means of growth, the economy is likely to continue to struggle. Additionally, sanctions have had the unintended consequence of accelerating the existing trend toward increased state ownership in the economy. The burden of sanctions has been shouldered primarily by the private sector, leading to more state takeovers of failed businesses.

The concentration of political and economic power in Putin's hands has led to an increasingly assertive foreign policy, using energy as a diplomatic tool and the Eurasian Economic Union as a path towards greater economic integration with parts of the former Soviet Union. After economic sanctions were imposed on Russia, the Eurasian Economic Union has also been a means of bringing Chinese money into the Russian economy to substitute for lost American and European financing.[15]

15. Libby George, "Russia Sidesteps Sanctions with China Financing," Reuters, May 19, 2015.

Western analysts tend to look beyond Putin's tenure as president for resolving tensions between the United States and the European Union, on the one hand, and Russia, on the other hand. This is not a productive exercise, as Putin will remain in power for some years to come; his successor is anyway unlikely to be either more Western-oriented or more liberal on economic issues. Current Russian policies represent the prevailing political sentiment in the country and will remain stable in the medium run.

Russia is charting a course towards state capitalism, contrary to the prevailing liberal democratic paradigm in the West. Watching Europe struggle with its own growth, in part because of deficiencies chiefly in its economic model, Russia has turned elsewhere, finding the alternative economic model of state-controlled capitalism—as pursued by Turkey and China—more attractive. Russia will not be convinced to divert from its new economic course without evidence of a different, successful economic model. Such a course can, however, only be pursued in the presence of political competition in Russia. The current political landscape does not allow for such competition to flourish.

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