
POSSIBILITY OF RUSSIA BECOMING A STRONG ECONOMIC POWER HOUSE

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ABSTRACT

Today practically all socio-political groups and blocs in Russia are debating the country's future along with opportunities of economical growth, but are suggesting very different ways of solving existing problems.

This study will attempt to demonstrate if Russia is capable of becoming a strong economic powerhouse in the near future. After studying various points of view, the most likely result seems to be that Russia indeed does have an encouraging prospect. Russia's natural factors call for future growth and substantial development opening doors so that it may become one of the leading countries. However, the people and the political factors could divert that positive prospective outcome into three very different paths: sliding into a negative direction of past circumstances; maintaining its status quo with slow growth in a positive or a negative direction; or leaping forward into its natural potential of growth and prosperity.

INTRODUCTION

The Russian economy today is still a very close reflection of its USSR predecessor. Even though vast changes in organizational, institutional, and production structures of the economy have taken place, many still consider the last ten years of "reform" wasted and believe that the real reform is yet to begin.¹

Despite the fact that Russia's macroeconomic performance has been down, a large economic growth has occurred. The "dead hand" of the Soviet economic system stretches out across the economy and continues to slow down the process of economic recovery. Valuable resources serve as strong assets if employed correctly; however, in Russia they are dragged into wasteful activities and structures. According to the calculations of the Soviet Institute of World Economy and

International Relations, Russia uses 1.5 times more materials and 2.1 times more energy per unit of national income than the United States. In his studies, Sowell stated that Russia produces 1.5 to 2 times more the amount of steel and cement compared to U.S.A., but the amount of items derived from them is only 50% of the American level due to inefficient use resources (Sowell, 12). Even though central planning was declined, the regulation functions of the government are still extremely high and do a lot of harm to private entrepreneurship. Besides, the wrong tax system leads to the fact that the only competitive goods in Russia are oil, gas, and other raw materials. The internal market of both food and consumer goods is filled with import because it is more beneficial to import these goods than to produce them.

Still many refuse to look at weaknesses and are focused on the opportunities realizing the potential that lies within the boundaries of Russia. In 2003, new doors are wide opened for people to do businesses. As a result, many new entrepreneurs are fighting to break through the legacy's red tape left by the Soviet system and to destroy the old industrial objects by employing a new business vision, a vision that will change the country's destiny. The key is for everybody to grasp it.²

As a result, Russia has yet to achieve a true market-economic system. Due to the fact that almost everything can be bought when it comes to political, economic or social issues, the characteristics of "economic interaction" and techniques used to make future improvements are unique and cannot be likened to a typical healthy functioning economic system. There is a question asked about credibility and dependability of gathered information, performance statistics, and policy impacts.

However, there is an incredible amount of economic activity that leads to success and failure, experimentation and adjustments. This compels Russia's economic system to change and to take a step forward to another dimension of improvements. It is very difficult to predict Russia's future today because of many uncertainties. It is also important to realize that one single step could make a vital change, both in a good or bad direction.

HISTORY BACKGROUND

In the middle of the 80's, the disintegration of Soviet Communist Empire exhausted its supply factors and no longer could exist in the previous form. The situation oil and raw material in the world market became unfavorable for the USSR, as it became an unrestrained race. Ineffective production spent enormous resources. Gorbachev, who took the power, understood the need of reformation and

liberalization of the economy and society. "Perestroika" of the society and a newly accepted law, which was called "about the cooperation", resolved small and average private enterprises. Freedom in words, decision-makings, and press was proclaimed.

Gorbachev and his party desired to renovate socialism maintaining the authority of the Communist Party. The reforms of industry control and agriculture were inconsistent in nature. This was not a transaction to the economic methods but limitation of administration at a certain point. In time of sharpest political war the opposite forces blocked realization of any renovations. Time for the reformation was now lost. Decay of united economic space took place as a result of confrontation of republican organizations. The continuation of chaos and anarchy developed. The Government did not make any cardinal steps; the only step it made was the confiscation of means (freezing accounts in the banks, 5% sales tax, a 50%-70% percent increase in prices, and other aspects). This did not stop the inflation and could result as economic stabilization. By the summer of 1991, the country was in a crucial situation. The break of politics came about to accumulate ripened contradictions.

Putsch in August of 1991 was an unsuccessful attempt to escape from this crucial situation via restoring extreme control methods. Political crisis in 1991 indicated the end of "perestroika". It was used by Russian government to crush and destroy the leading and local structures of CPCU, whose action at that time was slowed down. The property of this party was nationalized, its money means were put to arrest. In December of 1991, leaders of Russia (Yeltsin, Kravchuk, Shushkevich) declared the termination of the union agreement of 1922 and signed an agreement about liquidation of the USSR. Now instead of the USSR the cooperation of independent states was created. This was a union, which status is not determined even today. (Uferova, Trigub).

CURRENT RECOVERY OF THE RUSSIAN ECONOMY

In 2003, the Russian economy is still experiencing a long-standing yet diminishing recovery from the great depression of the 1990's.³ If there are no new threats coming from external forces, economic recovery in Russia is expected to continue in the future. Further reform created by the government seems to promise even more future growth in the long run. Nevertheless, in order to make this potential come to pass, the new reform has to embrace every aspect of economy and be sharp enough to destroy the "dead hand" of the Soviet Union and to break through the red tape. Only then can Russia's economy be one of a true market.

The financial crisis and default in August of 1998 effected the country's GDP as well as lowered foreign investors' trust in Russia's potential repeatedly. Still, the numbers show that Russia's GDP in 2002 surpassed 1995's GDP by 3%. This relatively low increase, only 2/3 of 1990 levels, reflects the change in transition from communism to democracy. The fact that the increase is low shows that Russia is still in the process of this transition and many more changes need to be made. The long awaited recovery has been achieved by 'favorable economic conditions'. Some analysts believe these changes occurred because Russia's economic level has hit its bottom. Perestroika in 1990, the contraction of industrial activity with a pace that almost resembled one of a 1919-1921 Civil War collapse⁴, and the financial crisis and devaluation in 1998 are the events that have contributed to changes in the direction of Russia's development.

New and profitable opportunities have been created by a dramatic rise in international energy and resource prices. Russian industrial and resource capacities, which in the past were unable to make any profit or to even cover basic operating costs, now became viable.

Some of the conditions that have aided to economic recovery can be divided into the following categories (McKinsey, 2001):

1. A four-time devaluation of the ruble significantly reduced domestic costs (especially labor).
2. The competitiveness of Russian industry was improved by price controls over energy, utility, and transportation input costs.
3. An increase in prices in 2001 regarding international basic goods and services, especially oil, increased significance and value of Russian exports.(McKinsey, 2001).

Payments arrears are now stable at less than 23% of GDP, "barter" is now used in less than 25% of industrial transactions (down from 50-70% in 1997-8), and business prospects were up more than 25% in 2002 (2). Enhanced tax collections, higher excises on oil and other exports, improved conditions for business operations, and many new opened doors have made it possible for a budget to have a surplus, 4% of GDP. In 2003, Russia rejected new IMF loans even though its current financial position would enable the country to acquire more debt⁵.

Partial credit for this recovery must also be given to president Putin and to the relevant political stability under his reign. After all the events described previously, Russia would be in even worse condition than where it is today if it was

not for this stability. A decade ago, businesses were reluctant to even plan for the future. The changes made by Putin have helped the country's development through businesses' prosperity. A crucial difference is seen in the efficiency of business enterprises in 2003 compared to the beginning of 1990s, which proves the point that only in a free-market economy efficiency and effectiveness are achieved. According to statistics, however, over 35% of businesses still remain unprofitable, which demonstrates a necessity in further restructuring of many businesses⁶. More profitable businesses have also aided to more tax collections and improved budget implementation.

There is, nevertheless, one big problem with taxes. There is no true system for collection of tax revenues. Not only is the government unable to control the accuracy of amounts paid by businesses, but also entrepreneurs would not be in business today if they were to pay all of the amounts. Different layers of the tax system make it unreasonable to be in business since they would come out with a profit close to "zero" after paying all of the income tax. Accountants have to change numbers on the financial statements (illegally) in order to avoid a 100% taxation. This in itself creates two other problems. First, investors cannot trust the numbers they see and are unable to make completely informed decisions when making investments. Second, people know that they can avoid following all of the government regulations since there is no sound system to verify that the policies are being implemented. Consequently, if the government were to finally come up with a good policy, there would be many difficulties in its' implementation. This is also why economic recovery is going under a very slow pace.

RESTRUCTURING

The period of collapse of the Soviet economic system had some positive characteristics. Numerous unprofitable activities and obsolete capital stock have ceased from existence. Many resources were freed to allow economic growth instead of letting valuable resources drag the economy down. The soviet inefficient and unproductive activities were forced to come to an end during the extended depression of the 1990s. Engineering, agricultural, and processing activities were minimized allowing new resource sectors to take place and to increase output and employment. Financial and consumer services could serve an example with the importance of consumer service being practically insignificant during the Soviet era. This reallocation of resources increased labor efficiency compared to 1994 when a large percentage of it was wasted. The nation as a whole benefited from these

changes because low productivity was forced to leave the market while better and more efficient products entered into competition between one another, thus revolutionizing and transforming the markets⁷.

Notwithstanding enhanced distribution of workforce and other activities, only a slight "strategic" reorganization has taken place in several production activities that continue to exist in Russia as a legacy left from the Soviet predecessor. Still some improvements in efficiency can be seen. Many more economic developments could be anticipated through reorganization of technology, market relations, factor use, and management practices and structures⁸. Privatization did not have a lot of impact on productivity and restructuring. When analyzing economic developments of Russia, it is difficult to distinguish between the changes that occurred because of restructuring and the changes that occurred because of Russia's transition to democracy.

Several acquisitions have taken place with rich resource and energy companies investing their money in other companies, therefore restructuring other industrial operations, instead of investing in their own businesses. Alfa Group moved into telecoms, Interros added a naval shipyard to its core nickel-mining interests; Severstal is buying automotive, engine and locomotive factories; Siberian Aluminum purchased Gorky Automotive; and Russian Aluminum consolidated the majority of the remaining aluminum industry.⁹ These serve as examples of the wide-spread popularity of consolidations, especially in the oil industry.

If the crisis of 1998 has truly started the beginning of new, improved, free-market economic system, then this new economic activity and growth should be expected to continue especially now that 2002-2003 external opportunities promise to aid in this development. It is up to the Russian government to use these opportunities to overcome weaknesses that are hidden in so many aspects of economy. Even after the price of oil falls below \$18/barrel and as the ruble continues to complete its reappreciation against the dollar, economic recovery is expected to take place. It is believed that if Russia's economy maintains its growth under these unstable circumstances, then positive results of these readjustments will be revealed soon after 2003.

Russia's transition to the market system of the economic relations generates many problems that came through this transition, one of them involve concerns about investments. Without creating an interest for a potential investor to invest money in domestic economy, it is impossible to solve the problems that come into existence when new economic relationships are developed. Although relationship may seem indirect, trust in the future success of the country by Russia's own people

is essential for success in production development, increase of people's welfare, and for the rebirth of the authority of Russia on the world arena. There is not one country that can develop its economy without foreign investments; even the USA could not afford this. This should be of a special concern for a country, whose internal investments are extremely small. After all, it is not a secret that people from the C.I.S., and Russia do not put their own money in the national economy. On consideration of safety, they prefer to put money into foreign banks.

PERFORMANCE TRENDS¹⁰

Although there was a global economic slowdown, 2002 macroeconomic results in Russia remained generally strong. Russia recorded a fourth successive year of relatively strong GDP growth with GDP growth rates of 4.3 % in 2002, 5 % in 2001, and a record of 10 % in 2000. This is also a third consecutive year of fiscal surplus for Russia. In its latest Article IV Consultation, the IMF notes that the "Russian economy has continued to benefit from the impact of earlier reforms, although temporary factors - in particular, strong world energy prices and the post-crisis real depreciation of the ruble - have also played an important role in growth performance".



There was a remarkable economic growth in the first part of 2003 from January to June. Russia's real GDP growth reached 7.2% compared to 3.9% growth in the first part of 2002. Such an impressive growth is due to a large increase in oil prices (as the World Bank has estimated, 50% of this 7.2% increase can be accounted by oil prices). To a certain extent, the reason for the change in prices is

a result of the war in Iraq. In the first part of 2003, Russia's inflation rate remained above targeted estimations of 10 to 12% for the year of 2003 with the average of around 14 %. Increases in pay and rapid money growth can account for this increase in inflation rates.

In February 2003, British petroleum, known as BP, made known its intention to invest close to \$6.75 billion to establish a new Russian oil company in partnership with Alfa Group and Access-Renova. This deal will create the third in size oil firm in Russia. More than that, this investment represents the largest foreign investment since 1991 when the Soviet Union collapsed. Many western countries turned to Russia because of its oil supply. Khordovskiy, the CEO of Yukos, the largest oil company in Russia, has been discussing the possibilities of selling close to 40% of Yukos's stake to Exxon Mobile and Chevron Texaco. The monetary amount of this investment can reach as much as \$20 billion dollars. Very recently, however, several unfavorable incidents took place that have "freezed" 44% of Yukos's shares. Khordovskiy is arrested and accused of participating in fraudulent activities and tax evasions. He denies the responsibility for these actions. Russian people as well as foreign investors are afraid that this is Putin's way of leading the country toward authoritarianism. Whether this is true or not, time will show, but it sure does not aid to an increase in investors' confidence. A BP spokesman in London reiterated "we are in Russia for long-term...and are not going to respond to day-to-day activities". (WSJ Oct 31,03) Additional eight to ten projects are planned for the nearest future.

In May of 2003, President Vladimir Putin introduced a policy with the objective to double the country's GDP in the next ten years. Some economic analysts believe that Russia will need to maintain close to 8% GDP growth rate every year in order to achieve this goal.

OUTLOOK

Referring to the table below, as a result of Russia's strong economic performance in the first half of 2003, real GDP growth is expected to be around 6% in 2003, and to go down to 4% in 2004 because of an anticipation that there will be a decrease in oil prices. (Economist Intelligence Unit, August 2003). Russia's growth in the short-run is highly dependent on the fuel sector, which is believed to be the source through which improvements will be established.

Russia's financial position is forecasted to continue operating in a surplus over the medium term although a decrease in oil prices is expected. The country's

dependence on international products and services will continue to be a cause of risk, with investment spending and export and budget revenue closely related to the prices of oil.

	2000	2001	2002	2003(f)	2004 (f)
Real GDP (% change)	10.0	5.0	4.3	6.0	4.0
Consumer prices (% change)	20.8	21.6	15.8	14.3	12.0
Goods&Services Exports(US\$ bn)	114.6	112.7	120.2	134.4	127.7
Goods and Services Imports (US\$ bn)	61.1	73.0	83.1	97.2	105.9
Current Account balance as % GDP	18	11.3	9.5	8	3.9
(f) forecasted					

PROSPECTS FOR FUTURE DEVELOPMENT

The prospects for future development today are probably the most encouraging since 1991. As noted by U.S. Secretaries Paul O'Niell and Don Evans during their visit to Russia, the Russian government "appears committed to developing investment and investor friendly institutions and environments by stressing structural reform and political stability". Optimistically, this will interest foreign resources and business proficiencies and will help in transforming and rebuilding infrastructure. It is essential that restructuring in production activities and economic interactions take place. In the long-run, Russia needs to develop a "modern, high technology and consumer oriented economy, in place of the crumbling, old-industry-oriented remains of the Soviet economic system". The specific reform plan was summarized in the Gref Program and in Putin's address to the legislature on April 3rd¹¹.

PUTIN/GREF PROGRAM

Putin/Gref Program resembles and seems to be a continuation of reforms started by Gaidar and Chubais in 1992-1995. It has created both opposition and agreement in the eyes of people. This reform openly addresses numerous institutional as well as structural problems described earlier in the paper. The reform also focuses on reevaluating roles, powers, and responsibilities of the government

and beginning to create new and improved budgetary and tax reforms. The Federal Council has been restructured limiting the direct influence of regional governors. Also, seven new regional districts have been created to organize and control federal organs' actions and to ensure implementation of federal laws. Additionally, many steps were taken to suppress the oligarchs. Several criminal cases have been opened against people who opposed to what the government wanted people to believe. Those who made known their disagreements through mass media were treated severely with an example of NTV channel and Gusinsky being taken over¹². Even though Russia claims democracy, the true democratic system is far from being achieved. Russia's government makes people believe that they have all the rights granted by democracy when in all actuality people do not even have the freedom to speak their opinion openly especially if what they have to say is against the government. There is no direct law that would not allow such freedom, but indirectly actions are taken against these people that force them to quit.

Other aspects of the reform program have been moving at a relatively slow pace¹³. A negotiation land code regarding the rules of land and property sales, was finally passed by the Duma's second reading. While agricultural land sales still have to be approved by local/regional forces, full title of property ownership is finally given to foreigners. Numerous other reforms have been created with several aiding to provide benefits through the states' resources to the "needy" people. The definition of "needy" is very undefined, and for that reason many of the "needy" have not been shown deserved attention. A number of suggestions have been made regarding the unemployment, price controls for houses, and a pension reform. These reforms together with a new market-oriented labor code have led to opposition simply because both households and regional government did not have the means to make these reforms come into existence. Policy implementation is often very expensive, and it is important that before passing a certain law and believing in its ability to achieve desired effects, every factor, including affordability, has to be analyzed. These laws also have taken away state financial support to industry for social purposes and moved responsibility of social obligation from industry to local governments. Consequently, these laws are still under the process of coming to pass and are obstructed by the political procedures. Many banking reforms have been created, but it seems that most of them are focused more on profitability of several monopolies rather than encouraging competition, effectiveness, and efficiency. A consumer is the one that is always hurt from such conditions, in this case the consumer being the Russian population.

Certain changes in regulations of small businesses have been made making it more favorable for existence of small businesses. Regulatory burden has been reduced as well as the number of licensing, registration, and regulatory requirements. Gref reforms have considered this to be one of the main concerns for 2003-2004, thus making another step to destroy what was left by the Soviet Union policies.

ALTERNATIVE PROGRAMS

Perhaps to protect himself in the case of an economic recession, President Vladimir Putin has designed a number of alternative programs, which differ in nature from those of the Gref Reform under Kasyanov's legislative program. One of them is Ishaev's Report of November 22, 2000 prepared by the Academy of science and other opposition reformers under the governor of Khabarovsk Victor Ishaev¹⁴. While it is understood that both reforms should be complementing one another, the alternative programs contradict Gref's reform in various aspects. A substantial mobilization of resources directed by the state and government involving investments made through a "Russian Development Bank" has been proposed. The problem is the it would involve more government decisions rather than people's decisions and there would be an increased control of financial intermediation.

Another reform is also being developed by V. Soltaganov¹⁵ and his group of the Security Council. The reform has an interesting name - a "State Strategy for National Economic Security". The main objective of the program is to improve and renovate military activities and those related to them. The goal is to increase dependence on self-reliance and to reduce future dependence on international countries. It is essential that a country with a strong economy has a sound military system, but until recently Russia has not been very involved in developing the current military situation.

Several other programs proposed by Kasyanov closely resemble those of Perestroika in 1990. The only difference is that this time everything had to be done "right". It is understood, however, from the previous discussions that not one of these programs can aid in the process of economic development of a modern market. The government needs to analyze mistakes made in the past and learn from them instead of continuing to go back and make the same decisions knowing it has not worked in the past.

Many aspects of the economy need to be controlled by the government, but there are some that need to be left alone for the market to do its own thing. The

"invisible hand" discussed by Adam Smith needs to be allowed to operate in Russia's markets. The market prices lead to the prosperity in the society as well as the nation as a whole. Business people drawn by their own interest are directed by the "invisible hand" to reach the goals which they did not even plan to obtain such as the prosperity of the economics in the country. Only then will there be efficiency that is so vital for long-awaited changes. The question asked by many is why is that the numerous government decisions and reforms continue to be based on what has failed to work in the past. How many times does Russia's economy need to crash for this mistake to never be repeated again?

HISTORICAL EVENTS THAT WILL INFLUENCE THE FUTURE

After Yeltsin became the president of the Russian Federation, those democrats that came with him began the process of privatization of enterprises. As discussed previously in the paper, this privatization was ineffective. No laws have been passed to control the accuracy of privatization that would describe what was deemed to be right or wrong by the government. Privatization is quite a big event and it was a big mistake to let it do its own thing. Without doubt, all of the officials and those residing beside the authorities wanted to become either presidents or co-owners of large enterprises through using the office positions held. The conduction process of privatization was unregulated and unsupported by legal regulations. For this reason, in a very short time those who had influence and power became owners of the largest plants, companies, and enterprises. The Russian system cannot be called free, most likely it can be defined as oligarchic. People who had the closest connection to the government had superior businesses. The ruling gave permissions and quotes for exporting oil and material raw, the contracts for supply or delivery of goods, taxes and custom privileges, which enriched both owners and entrepreneurs. Oligarchic groups of entrepreneurs, who were close to the government or ruling sector, the most powerful of which became so called the "family" of Yeltsin. This was the first time for such an event to occur in the post-communism period. Oil industries were one of the most luscious "slices of the pie". A person who owned an oil company could become a millionaire in almost no time, which is exactly what happened.

The number of oligarchs grows substantially while more and more Russians are becoming poorer every day at an extremely rapid pace. Russia knows the names of its oligarchs: Berezovskiy, Abramovich, Khordovskiy, Potanin, Gusinskiy, and many more. Not one from this list has acquired their capital by honest and

wearisome work. Why is it that after so many years the questions are raised about Khordovskiy's activities in his oil company, Yukos? The problem is that Khordovskiy started having political ambitions and plans to become Russia's president in the future. Khordovskiy is the richest man in Russia and he has the potential of being elected. He has the necessary amount of capital to make this happen. No authority that is leading the game will allow squashing itself. Several most recent interviews given by Khordovskiy to people in other countries demonstrated the seriousness of his ambitions and intentions to replace Putin. It was time Vladimir Putin took some action against Khordovskiy to protect himself as the situation continued to get out of his control and became dangerous in the eyes of the leader.

At the same time, an inspection of Yukos takes place by the tax collectors. It did not take long to find infringements. The problem is that legal, tax-related, and other fraud can be found in a company of any other oligarch. In this case, everybody has to be examined. This shows that laws and regulations in Russia are for those who are "selected". They apply to some (usually those the government does not like), but others are perfectly fine doing the same thing. Such a selective process in determining who is to obey the regulations and who is not prevails only in non-democratic countries. Will there be deprivatization that will lead to another increase in welfare of today's officials? Who is next after Khordovskiy? Abramovich? Potanin? Revision of privatization results and redistribution threatens the country with big economic shocks even with a possibility of a civil war. Therefore, president Putin is more interested in resolving these issues peacefully... the elections are coming soon.

SUMMARY AND CONCLUSION

In the middle of 2003, the Russian economy truly stands on a threshold. There is a potential for a transition to a market economy to take place and be finished, which will lead to continued growth and economic development. Yet still there is a danger that Russia may choose a "third path" where political restrictions will bind private initiative and take away opportunities of future market improvements. This will take the country back to where it was and even to a worse condition. The "third route" could lead Russia into another economic depression and status quo and leave a country far behind the world leading countries. The only difference is that future recovery from this "path" will be much more difficult than what Russia has seen.

The outcomes of globalization can allow Russia to achieve its objectives. Russia has the potential of being one of the leading players in the world economy. Many countries do not have the necessary resources, but are still going forward. How much further could Russia go if it were to employ everything necessary? If most of the resources are found within its boundaries, how much longer will Russia continue to allow them to be wasted?

Renaissance and economic development of the country are only possible with further liberalization of the economy, easing of bureaucratic and tax burden, new foreign investments, involvement into enterprise of small and middle classes of the population. This will allow to fill up the treasury and to create the layer of owners, so-called middle class, which is a support of any democratic country. It is necessary to substantially reduce bureaucratic apparatus and to decrease its control over the entrepreneurs, to make legislation as liberal as possible, and to abolish departmental instructions, which substitute laws, and make everybody, including officials, to obey these laws. Russia needs government officials and business entrepreneurs who would not only look at their own benefits, but also would help Russia to realize its potential. The money that belongs to the Russian people need to be protected and not stolen by those who have the power.

Can Putin and his government be considered the ones to take Russia on the right path? If not, how much longer does Russia have to wait?.. Which path Putin's Russia will take is at this time very much an open question.

ENDNOTES

¹ This feeling has been expressed, for example , by Sergei Karaganov, Deputy Director, Institute of Europe RAN, in an interview published in Trud, 29 June 2003: "In fact, Vladimir Putin has started a structural reform of Russian society which former leaders tried to carry out in the early 1990's. Russia tried to reform its economy and finances but failed and lost ten years."

² Some evidence of this is seen in an August 3, 2003, conference in Volgograd, "Business and Power: A Strategy for Interaction," sponsored by local entrepreneurs with support of the Presidential Administration. See JRL, 7 August 2003. Also the entrepreneurial group Russia Club-2015 has been active in pushing to improve the business environment. See Carnegie Endowment "Private Sector Initiative for Russia Meeting Report," V. 3, #14, 3 May 2003, on their web page <www.ceip.org>.

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- ³ Statistics on most recent performance are derived from the current Russian press, Russian Economic Trends, and the Bank of Finland's Institute for Economies in Transition Russian Economy: The Month in Review, issues through June 2003.
- ⁴ On the dimensions of the collapse, see the EBRD (1999) Chapter 3 and pp. 258-61. The civil war collapse can be seen in the statistics of Chapter 3 of Gregory and Stuart (1998).
- ⁵ Russia has already paid \$1 billion of the \$2.07 billion due this year, out of a total debt owed to the IMF of \$8.8 billion [RFE/RL Newslines, 7 August 2003]. The prior figures are from the Russian Economic Trends monthly update, June 2003, and from the June issue of Russian Economy: The Month in Review of the Bank of Finland.
- ⁶ Russian Economic Trends, July 2003
- ⁷ See Brown and Earle (2003). Aspects of its regional dimension, and constraints on the process, are discussed in Broadman and Recanatini (2003):
- ⁸ This point is eloquently made by the "Report on Russian Economic Performance" of the McKinsey Global Institute (2003). There the particularly destructive role of inherited social and political relations and elite behaviors discussed above is highlighted.
- ⁹ For anecdotal evidence on these trends, see for example Business Week, International Edition, 16 July 2003, "Russia's Big Get Bigger" by P. Starobin, and Financial Times, 25 July 2003, "Consumer Goods Shake Off a Bad Reputation" by R. Cottrell.
- ¹⁰ All data in this section, unless otherwise noted, are derived from the Economist Intelligence Unit. Actuals and Forecasts, August 2003.
- ¹¹ See V. Putin, "Annual Address to the Federal Assembly," on Russian TV, 11am, 3 April 2003, reproduced in JRL #5185, 3 April 2003, for the primary directions being put in 2003. The original Gref Program, published July 15, 2000, is available on the <www.kommersant.ru> web site. The state of the program and current tasks had been elaborated in a press briefing by German Gref, Minister for Economic Development and Trade, on March 2, 2003. See <www.fednews.ru> for that date. The original program was published in July 2000 after receiving support at the G-8 meeting, and is most clearly outlined and analyzed in Nash and Lissovolik (2001).

- ¹² The most prominent case has been that against Vladimir Gusinsky, resulting in his exile and the destruction of his media empire, concluding with the take over of NTV by Gazprom-media and the assault on Ekho Moskvyy in July 2001. The establishment of Federal Media Center, the role of the Communications Ministry, and the use of <strana.ru>, and the FSB requirements on all web access providers for direct access to content, all fit the pattern of attempting to control the "commanding heights" of public information in the interests of security of the state.
- ¹³ The Duma session ending in July 2003 passed 130 new reform bills. The Moscow Times, 16 July 2003.
- ¹⁴ This is discussed a in A. Nadzharov, "Backing Up?" Novye Izvestia, 9 August 2003.
- ¹⁵ Its fullest statement is in the May 1997 booklet, RAN, Guidelines of the Programme for Medium Term Social and Economic Development of Russia (Moscow: RAN, 1997).

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