Russia 2030
based on contracts

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To the Reader

The Committee for the Future found the Russia scenarios that it had drafted during the previous parliamentary term valuable and decided that that they needed to be updated. The "Russia 2017: three scenarios" report published in 2007 served as background material and provided a source of stimuli for this work.

Examined in the report are both the progress of modernisation in Russia and prospects for the economy all they way up to 2030. A new approach in this work of updating and forecasting has been to seek visions of and scenario themes for development in Russia through a "neighbourly relations in the future" assessment. To deepen its expertise on cross-border neighbourly relations, the Committee visited Imatra and Svetogorsk on 23.4.2010. Since updating of the three scenarios also a new fourth one has been produced under the title "A Russia of Contracts 2030". It was discussed in the 1st EU-Russia Innovation Forum, May 25-27, 2010 Lappeenranta, Finland.

In the summer, on 6.7 2009, the Committee arranged an international seminar in which identity-building was deliberated under the heading "Future Building". The seminar was a part of the global-level "History and Future of Nation-Building" conference arranged by the International Institute of Administrative Sciences, IIAS in Finland on 7-11.7-2009, The Committee arranged also a seminar "Together and Separate" 11.11.2009. The theme of Russian identity that came up at the Committee's seminars is included in this report as well.

Participating in the drafting of the report were, in addition to the Committee, members of other Eduskunta committees as well as in the steering group a considerable number of researchers and other experts in the field. Representative Päivi Lipponen has served meritoriously as Chair and Representative Marjo Matikainen-Kallström as Deputy Chair. My deepest gratitude to them, the authors and all of you who contributed to the work!

Marja Tiura

Chair, Committee for the Future

Contents

Foreword: Democracy in Russia

Democracy is built around a highly centralised state combined with a strong sense of national identity.

Nikolai Gogol neatly depicts the state of 19th century tsarist Russia in his play "The Government Inspector". Moscow sends an official on inspection duty to a small town. So the local mayor frantically tries to put things in order. Before the inspector's arrival hospital patients are sent home, so that the quality of care can not be doubted. Graft is prohibited.

The judge reassures the mayor that no one will be able to make any sense of legal decisions handed down by the court. And the mayor suggests blaming a fire in order to explain why a church has not been built, even though the money for the project was awarded five years before. Furthermore, the mayor instructs the postmaster to open all outgoing letters so as to stifle any complaints to Moscow.

The postmaster gleefully replies that he does just that all the time, "being of a naturally curious ".

When the satire first appeared it aroused the ire of Russian officialdom. It was not permitted to blaspheme against Holy Russia. Gogol had to go into voluntary exile. Much as it is today, back in the 19th century, there was no political opposition to the tsar and his government officials. At that time, writers were very much the conscience of the nation. Only they, as members of the intelligentsia, had the courage to speak out and lament the lack of political rights under the regime. Clearly, out of this marriage of politics and culture arises the Russian mystique.

Can we really demand that Russia adopt the so called western model of democracy? Russia has never been a democracy as we understand it in the West. Russian power structures have evolved and been developed down through the centuries. The Chronicle of Nestor records that in 862 Rurik was called on to rule over the Slavs. At that time in Europe, the Frankish Empire was being divided up and Vikings were trading along the coast of the Gulf of Finland.

We do not have to accept everything that goes on in Russia but we Europeans must learn not to focus exclusively on its deficiencies. A one-sided perspective predominates in the debate

on Russia - how we wish Russia to develop. In the media and politics, the "gaps" are even more pronounced.

Europeans should show a greater desire and ability to understand Russia. Only then can we build equal interaction.

Western democracy is founded firmly on civil society. The Russian saying that “the sun is high in the sky and the Tsar is far away” signifies that central power has always been strong.

By extension local administration has always been underdeveloped and autocratic, and the relationship to the citizen has been very authoritarian. When political decision-making, tax levies and revenues and the economy are concentrated in Moscow, people's everyday survival has been built around local networks and community-based resources. Where there is no civil society, there can be no political party system. Anna-Leena Lauren asks the question, why would Russians want to express solidarity towards their society when that society shows no solidarity towards them?

A law-based state becomes possible when citizens feel that compliance with the law benefits them.

The Soviet legacy

Imperial Russia did not even tolerate a loyal opposition. The Soviet Union was led by a succession of old and ailing party leaders with the president being totally subservient to the Politburo of the Communist Party. All power rested with the Party. The electoral system obliged with almost unanimous support - 99%. The media, press and television were under strict state control, corruption was rife and the secret police could be relied on to keep dissidents in check.

Political elites and citizens still have stressful memories. It was believed that Gosplan would live forever, but it collapsed in three days. The Communist Party’s attention was focused for 70 years on Marxism-Leninism. Lenin’s doctrine of the dictatorship of the proletariat and the communist party’s leadership as a vanguard meant progress, so they believed. There was no need to be part of a changing world.

Economic collapse broke up the Soviet Union. As the USA launched its Star Wars programme, it created a spiral of rearmament that transferred resources to the military sector. Eventually in the 1990s people ran out of bread. They could buy food only with foreign cur-

rency. The attempt by conservatives to take power through a coup only accelerated economic bankruptcy.

Socialist progress: education, sports, the reputation of space research, all collapsed at once. Social class divisions deepened. There was a rip-off of state assets. This is how Aleksander Lebdevin described oligarch Berezovsky: "It was not enough that he stole and was not caught. He wanted people to see that he could steal and get away with it". In Russia the first firms to be privatized led to huge profits, next came firms where it was possible to exercise ownership and the last firms privatized were liabilities. That was the way to access the corporate cash flow of the old Soviet companies.

According to Stephen Cohen, Gorbachev's perestroika (reform, transparency, and acceleration) launched democracy and change. The KGB had developed this reform policy, as it realized that the Soviet Union would collapse because of the accelerating arms race that led to an economic impasse.

Mother Russia

Russia is a country covering a vast territory which includes 10 time zones and stretches from the Arctic to the Pacific and encompasses a complex ethnic mosaic - comprising 170 nationalities, it has a strong national identity, which is based on the belief that Russia is a great power and has developed its distinctiveness through historical and cultural development. Greater Russia is unique, that is the message taught to schoolchildren.

This deep sense of patriotism is to a large extent born out of a feeling of being threatened. Russia feels that the country has been under attack throughout its history, from the East and West. Russia perceives itself as a peacemaker. Its expansions have brought assistance to neighbours and exported civilization. This is the ordinary Russian citizen's perspective: Russia has sacrificed a lot for Europe, when she rescued it from fascism. And how has this achievement been rewarded? Russia has allowed the old enemy to expand into its former sphere of dominance.

The Kremlin takes the view that the West's concerns over the degree of democracy in Russia represent something akin to crocodile tears. It feels that the export of democracy is just an excuse for Western powers to interfere in other countries' internal affairs and undermine the state. Russia has created its own version of democracy and Europe does not have much to

offer to it. In western eyes a weak Russia is seen as an altogether better proposition than is a superpower.

Yeltsin's 'family' chose Vladimir Putin as a puppet leader, but what they got came as a surprise. Strong state-building is personified by Prime Minister Putin. Great power status can be achieved only if the state is centralized and strong enough. According to Putin's doctrine, anything that threatens this goal must be removed.

In Russia there still exists a tradition, where "ownership" is in the hands of the sovereign, and he may give his property to his loyal followers to manage. Yeltsin tried to generate new wealth through the private market economy, Rockefeller-style. Putin has supported only those oligarchs who do not interfere in politics.

Citizens on the other hand value stability. They want to get their pensions and salaries on time. Above all, they want to be proud of their country and to be able to have trust in the future. Russians' worst nightmare is that their country will once again descend into instability and chaos as it did in the post Yeltsin era.

President Dmitry Medvedev has a vision for the future: Russia has to diversify its natural resource-based economy, develop its political decision-making and reform the judiciary. These changes will allow for modernization. In Medvedev's mind change and reform has to come from above and any democratic opposition must be supportive of Medvedev's imposed reforms.

The key issue is whether President Medvedev really has the power and the authority to implement his reforms. His administration has already been labelled a period of stagnation. The infrastructure projects, the industrial and banking system reforms are still waiting for implementation. It is argued that the present economic crisis hit Russia so heavily, because the reforms had not been made in time.

Prime Minister Vladimir Putin wants to reform Russia from the bottom up. The population is moving from east to west. The average life expectancy for men is 60 years. The latest poll shows that 93 percent of people do not believe that the government is doing enough to curb corruption. Putin's thinking is first to stop corruption, stop internal migration and improve public health, and only after that can modernization begin.

Europe should seek partnership with Russia. It may not be wishful thinking that through closer cooperation Europe can influence Russia.

Russia must in any case adapt to the rules of the international community, but Russia can not be changed by Western commands.

Päivi Lipponen, MP, Ph.D.

Chair of Steering Group

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Stances adopted by the Committee for the Future

Finland has throughout history had a close relationship with Russia based on neighbourly relations and cultural interaction.

The economy has always played an important role in relations between Finland and Russia. The share of exports to Russia has fluctuated, but irrespective of political and economic relations, trade with Russia is an important part of our economy's foundation. There are many opportunities in economic cooperation between Russia and Finland.

Finland's accession to membership of the EU has essentially changed the principles and starting points on which Fenno-Russian interaction is based. Nevertheless, on the basis of recent history, Finland is still better equipped than Russia's other EU neighbours to increase understanding and serve as a bridgebuilder between the EU and Russia.

The Committee for the Future takes the view that enduring cooperation between the EU and Russia presupposes an outlining of realistic future paths from which both parties will benefit and which, at least over the long term, will lead to a strengthening of shared values. The European Union's values include freedom of expression, democratically functioning media, respect for human rights, including the rights of minorities, as well as promotion of cultural and linguistic diversity. The development in Russia in recent years has been problematic from the perspective of these values.

The development of the Russian economy over the next few years will depend decisively on the country's success as an energy and raw materials producer. In the view of the Committee for the Future, diversification of the Russian economy in the four sectors named by President Medvedev – increasing energy efficiency, space technology, information and communication technology as well as health care technologies - lies in the shared interests of the EU and Russia. As both President Medvedev and Prime Minister Putin have stressed, this presupposes modernisation of the Russian economy and Russian society.

Three scenarios for the future development of Russia were outlined in the Committee for the Future's report Russia 2017. The Committee takes the view that the basic trends looked at in the scenarios are still suitable as a way of outlining Russia's alternative futures in the period up to 2030. In this report, a fourth scenario – A Russia of Contracts – is presented to supplement the three earlier ones. This scenario contains its authors' perception of how the most

important barriers to modernising Russia's economy and society can be removed or made lower. The new scenario differs from the earlier ones in that it does not contain major turns that alter the direction of policy, but rather a gradually advancing consistent policy. In this respect it mirrors the position adopted by President Medvedev in his policy-outlining speech "Russia, forward!" in autumn 2009: "I intend to cause disappointment to supporters of constant revolution … There will be changes. They will be gradual, considered, stepwise. But inevitable and consistent."

The most important feature of the new scenario is increasing trust and predictability of actions. Modernisation presupposes trust in both relations between peoples and relationships between citizens of different countries, companies and states. The stance adopted by the Committee for the Future contains an examination of especially measures by means of which the EU and Finland could participate in diversification and modernisation of the Russian economy. Associated with this are measures to increase trust and predictability between Russia and the EU on all levels. How cooperation between the Finns and the Russians can play a trailblazing role in this is examined in the statement of position.

In 2005 Russia and the EU approved a road map for sectors (EU-Russia Common Spaces) in which cooperation is called for. To facilitate progress following the road map, a dialogue based on joint working groups on 1) trade and economic cooperation, 2) freedom, security and justice, 3) external security, 4) research, education and culture as well as 5) adjacent areas cooperation was launched. It was noted in the Progress Report published by the EU Commission in 2010 (Progress Report 2009) that the dialogue has thus far led to only few tangible results. Matters seen as particularly problematic were Russia's customs union with Belarus and Kazakhstan. The view was that it would make it considerably more difficult for Russia to be accepted for WTO membership.

- The Committee for the Future takes the view that a broad dialogue to increase trust must be continued, taking as the special starting point the EU's possibilities to promote diversification and modernisation of the Russian economy. A positive sign from this perspective was the agreement on a Partnership for Modernisation concluded by presidents Barroso and Medvedev at the EU-Russia summit in November.

Starting from this premise and examining the development against a time frame up to 2030, the Committee emphasises the following matters and proposes a number of measures.

1. Bolstering trust between the EU and Russia in order to increase investments and promote trade

- Investments from the EU area in developing the Russian energy sector and especially improving the efficiency of energy use are important. One tangible touchstone for trust between Russia and the EU is that companies which have made substantial investments to produce energy and improve the efficiency of energy use can operate in the country in accordance with contracts concluded. With respect to Finland, this relates to, alongside other companies, especially the major investments that the Fortum company has made in Russia.

- It is essential that agreement between Russia and the EU on common standardisation and certification practices as well as on standards is founded on reciprocity and trust (e.g. the WTO Treaty). Good administrative practices conducive to increasing investor confidence must likewise be developed.

- Joint ventures between companies from Russia and the EU area in Russia, the EU area and third countries must be supported, especially when they are in the sectors that President Medvedev has named as being of key importance from the perspective of Russia's modernisation. Cross-border cooperation between small companies must be supported by allowing visa-free travel for short visits (viz. point 5).

- Finland must become a good example of economic cooperation between Russia and the EU. Innovation-related cooperation between Russian and Finnish companies must be promoted in, besides the core areas of Russian modernisation, all sectors in which our status as neighbours offers good prerequisites.

- To increase interaction benefiting both parties and trust, efforts must be made to provide more opportunities for Russian investments in Finland.

2. Building the competence foundation for diversifying and modernising the Russian economy

- Procedures for ensuring competence through jointly agreed requirements regarding third-level and professional qualifications must be created

- How the Finnish polytechnic model is applicable to Russia must be studied

- There must be greater inputs than at present to promoting student exchanges

- The Finns must be supported in learning Russian

- In cooperation in the competence and innovation centres to be set up and in relation to special economic zones, new production models, ways of thinking and think-tanks to develop ideas must be fresh-mindedly developed. One promising project is the (Northern Dimension Institute, NDI in Lappeenranta.[1] *In the view of the Committee, the institute should be elevated to the status of a think-tank serving the entire EU.*

- The adoption in Russia of the good practices followed in Finnish health care, clinic services and training as well as social innovations in general must be made an object of cooperation.

3. Developing cooperation in Arctic areas

- The North-East Passage offers significant opportunities for cooperation between Russia and Finland in the sector of Arctic technology. Finland must draft a research and development programme for the development in Finland of Arctic transport, energy and environmental technology.

- Cooperation between Finland and Murmansk as well as the northern regions of Russia must be strengthened, especially with a view to developing the energy, mining and logistics sectors in North-West Russia.

- Tourism in Finland and North-West Russia must be developed as a part of northern European tourism. At its best, a new model will be found by combining concepts of cruises in Norwegian fjords and a very different climatic zone, the Caribbean, to create new experiential opportunities in the Arctic region.

[1] Responsibility for running the Institute has been entrusted to the Lappeenranta Technical University and the St. Petersburg State University. A total of 14 universities and research institutes from the Nordic countries, the Baltic States and Russia as well as the Finnish, Swedish and Russian foreign ministries have participated in the development cooperation.

4. Adjacent-areas cooperation demands a lot of Finland

Already now, Finland has a central position in the EU's and Russia's adjacent-areas cooperation. Three of the five EU adjacent-areas programmes are associated with the border between Finland and Russia: cooperation involving the Kola Peninsula and North-West Russia as well as cooperation between South-East Finland and Russia. Environmental cooperation has long been a key area of cooperation between the EU and Russia. From Finland's point of view, in particular protecting the Baltic Sea is an important shared challenge for the period up to 2030.

- The Committee takes the view that adjacent-areas cooperation should be deepened to become natural cross-border interaction that naturally strengthens trust. In the view of the Committee, the best way of achieving this objective is to make visa-free travel for short visits possible at all border posts in such a way that the identity of persons crossing the border can be reliably verified.

5. Adjacent-areas cooperation in environmental protection

- Major challenges are associated with adjacent-areas cooperation in environmental protection: the growing risk of oil catastrophes in the Gulf of Finland, eutrophication of the Gulf of Finland as a result of nutrient emissions, a deterioration of air quality as a consequence of forest fires, transport and industrial emissions in North-West Russia as well as problems with nuclear safety. Problems must be resolved through cooperation between all of the Baltic Sea riparian states.

- There is a considerable risk of a major oil catastrophe in the Baltic Sea. Although Finland is already fairly well prepared to deal with lesser accidents, preparedness for a major spill is not yet sufficient in the Committee's opinion.

- Further inputs must be made into adjacent-areas cooperation in the field of environmental protection and especially protecting the Baltic Sea, because it will produce visible results. It will increase trust between the various parties and contribute to promoting Russia's commitment also to combating climate change.

6. To add momentum to border cooperation, visa-free travel for short visits to the EU area and Russia as well as development of infrastructure in Eastern and Northern Finland, taking the increase in the Russian-speaking population into consideration.

- Those persons who can show a passport that reliably verifies their identity should be granted the right to stay in the EU area for up to three days. This can be implemented in stages as a trial in which visa-free travel is limited only to Finland or Finnish border posts.

- Registration of EU citizens and obtaining work permits for Russia must be made simpler and easier

- Along Finland's entire eastern border, there must be a preparedness for increasing visits and sojourns in the region by Russians as well as for extensive integration of immigrants. In health and education services in Eastern and Northern Finland and especially tertiary institutions, it must be taken into consideration that by 2030 the number of Russian speakers may increase more than tenfold.

- In logistics, production and services, inputs must be made into developing the Helsinki-Vyborg-St. Petersburg corridor to create a "St. Petersburg-Helsinki metropolitan area".

- The Imatra and Svetogorsk area should be developed into a genuine twin city where everyday trips to work across the border are possible also without a visa. Crossing the border must be made easy for those who frequently do so and crossing it on foot or by bicycle must be especially encouraged.

- Economic cooperation in Northern Finland, the Kola Peninsula, Russian Karelia and the Archangel area must be strengthened using three-day visa-free travel.

- The impacts on Finland of visa-free travel must be evaluated within a separate EU-funded project.

7. Integration of the Russian-speaking population as a resource

There are nearly 50,000 native speakers of Russian in Finland. Their number may increase by even a factor of several times by 2030. The Russian-speaking population is a resource that can significantly promote interaction between Finland and Russia from which both

parties benefit. If, however, success is not achieved in integrating people who speak Russian as their mother tongue, this population could instead contribute to creating tensions between Finland and Russia. In integrating the Russian-speaking population it would be advisable to learn from the United States. There, identification with common American values is strong irrespective of what language is spoken in the home. However, the a priori assumption is that everyone has a command of English.

- It is important that permanent residents of Finland have a command of Finnish. A motive to learn Finnish and opportunities to study it must be created for people whose mother tongue is Russian and who are integrating into Finnish society.

- Speaking Russian as one's mother tongue must not be an obstacle to a person feeling Finnish. Persons who speak Russian as their mother tongue and identify themselves as Finnish are an important resource for our country. Integration of Russian-speakers into Finnish society must be promoted by means of information and cultural services in their own language in Finland.

8. New Russia programme

The Committee for the Future's Russia 2017 report contributed to the Government drafting a separate Russia programme during the current parliamentary term. The Committee takes the view that because of the importance of Russia, there will also be a need during the next parliamentary term to draft a Russia programme in which, among other things, the strategic policy lines set forth in this statement of position and report are further developed against a time frame up to 2030.

- Drafting a new Russia programme must be included in the next Programme for Government.

Helsinki, 7 May 2010

The following members of Parliament participated in deliberation of the matter:

Chair Marja Tiura / National Coalition

Deputy Chair Jyrki Kasvi / Greens

Members Mikko Alatalo / Centre

Marko Asell / Social Democrat

Harri Jaskari / National Coalition

Kyösti Karjula / Centre

Miapetra Kumpula-Natri / Social Democrat

Jouko Laxell / National Coalition

Päivi Lipponen / Social Democrat

Marjo Matikainen-Kallström / National Coalition

Juha Mieto / Centre

Mats Nylund / Swedish People's Party

Sirpa Paatero / National Coalition

Lyly Rajala / National Coalition

Kimmo Tiilikainen / Centre

Pertti Virtanen / True Finns

Jyrki Yrttiaho / Left Union

The secretaries to the Committee were

Committee Counsellor Paula Tiihonen

Expert Osmo Kuusi

Motto: As neighbours, every one of us is an expert on Russia

The Russia of 2030 report is an update of the Russia 2017 report published in early 2007. The themes in this report are partly the same as in the earlier examination of the future. In their speeches in recent years, the Russian political leaders have emphasised two of the themes that were highlighted in the earlier report: modernisation of Russia and diversification of the Russian economy. A Russia of Contracts 2030 contains the assessment of one group of experts as to how progress in meeting these challenges could be made realistically and within a long-term time frame.

The Finns and the Russians are neighbours. The motto of the report points out that *as neighbours, every one of us is an expert on Russia.* One of the central theme in the A Russia of Contracts 2030 report how neighbourly relations can be developed into something that further increases mutual understanding and benefits both parties.

Russia now shares a land border with 14 neighbours. There were 12 neighbours during the Soviet era, whilst Imperial Russia shared a land border with 10 countries. In the course of history, all in all 24 countries, 17 of which have at some stage or other belonged to Russia, have had land borders with it. Given the size of Russia, this number does not seem large, but it is considerable in an international comparison. There are many pictures of Russia, which makes it difficult to plan and implement policy on Russia. Which picture, then, should be believed? Does personal experience yield more information than objective analysis? Is it possible to make an objective analysis of Russia? Russia brings emotions to the surface, both great and minor. It is a country of significance for all of its neighbours. What is the best way to analyse Russia in a way that makes it possible to foresee possible conflicts, but yet without offending the Russians?

An important question is what kinds the Finns' and Russians' self-images, identities and pictures of the future are. Like other countries, Russia makes choices on the basis of its own interests, and these interests often have their origin in its own self-understanding and identity.

Self-images, identities and pictures of the future vary depending perspective and field of research. It is difficult to make the perspectives of cultural researchers, politologists and economists compatible with each other. People everywhere in the world, also in countries like Finland with a uniform culture, have many identities. The Indian Nobel laureate Amartya Sen, who has studied the multiplicity of identities, cautions against narrow uniformising

thinking on identity. However, it is possible to discern the Finns' identities in the future as assuming several levels, i.e. one can see signs that in future decades we shall have 1) a national 2) a European and 3) a global identity. Is the development the same in Russia?

It is important in all societal models to take care that the society holds together. It is a question of what people fundamentally base their own actions on and why common rules of the game are observed. Put simply, the following forces that guide and bind people can be distinguished: 1) fear, 2) self-interest, which often manifests itself as money, 3) honour and 4) the common and shared interest. All of these are important in neighbourly relations.

A thinking framework for building an identity was outlined in summary at the Nation Building conference arranged by the International Institute of Administrative Sciences (IIAS) in Finland on 7-11.7.2009. The Eduskunta's Committee for the Future held its own international seminar dealing with the future of nation building (6.7.2009), concentrating on identity building in neighbourly relations with Russia. Based on the results of the seminar, a general thinking framework for building a nation and neighbourly relations that lends itself to analysing Finland's relations with Russia both historically and with a view to the future, has been developed.

We can build relations with Russia together or separately. The builders are we or they. The people – we and they – are involved in a variety of roles: as decision makers, wielders of influence, citizens, visitors, neighbours. A nation can be built from within, from without, from above or from below.

The first thing assessed a little in this report is who have been building – and from where – the nation, an identity as well as neighbourly relations between Finland and Russia for the past 200 years and what the future looks like. Factors like membership of the EU, NATO or the WTO are powerful drivers of future development.

Summary Table 1. Framework for building neighbourly relations: Who and from where? (See part II chapter 2 for more detail)

Nation/identity/neighbourly relations	From where?			
Who?	Within	The outside	Above	Below
We alone	1	2	3	4
We with them	5	6	7	8
They alone	9	10	11	12
They with us	13	14	15	16

Possibilities for the development of Russia were analysed in the Russia 2017 report. The basic theme in the scenarios was how Russia's success as an energy and raw materials producer as well as diversification of its exports relate to social development in the country.

Russia's increasing, or at least remaining nearly the same, revenues from energy and raw materials exports were associated with two scenarios. In the scenario INFLUENTIAL GLOBAL PLAYER THROUGH ENERGY-RELATED COMPETENCE, the energy sector's high standard of competence and the funds obtained by selling energy are used to diversify the economy and implement purposeful and gradual social reforms. Acting as the locomotives of the economy are large energy- and raw materials-producing companies which, in the same way as Japan's *keiretsus* and South Korea' *cheabols* launch subsidiaries that diversify the economy. In this scenario, the power elite retains its position.

A weakening of energy export capacity and especially a fall in the world market price of energy was predicted to create pressures to reform and diversify the economy "from below" and rely on the new middle class and foreign investment. A development of this kind was given the name DIVERSIFYING MOSAIC RUSSIA. Those who work in information and communication technology services hold a key position in this scenario. A modern high-tech elite challenges the old power elite. Radical reforms take place in society.

As an alternative to the two earlier scenarios, one called a POWER ELITE'S RUSSIA was also presented. There are two paths that could lead to this negative scenario. Money that is obtained easily from rising prices for energy and raw materials can lead to the power elite concentrating on preserving its privileges. Instead of reforming the economy, their efforts will be concentrated on justifying their right to power with the aid of nationalist rhetoric and on

power struggles within the elite. The other path is associated with a weakening of the ability to export raw materials. When authoritarian values that idealise force prevail, social development stops. The legal remedies available to citizens and especially equality before the law and with respect to personal security are not implemented.

A fourth scenario, A RUSSIA OF CONTRACTS (See Part II, Chapter 1) is outlined in this report. The basic idea in it is that modernisation of Russian society and the Russian economy as well as diversification of the country's exports into high-competence sectors presupposes above all trust in laws and contracts as well as predictability of the framework for economic activities. It is also important to strengthen innovativeness and creativity in companies. This presupposes less authoritarianism throughout the society. If it fails, this scenario can lead to A POWER ELITE's RUSSIA.

In Summary Table 2 the new scenario is positioned relative to the three earlier ones. A development resembling the A RUSSIA OF CONTRACTS scenario can be interpreted as a prerequisite for a development of the kind outlined in the scenarios INFLUENTIAL GLOBAL PLAYER THROUGH ENERGY-RELATED COMPETENCE and DIVERSIFYING MOSAIC RUSSIA really leading to Russia's modernisation. The names given to a development of this kind in the table are A RUSSIA OF MODERN BIG COMPANIES AS AN INFLUENTIAL GLOBAL PLAYER and A MODERNISED MOSAIC RUSSIA.

The Russia 2030 report's scenario framework

<table>
<tr><td>Modernisation of the economy

Social development</td><td>The big companies at the core of the economy renew themselves internally and set up innovative subsidiaries that diversify the economy</td><td>Practices that renew the economy are adopted by borrowing them from abroad ("catching up"). First companies outside the core of the economy</td><td>Authoritarian or nationalistic practices and/or corruption have a withering effect on essential investments and renewal</td></tr>
<tr><td>A centrally and authoritarianally directed state, administration and big companies</td><td>A RUSSIA OF ENLIGHTENED AUTOCRACY

(Interim state)</td><td>A RUSSIA OF SMALL RENEWING STREAMS</td><td>A RUSSIA OF THE CONCENTRATED POWER OF THE STRONG + RUN</td></tr>
<tr><td rowspan="2">Unambiguous legal provisions that are complied with, scrupulous adherence to written contracts, dismantling authoritarian practices</td><td>A RUSSIA OF MODERN BIG COMPANIES AS AN INFLUENTIAL GLOBAL PLAYER</td><td>A MODERNISED MOSAIC RUSSIA</td><td rowspan="2">Not possible</td></tr>
<tr><td colspan="2">A RUSSIA OF CONTRACTS</td></tr>
<tr><td>Centralised political exercise of power weakens, but a state-directed contractual society does not function</td><td>A RUSSIA OF BIG-COMPANY POWER

(Interim state)</td><td>A RUSSIA OF UNOFFICIAL NETWORKS (RUN)</td><td>A RUSSIA OF DIFFUSED POWER OF THE STRONG + RUN</td></tr>
</table>

Development of a contractual society and modernisation will remain incomplete if an authoritarian command culture prevails in the leading institutions of society: the state leadership, administration and big companies. In the initial stage, however, authoritarianism in the sense of "ENLIGHTENED AUTOCRACY" may, however, be almost inescapable when renewing big companies or administrative units with outmoded organisational structures and work methods. China has been a good example in recent decades of enlightened autocracy of this kind. What is important from the perspective of modernisation is, however, a gradual change

in work cultures. Otherwise, the threat that looms is one of modernisation grinding to a halt and A RUSSIA OF THE CONCENTRATED POWER OF THE STRONG.

Of central importance in renewal based on Russia's new middle class and small companies is imitation of good practices ("catching up", see Part I, sub-section 2.4.). In circumstances of centralised and authoritarian power, something like this can happen only in sectors that are less important for the economy such as production of consumer goods. An excellent example of this kind of development that has been called A RUSSIA OF SMALL RENEWING STREAMS

In sub-section 2.4 is the success of Baltika beer in Russia. Although renewal of this kind seems to be an excellent trend of development, it is difficult to imagine that in the Russian reality this would be the principle way in which the economy modernises.

There are risks associated with a weakening of centralised political power if success has not been accomplished in building a contractual society. The big companies that control Russia's key resources could rise to power and if they ally themselves with local elites, what could lie ahead is A RUSSIA OF DIFFUSED POWER OF THE STRONG.

In the course of their history, even in the most difficult of the circumstances, the Russians have learned to get by with the aid of unofficial networks. The great historical significance of these networks makes it very difficult to dismantle corruption and especially its mild form the informal economy in Russia. A RUSSIA OF UNOFFICIAL NETWORKS (RUN) is the "ordinary person's" response to A RUSSIA OF THE POWER OF THE STRONG. Unofficial networks are especially necessary unless the state and the administrative apparatus are able to protect citizens from the arbitrariness of various local wielders of power. Conversely, A RUSSIA OF UNOFFICIAL NETWORKS will in a way help promote A RUSSIA OF THE POWER OF THE STRONG. That is precisely why the trust and change of attitude that A RUSSIA OF CONTRACTS will bring is needed.

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PART I

The definers of Russia: Russia's special features and economy[1]

1. Cultural and historical obstacles to Russia's renewal

1.1. Introduction: Cultural and historical obstacles to change in Russia

When it comes to analysing Russia, one is faced with the choice of a wide range of themes to pick as a starting point. One choice is to try and get a grip on as many areas as possible, but then the problem arises of making a detailed analysis. On the other hand, choosing to narrow down the range in order to make detailed analysis runs the risk of missing crucial areas and the analysis can suffer through the lack of a wider framework.

There are only a very few who can claim to be REAL specialists of Russia. As historian of Russia Hugh Seton-Watson has put it:

> *It is difficult to write the history of another country. The foreigner has not grown up in the physical and mental climate, and he cannot understand them, still less feel them in the same way as its own people do. The foreigner is of course writing for his own people or for peoples whose language is the same as his own. He has to stress at some length points which to a Russian are so obvious that they do not even deserve a mention.* (Hugh Seton-Watson, The Russian Empire 1801-1917, Oxford University Press, 1988, first edition, 1967, p. vii).

However, there are many people who do have a special knowledge of Russia either through experience, research or business. Still it is not always the case that a country will open up to an outside observer. The Marquis de Custine spent several months in the early 19th century traveling around Russia. He had access to many places that usually "just a traveler" was not able to see. Yet his conclusion was: "I openly admit I have spent a terrible summer in Russia because I succeeded in understanding only a very small part of what I saw. I had hoped to arrive at solutions; I bring you problems instead. A crowd of mysteries remained impenetrable" (Astolphe de Custine, *Journey for our time – Russia 1839*, George Prior Publishers, 1980 version.)

Russia is clearly recognized as the 'Other' compared to European identities. The mystification of Russia has much to do with the question of identity. The idea of Russia being different and

[1] Mainly written by Hanna Smith

unique, a mystery, is an easy way to explain why Russia is so close and yet so far. Taking this as the basis for analysis does not, in the end, explain anything, however attractive it may be. It should also be borne in mind that as all countries are unique in their own ways, there are also factors where countries that seem very different have more in common than appears to be the case at first glance. "*Much that seems to be 'typically European' may be identified in early Russia, though perhaps not at a similar phase of development or exactly in the same form. It is also possible that things that appear to be uniquely Russian contain European elements*." (Reinhard Wittram, *Russia and Europe*. Harcourt Brace Jovanovich, Inc, 1973, p.8)

For Russians the era of the Soviet Union represents a very special time in history and even if there is a good deal of continuity, there are also time specific factors. It is clear that today's Russia cannot be fully analyzed without taking into account the drastic changes of both the 1917 revolution and the 1991 collapse of the Soviet Union. *"When a nation's whole being is undone, as Russia's has been over the past two decades, conventional analysis alone cannot capture the effect on Russian thinking and behavior, including the ache felt by its leaders and elite when dealing with the world outside"* (Robert Legvold, *Russian Foreign Policy in the 21st Century & the shadow of the Past*, Columbia University press, 2007, p. 3)

Nearly 20 years after the collapse of the Soviet Union, many of Russia's problems are well known. *"The problems facing the Russian transition have now become clear, but their solution rather less so. It is too early to know whether the reconstruction of Russia will take longer than the post-war rebuilding of Germany or Japan, but we do know that it will not be easier*" (Richard Sakwa, *Russian Politics and Society* – 4th edition, 2007, Routledge, p.463)

Out of all of the important issues that are relevant to Russia's future three principal themes are addressed in this section: Russia's self-image; the historical obstacles to modernization, some of which apply even today; and corruption together with the concept of legal nihilism. These themes have been selected from a wide range of specific issues that exert a strong influence on Russia's path to statehood and nationhood. Between them, they cover the key questions that have been posed and remain open about the legacy of Russia's past on its present. *"Like the English, they have lost an empire and still not found a role. There is still a long way to go before we can feel certain what kind of community Russia has become*" (Geoffrey Hosking, *Rulers and Victims – the Russians in the Soviet Union*, The Belknap press, Harvard, 2006, p. 409)

Russia is a normal country with specificities that puzzle us all. The country can always surprise us in both negative and positive ways. The project of analyzing Russia is a never ending story with numerous twists and turns. But with each bit of knowledge and experience the deeper understanding of Russia is closer. *"Russia is not a thankful country. Russia is irrational, difficult, disobedient, self-contented, willful, warm hearted, generous, full of tenderness, unforgiving and yet it has been easy to forgive. One needs time, time and yet again time to even start to understand the general terms of Russian society." (*Anna-Leena Lauren, *De är inte kloka, de där Ryssarna",* Söderströms, Helsinki, 2008, p.7)

1.2. Russia's self- image

For at least 300 years the question 'what kind of a country is Russia?' has puzzled Russians themselves. What kind of a country Russia will become is also a challenging question to answer. What is Russian national identity and what makes Russia, Russia? The internal debate in Russia has heavily influenced the international debate on the same issue. Furthermore, personal experiences regarding Russia have also had their influence on the country's image abroad.

Russia today has 14 land neighbours. The Soviet Union had 12 land neighbours and before that imperial Russia shared a land border with 10 countries. In all a total of 24 countries have shared borders with Russia throughout history, and 17 of those have belonged to Russia at one time or other. For a country the size of Russia, it does not seem many, but in an international comparison it is significant. There are many images of Russia which makes planning and executing a policy towards that country a challenge. Which image should be believed? Is personal experience more insightful than objective analysis? Is it possible to make an objective analysis of Russia? Russia elicits feelings, big and small. It is a significant country to all of its neighbours. What would be the best way of approaching analysis of Russia so that potential conflicts can be anticipated but without insulting Russians?

The Finnish relationship with Russia is paradoxical: Russia is close geographically, but culturally alien in many respects. It is always expected that the Finns know Russia due to geography, a common history and close cross-border contacts. But it has also been asked whether personal experiences, practical cooperation and situations dictated by history and trade relations add up to a real knowledge of Russia? At the same time it is reasonable to ask if a deeper knowledge of Russia is needed? In dealing with Russia how much advantage does a thorough knowledge of culture, language and customs actually bring? A further important aspect of different views of Russia is that in Russia's immediate neighbourhood the picture of

Russia is also coloured by varieties of fear. Is Russia a threat or not? These are questions that are still, nearly 20 years after the collapse of the Soviet Union, frequently asked and it seems that no satisfactory answer has been found.

The Committee for the Future of the Finnish parliament, the Eduskunta, held a seminar in November 2009 where the journalist Antero Eerola commented in his speech: "*In Finland the need to grasp the new Russia is obviously great. The Committee's Russia project, the Government's programme on Russia and the Prime Minister's Russia forum are all evidence of that."* To that list could be added the publication of "Challenges of Russia" by the Finnish Ministry of Defence in 2008. Finnish knowledge of Russia is good by international standards, but still coordination between different disciplines could be better and in some areas there are only very few experts. The need to understand Russia springs precisely from the fact that there are different pictures of Russia not only country by country, but also discipline by discipline. The interesting twist in all this is that the Russians, for their part, see this variation of pictures working against themselves, when for example the European Union often sees the many pictures of Russia as an obstacle to developing a comprehensive united policy. Already during the presidency of Vladimir Putin Russia invested heavily in reporting more vociferously on different events in the world and on developments in Russia from the Russian point of view. A good example of that is the *Russia Today* news channel. Another good example is when the Kremlin hired the PR company Ketchum, Inc. during the Russian presidency of the G8 to take care of relations between the media representation of Russia and the other G8 countries.[2] In January through February 2007 the same company was hired to promote the Russian point of view in energy security, WTO membership, and Russia as a favourable place to invest in.[3] Also during Dmitri Medvedev's presidency foreign PR companies have been contracted to help get the Russian view through to the global public.

"Our image needs to be comfortable for those who deal with us. We should not be prickly and hard to approach, but at the same time we should be able to give a firm response when circumstances call for it," President Medvedev said in a TV interview with the NTV channel in July 2009. For the Russian leadership as well as for average Russians it is important that the image of Russia is positive. President Medvedev continued in the same interview: "*If we want to present the right image to the world, we need to resolve our pressing problems, above all our social and economic problems*." This has been the view of Russian leaders for centuries.

[2] http://www.fara.gov/docs/5758-Exhibit-AB-20060509-1.pdf
[3] http://www.fara.gov/docs/5758-Exhibit-AB-20070213-2.pdf

The social and economic problems are in their view at the core of the "image problem" that Russia seems to have with the rest of the world and particularly with Western countries. But one can ask if that is really at the core of the image problem?

Russia's future is important from the Finnish, European and international perspectives. Russia, like all other countries, makes choices based on its interests and often the interests are derived from self-perceptions and identity. One way of contributing to the overall picture of Russia and gaining insights into the self-image of Russia, is to examine the speeches of the Russian leadership. Here the leading tandem of Medvedev and Putin is central. The picture of Russia that emerges from the official speeches of the country's leadership at least shows the image they want to present to their own citizens and to other countries.

The picture of Russia through President Medvedev

The President of Russia was born in 1965, which makes him a very young head of state of a very large country. The youngest-ever president of the United States was Theodore Roosevelt, who took office aged 42 and 10 months. Dmitri Medvedev was 42 and 8 months at the time of his inauguration on 7 May 2008. This factor immediately gives rise to two questions: can he hold political power in his own right? And will his relative youth finally inject something new into Russian political life?

There are certainly features to Medvedev's presidency which have not been seen before in Russian politics. He uses the Internet as a channel of communication. He has listed his favourite bands as Deep Purple, Black Sabbath, Pink Floyd, and Led Zeppelin, which certainly breaks with tradition for anyone nostalgic for Soviet times. The music was previously blacklisted and he is known to have collected copies of his favourite groups' albums through a practice known as "*samizdat*", which automatically set him in opposition to the Soviet Union's leadership. At that same time Vladimir Putin, former President and current Prime Minister of Russia, was serving as a KGB officer. Medvedev was baptised in the Russian Orthodox Church at the age of 23, at a time when the church was still not looked on favourably by the Soviet Government. In this regard he does differ from his predecessors; during the Soviet era he committed acts that could have been interpreted as actions against the state. Both Putin and Yeltsin were baptised as babies, Putin by his mother, who kept it secret from his father (a member of the communist party) and Yeltsin, who was taken by his parents to the monthly baptism ceremony that was still allowed by the communist party at that time. Medvedev seems to be only one out of the three who chose baptism himself out of his own convictions. Once the fall of the Soviet Union was a fact, Medvedev was among those who looked for

quick financial advantages from privatisation programs and new entrepreneurship. In this action he differed from his two predecessors. Medvedev's family background is also slightly different from that of his predecessor; he was the son of two academics and belonged to the "upper class" of the Soviet system.

All of this is not to say that Medvedev would have to be a liberal or an advocate of Western-style democracy for Russia. He still lacks an independent power base and without that it will be impossible for him to execute his own policies without support from Prime Minister Putin. In this regard it is rather interesting to look at Medvedev's speeches and sayings. Is his Russia the Russia he wants it to be, Russia as a result of "*putinism*" implying criticism, or Russia just as it is?

The picture of Russia through Medvedev: "Forward Russia"

In September 2009 Medvedev published an article "Forward Russia", first on the Internet site Gazeta.ru and a few hours later on the presidential web site. The picture of Russia that is drawn in the article is not a picture of a great and sustainable country, but rather a country that lacks dynamism and suffers a number of problems. At the same time, Medvedev underlines Russia's greatness and potential:

> *As the contemporary generation of Russian people, we have received a huge inheritance. Gains that were well-deserved, hard-fought and hard-earned by the persistent efforts of our predecessors. Sometimes the cost of hardship really was terrible casualties. We have a huge territory, large amounts of natural resources, solid industrial potential, an impressive list of outstanding achievements in science, technology, education and art, a glorious history regarding our army, navy, and nuclear weapons. By using its authority Russian power has played a significant -- and in some periods determinate -- role in events of historic proportions.*

But he does continue to draw a rather harsh picture of the situation in Russia today:

> *Our current economy still reflects the major flaw of the Soviet system: it largely ignores individual needs. With a few exceptions, domestic business does not invent nor create the necessary things and technology that people need. We sell things that we have not produced, raw materials or imported goods. Finished products produced in Russia are largely plagued by their extremely low competitiveness. The energy efficiency and productivity of most of our businesses remains shamefully low, but that is not the*

worst part. The trouble is that it seems that owners, directors, chief engineers and officials are not very worried about this.

According to Medvedev the three main ills of Russia today are: centuries of economic backwardness and the habit of relying on the export of raw materials; centuries of corruption which have debilitated Russia from time immemorial; and paternalistic attitudes being widespread in society, such as the conviction that all problems should be resolved by the government. Very few either inside Russia or outside will try to argue against this picture.

After listing things that are big problems for Russia today Medvedev went on to list five measures that will modernise the Russian economy:

1. We will become a leading country measured by the efficiency of production, transportation and use of energy. 2. We need to maintain and raise our nuclear technology to a qualitatively new level. 3. Russia's experts will improve information technology and strongly influence the development of global public data networks. 4. 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. 5. 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.

All of the areas mentioned are indeed important even from a global perspective, but this is also a view that is more controversial and less able to attract universal agreement than is the case with the list of Russia's ills.

If the issues in Medvedev's article covering the current situation are easy for everyone to accept as a picture of Russia as it really is, the measures to modernise the Russian economy are more of a wish, how things should be than how they will be. As widely as there is agreement on Medvedev's ills of Russia, there is also agreement that the measures Medvedev has proposed are unrealistic.

Then there are elements in the article that can be interpreted as a criticism of "*putinism*":

I would invite all those who share my convictions to get involved. I would also invite those who do not agree with my ideas but sincerely desire change for the better to be involved as well. People will attempt to interfere with our work. Influential groups of corrupt officials and do-nothing 'entrepreneurs' are well ensconced. They have every-

thing and are satisfied. They are going to squeeze the profits from the remnants of Soviet industry and squander the natural resources that belong to all of us until the end. They are not creating anything new, do not want development, and fear it. But the future does not belong to them – it belongs to us.

These hints seem to reflect the old ideas versus new ideas situation. He frequently refers to an elite that does not want to let go of their own advantages and to those that are afraid of development. It is left unclear who are "those people" but if it is not people in power or those close to them, who else in Russia has that kind of capability?

It has to be remembered that since the article was published on the Internet, first and foremost, the article is addressing those Russians that are "connected" to the web, and those to whom it is the main source of information and belong to the generation of under 40s in Russia. The rest of the readership are predominantly those outside of Russia. Medvedev's article painted a picture of him as a western-style law professor who knows and understands the World Bank's global governance indicators. Most analysis of this speech agreed that Medvedev was using the right words and addressing the right issues, but a majority has also been very sceptical as to the prospects of his ideas ever being implemented in Russia and whether he has the power and the means to succeed in getting them accepted in Russian society.

The picture of Russia through President Medvedev: The state of the nation

So far President Medvedev has given two state of the nation speeches. Since the speech is delivered in the Duma, that is the immediate audience, but at the same time the speech is shown on Russian TV and is picked up by foreign journalists and closely examined by the diplomatic corps stationed in Moscow. Therefore already the setting for the speech is very different than the article "Forward Russia".

The first state of the nation speech by Medvedev in 2008 was very much "picking it up were Putin left off". The main themes were war with Georgia, economic crisis, the Russian constitution, Russian values and corruption. The speech was striking regarding the picture it gave of Russia:

Now I would like to speak about our values. They are well known.

There is justice, which we understand as political equality, honest courts and responsible leaders. Justice is embodied in practice as social guarantees and the fight against poverty and corruption, the efforts to give each individual a decent place in our society

and give the Russian nation as a whole a worthy place in the system of international relations.

There is freedom – personal, individual freedom.

It means economic freedom, freedom of speech and religion, freedom to choose one's place of residence and one's job. And there is general national freedom, the independence and freedom of the Russian state.

There is the welfare and dignity of human life. There is interethnic peace and the unity of diverse cultures. There is protection for small peoples, and the recognition of South Ossetia's and Abkhazia's independence is an example of this protection.

There are family traditions, love and faithfulness, care for the young and for the old.

There is patriotism, along with the most sober and critical look at our country's history and our far from ideal present, belief in Russia that shines through no matter what the circumstances, deep-rooted love for our native land and our great culture.

These are our values, the foundations of our society and our moral beacons. To put things more simply, it is these self-evident things that we all understand that are what make us a single people, what make us Russia.

These are the things that we will never give up no matter what the circumstances.

This all sounds perfect, but it is more of a list of wishes than reality and very few, even in Russia, believed that the new president delivered the state of the nation speech from his own viewpoint and that it really reflected the state of the nation. Furthermore this speech reminded many not only of the speech by Putin, but also of the Soviet era, when the speeches by the leader of the country were far from the truth and closer to utopian. The main adversary in the speech was directly and indirectly the United States. However it was also a rather typical speech by a leader of a country that was in midst of crises and has to find a way out. Traditionally crises are not a time or the place to start great reforms, but rather to bolster national unity and self-confidence. That is what Medvedev's speech was and therefore the image of Russia through this speech is not one of reality but one of tackling crises. At the same time, when he talked about Russia as an established democracy he proposed several measures to rearrange political parties and regional leadership, which seemed to be somewhat in conflict with the era and trends of the Putin administration.

In Medvedev's second state of the nation speech the tone and style had changed from the "politically and economically strong country" to a country that:

> *In the twenty-first century, our country once again needs to undergo comprehensive modernisation. This will be our first ever experience of modernisation based on democratic values and institutions. Instead of a primitive raw materials economy we will create a smart economy producing unique knowledge, new goods and technology of use to people.*
>
> *Instead of an archaic society in which the leaders think and decide for everyone, we will become a society of clever, free and responsible people.*
>
> *Instead of chaotic action dictated by nostalgia and prejudice, we will carry out an intelligent domestic and foreign policy based on purely pragmatic aims.*
>
> *Instead of the Russia of the past we will build the Russia of the present – a modern and forward-looking young nation able to take a worthy place in the global economy.*

The President's analysis of his country in 2009 had changed considerably from the year before. If he earlier portrayed Russia as a democracy, a free and functioning country, now the picture of Russia had changed into that of a country where reforms are only half-implemented and which is hampered by attitudes that hinder dynamic development.

He explained in his state of the nation speech why he had published the article "Forward Russia" as a preface to his state of the nation speech:

> *I published my proposal to reflect on how we can overcome our chronic backwardness, dependence on raw materials exports, and corruption, how we can prepare ourselves for fierce competition in global markets, and create the best possibilities for ensuring that each of us can make full use in practice of our knowledge, opportunities, and experience without depending on higher-ups. In other words, I proposed that we reflect on the steps we need to take right now to improve the quality of life in Russia and make our country one of the world's leaders.*

In 2009 Medvedev described Russia not only in his article "Forward Russia", but also in his state of the nation speech as suffering from chronic backwardness, being badly dependent on raw material exports and struggling with corruption. The year before the image of Russia in his speech was best summarised as:

We live in a free and modern country. And we have managed to do much. We have a positive experience in establishing a democratic state. And more than success, we have real victories.

Medvedev is still arguing for his four i-strategy: institutions, investments, infrastructure and innovation as the main ideas of how to develop Russia. Of those words, innovation is definitely the one that gets most attention in his speeches: "cutting edge innovation in the main economic sectors and in the public life"; "innovation economy"; "technological innovation"; "innovations in juridical reforms"; "developing innovation both in traditional and alternative energy"; "the spirit of innovation". In his 2009 speech the word modernisation was used 16 times, the word innovative 14 times and the word innovation four times, but in different senses. In the 2008 speech the word innovation was used six times and the word innovative three times, and the word modernise was used three times ('modernisation' was not used a single time). This not only indicates the stress President Medvedev puts on both the idea of innovation and the concept of modernisation, but also suggests that this emphasis has been growing. Although the concept of modernisation differs in that it suggests a link to the Russian past, both words do provide a particular image of Russia, they highlight the fact that there are still huge issues there that need to be tackled, that problems are mostly the same as they have been in the past and that new ideas are few. Innovation implies an attack on conservatism and a break with established ways of doing things. He also does not refer to politics which is a noteworthy factor.

In this regard Medvedev's Russia is a land of opposites. Russia has a great history, but history also casts a shadow upon it. Russia has moved forward since the Soviet era but still has attitudes of the old system preventing it from developing to its full potential. Russia implemented a market economy, but is still dependent on raw materials. Russia is a nuclear power, but does not enjoy fully fledged great power status. Russia has a democratic constitution and yet it is far from democracy. If there is a conclusion to be drawn from Medvedev's Russia, it is that Russia is still on the path of transformation. However, it is much more unclear than at the beginning of the 1990s from where the transformation is starting and where it is going. The financial crisis that began in 2008 has affected Russia in many ways. Up until then Russian approaches to the economy relied predominantly on raw materials and a strong state presence in the industrial sector and other sectors which are seen as nationally central and strategic. The crises indicated that if Russia does not alter its way of thinking, it might fall further behind the industrial world in both productivity, technology and innovation.

The image of Russia through Prime Minister Putin

As Prime Minister, Putin's role has changed from that of legal head of state to that of a position subordinated to the President, but he is still said to be "the power behind the throne". His power base is solid and so he is often also referred to as the "puppet master" of the Kremlin, which leaves President Medvedev in an awkward position. His view of Russia during the early years of his power were in many ways similar to those expressed in Medvedev's speeches today, but the tone changed over the years from self-critical to self-confident and from broadminded views to selective views of both Russia and the world. He has nurtured his own image as that of the strong man of Russia. Alongside the image of a strong Russia runs the image of a strong man, who tackles Russia's problems decisively. His style was also very much to put the blame for Russia's difficulties on outside factors whether it was more abstract "other countries", "international terrorists", "those that want to see Russia fail" or "the United States".

He continued this trend once he became Prime Minister. In his speech to the United Russia party congress in November 2009, he clearly blamed the economic crisis on the United States:

> *The abuse of 'cheap money' and other related mortgage problems in the United States have prompted a chain reaction, causing a global financial system paralysis and a general mistrust in the markets, which was bound to affect the real economy. It started as a financial downturn and has developed into an economic crisis before our very eyes.*

In the same speech he described the economic situation in Russia:

> *Certainly, it is impossible to resolve every problem with money. But these funds will give us space to manoeuvre, allow us to maintain macroeconomic stability and consequently avert an upsurge in inflation or a drastic change in the rouble exchange rate. To this end, all available tools will be used. Our reserves will ensure the Russian budgetary system's stability for years ahead, regardless of oil prices and prices for other export goods. This means that budget-dependent employees' salaries, pensions and social benefits will be paid on time. The system of social guarantees will function normally. We will not resolve our challenges or 'patch our holes' at the expense of the average person. We are not going to do it.*

This is a picture of Russia most economists have difficulty agreeing with. Even in an article by Kingsmill Bond in the Financial Times (3.2.2010) that was extremely positive about the prospects for the Russian economy, the bottom line was that the price of energy and espe-

cially oil is the key to everything. Putin's picture of Russia is far more positive in his speeches than the problems and prospects he is dealing with on a daily basis.

In Putin's Russia political parties play a role that is not fully recognisable to those familiar with a fully democratic parliamentary system:

> *The goal of our party is to generate new ideas and projects and to control their implementation. We need to understand public opinion and people's needs. The United Russia party has all the necessary tools to define strategic objectives and to develop political programmes and draft laws that correspond to the needs of our citizens. Our public reception offices and party branches should react effectively to people's applications. We need to ensure that every person who comes to us with a problem receives professional and effective help. People who address our party for help, must be sure that we will deal with their needs and not simply shelve their requests.*

Putin's perception of a political party is more like an institution that assists the government, providing something like the missing link in the "social contract" between the state and civil society. The party's duty in Putin's view is to monitor public moods and make sure people are content so that no public outcry will occur. Putin's Russia is a Russia of vertical power. The state controls almost all aspects of society and those that it does not fully cover the political party will cover for them. Therefore the fate of United Russia depends on the country's fortunes. *"United Russia is fully responsible for what's going on in the country. I'd like to stress that the party's future depends on how we deal with current problems that the country and its citizens are facing."* Since the culture of blame is a typical feature of Russian politics, there needs to be someone to blame. In the Yeltsin years it was very often the prime minister and that was also the case for some years of Putin's administration, but especially since Putin became prime minister this scapegoat could not be used anymore. Now the responsibility for the country's future is on the party's shoulders, according to Putin, so if something goes wrong in Russia the president and the government comes through with clean hands, and even officials might get off since the party was responsible.

It is clear that in Putin's Russia, surprises and uncontrollable factors are not welcome:

> *People keep asking us what lies ahead and what the authorities intend to do to protect the country's citizens from the financial crisis. It's a good question. I'll put it straight: like the world's other developed economies, Russia is being influenced by a significant*

number of market factors which are out of anyone's direct control. Nonetheless, we will do everything we can to avoid further shake-ups.

This sounds good at first glance but is very problematic view if we are thinking about democratic development, and in fact also conflicts with some of President Medvedev's ideas on individual responsibility that he was taking about in his major speeches.

The conclusion can be drawn from Putin's speech at the United Russia party congress in 2009 that his Russia does not share the duality which is apparent in Medvedev's Russia. It is much more simple; the government as the representative of the state will do its utmost to control most aspects of life in the country. If Putin's word is to be relied on, the government has the wellbeing of the people as its main task. Patriotism is the uniting factor and there is always someone else to blame apart from the government. Putin's Russia seeks to project an image of a stable, controlled, strong country economically and militarily. It is a country that is also not afraid to use its strengths when it sees fit. Putin's speeches are clearly more political. Compared to the President, the Prime Minister is the one who deals with everyday matters and the President is more representative of governing values. The gap between these two, however, is not a new phenomenon in Russia – theory and practice do not meet.

The tandem leadership

Dmitri Medvedev became the third president of the Russian Federation since the fall of the Soviet Union in 2008. The elections still fell short of the democratic criteria for free and fair elections. Nevertheless they were held and power passed to

President Putin's chosen successor. The criteria of stability and continuity were fulfilled and there was little doubt that a majority of Russian voters supported the outcome of the orchestrated event. What matters most still in Russian politics is personality and even if Medvedev in many ways was doubted as a capable leader, he was nevertheless accepted since he was handpicked by the trusted President Putin. The interesting aspect of Medvedev's election as President of Russia was that, perhaps for the first time in Russian history, there was a situation of tandem power. Parallels from history are hard to find and one needs to stretch both knowledge and imagination to find one: Peter the Great and his weak brother Ivan? However even in this example the weaker was the older and the stronger the younger, which is not the case in the Medvedev-Putin constellation. The situation was already in place where Medvedev the younger and not so popular new president was alongside the stronger, popular old president Putin as prime minister. This tension was exacerbated when the prime minster also be-

came the leader of the United Russia party, considered the only real political party in Russia, without his actually being a member of it. The Russian two-headed eagle became real, both heads move independently but are fixed to the same base. One head looks to the East and the other to the West. The most common view two years after the presidential elections is that real power still lies in the hands of Putin and that the views of Medvedev and Putin are nearly the same.

As Fraser Cameron puts it *"It suits both to play the "good cop, bad cop" role from time to time, but in reality there are no fundamental differences between the two*." (New York Times, 11.2.2010). However there are also those that see at least some differences emerging between the two leaders or some internal disagreements: *"Cracks are starting to appear in the hierarchy of the state" said Olga Kryshtanovskaya in an interview with the Financial Times* (4.2.2010). In January David Kramer wrote an article in the Moscow Times under the title "Putin is Medvedev's Biggest Spoiler" (Moscow Times 13.01.2010). The internet journal Russia Profile, published by RIA Novosti, went on to hold an expert panel on the Kramer's claims, and the response was very mixed:[4]

Ethan S. Burger, Adjunct Professor, Georgetown University Law Center, Washington, DC :

> *It is understandable that Putin should feel increasingly insecure. He could be losing the support of those who have been his strongest backers. The power vertical seems not to have survived: power is devolving into the hands of regional leaders. Without a political explosion, change in Russia must come from within. Prime Minister Putin does not want members of the Russian political and economic elite to seriously entertain the idea once coined by Svetlana Medvedeva in an interview with an Italian journalist, that the time has come when her husband should cease being President in name only.*

Eugene Kolesnikov, Private Consultant, the Netherlands:

> *If you are an idealist, you persevere or experience a hard awakening. Medvedev is persevering. Putin, on the other hand, does not let him give out Russia for good words and tokens. In this respect he is a spoiler of Medvedev's foreign policy. This is certainly the view from the other continent. From Russia, the view, at least to me, is quite different. Putin holds down the idealistic fervour of his protégée and saves Russia from the "wolf."*

[4] January 22, 2010, Russia Profile Weekly Experts Panel: Is Putin Sabotaging Medvedev's Initiatives? Introduced by Vladimir Frolov, Russia Profile

Vladimir Belaeff, President, Global Society Institute, Inc., San Francisco, CA:

> *Thus, the allegations of Putin as a "spoiler" of Medvedev do not appear to be supported by the examples provided, and two reported instances of alleged contradictions are not convincing, especially considering the inaccuracies in the narratives of the "evidence."*
>
> *Also, one must compare instances of alleged "contradictions" between the two gentlemen with the many more instances of genuine collaboration between them. The fact that such an objective comparison is not presented undermines the hypothesis and exposes a possible latent subjectivity of the original premise.*

Professor Stephen Blank, the U.S. Army War College, Carlyle Barracks, PA:

> *There is no doubt that Putin and Putin's entourage are actively sabotaging many of Medvedev's foreign policy initiatives or conducting their own policies. Wherever one looks, arms control, Latin American and Far Eastern energy policy, the WTO, etc. we see Putin, Igor Sechin, et al blocking Medvedev's attempts to improve ties with the West, or actively seeking to worsen those ties, e.g. by scuttling the arms control treaty, calling for military bases in Latin America, abandoning the WTO for a Customs Union and always seeking to blame America for everything.*

Alexandre Strokanov, Professor of History, Director of the Institute of Russian Language, History and Culture, Lyndon State College, Lyndonville, Vermont:

> *Certainly, the assessment made by David J. Kramer in his article "Putin is Medvedev's Biggest Spoiler" has nothing to do with reality and is just another example of a mistaken approach to see Putin and Medvedev as two politicians who represent absolutely different directions of Russian foreign policy. For every reasonable analyst, it is quite obvious that Medvedev and Putin are two sides of the same coin, called the Kremlin.*

Whether there is a difference between Prime Minister Putin and President Medvedev is perhaps not the key question, since it seems that the possible frictions between them relate to power and technical questions of how to gain what Russia wants, and not so much on what is the best future for Russia. The situation in Russian politics today may have some similarities with Ivan Turgenev's well known novel "Fathers and Sons" from the nineteenth century. There are those that are in favour of ultimate change such as Bazarov the nihilist, but his style is also self-destructive. Then there are those who value traditions and are domesticated, like

Arkady Nikolayevitch Kirsanov, who also likes to look modern and seem liberal. His father Nikolai Petrovitch Kirsanov represents those that try to keep up with the changing world, but really do not want to and because of their longing for the past and romantic idealism, the "farm" they are taking care of is falling behind and slowly going towards deterioration. Nikolai's brother Pavel Petrovitch Kirsanov belongs to the group that lives in the dilemma of having to witness the facts of social change without being able to accept them either emotionally or intellectually and at the same time the image is everything for him. Interestingly the female character of Anna Sergeyevna Odintsova describes well the dominant situation in Russian politics "*the ultimate concern is to maintain peace and order. She runs her household and estate in a precise orderly fashion, and virtually never strays from the bounds she has imposed upon life"*. In the novel the fathers and the sons have their differences, Arkady and his father find a balance, Bazarov and his father do not. Perhaps the relationship between Medvedev and Putin is more like that between Arkady and his father in "Fathers and Sons". The new generation takes over eventually, but without changing the roots and traditional values and therefore not changing the country in a fundamental way.

The next presidential elections will be held in 2012. Both Putin and Medvedev have expressed their interest in running next time around. However, it is highly unlikely that the two are going to run against each other in the elections. Behind the scenes, a decision will be made by the leading elite to have one candidate, who will then be the most likely winner of the election. President Medvedev's public support has been growing slowly but steadily during his two first years in office. According to the Fund for Public Opinion (FOM), in December 2009 support for the President was 60%, about 20% trusted and supported him and 14% had a very sceptical attitude to him. The corresponding numbers in 2008 were 49%, 24% and 13%. However when the question was about the most popular politician, Medvedev came second with 34% support and Prime Minister Putin was in first place with 44%. Shoigu occupied third place with 11%.

Even with a well-supported President, the opinion polls showed in December 2009 that the tandem power had the support of the people, with 85% in favour of it. In May 2009 the figure was 64%. However the next president is more crucial with regard to Russia's future than the current one or the one before him. He will have six years in power and therefore time also to execute the changes that he prefers and he will have time to build a proper power base for himself. If it is Prime Minister Putin, the future path of Russia will take a wrong turn and if it

is President Medvedev, the West will experience some changes from Russia, but it still remains open to question whether Russia itself will see changes.

In Russian history there has been one case that could perhaps be taken up as an example of how a tandem leadership has been attempted before. In 1906 Russia's first Prime Minister took office. Czar Nicholas II withdrew from hands-on everyday governmental work and the Prime Minister was left to take care of the state. However the decisions still ultimately had to be taken by the Czar. The Prime Minister's hands were tied since the Czar still retained full power over the state. For example, he had the right to appoint ministers and conduct wars. Many historians argue that, nonetheless, the system worked well for a certain period. But it would seem that the model was only really effective as long as an exceptional Prime Minister – Stolypin – was in office, and at the same time the Czar chose largely to absent himself from the power to which he was entitled. Other cases of power-sharing – between Peter I and Fedor III from 1676 to 1682, and between the Provisional Government and the Petrograd Soviet in 1917 - proved disastrous for Russia.

Conclusion

The National Security Strategy up to 2020 was published in May 2009 and starts with the words:

> *Russia has overcome the political, social and economic crises that plagued her at the end of the 20th century. She has managed to arrest and reverse the decline in living standards. She has held through the pressures of nationalism, separatism and international terrorism. She has managed to tackle the attempts to shake her constitutional order, keep sovereignty and territorial integrity. She has returned to become a competitive country that can pursue its national interests as one of the key countries in the international multipolar world.*[5]

From the different statements by Russia's leaders it becomes apparent that Russia's self-image as expressed by the political leadership is contradictory. On the one hand there is hard self-criticism and a realistic picture of the problems, and on the other hand there is praise for the Russian past and its achievements. Alongside the list of faults there is as long a list of successes and ideal views of the possibilities for the future of Russia.

[5] http://www.scrf.gov.ru/documents/99.html

Two factors arise from the picture of the self-image that comes out of Russia. Firstly, it seems that Russia experiences the problems it has differently from how they have been seen in the West. Internal threats are viewed in Russia as much stronger than they are seen in the West and in the Russian point of view the sovereignty of Russia is still under challenge. Secondly it is also clear that if Russia should be criticised it should be done in a way which is controlled by the leaders of the country and not by just anyone, especially not by outsiders. For good or bad Russia is still a great power and it feels it should be treated like one too.

It is to some extent possible to assess the extent to which public opinion is in line with the views of Russia's two leaders as discussed here. There seems to be little belief among Russians that Russia is a democratic country (disagreement with the President) or that Russian welfare is doing well (disagreement with the Prime Minister). In the Russian mass consciousness, the topics that are most closely associated with their own country, according to a 2007 survey conducted by the Institute of Sociology of the Russian Academy of Sciences, are: culture, crisis, patriotism, spiritual wealth, mutual aid, intellect and drugs. The concepts that Russians thought would describe their own country least (out of a list of 29 terms) were: human rights, threat, welfare, civilisation, discipline, democracy and egoism.[6] So the topics where Russians appear to be on the same page as their leaders are culture, crisis and patriotism.

With the fall of the Soviet Union Russia "burned its forests down". It was a close one that it did not also burn those that were making the fire in the first place. Now Russia seems to be in the situation where the forest has been burned and the land is ready to be exploited, but the burners can't agree why the forest was burned again and they keep arguing while the land starts to grow whatever. Lilia Shevtsova has argued: "*Sooner or later, however, it will be impossible for Russia to ignore the question of how long it can continue to exist simultaneously in the past and in the future, to move backward and forward at the same time, imitating development and reforms, while trying to preserve the status quo."*[7] She firmly states that the current system - which she calls an "electoral monarchy" combined with "bureaucratic capitalism" - is in deep stagnation and likely to end either in crisis or in efforts by the proto-authoritarians of today to install a bona fide dictatorship - or, worse still, in a degree of decay from which the country cannot recover. Therefore the current presidency of Dmitri Medvedev

[6] Andrei .L. Andereev, "The Image of Russia and the Image of the West in Russian Consciousness", *Herald of the Russian Academy of Sciences,* 2008, Vol.78, No.3, pp241-246, p.245

[7] Lilia Shevtsova, "Russia – lost in transition: The Yeltsin and Putin legacy", Carnegie Endowment for International Peace , 2007, p.315

is more relevant than it might look at first glance. In the 2012 presidential elections Russia will make a very important choice for its future and the path it chooses then will determine what kind of a country Russia will be in 2030.

1.3. International Observations on the subject[8]

Dmitry Babich, Political Analyst, RIA Novosti News Agency:

The analysis of Russia's self-image is an important contribution to the great work done by a group of experts from the Committee on the Future of the Finnish parliament.

The theme chosen– Russia's self-image – is a very important and comparatively little studied area. The text shows well that the image which Russians have of their country has a powerful impact on Russia's policy and even this country's daily life. I would illustrate this by just one recent historic example. The sudden collapse of the Soviet Union in 1989-1991 cannot be explained by economic difficulties alone. One of the reasons for this process was the dramatic deterioration of the image of their country in the eyes of many Soviet people in 1986-1992. Part of it is ascribed by Yasen Zasursky, the former dean of the journalism faculty, Moscow State University (MGU), to the suddenly acquired press freedom. People were so used to propaganda that even small cracks in the old wall of untruths that surrounded the Soviet citizens since their childhood years, made them panic and see their country in exclusively black colors. The problem with the self-image, however, is that in Russia it does not always coincide with official declarations, as shown in the text. In this situation the quotes from Medvedev's speeches, should not be taken at face value. Here is one such quote: *"Now I would like to speak about our values. They are well known,"* Medevedev says and continues: *"There is justice, which we understand as political equality, honest courts and responsible leaders. Justice is embodied in practice as social guarantees and the fight against poverty and corruption, the efforts to give each individual a decent place in our society and give the Russian nation as a whole a worthy place in the system of international relations."*

A simple analysis of the Russian press and a short talk to people on the street will tell you that these are exactly the things Russians find most lacking in their country – honest courts, responsible leaders, a fight against corruption. This is the reason why Medvedev risks ultimately losing people's confidence – his speeches often contradict the dire realities of everyday life. Talking about a quick advent of a Western-style multiparty system in today's Russia, as Medvedev did in his "Forward Russia" letter, has little sense in today's Russia. That does

[8] Dr. Jeremy Smith, Senior Lecturer, CREES, University of Birmingham.

not mean that opposition parties do not exist or that the state controls ALL media in the country, as many observers tend to believe. Today's Russia has an almost complete freedom of political THOUGHT, but little freedom of political ACTION, since no party now can create a serious alternative to United Russia at a federal election.

In this situation, the definition of "Putin's perception of a political party" in the text is very precise and valuable. The text rightly illustrates that a political party in today's Russia "is more like an institution that assists the government, providing something like the missing link in the "social contract" between the state and the civil society. The party's duty in Putin's view is to monitor public moods and make sure people are content so that no public outcry will occur." This is a very accurate assessment, helping us move beyond simplifying generalizations on the "authoritarian" or even "totalitarian" character of today's Russian state. Some of the less accurate generalizations in the text (such as the one saying that "the state controls almost all aspects of society and those that it does not fully cover the political party will cover for them") contradict the above-mentioned brilliant assessment of political parties' role. It was the Communist Party of the Soviet Union that tried to control every aspect of society's life, Putin's vision of the ruling party's role is quite different. He expects it to be a channel via which the state can get a feedback from society, correcting its own mistakes. A ruling party is no longer an end in itself, as it used to be in the Soviet Union.

Paraphrasing a famous generalization about Russia's strength, one might say that "Russia is never as authoritarian as foreign journalists believe it to be and never as democratic as its leaders say in their speeches."

Thinking along the same lines, one might be cautiously optimistic about Russia's future. The economy and democracy will develop, but not in a way traditional to Western societies or as presented in Medvedev's speeches. The paternalist economy, based on powerful technologically developed companies with close links to the state (something like South Korean "chaebols") is much more in the Russian tradition than the early capitalist farmers or small businesses who have a difficult time surviving the tough Russian climate and business environment.

Putin understood it and developed the concept of "national champions" who need to be helped by the state to find their niche at the world market bypassing the stage of domestic competition. Gazprom, Aeroflot, Rosneft and Rosatom will have to show if they can cope with that task. As for Russia's foreign policy and relation to Finland, one can be sure of one thing: in

the foreseeable Russia will not want to attack any other country, it will avoid conflict and it will limit its aspirations to the status of a regional power, not a global one. Here again, Putin's realism will most likely prevail over the rhetoric of isolationist Russian nationalists or defeatist Russian liberals.

As for Russia's enemies, they are not Putin's invention, they do exist and they will continue trying to sideline Russia on the world stage (making energy transit routes bypass Russia, scorning every attempt of Russia's business to become international, etc.). Russia's main defense against these enemies is that sidelining Russia is doomed to be a costly process because of this country's sheer size and its unavoidably European character.

Dr. Carolina Vendil Pallin, Head of the Russia Project (RUFS) at the Swedish Defence Research Agency (FOI):

The self-image of Russia's political leadership as portrayed in official speeches and documents is not necessarily identical to that of Russia's, but it can provide us with valuable insights into how the so-called "tandem" sees itself and its role in Russian history. Providing the tandem (or at least half of it) proves able to maintain its position at the pinnacles of Russian power, it gives us clues as to how Russian policy could be designed at least in the near future. There appears to be a difference, if perhaps only in rhetoric, between Dimitri Medvedev's image of Russia and that of Vladimir Putin – not least when it comes to how modernization should come about and the description of Russia's economy and society in 2009–2010. Nevertheless, it is important to keep in mind that many of the exhortations to fight corruption and diversify the economy were heard from Putin in his first presidential term. When it comes to security policy outlook, there is notably less difference between the two leaders. In fact, it could even be argued that Medvedev, in order to build his power base among the military and security elites, thinks himself compelled to use even tougher rhetoric than Putin. His rather crude statements in the wake of the suicide bombings in Moscow in late March 2010 could be an indication of such a mechanism at work.

The speeches and articles of Medvedev and Putin are interesting not only for what they tell us about how they view Russia, but also for what is avoided in them. Especially Medvedev's State of the Nation Address in November 2009 contains an intriguing potential tension that he does not comment upon. For example, when he talks of freedom of the individual and then goes on to address the 'national freedom' of Russia as fundamental values, it is not altogether clear how the two reinforce each other. Individual freedom would mean less control from above – something that the Kremlin perceives as detrimental to Russia's sovereignty and in-

ternational prestige. Indeed, Russia's political leaders have historically tended to increase the country's prestige and power at the expense of individual freedom; there are no signs of a sea change taking place in this respect in Russian politics. The same inherent tension is present in promoting equality and justice at the individual level and providing the 'Russian nation a worthy place in the system of international relations'.

The grand official speeches addressed are thus interesting to examine. However, there are also good reasons for looking into speeches targeted at specific domestic audiences and then not least to detect whether the image the surrounding world has of Russia's strategic goals and means to obtain these are in accordance with the promises and ambitions stated by the Kremlin to its elites. There could be a growing difference in perception between how Russia's actions and statements are interpreted abroad and at home. In at least two security policy questions this is obvious. At a speech in March 2010 directed to the top military leadership, Medvedev stated that Europe's response to Russia's initiative for a new European security architecture was the main indicator of how Russia should deal with the West in the future. The fact that Europe's response so far has been lukewarm at best did not deter Medvedev from attaching a considerable amount of prestige to this issue. Likewise, it is worth underlining that the Kremlin believes that its version of events preceding and during the war in Georgia was vindicated by what has transpired in international investigations. Moscow is furthermore convinced that the war constitutes proof that a new security treaty is needed in Europe – and appears baffled that the rest of Europe cannot see this as clearly.

All in all, this implicitly tells us something about how the political leadership perceives Russia's place in the world. But it also illustrates how, in the minds of Russian leaders, political power is tied to their ability to deliver international prestige and a sense of pride in Russia, its uniqueness and history – hence the prickliness about any attempts to criticise Soviet actions during the Second World War. In order to remain in the Kremlin, Russia's leaders believe it imperative to uphold Russia's status as a great power. It is a source of legitimacy that they cannot afford to ignore – especially at a time when their ability to deliver economic growth and political stability is less assured.

Ronald Grigor Suny, Charles Tilly Collegiate Professor of Social and Political History
Director, Eisenberg Institute for Historical Studies, The University of Michigan
Emeritus Professor of Political Science and History, The University of Chicago:

The chapter "Russia's self-image" is written a beautifully conceived and succinctly stated paper on questions that defy easy answers: the relationship between Putin and Medvedev; their relative influence; and the future of Russia. The ambivalence in the conclusions is right on target. Any declarative statement about the current and future state of Russia, as some journalists and American scholars have made (some are quoted in the paper), are based on pure speculation and may lead to wrong conclusions. The text lays out the difference in rhetoric and tone of Putin and Medvedev and demonstrates that there are significant differences. In some ways, though the text does not say this, they play the roles of "good cop" and "bad cop." But that is only part of their stagecraft.

In many ways Putin represents the more "Soviet" of the two. Medvedev is much younger and grew up in the last decades of Soviet power and shared some of the culture of the dissident fringes of Soviet society. He is clearly more "liberal," a word that contains too many meanings and is seen as quite negative in post-Soviet Russia. Both men are transitional figures, but Putin represents the first part of the transition – the move from Soviet understandings to more Western ones. This is necessary as much of Russian society still believes in the values of welfare, social justice, state intervention, and order (*poriadok*) that were prevalent in Soviet times. He represents the anti-Yeltsin and the anti-liberal hostility of the 1990s. He stands at a bridge linking the older culture and politics and the new.

Medvedev, on the other hand, looks to a different future. The key word here is "modernization," which can mean greater liberalization and democracy, but also may mean a commitment to the neo-liberal version of globalization. Both men have their factions and their supporters, and there is already a struggle between those groups. As the text points out, Putin has the firmer and stronger base of support. The hope for Russia is that the two can work together, for both contribute to the stability of Russian politics. But the ultimate goal seems, as the text concludes as well, still quite unknown and elusive.

Professor Richard Sakwa, University of Kent at Canterbury:

At the centre of contemporary debates about Russia's development and place in the world is the question of what sort of social system Russia represents. Since 1991 the idea of Russia becoming a traditional Weberian sovereign state has predominated, and this is enshrined in the 1993 constitution, yet two other images overlap and contend with this: the idea of Russia

as an 'empire', which as Münkler reminds us is a far more complex a social body than traditional colonialist representations would suggest;[9] and the amorphous notion of Russia as a civilisation. The concept of civilisation is both a concrete manifestation of a specific cultural trajectory, but it is also used as the normative standard of the contemporary international system.[10] When used in the latter sense the problem of difference becomes crucial, and is at the heart of the tension between Russia as a civilisation with its own proclaimed norms, and those standards asserted as the core of a universalistic agenda.[11] Contemporary Russia takes comfort in the view, probably misguided, that the world has now become 'post-western', allowing space for other civilisations to breathe and thrive.[12] We do not need to accept Huntington's notion of a 'clash of civilisations' to be aware that crossing the border into Russia, as people from Finland well know, represents a step into another world, with its own problems and concerns. Not better, not worse, but different; but the problem of conceptualising *difference* without falling into the trap of orientalising Russia still faces scholars in the west.

As the contributors to the collection *Russia's Self Image* make abundantly, Russia's developmental challenges are unique, and this is reflected today in the debate about 'modernisation'. This debate, while dealing with some fundamentally important issues, is ultimately less about development than it is about identity. Much of the post-cold war malaise is precisely derived from identity factors, in particular Russia's civilisational self-identification as a putative system enforcer as well as its implicit claim to equality as an autonomous sovereign power against existing hegemonic orders. In post-Soviet Eurasia the system-forming dynamic takes the form of attempts by Russia to become the ordering power with 'privileged interests', a process resisted by almost all of its neighbours. At the same time, 'identity' is not something waiting to be revealed, but contains ambiguities that may endure for centuries. As long as certain principles derived from international politics are seen by Russian elites as alien and imposed, they will remain instrumental and lifeless. The fundamental challenge thus is to 'domesticate' these principles and to make them a genuine *Russian* cause. Thus 'the international', including the debate about contemporary standards of modernity, in Russian thinking has been both constitutive of its civilisational identity while at the same time the source of

[9] Herfried Münkler, *Empires: The Logic of World Domination from Ancient Rome to the United States* (Cambridge, Polity, 2007).
[10] The dynamics of the latter are explored by Gerrit W. Gong, *The Standard of 'Civilization' in International Society* (Oxford, Oxford University Press, 1984).
[11] For an excellent discussion, see Andrei P. Tsygankov, 'Self and Other in International Relations Theory: Learning from Russian Civilisational Debates', *International Studies Review*, Vol. 10, Issue 4, December 2008, pp. 762-75.
[12] See Andrei P. Tsygankov, 'Russia in the Post-Western World: The End of the Normalization Paradigm?', *Post-Soviet Affairs*, Vol. 25, No. 4, 2009, pp. 347-69.

systemic conflict. This double-sided appreciation of the international remains predominant in Russian thinking and policy today, and shapes its interactions with the world at large.

The new publication of the Committee for the Future of the Finnish Parliament tackles with the problem of Russia's future development. This endeavour deserves not only high respect and appreciation, but also a close attention and analysis. Because Finnish "eastern policy", Finnish approach to Russia in the bilateral format, as well as in multilateral format of the EU-Russia relations proves to be one of the most balanced, effective and – if it is at all applicable to the topic – *'comfortable' for both nations*, i.e. allowing for, in spite of difficult historical heritage, preserving self-dignity and self-respect.

Dr. Irina Kobrinskaya, Leading Research Fellow, IMEMO (Institute of World Economy and International Relations), Russian Academy of Science:

Finnish expert and political community closely follows developments in Russian domestic, economic and foreign policy and demonstrates deep insight.

It is true that most relevant for estimation of tendencies in dynamics of Russian self-image remain the postures – speeches, interviews, addresses – of Russian highest officials, currently, which is not typical for the country, 'ruling tandem' of President Dmitry Medvedev and Prime-minister Vladimir Putin. It is not by chance, that visible and covered differences in the postures of these two politicians draw the acute attention of the analysts and observers, who foresee that these are the key factors that will define Russia's foreseeable future.

Still, there are other factors, which are to be taken into account in increasing extent in the analysis of Russia's self-image. These factors have to do, firstly, with the domestic policy, national specifics and recent past. Secondly – this is the outward environment, both close and distant. Thirdly – these are the factors that were enhanced by the financial-economic crisis.

In the domestic sphere, Russia seems to turn into a normal European country. Its citizens appreciate stability, predictability of tomorrow, social and economic guarantees. Regarding this last point Russians become less and less paternalistic society, there are few who believe in the state guarantees. What we see – due to the corruption, weakness of the law system and chaos of the 90-ies – is an alienation of the people from the state. In a way, a pro pos, the last crisis did not aggravate this trend, because, in spite of worst expectations (with the fresh memories of the crisis of 1998), in 2008-2009 the government tried to escape the financial shocks (a slow and not deep devaluation of ruble, for example) and supported the enterprises to prevent high unemployment. The crisis made Russians even more focused on stability. But not by any price. As there are no illusions regarding omnipotence of the ruling tandem, which during the

crisis it lost its 'teflon' cover, people are ready for strikes, but not in the name of the regime change, but stability. Russians want to be 'normal'.

'Normalcy' basically means a turn to conservatism. Paradoxically, the world expert debates on the ways-out of the crisis to a large extent concern the *philosophy* of the global and national anti-crisis solutions. As many cursed liberalism as a cause of the crisis the eyes turned to conservatism – and instead of both we see the deficit of ideology in the current situation. This deficit may be abused by the proponents of the marginal and extremist views. In this respect Russia *remains in the mainstream*, adhering more to conservative values, but – due to the problems in the Northern Caucasus etc., terrorist threat – more vulnerable to its extremist margins, like xenophobia. Pragmatism, nourished as a principal philosophy during the presidency of V. Putin is not enough for the new positioning of Russia inside the country and abroad.

Thus, one of the interesting points in Russia's self-image and self-perception is a combination of conservatism with the acceptance of the vital need for modernization, as is correctly stressed in Future Committee's Russia's self image chapter.

But is it a real contradiction? Does innovation in conditions of Russia necessarily needs liberal ideological basis? Most Russians would agree with the need for innovation and modernization, without which Russia would not be a *'normal'* country. But the same majority would hardly agree that liberalism is relevant for Russia state-building in the foreseeable future. Russia with the whole Euro-Atlantic community is in search of a constructive ideology for the transforming global order. Russia wants to be in the mainstream, among the leading nations. But great-powerness is no more a slogan, which makes the nation to agree to be a *pariah*.

The outward environment becomes for average Russian more and more a world with which he/she are connected in their everyday – business, education, vacation – life. 'Abroad' becomes a *normal* environment. Russians are keen on the Western reaction, but criticism of the West does not play any more a key role in Russians' self-perception. What Russians want – are to be perceived as a normal European country, because only in this way their self-perception will be safely rooted.

1.4. Modernisation in Russian History[13]

Modernisation is the new political slogan for Medvedev's Russia and is closely linked to ideas of innovation. The United Russia party, the ruling political party in Russia today, talks

[13] This chapter has been co-authored with Dr.Jeremy Smith, University of Birmigham, CREES, UK

about "conservative modernisation" as the way forward for Russia. Those opposing the current leadership or the United Russia party, talk about "liberal modernisation". Russians are unanimous about the fact that modernisation is needed but there does unity ends; there is no clear idea of what would be the best way to modernise, what are in fact the expected goals and what are the costs that are acceptable. The Russian self-image that is presented especially in the President's and Prime Minister's speeches includes a "modern Russia", but one that is often still referred to in the future tense, as a target. Modernisation has also been taken up in the Western world as a strategy which represents a way forward for Russia. Some doubt whether the concept has any realistic chances of success, others think that it is the right way to approach Russia's current problems.

Modernisation can be seen as equivalent to a reform process. For Russians the concept has deep historical roots. President Medvedev has also highlighted the historical role of modernisation, pinpointing in particular two periods in Russian history that can be seen as modernisation eras: the times of Peter the Great and the era following the Bolshevik Revolution, although he points out that in both cases modernisation was pursued at too great a human cost.[14] Examination of the history of these and other efforts at modernisation in Russia can shed some light on the challenges facing Russia today if the pursuit of modernisation is to materialise into more than just a rhetorical point.

Josif Stalin's stark statement on the tasks facing the Soviet Union at the beginning of the 1930s summed up, for him, the historic nature of Russia's difficulties: '*We are fifty or a hundred years behind the advanced countries. We must make good this distance in ten years. Either we do it or they will crush us'*. In the same speech, delivered to a group of industrial managers, Stalin put this task in a broader historical context: *'One feature of the history of old Russia was the continual beatings she suffered because of her backwardness. She was beaten by the Mongol khans. She was beaten by the Turkish beys. She was beaten by the Swedish feudal lords. She was beaten by the Polish and Lithuanian gentry. She was beaten by the British and French capitalists. She was beaten by the Japanese barons. All beat her - because of her backwardness, because of her military backwardness, cultural backwardness, political backwardness, industrial backwardness, agricultural backwardness.'*[15]

[14] Dmitri Medvedev, 'Rossiya Vpered', Presidential Website, 10th September 2009, http://news.kremlin.ru/transcripts/5413

[15] Iosif Stalin, speech on 'The tasks of economic executives', February 4th 1931.

Intentionally or not, Stalin had highlighted one of the chief motivations which had led a number of his predecessors as ruler of Russia to embark on reform programmes: Russian military defeats that showed her weaknesses and backwardness compared to those defeating her. The military incursions and diplomatic manoeuvring of the Polish and Swedish monarchs at the beginning of the seventeenth century had led to Russia's Time of Troubles, which ended with the election of the first Romanov tsar Mikhail but also saw a transformation of the social and political order. Serfdom was fully institutionalised and the state centralised, while the old Boyar families were shunted aside in favour of a more dynamic land-owning nobility which owed their position directly to the tsar's patronage and returned the favour by providing him with state service. At the end of the same century, Peter the Great's initial military defeat at Narva against Sweden was followed in short order by his efforts to overhaul the state, economic and military structures with a degree of success that led to him reversing earlier losses and the resounding triumph over Sweden at Poltava in 1709. Alexander II's programme of great reforms was linked directly by the tsar himself to Russia's defeat in the Crimean War in 1856.

Half a century later and the humiliation of the Russo-Japanese war led many among Russia's intellectual and wealthy classes to consider the need for constitutional reform well before the upheavals of the 1905 revolution persuaded even the reluctant tsar Nicholas II to consider political reform in the form of the October Manifesto. A decade on, Russian losses against German and Austrian forces in the first two years of the First World War were largely responsible for the evaporation of support for the tsarist regime, which was finally pushed over the edge by demonstrations, strikes and mutinies in St Petersburg in February 1917. Finally, the Soviet Union's military humiliation in Afghanistan and the prospect of losing ground in the Cold War were among the factors leading to another round of reforms, initially within the parameters of the communist system under the leadership of Mikhail Gorbachev, and then as a transition to capitalism after 1991. As for the current time Russia has waged two wars in Chechnya and it is still involved in the war on terrorism, and on top of that fought the five day war with Georgia in August 2008. All of these military campaigns, even the more successful ones, keep highlighting the Russia's weaknesses and the elements of 'backwardness' in the country. Russian military capabilities have always been behind those of the "West". Today Russia still bases its military capabilities on traditional industrial era troops without the sophisticated high-technology back-up that characterises Western ground forces, while lacking all together the capacity to engage in information warfare that characterises much of the war on Terror. It is also noteworthy factor that Russia's current leadership is approaching the issue

of modernisation as if the problems being faced by Russia constitute an enemy, waving the flag for national unity and individual effort while deploying elements of war propaganda and conducting state affairs in a manner that is often required in times of war.

As a concept, modernisation is necessarily comparative – two different techniques, territories, ideas, beliefs or cultures can be compared with each other and the relative 'modernity' of one against the other established by reference to two criteria: firstly, which of the two has a more recent provenance – the literal meaning of modern. But secondly, implicit in everyday understandings of modernisation is that the more modern process is in some way superior – perhaps aesthetically, or more likely in terms of efficiency and effectiveness. Given this understanding, ideal situations for assessing the relative historical modernisation of states or countries are presented in times of war. In each of the cases mentioned above, Russia was not defeated because it was overwhelmed by larger forces, or because the enemy had access to greater material resources. Instead it is manifest that Russia suffered from inferior military hardware and poor communications, and was further hampered by less effective structures and command personnel, and in many cases by a relative lack of commitment on the part of both combatant troops and the general population. It does not require a great leap of the imagination to link these deficiencies to broader economic and social development, and to postulate that Russia's failure to keep up with its rivals in these spheres accounts for its military failures.

So even if we avoid Stalin's term 'backward', modernization in the context of Russian history can generally be understood as a set of measures designed to close the gap between Russia and her competitors in economic, organizational, social and cultural terms, a gap which was most obviously exposed and measured in times of war or the threat of war. Certainly this would seem to fit the pattern of three of Russia's rulers most associated with widespread reform: Peter the Great, Alexander II, and Stalin. 'Reformer' is not a term generally applied to Stalin, but his transformation of Soviet society can be viewed as a more radical and more brutal variant of the reform programmes of his predecessors. Stalin did not employ the term modernisation himself (indeed it hardly entered the lexicon of Marxism at all[16]), but the quotation above was not the only statement which explicitly linked his programme with the need to catch up with the West. In fact Stalin was acting with more foresight than either Alexander or Peter – the only military defeat suffered by the Soviet regime was against Poland in 1920, at the end of a Civil War which the Bolsheviks had won but which left the country and her

[16] R.W.Davies 'The "Modernisation of the Soviet Economy in the Inter-War Years' in Markku Kangaspuro and Jeremy Smith (eds) *Modernisation in Russia since 1900* (Helsinki: Finnish Literarture Society, 2006), p.71.

army exhausted. But the threat of war in the near future was clear to Stalin, and his motivation in this sense can be seen as similar to that of Peter and Alexander, who had direct experience of serious military defeat.

While modernization can be seen in these terms of catching up with rivals, this is not the same as imitation. Stalin's planned economy ultimately owed some its inspiration to the model of 'state capitalism' observed in the Great Powers in the course of World War I. Germany, in particular, had centralized the organization of the state and took up a direct role in industrial production, a process which had been studied in some depth by Bolshevik economists led by Nikolai Buhkarin. But the Soviet Union could not simply imitate wartime Germany, in large part because it remained an overwhelmingly peasant country. Stalin's programme, for better or for worse, was genuinely revolutionary and went far beyond anything that had been seen in history before. The big problem with Stalin's reforms was that it was made with enormous human suffering and the methods that Stalin used to push through his ideas, created a national consciousness filled with suspicion, envy, fear and apathy. These are facts that still haunt Russia today.

The reforms of Alexander II owed even less to western models. Throughout most of Europe serfdom had declined from the Middle Ages and legislation outlawing it was in most cases simply giving a legal form to a process that had already been completed. Emancipating over 20 million Russian peasants through a single decree in 1861 was a unique act. Alexander's military reforms built on the idea of national service common in Europe (although first entertained in Russia by Peter the Great) but involved generally longer terms of service and a different system of reserves.

The notion of modernization resting on imitation of western models is most clearly associated with Peter the Great. Peter embarked in 1697 on his Great Embassy to the German lands, the Netherlands, Britain and Austria with the express aim of learning lessons which could be applied to his own regime, as well as conducting diplomatic negotiations. The most obvious manifestations of Peter's desire to emulate the West can be seen in the introduction of western styles of dress and hairdo, use of the French language at court, Italian architectural styles imposed on the new capital of St Petersburg, and the employment of a host of foreigners in leading positions in the armed forces and administration. But his actual reform programme is less obviously characterized as imitatory. The Table of Ranks drew inspiration from Swedish models but was adapted to Russian conditions and served a unique task of breaking the complacency of the Russian noble estates. In fact the obvious adoption of western styles of dress

and architecture were largely symbolic and aimed at sending a clear message to those who served him rather than being efforts to turn Russia into a West European country. Aspects of his military and educational programmes went beyond anything that could be found elsewhere in Europe at that time. In sum, modernisation in Russian history relied on the adaptation of foreign models but not on their unthinking imitation. This became particularly clear when the assumption that economic reform in the 1990s could best be achieved by the wholesale adoption of a particular kind of western capitalism proved so alien to Russian culture that it arguably caused more harm than good. The more successful elements of modernisation, like the Table of Ranks, rested on adaptations of Western models. As a general proposition about how Western models can be deployed in Russia, the same could be said in the contemporary era about democracy – that if it is to be a success, it needs to be adapted.

That Russia's rulers rarely engaged in direct imitation becomes even more clear when we consider another group of reformers: Ivan the Terrible, Catherine the Great, and Nikita Khrushchev. All three ruled at times of relative prosperity for Russia. Ivan's brutal subjugation of the boyars and intimidation of the population and his ruthless centralization of the state did aid him in winning wars against Livonia and Kazan, but these were wars of his own making and which served to expand Muscovite territory. Catherine embarked on the most rapid territorial expansion in Russia's history, while her reforms had most lasting impact on the cultural sphere and laid the foundations for the golden age of Russian literature. Khrushchev took over a country that had recently defeated Hitler and was about to beat the Americans in putting a man into space. In other words, all three were in power at a time of, or shortly after, notable military successes. Consideration of this group of reformers leads us to question the assumption that perceptions of Russian backwardness were always what inspired modernization efforts. By the nineteenth century, other great empires (the Ottoman, Swedish, Habsburg and Spanish) were already suffering a steep decline in their power and fortunes. In fact, following Napoleon's defeats in 1812 and 1815, only Great Britain could be said to outstrip Russia as either an Imperial or an economic power, with the Russian Empire making up in size for what it lacked over other rivals in terms of economic productivity. This remained the case until the 1870s when a unified Germany presented Russia with a new Great Power uncomfortably close to its western borders, at the same time as the United States, purged of its self-destructive differences in the aftermath of the Civil War, established an economic rival just across the Bering straits. Meanwhile Japan was emerging as a significant economic and military force in the Far East. But in the middle of the 19th century these rivals did not exist and it and the general proposition that Russia was a backwards Empire in comparison to most other

great empires was not at all obvious. The Crimean War exposed deficiencies that had to be addressed, but military and other reforms were deemed necessary precisely because Russia's elites still regarded Russia as one of the leading powers in the world.

Some of Russia's economic and military disadvantages were geographic in nature rather than down to some form of backwardness. This becomes most obvious when comparing Russia's geography with that of the United States. The USA was rather well served by a series of interconnecting waterways and an abundance of usable port locations. Russia, by contrast, had major waterways which went nowhere or at least away from the more populated and industrialised centres, and lacked effective natural ports in the West in particular. The resulting transport deficiencies had to be compensated for by massive and expensive road, canal, and railway networks.[17]

In the case of the first group of reformers – Peter, Alexander II, and Stalin, we can see that obvious military deficiencies in comparison to nearby rivals were a paramount concern and driver of modernization. With the second group – Ivan, Catherine, and Khrushchev, the situation was different, and reform was being enacted from a position of strength. Of all of Russia's rulers up to 1985, only Stalin was explicit in acknowledging Russian backwardness, and even he was not consistent in this. At other times, he was lavish in his praise of the achievements of Imperial Russia and this became the main tenor of official Soviet history. After all, Russia did have a great past to boast of. For most of its history, in fact, Russia could appear to insiders and outsiders alike as making remarkable progress in terms of raw power. Russian forces inflicted fatal blows on the Mongols, and eventually conquered their Tatar heirs in Kazan and the Crimea. Even at the most perilous times for Russia in the Time of Troubles, she managed in the end to hold off the great central and northern European powers of the time, Poland and Sweden, and within forty years was beginning to acquire territory off both. While Russian victories over both Napoleon and Hitler, who had each subjugated most of Europe, owed much to the climate and over-ambition, the fact is that they were achieved. And even as Russia went through its greatest crisis of Revolution and Civil War from 1917-1920 it did not succumb to a hostile (albeit half-hearted) encirclement on the part of all the global major powers. Overall, then, the picture of Russia in a constant state of backwardness, as most starkly revealed in military defeats, needs to be treated with some caution, and other motives for modernisation were surely also present.

[17] Lauren Goodrich and Peter Zeihan, 'The Financial Crisis and the Six Pillars of Russian Strength, Stratford Global Intelligence Analysis', March 3rd 2009.

Russia's other radical reformer in the modern period, Mikhail Gorbachev, is difficult to place in either category. While there were clear signs that the Soviet economy was stagnating by 1985, that the Soviet Union had lost its ideological drive, and its citizenry were in a destitute state compared with those of the other great powers, there were no signs that it was in imminent danger of collapse. In the view of many historians Gorbachev's reforms were unnecessary and self-defeating if the Soviet Union was to retain its great power status.[18] It was only after Gorbachev initiated his reform programme that the economy spiralled out of control, ethnic tensions were unleashed, and the Soviet Union lost its grip on its external empire. While the Cold War may have been reignited by Ronald Reagan, it was still in a state of stalemate and the Soviet Union was neither facing military defeat nor entering a period of renewed greatness.

Another feature of Gorbachev's reforms that distinguishes him from other modernizers in Russian History is that he was ultimately prepared to radically transform the political system and to introduce pluralism into decision-making. It is often held that for all of the regular efforts of Russia's leaders to modernize economically and militarily, these efforts were hampered by continued refusal to modernize politically, particularly as the nineteenth century progressed and other European monarchies lost most of their power or disappeared altogether. It is true that up until 1985 no Russian leader was prepared to contemplate abandoning absolutism or its soviet equivalent. But this does not mean that other forms of political reform were not pursued. Ivan totally transformed the nature of the Muscovite state, from a quarrelling disorganised state to one of the more centralized and autocratic states of the time. Peter and Catherine both changed the system of state service which was integral to the relationship between the Emperor and his nobles. Peter instigated a Senate, while Catherine the Great's *Nakaz* instructed a legislative commission to completely overhaul the basis of the Russian legal system. Alexander II may have refused requests to form any kind of representative body at the national level, but did introduce the elective principle locally in the rural *zemstva* and the municipal councils. Khrushchev restored the Communist Party to its role in politics in place of the highly centralized cabal that had ruled under Stalin, and then went on to reorganize it into industrial and agrarian branches. The wisdom or lasting success of these changes may be questionable, but they do give the lie to the notion that Russia was never ready to modernize politically, the question was only how and from what to what.

[18] Ronald Grigor Suny, *The Soviet Experiment* (Oxford: Oxford University Press, 1997).

Why was absolutism off limits for Russian modernizers then? In part it was down to the ideological adherence to the doctrine of the tsars' divinely assigned duty, or of the Communist Party's leading role in world revolution. But this was also an expression of the peculiar nature of modernization in Russia. The decline of serfdom and the growth of capitalism were processes which occurred over a long period of time in most of Europe and were carried out at the initiative of nobles and entrepreneurs. They happened in spite of, and often in opposition to, the monarch. In Russia this did not take place, and it was the state which had to take care of these processes itself. Modernisation in Russia therefore presented a fundamental paradox: a strong state was needed to carry out reform, and yet itself proved an obstacle to deeper reform. This paradox is perhaps best illustrated by the reign of Alexander III, usually characterized as a 'reactionary', but it was under his rule and as a clear result of government policy, under the leadership of Sergei Witte, that Russian industry really took off and its railway network spread across the country for the first time.[19] The fact that the state played such a central role in modernization was also a source of weakness, contributing in no small part to the economic and political crises of the early twentieth century. On the other hand, Gorbachev's rule proved the dangers inherent in any weakening of central controls at a time of radical reform.

In general throughout Russian history the state has taken on the key role in modernization by default. There is an argument to be made that the failure of Russia to produce an independent progressive nobility, a bourgeoisie, or in more recent times an active civil society can be blamed directly on the oppressive nature of the autocracy. But there may also be deeper structural and cultural factors at work. It has been argued that such forces were developing at the time of the semi-constitutional experiment of 1906-1914 which was cut off by the First World War, but an equal number of historians have used this period as evidence for Russia's incapability of conducting politics along western lines.

None of this is to say that Russia was not historically backward or that most reform projects can not be interpreted as a form of modernisation. But it is important to put this concept in some kind of context. From the point of view of Russia's rulers, reform was never seen as absolutely essential to survival (with the possible exception of Stalin in the 1930s). Indeed, the supreme arrogance stemming from the conviction of Russia's divinely ordained place in history, most ably illustrated by Nicholas II, or the parallel internationalism of the Bolsheviks, have been a source of destructive over-confidence. Russia's reforming rulers rarely had rea-

[19] The significance of this is indicated by the title of Hans Rogger's history, *Russia in the Age of Modernisation and Revolution, 1881-1917* (London: Longman, 1983)

son to suppose that their Empire was absolutely backwards. The impulses for modernization were mostly internal, not derived from Great Power envy. Modernisation in Russia has rarely involved slavish imitation of western models, and indeed most of Russia's most successful innovations (not to mention cultural achievements) derived from original concepts or from radical adaptations of foreign practices. Finally, the state's overbearing role was inevitable in Russian conditions, which is not to say that this feature was not a source of weakness.

The top-down nature of modernisation in Russian history presents a further paradox which is of relevance to today's efforts at modernisation. In the absence of entrepreneurial or civil society forces working from below, the Russian state has had to rely on particular strata for the implementation of modernising reforms: in tsarist Russia - the nobility, and in the Soviet Union - the bureaucracy of the CPSU and Soviet system. The paradox is that, since the seventeenth century and early 1930s respectively, these groups became the repository of vested interests and inevitably became a conservative force opposed to wholesale reform. If Medvedev is sincere about the modernisation drive, he will need to find a way of overcoming the natural conservatism of both the ruling elites and the oligarchs. Assuming that the strategies employed by his tsarist and Soviet predecessors – Alexander II's massive pay-off to the nobility and Stalin's Great Purges – are not available to him, the only option to hand may be to appeal to forces from below - the strategy that backfired so spectacularly for Mikhail Gorbachev.

Moreover, modernisation in the modern world poses fundamentally different tasks. No longer is international competitiveness measured by numbers, training, leadership and quality of weaponry on the battlefield. As Nikolai Zlobin has argued in the Moscow Times regarding today's Russia: *"Modernisation is a highly complex process of making the country competitive in the global community. It entails creating an attractive model of national development that could become an example for others to emulate. Real modernization would mean staging a "revolution" of sorts against Russia's own backwardness. It would involve a real sacrifice that the country must consciously make for the sake of a modern, developed and prosperous Russia in the future. A "modernization revolution" cannot be executed from the top-down through force or tyranny in a Stalin-like manner. If modernization is, in fact, attainable in Russia, it can only be done through individual innovation and initiative*."[20]

20 Nikolai Zlobin: " Russia, Stuck in the Mud of Backwardness", *Moscow Times,* December 11, 2009

Medvedev's Russia today faces very similar problems to those of the Russian leaders of the 19th century. Russian society is not fully free but it is not fully controlled. Inequality and nationalism are sources of unrest. The war on terrorism has been anything but a success. As in Alexander III's Russia the secret service is growing, and even if president Medvedev seems to be cleaning up Russia's police forces the whole process is littered with more obstacles than signs of success. Some economical advantages do exist. President Medvedev and prime minister Putin are determined that Russia needs some kind of a reform, which has been labelled as modernisation. In the light of the Russian historical discourses of modernisation, the tandem power of Russia is repeating some of the mistakes of the past; they are pushing the modernisation programme from above down using the stick much more than the carrot. When addressing the concept of modernisation one inevitably confronts the question: Will Russia ever really change? Much depends on whether the processes of globalisation will in the end have such a strong influence that the individual will and sense of responsibility will eventually grow in Russia through Russians demanding a society where the rule of law is working. More than ever before, modernisation in Russia depends on such an attitude shift. It also depends on the mobilisation, by one means or another, of a political or social force that has an interest and enthusiasm for modernising reform. Should this shift be made, the historical record suggests that modernisation in Russia may not be a hopeless exercise. The fact that Russia's rulers appear, finally, to recognise that dependence on energy exports presents long term risks suggests that the political will for modernisation exists at the very top. The recent 1990s provide the most stark reminder that imitation of the West is not necessarily the best way to catch up with it, but there are plenty of other examples of how adaptation of western models to local circumstances can achieve results.

History is full of examples of turning points in historical development: church and state have been divided into two entities, landowners have requested a counterbalance to the king etc. For Russia to change it needs to experience such a turning point in order to create an independent and strong judiciary, free media and government that will be selected by popular vote. Medvedev's modernisation initiatives have not yet shown sufficient signs that he will sincerely to tackle these issues.

1.5. Institutions, corruption and "legal nihilism"

Trust is an important thing when building a civil society and democracy. The practice during the Soviet era was that the communist party was omniscient, and there was no place for individual opinions in those days. Voting and political or institutional organisation separately

from the state and the party was "a waste of time". Russian society still lacks the most important building material between civil society and the state – institutions that can be trusted. Soviet politics was horizontal – a constant contest between different elite groups, institutions and interests to determine who would get the biggest portion of state power, wealth and prestige.[21]Authoritarian, totalitarian or traditional monarchy is generally seen as a power vertical. There was talk of a power vertical also in Putin's Russia. That did not correspond at all to the real picture of Russia. It conveyed an image of a strong Russia, which is ruled with a firm hand. Many, however, hinted during Putin's presidency that the worst power in Russia is small power and not always the regulations coming from the highest echelon. Administration by the Kremlin and the president provided a frame of reference within which to move, but how to act within it and how to try to shape the regulations to suit oneself remained in the hands of "small" power. The tables below reveal that, although some changes have taken place, (1993-2007-09), citizens' level of trust in, e.g., courts, the police and political parties is still low. Trust in the media likewise remains low. The army has lost its trust as an institution, whereas trust in churches was even astonishingly great in 2009, although there is no comparison figure for 1993 here.

The Russians' faith in Institutions 1993[22]

Institution	*I trust%*	*I don't trust%*
Political parties	7	93
Supreme Soviet	20	80
Local administration	21	79
Trade unions	24	76
Police/"milis"	27	73
The President (Yeltsin)	33	67
Television	36	64
The security service (old KGB)	38	62
Courts	40	60
The army	62	38

21 Richard Rose, "Rethinking Civil Society: Postcommunism and the problem of trust", *Journal of Democracy Vol. 5, No. 3 July 1994, pp.*18 - 30, p.21
[22] Ibid.

The Russians' faith in institutions 2007-29 [23]

Institution	*I trust %*	*Partly %*	*Don't trust %*	*Can't say %*
The government	42	35	17	
The Duma(2009)	21	32	36	11
Regional leaders (2009)	35	26	26	13
United Russia party (2009)	46	23	22	9
The army (2007)	26		22	
The media (2007)	13			22
The Orthodox Church (2007)	41		6	
The security service (2007)	15		16	
The Procuratorate (2007)	10		31	
Courts (2007)	10		34	
Police/"Milis" (2007)	8		49	

In the state-building process since the disintegration of the Soviet Union, less attention has been devoted to the authority building. After all, the concentration in Russia was first on preventing, by all means possible, the return of the so-called old power then formalising a frame of reference for democracy, and from this has followed state measures to, as it were, restore order. What has been overlooked in the state-building process is the societal trust and responsibility that are essential from the perspective of a democratic development. Rules, be they good or bad, do not work if there are no implementers and trust is lacking. The same goes for good ideas – ideas are one thing and their implementation is another. President Medvedev has highlighted the matter: "*We are talking of modernisation of our entire existence. ….. We have tried many recipes, worked with various organisational and legal modes, created new laws and discussed how they function. But once again it has to be said, if it is put frankly, that so far we have not achieved any significant modernisation (innovation) in normal everyday life. We are not creating a foundation for an innovation economy, even though we have high-quality research and splendid ideas. Unfortunately, there is still a major gap in thinking on*

[23] http://bd.fom.ru/pdf/d52inst_vl.pdf, http://bd.fom.ru/pdf/d49edros.pdf (2009), http://bd.fom.ru/report/cat/power/pow_rei/d071901 (2007), the institution of the presidency in Russia is absolutely the one that is trusted least. In opinion polls, however, the president's administration was personified before 2008 by Putin and after that by both Medvedev and Putin as the country's leader. Support ranges from 60 to 80% depending on the question and the person.

modernisation (innovation) between research/ideas and their commercialisation and there is likewise a gap between concept and practice"[24].

Medvedev was speaking about modernisation and innovation, but at the same time touched on the fact that there is room for improvement in the way things are implemented in Russia. A theoretical and rational model suggests that predefined objectives and a state of affairs lead to rational actions and proceed step-by-step. However, the French expert on Russia and researcher Marie Mendras disagrees. "On the level of rhetoric, President Putin sought rational actions to strengthen his power, but in reality he resorted to maintaining an atmosphere of uncertainty and various kinds of 'horse-trading' (bargaining)"[25].

In their speeches, both Putin, during his time in the presidency, and President Medvedev have often named the bureaucracy and civil servants as a group that are slowing down the development and onward advance of Russia. Putin analysed the bureaucracy as follows in 2003: "The Russian bureaucracy still has great power even today. However, the amount of power is still not proportional to the quality of power. I stress that the source of this power is in the pointless actions of state bodies. At the same time as the number of officials is large, the country has a shortage of workers. On all levels of power there is a dearth of modern, competent and efficient professionals. That is the background to why precisely administrative reform is of such central importance in our country."26 For Putin, bureaucracy was one totality, a concept that could be made a scapegoat for Russia's slow development and problems. Perhaps the matter is so, but if it is looked at another way: "Bureaucracy is an idea, a concept, it is not one coherent totality. Operational methods vary from one institution to another, even greatly. The way one chinovnik (official) does things may be a lot different from the methods of his colleague in the next room."27 Then cutting out the so-called problem of "bureaucracy" is considerably more difficult. Indeed, President Medvedev has approached the matter in a more nuanced way and more broadly. He has, for example, said: "Taking bribes, stealing, mental and spiritual

[24] Speech at a meeting between leading administrative officials and representatives of the science community, President Medvedev, 15 December 2009, Russian Academy of Sciences.
[25] Marie Mendras, "Authority and Identity in Russia", http://soc.kuleuven.be/iieb/ibl/docs_ibl/WP24-Mendras.pdf
[26] State of the nation speech, Vladimir Putin, 2003
[27] Marie Mendras, "Authority and Identity in Russia", http://soc.kuleuven.be/iieb/ibl/docs_ibl/WP24-Mendras.pdf

laziness and drunkenness are, by contrast, vices that offend our traditions. We must free ourselves from them most determinedly".28

Corruption – a key part of Russia?

According to President Medvedev, one of the main scourges of modern Russia is corruption. It is also in an important position from the perspective of his key objective, modernisation. Indeed, he has said that corrupt officials run Russia: "They have power. Corruption is systematic and it has long historical roots. We should find a way to squeeze corruption out of our society. The struggle will not be easy, but it is important. I do not believe that results will be achieved in one or two years, but it is a realistic goal to strive for a good result in 15 years."29

Corruption as a problem in modernisation of society, the economy and politics is nothing new in Russia. Vladimir Putin, just elected as President, said in 2000: "'Legal nihilism is waxing and the people's trust in the state authorities and justice is waning. The struggle against organised crime and corruption must be a priority. These forms of crime squander the resources of our economy, cast administration in a bad light and weaken Russia's international position".30 "Legal nihilism" is a term that Putin used and President Medvedev has used more than once. Why is corruption so difficult to get rid of or at least lessen in Russia despite the efforts and inputs of the highest leadership? What is the "legal nihilism" against which the struggle to combat corruption is aimed?

According to an annual survey done by PriceWaterHouse Coopers31, as many as 71% of the companies that responded to the questionnaire in Russia had been a victim of a crime. 64% of companies had experienced misuse of funds and embezzlement and 48% had suffered from bribery and corruption. The Corruption Perception Index 2009 drafted by Transparency International in 2009 ranked Russia 146th among 177 countries. According to the Russian Ministry of the Interior, the level of bribery in 2009 was 250% higher than in the previous year and according to the Moscow-based INDEM Foundation, the amount given in bribes in Russia each year is $318 billion. These statistics do not make Russia look enticing as a country in which to invest or do business. At the same time, however, Russia has a strong desire to present itself as a country with which business can be done, where it is worth investing and where the state authorities are dedicated to the struggle against corruption. There is a lot of

[28] Dmitri Medvedev, "Forward Russia"
[29] David Hearst, "Dmitry Medvedev announces "vision" to clean up Russian corruption", Guardian, 15 September 2009
[30] RFERL – Analysis: "Can Medvedev Find A "systemic Solution" to Corruption?", Robert Coalson, 23 May 2008.
[31] PriceWaterHaouse Coopers: "Economic crime downturn – the 5th Global Economic Survey on Russia 2009".

talk, but measures are contradictory: nearly the first thing that President Medvedev did after assuming office was to sign a package of new anti-corruption laws, which have given rise also to concrete measures. The number of cases investigated as corruption has grown since the package of laws was approved.32 At the same time, however, on the international level for example, Russia prevented the emergence of a common UN anti-corruption convention in November 2009.The convention would have allowed an independent review mechanism, which would have examined compliance by member states. The convention would also have made provision for active participation by NGOs and a public discussion based on the results.33 A compromise was reached on the convention, but in practice the participation of NGOs and a public discussion are at each country's own discretion. Reviews will be carried out every five years and only if the country in question consents to this. 125 countries would have been willing to sign the first version of the convention. Jelena Panfilovan, the head of Transparency International in Russia, asked a question that was on the minds of many who want to believe what her country's leadership is saying about the battle against corruption: "Why is the involvement of civil society and its opportunities to examine the extent of corruption and corrupt officials in Russia perceived as a threat to our sovereignty?"34

According to Transparency International, corruption is "the abuse of entrusted power for private gain. There are three parties associated with corruption: a person in a position of responsibility, those who have bestowed responsibility on someone as well as gifts"35 In Russian anti-corruption legislation, gifts are not yet included in corruption offences. In addition to this, Russian legislation does not yet include courts of law and oversight institutions within its scope. Indeed, in the light of this information, the sincerity of the top Russian state leadership in the struggle against corruption can be called into question.

In everyday Russian thinking, corruption is founded on coping, practical calling into question and whether the interest of the state is the same as that of the individual and a total vote of no-confidence in the state by society. President Medvedev and Prime Minister Putin are both right in saying that the power of the rubber stamp is excessive in Russia, corruption one of the worst scourges afflicting the country and an impediment to more extensive international co-operation, but at the same time they have made the struggle against corruption a "campaign to restore discipline", of the kind of which Russia has seen many in the course of its history.

[32] Carol M. Welu and Yevgenya Muchnik, "Corruption: Russia's Economic Stumbling Block – American and European anti-corruption laws could help solve a longtime problem in Russia", BusinessWeek, 27 August 2009
[33] Maria Selivanova, "Russia pretends to flight corruption", RIA Novasti – Opinion and analysis, 18.11.2009
[34] Maria Selivanova, "Russia pretends to flight corruption", RIA Novasti – Opinion and analysis, 18.11.2009
[35] http://www.transparency.fi/Documents/tietoa_korruptiosta/mita_korruptio_on

Indeed, what is becoming the biggest challenge facing the Russian leadership is how to get the ordinary Russian to believe that the interest of the state is also the interest of the citizen.

The sincerity of the struggle against corruption can be called into question through statistics and practical measures and what must be asked at the same time is what then is the campaign against corruption and the concept "legal nihilism" that President Medvedev and Prime Minister Putin are so vigorously waging?

"Legal nihilism"

President Dmitri Medvedev highlighted the concept in a speech dealing with the state of the nation in 2008: "I would point out that 'legal nihilism' is not a new concept in Russia, but rather something that has deep roots in the Russian past. 15 years is too short a time to get rid of such a deeply entrenched tradition". Vladimir Putin also highlighted "legal nihilism" during his first term as president.

"Legal nihilism is a concept that is also of Russian origin.36 According to a Russian definition, it is a negative attitude to justice, laws and order as well as a disbelief in law as a social value. According to Professor N.I. Matuzov, the various forms in which "legal nihilism" manifests itself are: deliberately breaking the law, citizens failing to avail themselves of the possible rights that the law brings, juridical practices that are contrary to the law in force being publicised, open confrontation with representatives of the system, human rights violations and theoretical scientific writings and discourses. Professor V.A. Tumanov sees two forms of manifestation of "legal nihilism": active and passive. The active form does not see the usefulness of the law, regards it as a slowing agent and impediment and therefore actively violates it. In administration and among officials unlawful deeds become actions that are above the law. In the passive form, the attitude is an indifferent one, in which value is not accorded to the opportunities that the law guarantees. 37 These definitions are a help in unveiling a picture of corruption and especially legal thinking in Russia.

The law is not respected and is regarded more as an accessory in a game than as a bringer of order. It is also felt to be something that slows down dynamic action rather than guaranteeing it. At the same time, it would appear that disrespect for the law is equitable with, for example, voting in elections. Those who take the view that nobody in Russia is worth voting for, who

[36] Russian Правовой (*или юридический*) нигилизм, eng. Legal nihilism, Swedish. Juridisk nihilism or legal nihilism

37 "Правовой нигилизм: понятие и формы. Пути преодоления", http://rudiplom.ru/lekcii/pravo/teoriapig/41.html

protest against those in power, or have lost their faith in the public authorities, do not vote. The same could be said of those who especially do not want to use the law as a guarantor of their own rights, believe everyday life goes better following an unofficial route than the official one and do not regard the public authorities as a totality that thinks of the best interest of the people. "Legal nihilism" is a way of expressing a protest against the existing system and those who hold the reins of power. Is this what President Medvedev and Prime Minister Putin are getting at when they talk of the problem of "legal nihilism" in Russia?

In his article "Corruption in Russia: A Historical Perspective", Manabu Suhara lists historical reasons why "legal nihilism" and corruption are so deeply rooted in Russia. In his view, the law has never enjoyed trust among the people, because it has been the rulers' way of trying to control them. Already in the days of Kiev Rus, the *kormlenie* system taught the people that by paying the regional leader things will get done and if one neglects to make a payment, things will go badly. The livelihood of many a regional leader depended on how he was "paid". The judicial system was used more to restore discipline than to dispense justice. That is why a sense of justice and obedience to the law do not coincide in Russia. Often in a Russian context, indeed, moral thinking goes above the law. Criminal law is the area that has grown disproportionately compared with civil law. Criminal law has simply been a way of exercising control. The same tradition continued in the Soviet Union. The law and the judicial system were for punishment, not "justice". For example, in the Soviet Union in 1985 there were 15 judges for civil cases in the Supreme Court, whereas there were 73 dealing with criminal cases. "Legal nihilism" during the Soviet era was the use of the law as an instrument of power. The law was seen as a channel through which one could present one's own views and thoughts on morality and justice[38] The concept of "legal nihilism" notwithstanding, James L Gibson notes in his article "Russian attitudes towards the rule of Law: An Analysis of Survey Data" that in opinion polls conducted in Russia in 1996, 1998 and 2000 on the theme of thinking on the law, there were no major differences compared with equivalent surveys in, e.g. Hungary and France, but compared with attitudes towards the law in the United States, the difference was already greater. In the opinion poll people were asked about their attitudes to various legal concepts as well as to statements about the rights of the public authorities. In this respect, when the survey is adjusted relative to polls on the theme of the Russians' trust in the judicial system, a contradictory picture of the nature of Russian thinking on

38 James L Gibson citing P.H.Solomon in "Russian attitudes towards the rule of Law: An Analysis of Survey Data" in Denis James Galligan, and Marina Kurkchiyan, "Law and informal practices: the post-communist experience", p. 77, pp. 77-92, Oxford University Press, 2003

justice emerges. It would appear that once again principles and practice do not coincide in the Russian reality; legality and justice are two different concepts. In this respect, "legal nihilism" is in operation precisely in the case of the principle of legality, but is an unusable concept when one reflects on Russian thinking on justice. *"Justice symbolises everything that a person can accomplish independently, without the framework that the state or the law defines"*[39].

A suspicious attitude to the law in Russia has always been great. It can also be associated with criticism of the state authorities that transcends ideological boundaries in society. In Russian history the two different groups that in the 19th century pondered different future paths for Russia were the Slavophiles and the *zapadnikis*, or Western-minded. Both groups contained figures who often placed moral principles above the law. V. Tumanov lists famous names among the Russian intelligentsia in whose writings moral principles took precedence over obedience to the law: A. Herzen, P. Lavrov, M. Bakunin, L. Tolstoi, F. Dostoevsky and N.Berdiaev. Tumanov also includes Alexander Solzhenitsyn in the same category.[40]

Dostoevsky wrote this about law reform in 1864: "The class that calls itself liberal is using the new legal system to destroy Russian civilisation from within and is trying to achieve what many foreigners have tried, but failed to do."[41] Tolstoy's approach to the law was that "every crime is punishable and every punishment imposed by a court is a crime."[42]

From what, then, does the suspicious attitude that Russian philosophers, writers and thinkers has taken to the law and the judicial system spring? It is not easy to find an answer to this question. One explanation might be found in the Russian Orthodox Church and its doctrines. The church has always, with the exception of the Soviet era, had a key role in Russian society, but it has not been separate from state power43. However, it has been an institution for which people in Russia have had trust. Also in the 2007 opinion poll, the church did well. This can be seen as being part of the reason why the Russian political culture as well as the legal culture have developed in very different directions compared with the western European counterparts. Russian legal thinking also contains a lot of European foundation, especially through the Rechtsstaat concept, in which the state has a central role.

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[39] P.14
[40] V.A. Tumanov, "Pravovoe nigilizm v istoriko-ideologicheskom rakust", *Gosudarstvo I Pravo*, 8, 1993
[41] Gary Rosenshield, "Western law, Russian Justice: Dostoevsky, The Jury Trial and the Law ", 2005, University of Wisconsin Press, p.181
42Michael Newcity, "Why Is There No Russian Atticus Finch? Or Even a Russian Rumpole?", Texas Wesleyan Law Review, vol.12, pp.271 -302 p. 286, 2005
[43] Viz. Newcity and Nysten-Haarala

Rechtsstaat is a concept of German origin. Anglo-Saxon legal thinking developed alongside it at the same time, in the 19th century. Central to it was the principle that even the highest leaders of state and overseers of legality could not by legal means change or adapt the fundamental principles of the law.44 In North American legal thinking the Anglo-Saxon tradition was further developed in the direction of constitutionalism and federalism. The foundation in these ways of thinking was the so-called checks and balances concept. Even an individual person could challenge the legal basis and there would be many sources of law. All of these are western rule-of-law principles with slightly different nuances. In Russia's case, there has been no comparable development; instead, it has had to import principles and practices from elsewhere, something that has prompted suspicions in many and also led to a situation in which Russian lawyers were not always trained to apply the law "legally".

From these historical roots, the law is seen as an instrument of the state authorities and at the same time an alien un-Russian tradition, the "legal nihilism" concept has developed in Russia. And at the same time "legal nihilism" reveals a bigger shortcoming in the development of the Russian state and building its future – a lack of social contract, trust between the state and citizens.

2. Future prospects for the Russian economy[45]

2.1. Assessments of economic development in Russia in the near future

In its forecast for the period 2010-12 published in March 2010 the Russia Desk of the Bank of Finland's Institute for Economies in Transition (BOFIT) describes the most recent development of the Russian economy as follows (BOFIT 2010):

The Russian economy, which had been growing rapidly for the past decade, came to a sudden stop in 2009. A fall in the prices of oil and many other raw materials, difficulty in obtaining finance and general uncertainty led to an 8% decline in aggregate output. There was an especially sharp decline in capital formation, because investment fell by nearly 20% from the previous year's level. The volume of exports fell by about 5% and imports by 30% compared with the previous year. In addition, adjustment of inventories made a considerable contribution to the collapse of aggregate output as companies reduced their stocks that had swollen in earlier years. Private consumption contracted very strongly last year as income development

[44] Soili Nysten-Haarala, "Russian Law in Transition", Kikimora Publications, 2001, p. 14
[45] Mainly written by Osmo Kuusi

weakened, credit approvals contracted and unemployment grew. In addition, general uncertainty boosted the level of household saving. Nevertheless, unemployment grew less than had been feared, and real household incomes did not decline last year even though growth remained very modest compared with earlier years.

BOFIT (2010) predicted that the Russian economy would recover quite soon because, among other reasons, Russian households are on average fairly little indebted. This will support a rapid recovery of consumption. The need for companies to supplement their inventories will also increase growth. Above all, BOFIT forecast that the high price of oil will be a key engine of growth. However, BOFIT expected growth in investment to be very moderate. According to the institute, it is only in 2011-12 that investment will get under way again.

According to BOFIT (2010), signs of recovery were already visible in Russian exports in late 2009. As recently as the early part of the year there had still been a contraction of nearly 15%, but the latter half saw export volumes for especially natural gas, coal and metals beginning to grow again. Imports of capital goods and consumer durables in particular contracted in 2009. BOFIT forecast that imports, spurred by a pick-up in consumption demand, will begin growing this year. A slight strengthening of the rouble will boost demand for imports. Its real exchange rate is now on nearly the same level as before its weakening in early 2009. BOFIT forecast that imports will grow clearly more vigorously than exports. This would change the influence of foreign trade on growth to a negative one in 2010-11.

In 2009 the Russian Federation's budget went into deficit for the first time in ten years. Overall revenues were nominally 25% lower than in 2008, whereas expenditure exceeded the 2008 level by 28%. The budget deficit was 6% of GDP. Most of it was financed out of a reserve fund built up from oil and gas tax receipts. According to BOFIT (2010), 1,830 billion roubles (€42 billion) remained in the reserve fund at the end of 2009. Another of the state's buffer funds – the National Welfare Fund – contained 2,800 billion roubles (€64 billion) at the end of the year. The cash in this fund is intended to cover the shortfall in the pension fund.

BOFIT (2010) forecast Russia's annual GDP growth rate in 2010-12 to be about 5%. This is based on a perception that the oil price will rise slowly but constantly. Another basic assumption in the forecast is that world trade will return to a course of growth, which supports the view that consumption of raw materials and energy and thereby demand for Russia's main export products will grow. However, a new disturbance in financial markets would be immediately reflected in Russian companies' opportunities to secure loans and would markedly

slow down implementation of investments and economic growth. According to BOFIT (2010), however, also positive surprises are possible. Robust growth in South-East Asia and especially China may drive demand for raw materials and boost prices to higher-than-forecast levels. It is possible that many investment plans that had been put on the back burner in Russia as a result of the crisis may be activated sooner than anticipated if confidence in future prospects strengthens and lenders' willingness to take risks grows.

The BOFIT (2010) forecast for the next few years can be compared with and complemented by the survey of the Russian economy that the World Bank published in March 2010 (Russian Economic Report 2010). The latter arrived at nearly the same conclusions with respect to GDP growth over the next few years; economic growth is forecast to be 5%-5.5% in 2010. The forecast for 2011 is 3.5%. As in the BOFIT forecast, this is based first and foremost on an assumption that there will be a pick-up in domestic demand.

The report forecasts that the price of a barrel of oil will be around $76 in 2010 and 2011. The key assumption on which this is based is the OPEC countries' aim of keeping the price within the range $70-80 by regulating the supply. However, pressures conducive to price fluctuations are being created by the efforts of non-OPEC countries to increase their production. These countries are, alongside Russia, Brazil, Columbia, the countries around the Caspian Sea and the United States with respect to its Gulf of Mexico production.

Unemployment growth of only a couple of percent in 2009 in association with an 8% drop in output was, based on a comparison made by the World Bank, clearly less than could have been expected in the light of experience in the other Eastern European and Central Asian countries (Russian Economic Report 2010). Partly also for this reason, the World Bank review estimated that economic growth over the next few years is unlikely to improve employment in Russia substantially. The position of migrant labour from former Soviet republics and Russia's southern states is becoming especially problematic. These workers, who have gone to Russia mainly illegally thanks to visa-free travel, have suffered most from the economic slump. Nevertheless, their work input would seem to be very necessary in Russia with its dwindling population, as is noted in the next chapter. The importance of the migrants to their home countries is reflected by the fact that in 2008 cash remittances sent by them from Russia accounted for about 50% of GDP in Tajikistan, about 30% in Moldova and about 25% in Kyrgyzstan.

2.2. The Russian state leadership's measures in handling the economic recession

In the various stages of the recession, the Russian state leadership has had a fairly good picture of how the country's economy is developing. Its short-term stimulus measures have likewise succeeded rather well. The estimate presented by Putin in late September 2009 to the effect that Russian GDP would decline by about 8% in 2009 proved correct (Putin 2009, 1). Russia's large gold and foreign currency reserves have served well as buffers against the recession. They fell to about $384 billion at the beginning of March 2009, but again began growing and stood at $413 billion on 25.9.2009. Russia's national debt as a share of GDP has remained very low and was only about 10% in September 2009. Foreign debt represented only 3.6% of GDP. In this respect, Russia's situation was, according to Putin, quite different from what it had been in 1998, when the country had to resort to borrowing from the IMF and the World Bank (Putin 2009, 1). As already noted, the unemployment rate has remained, despite a sharp contraction of GDP, fairly well under control compared with many other countries.

Putin stressed in a speech in autumn 2009 that Russia had implemented some stimulus measures that were pretty justified from the macroeconomic perspective. One of these was raising the basic employment pension by 30% on 1.12.2009. Planned for 2010 is a hike of as much as 46% in state pensions. The state is funding this to the tune of a trillion roubles or $30 billion. Since pensioners mainly consume products that are manufactured in Russia, this will, in Putin's assessment, substantially boost the economy (Putin 2009, 2). Also in the view of the World Bank, Russia has succeeded especially well in this respect in dealing with the recession (Russian Economic Report 2010).

Alongside pensions, increasing the minimum wage from 2,300 to 4,330 roubles in January 2009 avoided an increase in poverty. According to the World Bank's assessment, the poor's share of the population would have been 17.4% at the end of 2009 without the stimulus measures. Through these measures the government managed to reduce this share to 14% at the end of 2009. The percentage forecast in the report for 2010 is 12.5. Thus the proportion of the population in poverty would be the same as it was before the economic crisis.

Measures to stimulate consumption have been targeted at housing construction as well. Major problems of the financial economy in Russia have been an annual inflation rate of around 10% (12% in 2009) and very high rates of interest, ca. 14-15% (Putin 2009,1). In addition, loans have mainly been granted with only short amortisation periods. The rare few institutions that have granted long-term consumer loans have been the National Welfare Fund and also

Vnesheconombank, which promotes pension saving. Mainly through the latter, the state will fund long-term housing credits to the tune of 250 billion roubles at interest rates of 10-11% in 2010 (Putin 2009, 2)

A third scheme to boost consumption was a 50,000 rouble subsidy for replacing a car over ten years old with one manufactured in Russia (Putin 2009, 2).

It appears on the basis of speeches that additional inputs or at least modernisation programmes are being focused on the wellbeing sector, i.e. education and health care. 2008 saw the launch, on Medvedev's initiative, of the Our New School programme, which is intended to modernise the schools system with respect to its equipment and teaching objectives. One of the concrete objectives is to give every school a broadband connection (Medvedev 2009, 2). 2010 has also been proclaimed the Year of the Teacher, with the special aim of making inputs into the content of teachers' work. The demographic development also reflects the fact that progress has been achieved in the wellbeing sector and indeed in the circumstances of an economic crisis. The birth rate in January-September 2009 was 3.7% up on the corresponding period of the previous year and the death rate was down 4.2%. Life expectancy in Russia has risen to 69 years and the decline in population has ceased (Putin 2009, 2).

2.3. The Russian state leadership's future-related policies and scenarios for the future of Russia

The economic development of Russia over the next few years will depend centrally on how the energy and raw materials sectors develop. Their long-term development prospects are examined in chapter 6.5. However, what will be decisive from the perspective of the Russian economy in the long run is how it succeeds in sectors other than production of energy and raw materials. Also Russia's societal development will depend on reform of the country's economic structures. Good success as an exporter of energy and raw materials will not automatically lead to a societally good development. There are plenty of examples of this to be found, especially in Africa. Nigeria's oil has probably done more to weaken rather than improve the position of the majority of people in the country. Russia's success in the energy and raw materials sector as well as opportunities for the country's modernisation were core questions in the scenarios outlined in the Russia 2017 report. The possible futures for Russia were summed up in the report in the form of three scenarios, which are described in table 1.

Table 1.The three scenarios in the Russia 2017 report

Economic development Societal development	Energy export capacity +, diversification ("Resurrection")	Energy export capacity -, diversification ("Modernism")	Energy export capacity same or less, no diversification ("Natural Resource Curse/Decay")
Planned diversification of economy and development from managed democracy into true democracy	1 INFLUENTIAL GLOBAL PLAYER THROUGH ENERGY-RELATED COMPETENCE		
Society of middle class and networks, tolerant constitutional state		2. DIVERSIFYING MOSAIC RUSSIA	
Elite with power secures its own power. Not a constitutional state			3. POWER ELITE'S RUSSIA

Russia's good economic success as a producer of energy and raw materials (energy export capacity + or unchanged in the table) was combined into two scenarios. In the scenario INFLUENTIAL GLOBAL PLAYER THROUGH ENERGY-RELATED COMPETENCE a high level of competence in the energy sector and the funds obtained by selling energy are used to diversify the economy and determinedly implement social reforms. However, money that is obtained easily from rising prices for energy and raw materials can lead to the power elite concentrating on preserving its privileges. Instead of reforming the economy, their efforts will be concentrated on justifying their right to power with the aid of nationalist rhetoric and on power struggles within the elite. This gloomy alternative was called the POWER ELITE'S RUSSIA scenario. A weakening of energy export capacity and especially a fall in the world market price of energy was predicted to create pressures to reform and diversify the economy "from below" and rely on foreign investment, i.e. to lead to the development envisaged in the DIVERSIFYING MOSAIC RUSSIA scenario. However, there is also the alternative of a POWER ELITE'S RUSSIA implemented in a particularly aggressive form if, even in circumstances of growing scarcity, the elite strives to preserve its privileges.

In this report, the three scenarios are complemented with a fourth: A RUSSIA OF CONTRACTS. The fundamental idea in this scenario is to grapple with the very complex and difficult problem of Russia's development, a problem that can be spoken of in a moralising tone as corruption, but which has in various stages of Russian history been of very major importance for the survival of the population. A non-moralising way of speaking of the same phenomenon is to call it Russia's informal economy. That is the approach that Kosonen and Parviainen adopt in their article published in this report. Nevertheless it is quite obvious that in spite of its many good features and those that have made survival easier in especially difficult times, the "informal economy" or "corruption" is now the most important obstacle to Russia's modernisation. A Finnish expert who knows Russia well summed up the difficulty as follows during a visit to the Committee for the Future:

> *Corruption in Russia is so widespread that it is no longer a problem that gnaws at the system; it is itself the system. Tackling it will be extremely difficult and it has a congealing effect on implementation of even the best ideas in the reform policy.*

Kosonen and Parviainen present an excellent analysis of the fundamental reasons why finding a solution to the problem of corruption in Russia is extremely difficult. They sum up the informal economy's great significance for the Russian business environment as follows (Kosonen and Parviainen 2010):

> *Characteristic features of the Russian business environment are a variety of informal and grey-economy practices such as barter, paternalistic relationships between employer and employees as well as corruption. It is important to note that informal economic activity manifests itself in a different way in Russia than in Finland. In western countries, the informal economy comprises all illegal and legal economic activities that take place outside the regulations and norms set by the public authorities. In Russia, by contrast, various instances in the state administration have a major significance as upholders of informal practices both deliberately and unwittingly.*

With regard to understanding the nature of the "informal economy" or "corruption", it is essential to grasp the great importance that the practices it involves play from the perspective of how citizens have coped in their everyday lives in the various stages of Russian history. To quote Kosonen and Parvianen (2010), during the era of socialism, loopholes in the planned economy were resolved informally, in the difficult circumstances of the 1990s, production

was maintained with the aid of informal networks, against a background of economic growth in the 21st century they disappeared almost entirely, and in 2008 they reared their head again as a response to the global economic crisis.

Kosonen and Parviainen (2010) forecast that the importance of the informal economy in Russia in 2030 will depend on the general economic situation. If Russia and the Russians are in economic difficulties, the informal economy will flourish. If, on the other hand, the economic situation is stable, its importance will be less, but in their assessment still substantial.

In the A RUSSIA OF CONTRACTS scenario presented in Part II chapter 1.2 activities will be focused especially on two practices that have sustained and in recent times even strengthened "corruption" or the "informal economy" in Russia.

One of the practices feeding corruption stems from a conflict between the practices that are accepted in reality and the legislation formally in force. A comparable contradiction in Finnish history was that between prohibition and widespread acceptance by citizens of illegal importation of alcohol. Legislation must correspond to generally accepted practices or the result will be circumvention of the law and corruption. In Russia, the contradiction between legislation and accepted practices has been so clear in the case of business that in practice virtually every company can in one way or another be interpreted as having broken the law, with perhaps the exception of a few foreign-owned companies that scrupulously comply with legislation. This has created excellent opportunities for bribes or other arbitrary exercise of power on the part of authorities conducting inspections in companies. The following quotation in Kososen et al. (2008, p.64) about Russians working for Finnish companies is very perspicacious from the perspective of the operation of this mechanism:

> *Finally, when the inspectors came, they immediately asked: "10,000 roubles from the firm or 5,000 from you?" I replied that preferably from me, because otherwise I would show the Finns that I didn't know my job. It is really difficult to prove to foreigners that no matter how I did everything right, the inspectors will find something anyway and impose a fine.*

For it to be possible to avoid that kind of arbitrariness, laws must be made such that they can really be sensibly complied with and opportunities for authorities to interpret them arbitrarily are decisively reduced. Authorities who make arbitrary interpretations should also be made legally accountable for their actions. This would seem to be more important than to look for those who have been given bribes. There appear to be too many of them.

Another key operational model to be associated with the scenario is strict adherence to written contracts. It is the letter of a contract that is decisive, not the power of the contractual partners or their relations with administrative authorities or the courts system. In a legitimately functioning state, compliance with the law can be interpreted as a social contract between the state and its citizens. Contracts between citizens or companies are in a comparable position in a civil society. Quoting Vinogradova (2006), Kosonen and Parviainen point out that company-to-company business has suffered from a lack of trust throughout the post-socialist transitional period owing to corruption, slowness and lack of resources in the institutions that support contracts as well as a general absence of predictability with regard to legality and legislation.

In the following we examine how President Medvedev and Prime Minister Putin have emphasised a development in accordance with the Russia 2017 report's scenarios in their speeches and how, when speaking about the economy, they have adopted a stance on a development as outlined in the new A RUSSIA OF CONTRACTS scenario.

In their speeches both Medvedev and Putin have strongly stressed the importance of diversifying the Russian economy through competence-based production. Opinions are divided on the question of whether in order to diversify export production it is essential to radically lessen obstacles to foreign investment in Russia or whether modernisation of the economy will be done according to what Liuhto (2008) calls the economic nationalism operational model. Economic nationalism, which is examined in chapter 6.4, grew strongly in the final years of Putin's presidential term. Some degree of mitigation of it has been observable since 2009. President Medvedev's proposals concerning a dismantling of state-owned companies over the long term can be interpreted as this.

The operational model that economists call "catching-up" is highlighted in chapter 6.4. as an alternative to economic nationalism. According to it, differences in productivity levels between countries narrow when undeveloped countries copy/adopt the operational models and technologies that have worked for more developed countries. The differences become smaller, because copying is easier than developing new things. The problem with the model is that foreign production can utilise a country's favourable natural resources and cheap labour without a real transfer of know-how taking place. That has often happened when a national elite benefits, as a wielder of state power or recipient of bribes, from cheap production. Many examples of this can be found in, for example, African countries that have valuable natural resources.

Economic nationalism as a way of building a competence-based economy is equated with the first scenario in the Russia 2017 report and catching-up with the second scenario. Generally speaking, it can be concluded that Medvedev is more for opening up the economy and Putin more for relying on Russia's own strengths. Medvedev's starting point is centred more around individuals than is Putin's. The latter speaks more of Russia's success. Medvedev's individual-centred perspective is reflected in the five values that he spelled out in 2008 as the foundation on which the society and the economy should be reformed (Medvedev 2008):

- *Fairness, which means political equality, honest courts of law and responsible leaders*
- *Personal freedom, which means freedom to engage in economic activities, freedom of speech, freedom of religion as well as the right to choose one's place of residence and job. It (or the prerequisites for it?) includes also the freedom of the Russian state.*
- *Wellbeing and respect for human life. This means peace between nationalities, unity formed by different nationalities and protection of minor nationalities. South Ossetia and Abkhazia are mentioned as examples of this.*
- *Family values, such as looking after the old and children*
- *Patriotism, which includes an honest and critical examination of one's own history and an anything but ideal assessment of the present as well as faith that Russia will cope in all kinds of circumstances. Patriotism is a profound love of one's home country and Russia's magnificent culture.*

Although there is also a national dimension associated with values 2 and 5, a demand, which can be linked to genuine collectivism, that the individual must be prepared, if necessary, to sacrifice himself for the good of the nation, is hardly discernible in the theses. Medvedev emphasises how important it is to foster citizens that have initiative and are innovative. He refers repeatedly to young people as an opportunity to rejuvenate Russia and regards reform of the educational system as especially important for this reason. Medvedev especially emphasises a free Internet and free digital television channels (Medvedev 2008). 4G mobile phone networks must be expanded to everywhere in the country, all of which must be covered by a communications network using efficient optical cables (Medvedev 2009, 1). New, innovative small companies clearly enjoy Medvedev's favour. He underscores the importance of business parks as supporters of small and medium enterprises. His dreams have included a "Russian Silicon Valley" close to the universities based in Moscow.

Looked at from the perspective of an innovation researcher, Medvedev's ideas about high-tech production in Russia seem in part very utopian. His wish list has included, alongside nanotechnology, pharmaceuticals, energy and information technology, development of the space and telecommunications sector and radically improving energy efficiency (Medvedev 2009, 1).

The challenges are really major in the sectors in which Russia does not have strong traditions, such as nanotechnology and the pharmaceuticals market. I shall examine the state-owned nanotechnology company Rusnano in a separate chapter as an example of the high-tech challenges with which Russia must contend. Where the technologically very demanding pharmaceuticals industry is concerned, Russia's chances of succeeding without strong participation by foreign actors look mainly like wishful thinking. In Finland, Sitra (the Finnish Innovation Fund) discovered to its cost in the 21st century how difficult it is to succeed in this sector. If, however, success is achieved in enticing researchers in this field with Russian backgrounds back to Russia, opportunities might nevertheless exist.

In 2004 by far the largest group of researchers in Germany with foreign backgrounds were Russians. There were about 2,200 of them, or about twice as many as those with a US background (Finken 2006). [46]

In the 1990s some 1-2 thousand Russian researchers each year moved permanently abroad. In 2002 the number was only 600. That year, just under half of them settled in Europe: Germany (19%), France (6.5%), the UK (4.6%) and Sweden (3.2%), with 9.1% going elsewhere in Europe. The majority, 67%, were natural scientists and 70% had PhDs. Physicists and biologists were especially prominent among the migrating scientists. The number of Russians studying abroad was about 26,000 the same year. What was problematic from Russia's point of view was that, at least in the early years of the 21st century, their willingness to return home after they had completed their studies was slight. Only 18-25% said they wanted to go back (Nekipelova et al. 2004)[47]

Improving the efficiency of energy use is undoubtedly one of the fundamental challenges that Russia faces. In this respect, the idea that Medvedev has put forward, that metering be used to ensure that citizens pay only for what they consume, is important. However, more straight-

[46] Finken, Holger (2006) Russian-German Cooperation in Academic Mobility,_*www.palmenia.helsinki.fi/congress/eurus2006*

[47] Nekipelova, Elena, Lyudmila Ledeneva (2004) Contemporary Forms of Highly Skilled Migration of Russians: Labor Migration of Scientists and Mobility of Students, Center for Science Research and Statistics, Russian Academy of Sciences

forward measures, including more effective thermal insulation in buildings, might bring greater benefits in the economic sense (Medvedev 2009, 1).

Especially emphasised in the speeches that Putin made in 2009 is development of large Russian companies. In the spirit of economic nationalism that will be examined later, Putin systematically divides companies into important and less-important categories. He says (2009, 2): "We must purge our economy of hopelessly old-fashioned and wasteful production facilities and recognise the genuinely competitive core of the real sector of our economy. We already have that core … Monopolies in the infrastructure sector and large state-owned companies must adopt programmes by means of which they will attain an international level in efficiency and transparency, which prevents corruption".

First on Putin's wish list of inputs are the companies that are important from the perspective of the above-mentioned system and their modernisation. The second thing that he mentions is stimulation of high-tech exports, the third is housing construction and the fourth the domestic automotive industry. The Russian government is supporting renewal of old industry through substantial subsidies to help companies export. The lion's share of the 400 billion roubles ($10 billion) in subsidies to high-tech industry in 2009 went to large state-dominated sectors. Investment in civilian space technology totalled 100 billion roubles, in the nuclear power industry 96 billion and in the aircraft industry 22 billion. Orders from the defence industry are sui generis "as a subsidy". The amount of orders agreed for 2010 is 1,175 billion roubles, which is an increase of 8.4% on the previous year. On the infrastructure side, 324 billion roubles of federal money is being invested in road building in 2010. In addition to gas pipelines, an oil pipeline between eastern Siberia and Asia is being inaugurated in the early part of 2010 (Putin 2009, 1).

The South Korean cheabols examined in chapter 6.4. demonstrate that a large conglomerate can develop into the likes of Samsung, which can be counted among the world's most innovative companies. The question is ultimately whether there is a real will behind talk about modernisation. Where Medvedev is concerned, there would appear to be, but in Putin's case there are strong suspicions about especially his "power vertical" bureaucratic group of supporters and the leaders of state-owned companies who are ossified in outmoded authoritarian operational models. Putin's supporters seem to include many of those who are benefiting from Russia's present extensive "informal economy" and the "side-earnings" that it generates. The strong role that the military plays in companies is also problematic from the perspective of developing innovations.

Something that must be accepted is that reforming the operational methods that companies and institutions practise may be painfully slow and that it is sometimes more purposeful to establish a new institution/company rather than trying to reform an old one. South Korea's experiences in the 1960s demonstrate, however, that also a corrupt company can gradually evolve into a force for renewal in the economy. In this sense, a cynical attitude should not be taken to the dialogue with big Russian companies that President Medvedev initiated in February 2010 with the aim of launching innovative projects.

And what about Medvedev's and Putin's utterances with a bearing on the A RUSSIA OF CONTRACTS scenario? The main emphasis in what Medvedev has said about countering corruption has been on developing Russia's judicial system and legislation. However, what he has said on the theme has been fairly much in the realm of principle. He has stated that the laws regulating the actions of customs officials, Ministry of the Interior personnel, the prosecution service, the Federal Security Service (FSS), administrative courts and general courts of law are in the process of being revised (Medvedev 2008).

Putin has been more concrete. The Russian government has launched measures that show something really tangible is being done with regard to corruption in the economic sector. At the moment, 78% of the goods sold in Russia require obligatory certification. The percentage is only 15 in the EU. What is involved in Russia is fairly obviously one way of extracting cash from companies without reason. There have been companies in Russia that enjoy very good relations with the authorities and have arranged certificates for a fee. The list was reduced by 50% in late 2009 and the intention is to continue cutting it radically. The activities of companies that broker certificates have likewise been prohibited (Putin 2009, 1).

The decision concerning certification is concrete and will also have an impact if officialdom really begins putting it into effect. By contrast, another means proposed by Putin (2009, 1) is very questionable. According to him, the aim is to create a register containing data on citizens. With the aid of information technology, it would be possible, for example in the health care system, to access the necessary data without a new form having to be filled out every time. The fact that a project like that is not especially easy to implement is revealed by the stuttering progress of a similar scheme in Finland. One key problem in Finland has been that of ensuring privacy, which would probably not be a trivial problem in Russia, either.

By contrast, the transparency that Putin emphasises in other contexts seems very important from the perspective of eradicating the "informal economy". Improving transparency has been

acknowledged as important in, for example, the forest sector. When a harvested tree is automatically recorded in the memory of the harvesting machine the instant it is felled, it is very difficult to form "side streams of wood" in a large organisation to become the property of the bureaucrats working in it.

2.4. Two possible models for modernisation of the Russian economy

The challenge of modernisation and social reforms applies not only to Russia, but also to the overwhelming majority of the other countries in the world. A survey published by the OECD in 2009 contained an optimistic scenario of general modernisation in the world up to 2050 (OECD working paper ECO/WKP (2009)4[48]). The model calculation made describes a development in which the best economic practices spread to everywhere in the world and differences in productivity between countries decisively narrow. The calculation methods and key assumptions in sketching the scenario were the following:

GDP growth in different countries was calculated using the Cobb-Douglas production function, the components of which were total factor production, human and physical capital as well as amount of labour. The examination used two base years, 1995 and 2005. Estimates by country of the development of labour productivity (GDP/labour) and of the capital stock were made up to 2005. The amount of capital was calculated as accumulated investment figures. The development in investment and employment in 2006-08 was taken from the country-specific economic reviews prepared by the OECD Scenarios for four factors that determine growth were made for the period 2009-50: total factor productivity, the amount of human capital, the amount of physical capital and the amount of labour. It was assumed that total factor productivity would develop in line with the "catching-up" assumption in such a way that the countries down the scale would gradually reach the level of those now leading in the productivity stakes. The reasoning presented in support of this was that those now lagging behind would gradually adopt the more efficient technologies and operational methods of those now in the lead. The leading countries must constantly make greater inputs than those coming up behind them in order to stay ahead. This assumption that there is an advantage in being the one "skiing in the leader's wake" is decisive from the perspective of the realisticity of results.

[48] Romain Duval and Christine de la Maisonneuve (2009) Long-run GDP growth framework and scenarios for the world economy, February 2009

Human capital was interpreted as developing as a result of education in such a way that the earliest school years were assumed to be more productive than the later ones (i.e. third-level studies). A catching-up assumption was made also with respect to education; in other words, the years of education in various countries gradually converged on each other in the model calculation.

With respect to physical capital, the assumption was that the USA's capital/output ratio will stabilise at its present level. A catching-up assumption was made also with respect to the capital stock on the basis of free movement of capital globally. However, the degree of capital in other countries was interpreted as gradually approaching the USA's level, but in such a way that it would not reach this level until 2080, i.e. outside the 2009-50 period under review.

The UN's forecasts of demographic development up to 2050 were followed in forecasting the amount of labour. It was assumed that participation in the labour force would develop in such a way that work careers would lengthen in the most developed countries in proportion to increasing life expectancy, i.e. that the length of the retirement period relative to the number of years spent in working life would remain the same. With respect to their participation rate, the least-developed countries were forecast to gradually approach the most developed fifth of countries. The general unemployment rate was assumed to be 5%.

According to the calculation, world GDP in 2050 will be about 3.5 times what it is today. The fruits of economic growth would accrue especially to the world's least developed countries. According to the calculation, GDP growth in countries and groups of countries would develop as set forth in Table 2. Russia would shift economically more and more to the margins of the global economy especially due to its shrinking population. In the period after 2025 its economic growth would lag clearly behind the world average. Strong growth over the long term would take place in especially India and African countries ("rest of the world"), with their rapidly growing populations. By contrast, China's growth would slow down clearly as the increase in the working-age population that we have seen in recent years ground to a halt.

Measured in terms of GDP, the world's central countries in 2050 would be China, India and the USA and behind them by about twenty percent in terms of GDP at purchasing power parity the EU. Brazil and Japan would lag clearly behind them as the next-biggest economies. Russia's GDP in 2050 would be only a little over a tenth of India's. Based on the assumptions made, India's economy would be as much as about 15 times greater than it is today and China's 7 times. Measured in terms of economic activity as reflected by GDP, the EU's and

Russia's economies in 2050 would be about twice as big as they are today. The USA's economy would be about 2.5 times as big.

Table 2 Economic growth in different regions of the world 2000-50
Source: OECD ECO/WKP (2009)4

Table 2. Baseline economic scenario: main features[1]

(Average annual growth rates, PPPs US$)

	GDP per worker			GDP per capita			GDP		
	2000-2006	2006-2025	2025-2050	2000-2006	2006-2025	2025-2050	2000-2006	2006-2025	2025-2050
United States	1.7	1.7	1.6	1.6	1.6	1.6	2.6	2.4	2.2
Canada	0.7	2.0	1.7	1.6	1.9	1.6	2.6	2.7	2.1
Japan	1.7	1.9	1.9	1.5	1.7	1.5	1.6	1.5	0.8
China	8.6	6.4	3.7	9.0	6.1	3.3	9.7	6.6	3.2
India	5.0	5.2	4.6	5.6	6.3	5.1	7.3	7.6	5.6
Brazil	0.0	2.5	3.3	1.5	3.0	3.5	2.9	4.0	3.9
Russian Federation	5.4	3.8	2.5	6.7	4.0	2.5	6.2	3.4	1.8
Australia-New Zealand	0.9	2.0	1.7	1.9	2.0	1.6	3.1	2.9	2.1
EU27 + EFTA	1.1	2.1	1.8	1.7	2.3	1.8	2.1	2.4	1.7
OPEC + Other oil producers	1.9	2.3	3.7	2.9	3.0	4.2	4.8	4.4	5.0
Rest of the World	2.1	3.1	3.5	2.8	3.3	3.7	4.5	4.9	4.7
Total World	2.0	2.5	2.8	2.5	2.8	2.9	3.7	3.8	3.4
Total World in constant 2005 MERs US$		1.9	2.3		2.2	2.4		3.2	3.0

Owing to both the rather questionable assumptions with respect to the spread of technology/know-how and the challenge posed by ever-scarcer natural resources and climate change, it is very difficult to believe in the development sketched in the OECD report. There is hardly any basis to be found in the economic development that has taken place in recent decades to support the notion of a "catching-up" that would radically reduce the productivity differences that exist between the countries of the world. On the contrary, it can be assumed that the developed countries will begin more jealously protecting the technological know-how on which their living standard is founded and perhaps also the natural resources that they own in developing countries.

It would seem realistic to assume that only some developing countries –above all China and Brazil as well as a few others in South-East Asia and South America –will continue on a course of rapid growth or embark on one. At least for the next few decades, it can be assumed that most developing countries will only with difficulty be able to keep their economic growth at the same level as their population growth. In contrast to what is predicted in the OECD calculation, especially rapid population growth will probably bring with it a major risk of belonging to the spluttering economies in the future as well. For example in India, the states with the fastest population growth (including the most populous Uttar Pradesh and Bihar) have had less impressive growth in the 21st century than those with slower rates of population growth (such as Kerala, Tamil Nadu and Karnataka). Their development has been worse in

terms of both GDP per capita growth and measured according to the human development index (Arora 2007) [49]

It would seem pretty realistic at the moment to forecast that the world centres of economic power in 2050 will be the United States and China. The next level of influential actors will probably consist of the EU, Japan and Brazil and perhaps India. By allying themselves with each other and protecting their know-how, also the ageing EU and Japan could, nevertheless, become an influential actor on the level of the USA and China. Russia's ability to revitalise its economy will depend on whether it belongs in terms of influence to the second category. However, Russia's retaining the status of a great power is a really big challenge, because in 2009 in terms of PPP-adjusted GDP its economy was only the size of France's (CIA World Factbook 2010). Other candidates for the status of second-level great powers that could emerge include South Africa as the leading country in Africa.

Although there is no reason to believe in a catching-up development as in the OECD calculation, the possibility of it is interesting also from the perspective of Russia's economic development. Pekka Sutela has reflected on the advantages that "those who ski in the wake of the leaders" enjoy also with Russia in mind (Sutela 2009):

The difficulty of struggling on in the front rank explains why, for example, the European Union area is expected to grow at an annual average of one or two percentage points in future years. Of course, there are also other reasons for it: the efficiency of an economy and the high standard of living that follows from it seems to mean that people only want fewer children. Ageing of the population and, in many countries, its strong contraction make their own contribution to lessening opportunities for growth.

The second group of economies are inefficient. They function poorly, make outmoded products using backward technologies and bad operational methods. Corruption and thieving are more the rule than the exception. That is why they have a low standard of living, which is unequally divided. But these economies have the opportunity to exploit the advantages that those following in the wake of the leaders enjoy. They can embrace the already invented, tried and tested superior products, technologies and operational methods of more successful economies. By so doing they can grow rapidly on the strength of imitation, making use of the example that others have set …

[49] Arora, Rashmi Umesh (2007) Uttar Pradesh - lagging state of India: Economic development and role of banks, University of Auckland

Russia has also used the advantages that those who ski in the wake of the leaders enjoy in her stages of rapid growth. A hundred years ago it was a backwater, but one whose industry grew rapidly –on the strength of foreign technology, know-how and even ownership. The first five-year plans were likewise based in part on technology imports. The first modern Soviet tractors had the Fordson logo on their sides. The entire factory had been bought from the United States. After the Second World War, a considerable amount of machinery and equipment was brought – or, it could be said, plundered – from Eastern Europe to the Soviet Union. This included complete factories. The atomic bomb project likewise benefited from imported technology, this time by means of espionage.

When the Russians and others abandoned the Soviet socialism that they regarded as a hopeless cul-de-sac and began setting up a capitalist system, they did not need to invent the joint-stock corporate form, banks, insurance companies, cafés or mobile phones. They had already been invented and could in part be adopted completely free of charge, as a part of humankind's common know-how. In part they could be bought, and the Nokias, McDonalds and others of this world were ready to sell them for a reasonable consideration.

One possible opportunity to renew Russia is the "scenario of small renewing streams". In this scenario, modernisation would advance through a catching-up process without an active contribution on the part of the state leadership. Pekka Sutela (2010) has described this kind of development as follows:

> *A profound and powerful structural change has taken place in Russia in the past two decades. Above all it has meant the appearance on the market of all of the services that were entirely or almost entirely absent in the Soviet Union. Every time a Russian – and not just a Muscovite or a resident of St. Petersburg, but any Russian in most of the country – visits a café or a supermarket, he or she is benefiting from a structural change that is based on imitation. Imitation is involved also when an international car manufacturer sets up an assembly plant in the environs of St. Petersburg and starts looking for subcontractors that could be relied on. After all, the whole subcontractor chain didn't exist in the Soviet Union at all, i.e. that way of doing things.*

The key role of the structural change that leans heavily on services explains why most of the successful foreign investments in Russia, including many Finnish success stories, have ridden the crest of the structural change wave. The biggest success story of them all, a business worth a dozen billions, goes by the name of Baltika. What is involved is beer. In the Soviet

Union, of course, small amounts of a brown substance containing a mild amount of alcohol and called beer was on sale, but it was a far cry from genuine beer. The Finnish company Hartwall began brewing beer in Russia years ago by buying a brewery in St. Petersburg. The difficulties in the early days were of the kind that can be expected in the former Soviet Union. Where to get high-quality barley and especially hops? Who would make the bottles and labels? The Soviet brewery had made them itself, but Hartwall was used to using subcontractors. How would the product be delivered to customers, when there are no wholesalers and the roads are in poor condition, like the local trucks as well? But the problems were overcome, and Baltika is now the clear market leader throughout the territory of the former Soviet Union. Ownership of the business has been transferred abroad and has changed a couple of times, but yet the success story remains a Finnish one where its origin and the key actors in it are concerned.

The same applies to TeliaSonera, which controls one of Russia's three big telecoms operators. Here, too, it is a story of foreign technology and operational methods being imported. Large parts of the Soviet Union were beyond the coverage of landline phones. Now mobile networks reach nearly all population centres. The efficiency benefit compared with having had to try to build a genuinely nationwide landline phone network is enormous. The same goes for future opportunities as well: Russia is by no means even close to being a leader in mobile communications. This is something that also Russian cooperation partners and competitors know.

The scenario of "small catching-up streams" fits naturally with the Diversifying Mosaic one outlined in the Russia 2017 report. It also accords well with the A Russia of Contracts scenario. The Russian economy would be renewed from below, on the strength of especially the new middle class, services and information and communications technology. Increasing freedom of news mediation as well as all-round participation of foreigners in Russia's economic and social development would lead to good practices becoming general. In an atmosphere gradually becoming more open, tolerant and creative, the Russians would make a step-by-step transition from borrowed operational methods to ones that suited their country better. There would also be a gradual development of innovative solutions of a kind that would lend themselves to spreading beyond the borders of Russia as well.

However, the development that Kari Liuhto (2008)[50] calls economic nationalism gained strength particularly towards the end of Putin's presidential term. It limited the small (and especially the bigger) free streams (rivers) renewing the economy into more and more constricted courses.

Liuhto identifies economic nationalism as the starting point in Putin's doctoral thesis, which he publicly defended in 1997. In it he argued that Russia has the possibility of arising from its state of abasement and rapidly regaining superpower status with the aid of its raw materials, if the state regulates their use more tightly in addition to using market mechanisms (Jack 2004)[51]. Putin highlighted this theme also in his final annual report to the Federal Assembly of the Russian Federation during his term as president (Putin 2007, Liuhto 2008):[52]

> *Another question that future generations will be entitled to ask us concerns our country's natural resources. Have we derived the maximal benefit from our country's natural resources? This concerns not only oil, gas and minerals, but also forests and water resources.*

Besides exploitation of natural resources, another key ground on which to restrict foreigners' economic activities in Russia has been national security. Economic nationalism has in recent years gained ground in especially two ways: through legislation limiting foreign ownership and by establishing market-dominating state companies in sectors that are important for the economy.

Just before leaving office as president in spring 2008 Putin signed a law restricting foreign ownership in economically important sectors. These sectors were defined in the law as follows (Reuters 2008, Liuhto 2008)[53]:

> *Nuclear power plants and nuclear materials*
> *Functions associated with encryption*
> *Weapons and military technology*
> *Aviation technology*
> *Communication services, if a foreign company achieves a dominant position*
> *Metals and alloys of defence-related importance*

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[50] Liuhto, Kari (2008) Genesis of Economic Nationalism in Russia, Electronic Publications of Pan-European Institute 3/2008, http://www.tse.fi/pei
[51] Jack A. (2004) *Inside Putin's Russia: Can There Be Reform Without Democracy?* Oxford University Press, New York.
[52] Putin V. (2007) *Annual Address to the Federal Assembly of the Russian Federation*, www.kremlin.ru.
[53] Reuters (2008) *Russia's Putin signs foreign investment law*, May 5.

Extraction of minerals from nationally important deposits
Harvesting of biological resources from water
Large-scale publishing and printing
Television and radio operations

According to the law, foreign companies may not control strategically important companies, i.e. their stakes must be less than 50%. If foreign ownership reaches 50% or more, the company needs permission from a commission headed by the Prime Minister. A foreign state-owned company needs permission of this kind if its stake exceeds 25%. The conditions are stricter for companies that own strategically important mineral resources. The maximum stake permitted in this case is 10% for private companies and 5% for state-owned ones. However, companies of this kind operating in Russian territorial waters are allowed a 50% share of ownership if they are partnered by a Russian state-owned unit.

The problem with the law is that virtually any activity can be interpreted as important from the perspective of Russian national security. After all, radio and television operations are among the sectors that have been defined as belonging to this category. What metals are interpreted as important to the military has likewise not been unambiguously defined. This increases the risk of administrative abuses. There are only a rare few sectors where foreign-owned companies engaged in them can be certain that their operations will not be interpreted as essential from the perspective of national security.

Another key form of economic nationalism has been, according to Liuhto (2008), state-owned companies. Nine significant state-owned companies were in operation in Russia in 2009 (Rianovosti 2009)[54]. They were

- the national development bank Vnesheconombank (VEB)
- the Rostekhnologii concern, a manufacturer of high-tech products that is important from especially the perspective of defence
- the nanotechnology company Rosnano
- the insurance company ASV
- a renewal fund for housing and housing-related services
- Rosatom, within the framework of which the peaceful and military uses of nuclear energy have been brought together

[54] Rianovosti (2009) Medvedev orders look at activity of Russian state-run businesses, 07/08/2009

- Olimpstroi, which is responsible for construction projects for the Winter Olympics in Sochi in 2014

- Avtodor, established in 2009, which is responsible for developing the country's main highways.

To promote aircraft manufacturing and shipbuilding, the United Aircraft Manufacturing Corporation (UAC) and the United Shipbuilding Corporation (USC) were also established during Putin's presidency. The United Shipbuilding Corporation (USC) is a holding company with its head office in St. Petersburg. It began trading in 2009 and both state-owned shipbuilding operations and state holdings in private companies are gathered under its wing. The United Aircraft Corporation (UAC) is a joint-stock company in which the Russian Federation has an approximately 90% stake and which works actively to promote aircraft production in Russia by owning companies in the sector and supporting their operations. The company states on its web site that its objective is to maintain and promote the Russian aircraft industry's scientific and production potential as well as to strengthen the country's security and defence capability.

The establishment of a state-owned company called Rosrybflot to develop Russian fishing was proposed in 2007. It came into being in 2009 as a joint-stock company called Natsrybflot. According to its managing director, it would own 27 vessels to be built with the aid of guarantees provided by the federal government and its task would be to develop Russia's fishing ports and fishing craft to make them competitive. The managing director specified the South Pacific as the most promising fishing area. (www.fishnews.ru 2009)

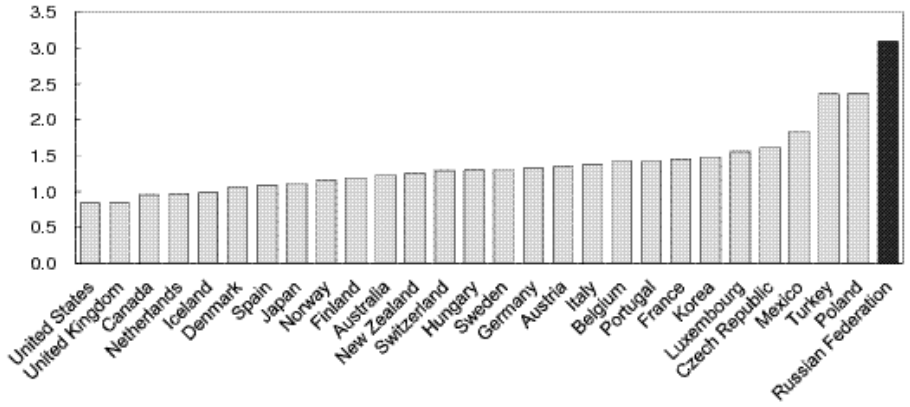
In many countries, state holdings are entrusted to separate holding companies and this can not be regarded as particularly constituting economic nationalism. However, a distinctive feature of the Russian state-owned companies Rostekhnologii, Rosatom and United Aircraft Manufacturing is their close association with the defence industry and the military.

The OECD uses a Product Market Regulation (PMR) indicator to measure the strength of state regulation of business activity. It is based on three sub-factors: state control, barriers to entrepreneurship and barriers to international trade and foreign investment. Russia's economic nationalism is reflected by an assessment to the effect that PMR in that country in 2008 was clearly stronger than in the OECD countries and in most of the former socialist countries in Europe (ECO/WKP(2009)83)[55]

[55] Paul Conway, Tatiana Lysenko and Geoff Barnard (2009) Product market regulation in Russia, OECD working papers no. 742

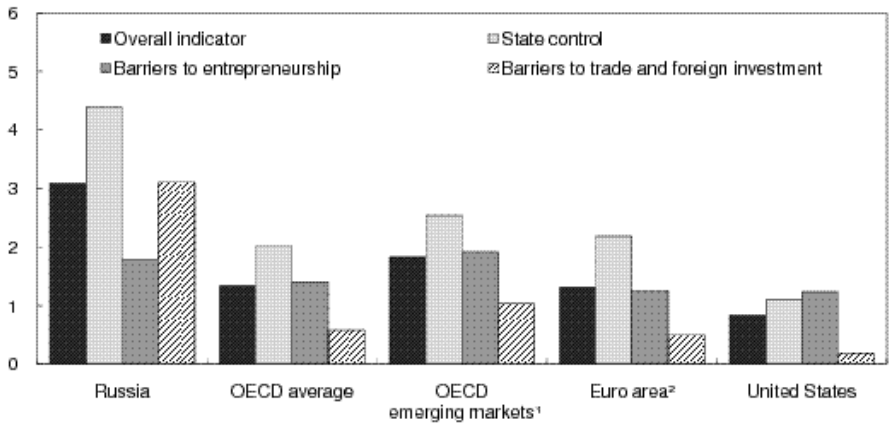
Diagram 1 Product market regulation in Russia and comparison countries in 2008

Source: OECD ECO/WKP(2009)83.



An examination of the sub-factors in the index reveals that the result is explained by especially state control and barriers to trade and foreign investment.

Diagram 2 Strength of regulation in the various sub-factors of the PMR indicator in Russia and comparison countries in 2008. Source: OECD ECO/WKP(2009)83.



Alongside the development of financial and insurance services, a clear objective in establishing the state companies in Russia has been to modernise various sectors of production and increase high-tech production in the country.

However, many foreign observers and especially the OECD in its Russia country reviews have not considered regulation or economic nationalism to be an appropriate way to promote modernisation of the Russian economy. As already pointed out in the Russia 2017 report, a kind of ideological tone-setting in the OECD Russia country reports has long been recom-

mendations that regulation of the Russian economy be dismantled and that especially good prerequisites be made available for foreign investment. However, this simple model based on catching-up thinking can not be regarded as self-evidently the best way of modernising Russia.

The assumption in the Russia 2017 report's first scenario was that the Russian economy could be diversified and modernised through big energy and raw materials companies revitalising their operations by substantially changing their corporate cultures and setting up competence-based new venture projects. This model is by no means one that has not been tried before. Alongside the examples of Japan (keiretsu companies) and South Korea (cheabols), it could also be regarded where the wood-processing industry's new venture projects are concerned as also Finland's road to modernisation.

What can Russia learn from the history of South Korea's cheabols?

If Finland was seen as a model of an innovative economy around the turn of the millennium, there would be pretty good grounds on which to accord this accolade to South Korea now. That country's development since the Second World War from a fairly backward agrarian country to one of the world leaders, alongside the United States, in exploiting industrial innovation has been one of the most interesting courses of development in recent world history. The English-language online encyclopaedia Wikipedia contains a description of what role has been played in this development by the "business families" or cheabols that have dominated the country's economy (Wikipedia –cheabol).

Japanese hegemony in Korea ended in 1945. Very few Koreans had owned or managed largish companies under Japanese rule. After the country had become free, a few Korean businessmen gained control of the property of a small number of Japanese companies. These holdings gradually grew into the cheabols of the 1990s.

The businessmen worked closely with Syngman Rhee's first Republic of Korea from 1948 to 1960. As in Russia, especially in the 1990s, bribes paid by companies and the special privileges they received from the state in return were quite commonplace. The military seized power in South Korea in 1961. This phase can be equated with Putin's rise to power in 2001. The new administration set about rooting out corruption. A few leading industrialists were detained. However, the new government soon realised that it needed the support of companies if it was to be able to implement its ambitious objectives with regard to modernising the economy. By paying compensation, many corporate leaders had the charges against them

dropped. That also made possible cooperation between the government and business leaders to modernise the economy.

Cooperation between the government and companies was decisive for the development that got under way in the 1960s. Production in Korea expanded from light manufacturing to heavy industry. The government chose companies to implement national objectives, and the cheabols implemented those using foreign credits that the government obtained and guaranteed. The problem with this operational model was, of course, that capital ended up increasingly in the hands of a small number of cheabols.

Although there have also been problems associated with the cheabols' great influence, their innovativeness and preparedness to accept new challenges has been decisive from the perspective of success. Rather than big foreign companies being in charge of production, the aim was to learn every possible lesson from abroad. The conglomerates advanced from textile manufacturing in the 1970s and 1980s to heavy industry, defence equipment and chemicals manufacturing. In the 1990s they took a further step into electronics and high-tech production.

Finally, in the late 1980s, the cheabols had reached the stage where they no longer needed the state's support. What became a problem instead was the increasingly tough competition between them. In particular, over-capacity was associated with this competition and the Asian economic crisis of 1997-99 saw the collapse of 11 of South Korea's 30 cheabols.

Nor have dirty tricks been absent. The most recent example of this was in 2008 when the president of the Samsung company had to resign due to tax irregularities and a lack of trust. In any event, Samsung with its cheabol background is now recognised as one of the world's leading companies where industrial innovation is concerned.

What could be learnt from the history of the cheabols with a view to Russia? As was emphasised in the Russia 2017 report's first scenario, employees capable of innovation and corporate cultures that favour it are decisive. In the case of the cheabols, the solution that promoted this was, alongside new products, sarmentose diversification, advancing into new sectors that might have had fairly little to do with earlier operations.

A fundamental question from the perspective of success would appear to be how large Russian companies –including state-owned ones - could develop from a militaristic command culture into the kind that are eagerly embracing the latest developments in the world and fresh-mindedly grasping new opportunities. A classic of innovation literature dealing with

how a large company can create innovations through new venture projects is the book Inside Corporation Innovation (Burgelman and Sayles 1986)[56]

The development model that Korea's cheabol companies have followed is different from China's modernisation model, which Kaartemo and Liuhto (2010) offer in this report as a realistic alternative for Russia's modernisation. In their view,

> *…the same recommendations for action that were issued for China's special economic zones in the 1980s (Wong 1987) would appear to be applicable to Russia's technology innovation special economic zones in 2010:*
> *Improving administrative efficiency, avoiding red tape*
> *Devising a more efficient legal system to ensure that the interests of foreign investors can be protected*
> *Allowing a greater amount of production by foreign companies for the domestic market, which would serve as an additional incentive for foreign investors.*

China's economic growth and modernisation has been founded to a substantial degree on foreign investment in production with a low level of know-how. It is, of course, true that a large part of the investors have been persons/companies of Chinese background from especially Hong Kong and Taiwan. China does indeed seem to be gradually benefiting from foreign investment also in that its own production requiring a high level of competence is developing.

As Pekka Sutela (2010)[57] notes, China's and Russia's psychological starting points for modernisation are very different. China's significant achievements as a developer of technology are far in the past in history. Russia, by contrast, was still recently a superpower, which was a victor in the Second World War with the weapons technology it had developed (such as its effective tanks) and was the first to send a man into space. With a history like that, it is not easy to concentrate only on imitation and production of a less-demanding level of competence. To quote Sutela (2010):

Since the Soviet Union was a superpower, Russia must also be at least a great power, preferably globally, but if it lacks the wherewithal to achieve that, at least regionally. In the light of this psychology, it is easy to understand why those who hold the reins of power do not accept in their utterances what is actually being done in practice. In their view, namely, Russia's future economic growth should be founded on innovation, and by no means on imitation.

[56] Burgelman, R.A. and L.R.Sayles (1986) Inside Corporation Innovation, The Free Press, New York
[57] Sutela, Pekka (2010) Suomalaisten menestystarinat, in Suuriruhtinaskunnasta Itämeren kaasuputkeen – mikä on muuttunut Suomen ja Venäjän suhteissa, Helsingin yliopiston vapaan sivistystyön toimikunta

Citing South Korea's experiences, I believe it is a clear error to equate corruption with acting through Russia's large existing companies. My own view is that the best results will be achieved in Russia's development if at the same time the aim is to advance in accordance with both the A RUSSIA OF CONTRACTS scenario and the two other alternative ones outlined in this chapter, perhaps placing more emphasis on internal reform of large companies and building their networks of subcontractors than on imitating foreign production. However, efforts to embrace knowledge and adopt good practices from abroad should be increased in every way. In this a clear change of attitude towards using English is one decisive factor (see chapter 6.4.)

In 2009 President Medvedev expressed his view in principle that state-owned companies should be gradually abandoned in Russia. In his view, a state-owned company is not at all a well-functioning corporate form in the long run. He believes they should be either completely privatised, privatised as joint-stock companies under state supervision or, when they perform important tasks in society, made part of public administration (Rianovosti 12.11.2009). Ultimately, however, the problem from the perspective of modernisation is not the state-owned company form, but rather how the company is run. Among other things, the success of Chinese state-owned companies in the world proves that at the end of the day it is not the form of ownership that is decisive.

2.5. Three obstacles to modernisation of the Russian economy

Three factors are substantial impediments to diversification and reform of the Russian economy in both of the ways (catching-up as well as diversifying and rejuvenating large companies) outlined in the previous chapter. The most important is the corruption that has already been extensively dealt with in the foregoing. The other two are demographic development and a contradictory attitude to English.

The relative importance from Russia's perspective of corruption and other factors operating in the economy can be assessed using surveys commissioned by the World Bank. Its Business Environment and Enterprise Surveys conducted in 2008 and 2009 and their comparison with an equivalent one in 2005 provide information on the development of the business environment in Russia (Russian Economic Report 2010). In Russia, the survey sample included over 1,000 companies operating in all main sectors. Russia as a business environment can be compared with the business environments of all Eastern and Central European countries where surveys using comparable samples are conducted as well as with Turkey. Table 3 sets forth where Russia is ranked in the problems acknowledged by companies.

Table 3 Problems experienced by companies in Russia compared with those experienced by companies in other Eastern and Central European countries and Turkey in 2005 and 2008/09

Problems experienced by companies	Russia's ranking in 2005	Russia's ranking in late 2008/ early 2009
Taxation	2	2
Corruption	3	3
Workers' skills and training	4	1
Availability of electricity	13	4
Financing	6	8
Crime, thefts and public order disturbances	8	6
Tax administration	1	10
Telecommunications	14	7
Judicial system	7	12
Land acquisition	10	5

On the basis of the questionnaire, the share of companies that stated they had paid bribes had halved from 62% to 31%. The share of those that had paid bribes often had fallen from 44% to 22%. Another promising sign was that the proportion of companies that had resorted to the judicial system had increased from 27% to 45% and that only 3% of companies stated they had paid extra fees to courts.

Nevertheless, the share of corruption in Russia is still the third biggest among the countries examined. It is worrying that bribes' share of the turnover of companies that have paid them has nearly trebled from 1.7% to 4.5%. Payments for political contacts as a proportion of turnover had risen from 2.2% to 4.1%. In 2008/09, the time spent by supervisor-level company executives dealing with the authorities accounted for 23% of total working time, whereas earlier it had been 16%. The way in which the World Bank report interprets these results is that fewer pay bigger sums to possibly higher-level officials. However, it is conceivable that the timing of the questionnaire-based survey in the middle of a recession may have influenced the result. The same payment out of a smaller turnover means a higher proportion. It may also be that the recession explains why more time was spent dealing with the authorities.

In any event, companies have recognised new challenges since 2005. A lack of competent labour has been recognised as an increasingly important problem in Russia. In 2005 some 40% of companies did not feel that the availability of competent labour was a problem for them, but the proportion had fallen to 12% in 2008/09. In 2008/09 availability of electricity was recognised by 69% of companies as a problem, whereas in 2005 it had been only 28%. Telecommunications were likewise recognised by considerably more as a problem. In 2008/09 this was seen by 64% of companies as a problem, whereas the proportion in 2005 was 28%.

The competence problem is essentially linked to another key challenge of Russian revitalisation, namely the demographic trend. This worrying trend was examined fairly comprehensively already in the Russia 2017 report and therefore we shall not be touching on its many aspects, such as the decline in life expectancy in the 1990s, in the following. According to a basic calculation made by the UN using fertility and mortality figures, the Russian population will fall from its present 142 million to 135 million by 2020 and then to 120 million in 2030 (Russian Economic Report 2010).

The decline in population has been decisively slowed for the moment by immigration from former Soviet republics. Most of this has been illegal and made possible by visa-free travel between the former Soviet republics and Russia. In 2008 immigration even compensated fully for the natural decline in population. The recession forced immigration downwards, but the forecast is that over the next few years immigration will offset about half of the natural population decline (Russian Economic Report 2010).

However, there are significant contradictions associated with immigration in Russia and the solutions to them may substantially affect the country's future. An attempt to cast light on these contradictions was made in an interview-based survey conducted by the World Bank in March 2009 and which focused especially on Tajik immigration. Their share of all immigration into Russia has been around 10% (Russian Economic Report 2010). Six essential trends were recognised in the survey.

> *Immigrants were the first to suffer from the recession. They were sacked, their pay was reduced, contracts were violated and their working conditions worsened. Besides a dearth of information about workplaces and workers' rights, the work permits that are required in Russia made their situation difficult. Especially men encountered difficulties; women had greater success in holding on to their jobs.*

Those who returned home in February-March 2009 included especially many young people who had gone to Russia for the first time and unskilled workers.

During the recession, sentiments towards immigrants hardened, thereby affecting the attitudes of both the judicial system and the immigration authorities and employers. This has increased the fees and payments that are demanded from both legal and illegal immigrants.

Immigration was made easier in 2007, but quotas regulating migration were reintroduced in conjunction with the recession.

Over a half of Tajik immigrants were prepared to accept lower wages to be able to remain in Russia or return there. Labour appears to have moved from construction to sectors, such as transport and agriculture, that are less regulated or require less skill.

Remaining in their home country is not an attractive alternative for returning immigrants. Only 10% of those who had returned home from Russia said they did not want to go back there.

The bomb attacks in the Moscow metro in March 2010 have obviously further added to mistrust of immigrants with a Muslim background. Although attitudes to immigrants from the South have hardened, they still have fairly good chances of finding menial and poorly paid work, which Russians are not prepared to do at the low wage rates offered. In 2008 one in four construction companies were of the view that availability of labour was a problem for their operations (Russian Economic Report 2010).

A contradiction between the official restrictive immigration policy and widespread illegal immigration is one essential factor that increases corruption in Russia. Solving this problem can be linked, as an integral part, to the A RUSSIA OF CONTRACTS scenario. Also the World Bank notes that a key challenge facing immigration policy is that of developing legal provisions in such a way that the gap between illegal and legal migration is decisively narrowed.

A third factor that can be highlighted as impeding especially the spread of innovations and the ability to benefit from international experiences is a contradictory attitude to the English language. Unlike the Chinese and especially the South Koreans, older Russians in particular have found it difficult to accept English as an “Esperanto”, a good command of which is an essential prerequisite for success in international economic interaction.

Besides direct personal contacts, new information and communications technology, and especially the Internet, provide a key channel through which to join important technological communities and in this way acquire know-how and develop innovations. The overwhelmingly most important language in international Internet interaction is English. The English that is in many ways used faultily or "personally" can be characterised as a kind of modern-day Esperanto, which no country can proclaim as its own. In their major speeches in autumn 2009, neither Putin nor Medvedev said a single word about the importance of English. The attitude to the language is quite different in, for example, South Korea and Singapore.

Decades ago, Singapore made English a part of its citizens' everyday lives and of their range of skills. At its most effective, this was done by making English the language used in kindergartens. When the Committee for the Future visited Seoul in autumn 2007, a recurring theme of discussion was the schools system that is burdensome for young people because of the English that they have to learn there. The country's almost incredible success with high-tech products is undoubtedly founded in part on acceptance of English as "the language of science, technology and the Internet".

The attitude to English would appear to be largely a generational question in Russia. The older generations became accustomed during the Soviet era to believing that Russian sufficed for international interaction and learning English could even be viewed with suspicion. The young generation pick up the language while studying abroad or through the Internet. Many young Russians are avid users of the English-language Internet and are otherwise beginning to master this modern Esperanto. In the early years of the 21st century, the number of Russians studying abroad was in the tens of thousands. About 5,000 Russians were studying at US universities in 2009 (www.america.gov, **26 June 2009**). Some 10,000 Russians were studying in Germany in 2005 (Finken 2006).

It is, however, true that there are still a lot of young people in Russia who do not regard learning English as essential. Indeed, going by some surveys, it would even appear that under-25s are more "Russian-spirited" than 25-35-year-olds. Also President Medvedev has contributed to promoting the self-sufficiency of Russian. In a recent speech, he expressed his delight that Cyrillic letters had finally been accepted for Internet domain names (Medvedev 2009, 2) He also stressed the teaching of Russian, because a good command of the language is the foundation for communication within the country and its unity (Medvedev 2009,1)

It is virtually impossible to succeed in the high-technology sector without a command of English. State-owned Rusnano is one of the companies that have had to recognise this in their international contacts. The Rusnano Forum, which brings together nanotechnology experts from all over the world, is conducted through the medium of English.

The Russians' interest in obtaining information on various themes in English through the Internet can be regarded as a kind of weak signal about the sectors in which they might in the future achieve a conspicuous level of competence as an export success.

The Google trend service (www.google.com/trends) examines the relative use of various search words by city, country and users' language in Google searches. The basis on which the relative commonness of search words is calculated is the share of all searches in the area or language group that the word or group of words represents. The activity of Russians and Russian-speaking areas with respect to some words that are important from the perspective of culture, production and technology was examined in the Russia 2017 report. Because the search words are English, the relative shares were, naturally, slanted in favour of native speakers of this language. However, this applies less to special terms relating to production and technology.

English search words or search strings in the use of which the Russians had been especially active were examined in the Russia 2017 report. The words were identified by trying about 100 words or strings mainly associated with production or various technologies and which can be assumed to interest Russians. The following table sets forth a comparison of the frequency of use of the words in Russia in 2006 and 2009. To identify the shared competence interface, the use of these words is also compared with their use in Finland. Some new words have been added to the list especially to identify this commonality of competence areas.

Table 4 Information search trends in Russia and Finland according to Google

	2006	2009	2006	2009	2009	2009
Russian culture	1	1	1	1	3	8
Russian literature	1	2	2	2	-	-
Gas production	1	4	-	-	-	-
Nuclear research	1	4	-	9	-	-
Fullerene	2	4	3	6	8	-
Metallurgy	2	5	9	-	-	-
Oil production	2	4	-	-	-	-
Robotics	4	7	3	10	-	-
Nanotube	4	7	8	10	-	-
Nuclear fuel	-	4	8	10	-	-
Satellite	-	5	-	10	-	-
Nanotechnology		6		-	-	-
Photonics		9		-	-	-
ePhone		5		7		
Forest industry		4		-	1	2
Pulp		-		-	4	8
Timber		-		-	2	-
Paper industry		-		-	4	10

Comparing the situation with three years earlier, it can be seen that Russia's and the Russian-speaking areas' rankings have consistently weakened somewhat. A kind of weak signal that Russia's young generation at least is tracking the English-speaking world's trend well is the widespread use of the word "ePhone" on the Internet in Russia.

An explanation for Russia's slippage down the rankings is especially a strengthening of Asian countries' standing as users of English concepts. What are striking in particular are the Koreans' high inputs into using nanotechnology terms. In the use of the word "nanotechnology" the Korean language was, relative to population, at the head of the world league. In the use of the word "nanotube", the great future promise in nanotechnology, the Koreans took the first three places. Among countries, South Korea and among linguistic areas the Korean, ranked first. In addition, Taejon and Seoul in South Korea were the urban areas that had used the term most. The South Koreans achieved a similar one-two-three in the use of another nanotechnology-related concept, "fullerene". In photonics, which has been mentioned in Rusnano interviews as one of Russia's strong sectors, the word "photonics" scored 9th in the Russian-speaking area. However, South Korea was once again at the head of the table both as a country and as a language. The word "laser" did not produce rankings for either Russia or the Russian-speaking world.

However, the Russians were ahead of the Finns in concepts reflecting the international practice of nanotechnology. The Finns made it into the top ten only with the concept “fullerene”.

From the perspective of technological cooperation between Finland and Russia, the forest sector is one future possibility. The concepts associated with the comparison table well illustrate the degree of internationalisation of Finland’s and Russia’s forest sector. Finland is at the top of the world table in all four concepts relating to the forest sector. Russia achieved a ranking only in relation to the concept “forest industry". What this probably tells is at least that forest-related matters are perceived in Russia as mainly local, i.e. they can be taken care of through the medium of Russian.

It is not surprising that Russian-speaking areas still actively use English to communicate in key export sectors (gas, oil, nuclear power). The fact that the Russians use the search strings “Russian culture” and “Russian literature” more than anyone else in the world on the Internet indicates that they are still prepared to discuss their culture also in English. Also interesting is the Finnish language area’s achievement of third place, immediately after Russia for the words “Russian culture”. This is an important signal of the Finns’ interest in Russia.

Something that is interesting with diversification of the economy in mind is that Russians actively search for information in English on metallurgy, robotics and satellites. Satellites are an interesting exception from the general development in that in 2009, unlike in 2006, the Russians headed the table for use of the term “satellite". Russia is regarded as being rather well developed as a manufacturer of aircraft and especially helicopters. Yet in 2009, unlike in 2006, neither as a country nor as a language was it ranked among the top ten users of the word “helicopter”. Of course, this is probably explained by the common use of this word in contexts other than those to do with production.

2.6. Rusnano and aircraft manufacturing as opportunities for Russian high-tech production

Russian high-tech production has been a balancing act between the country's own technological and manufacturing tradition and the competence and influences adopted from outside. The choices made are well illustrated by two of the areas of emphasis in the development of Russian high-tech production: nanotechnology and aircraft manufacturing.

Rusnano

Nanotechnology is one of the cutting-edge sectors chosen for diversification of the Russian economy. For this purpose, the state-owned company, which is planned to be privatised before the end of 2012, was established in autumn 2010 (www.russiaprofile.org 18.3.2010)

On the basis of Rusnano's corporate strategy covering the period up to 2020 [58], the company can be compared to Tekes – the Finnish Funding Agency for Technology and Innovation and Sitra, the Finnish Innovation Fund and in some respects to VTT, the Research Centre of Finland. Diversification of the Russian economy is especially emphasised with respect to aircraft manufacturing.

Rusnano's corporate strategy names the company's mission as being to promote the objectives of the public authorities by making Russia one of the worlds leading states in nanotechnology. In order to accomplish this mission, Rusnano is striving for the following goals:

> *Rusnano to achieve a leading position in the world market for nanotechnology products*
> *Russia to be accepted as a member of the international community of nanotechnology developers, with which a dialogue on the challenges facing nanotechnology-based businesses will be conducted.*
> *Rusnano will act as an essential producer of knowledge for the above-mentioned community*

In order to achieve this objective, Rusnano is trying to commercialise nanotechnology products and coordinate innovation in nanoproduction by stressing five principles in its strategy programme: development of the high-tech production that the Russian state is aiming for, commercialisability, publicity and openness, expertise as well as independent action within the framework of the laws that define Rusnano's activities.

Like Tekes, Rusnano is striving, according to its strategy programme to network research bodies and companies in the nano sector in Russia and outside the country. Research bodies mentioned in the strategy are the Kurchato Institute and the Russian Academy of Sciences. The sectors that the strategy programmes names as especially promising in Russia for applications of nanotechnology are aircraft manufacturing, the space and rockets cluster, nuclear power and the energy industry. However, the ways in which big companies in these sectors

58

are to be linked up to Rusnano's operations are not mentioned in the programme. In the same way as in Tekes' technology programmes, Rusnano will try to foresee development prospects for nanotechnology together with actors in the sector. It will also strive to develop training in the sector. Its activities likewise include infrastructure programmes, such as setting up science centres and business parks to promote nanotechnology.

The separately mentioned "The XXI century laboratory" project would seem to share the same features as the innovation centre of which a vision is outlined in the first scenario in the Russia 2017 report, one that develops wild future possibilities. However, the business strategy does not stress the close interaction between key companies in the Russian economy that is of central importance from the perspective innovation centres according to the BECOMING AN INFLUENTIAL GLOBAL PLAYER THROUGH ENERGY-RELATED COMPETENCE scenario.

Rusnano is striving for what played a key role in Sitra's early operations, namely to lessen risks in the early development stage. In accordance with its corporate strategy, the company undertakes to fund ventures that, despite being promising, involve major risks that preclude their attracting private investors. However, it is trying to find private financing from both Russia and abroad for projects that it is funding. As was the case with Sitra's seed funding for companies, Rusnano will try to withdraw from its investments if private capital is prepared to provide financing for a risk venture. As an incentive for its employees, Rusnano has an option scheme. The "Center of certification, arbitration measurements and special tests of nanoindustry products" that Rusnano has set up can be compared mainly with the activities of VTT, the State Research Centre of Finland. Rusnano is also developing technical regulations to guarantee the safety of nanoproducts and nanotechnologies and is participating in developing legislation concerning such matters as patent protection and definition of ownership rights to other immaterial property.

In summary, it can be said that a very wide and diverse range of activities associated with the development of nanotechnology have been centrally entrusted to Rusnano. Based on Finland's and the rest of the world's experiences, however, links with competent commercial actors in the sector both in Russia and outside the country will be of decisive importance. The strategy document contains only a few sentences in very general terms about these contacts.

Rusnano's corporate strategy was formulated before President Medvedev made his proposal concerning privatisation of the company in late 2009. It is questionable how the company will

be able to perform the public promotion tasks that are defined in its corporate strategy if it becomes a private undertaking. For example in Finland, there has never been, to the best of our knowledge, a proposal that Tekes and Sitra, both of which handle tasks similar to Rusnano's, be privatised. Although a public ownership mode may perhaps have been a temptation to spend funds irresponsibly, a private form of ownership does not guarantee better success, either - at least in the sector's long-term development. If the decision made during Putin's presidential term to establish the state-owned company can be interpreted as an ideological solution, Rusnano's privatisation according to a fast timetable is no less so.

The reason for privatisation was found in Rusnano's objectives, which had proved unrealistic. As its basic capital, the company received an investment of 130 billion roubles (about $4 billion) from the Russian state. This sum was further increased later. Each year, Rusnano estimates in its corporate strategy, its pattern of investment will be that the total increases gradually from 20.5 billion roubles in 2008 to 41.5 billion in 2015. More than half of the sum invested would go to company projects. Between November 2007 and July 2009, however, Rusnano channelled only 10 billion roubles ($342 million) into launching nanotechnology projects and getting the nanotechnology industry up and running. Half of the money spent went on Rusnano's own running costs. According to an evaluation report, the company's management had approved 36 of the 1,200 proposals made to it, but only 8 had so far received funding (ww.russiaprofile.org 18.3.2010).

Understanding the great difficulties that are involved in getting commercially sensible nanotechnology production under way in a county where traditions in the sector are very thin, the result is not, however, particularly surprising. That is so even if work had been done in the best possible way under the circumstances. Whatever the corporate form is, what can be regarded as decisive is the incentives offered management and workers to be purposeful in their endeavours (viz. Burgelman and Sayles 1987). In any event, irrespective of the corporate form, patience with regard to achieving results is essential.

It is very questionable to assess the success of a project like Rusnano, which was originally launched in very difficult circumstances, on the basis of one and a half years' activity. However, the company's managing director Anatoly Chubais was continuing to make optimistic statements in March 2010. He said that there are more than 100 high-tech Russian companies that are achieving an international standard of competence. In addition, there are dozens of companies with turnover of under $100 million that have achieved an international standard.

Based on Rusnano's internationally most visible form of activity, the Rusnanotech Forums held in 2008 and 2009, as well as Osmo Kuusi's and Hanna Smith's visit to the company in June 2009, the credibility of Chubais' statement can to some degree be appraised.

It emerged from the interview with Rusnano on 16.6.2009 that 50 or so of the around 1,000 funding applications received by the company in its first year of operation came from outside Russia, which indicates that despite the considerable funding on offer, there is only fairly little interest. On the basis of both the Rusnanotech seminars and the interview with Rusnano, it would appear that the special fortes of Russian nanotechnology would be, thanks to earlier familiarity with these fields, photonics and laser technology. Competence in these fields has come into being especially as a part of military applications. A second strong area might be satellite technology. Nanocatalysts, sensors and lithium patents were likewise mentioned in the interview as promising areas of application.

The view expressed in interviews that the objective of nanoproduction, at least in the early stage, is not to manufacture complete consumer or comparable products, but rather components suitable for use in many products, can be considered pretty realistic. However, it is important to get discerning customers, i.e. the possible users of the components, committed to their development. The interviews did not reveal whether a commitment of this kind had been made.

Something that was especially mentioned in the interview with Rusnano was production in St. Petersburg of LOMO lenses. On the basis of the know-how that this represents, it might perhaps be possible to develop photochip applications. Other potential applications for photonics and lasers could be very precise surgical instruments. Nanophotonics and laser applications were also emphatically highlighted at the Rusnanotech Forum in 2008. In parallel sessions, the largest lecture hall had been reserved for laser and photonic applications.

Two aircraft – two production philosophies

Helicopters have been successful products of the Russian aircraft industry. The leading product has been the MI-8/17 helicopter, over 12,000 of which have been built for both military and civilian use since the late 1960s. Russia has sold helicopters to around 50 countries. Representing a new generation in production is the MI -35. In late 2007 Saudi Arabia bought 150 helicopters representing an older model and this one for a total of $2.2 billion. India concluded a deal for 80 helicopters in late 2008. (Wikipedia Mil Mi-17). Additionally under de-

velopment is a new-generation helicopter, the IBKV-17, which is expected to be on sale in 2015.

In production of aircraft other than helicopters, Russia's success has been fairly modest, although the country has long traditions of manufacturing these types as well. Now, however, two planes based on different philosophies, would appear to be enjoying moderately good success.

One, with a fairly traditional look, is the Sukhoi Superjet 100.

In August 2007 Russia's Sukhoi company, in cooperation with Alenia of Italy, began marketing the Superjet 100 aircraft. It had been developed in collaboration between these companies as well as the Russian companies Beriev and Yakovlev. Carrying 75-95 passengers, it was developed to meet the demands of not only the Russian and Eastern European markets, but also of western customers. Special attention was paid to meeting western requirements, such as noise levels. The Boeing company was used as an adviser in the aircraft's marketing. To spread risks, cooperation agreements have been concluded with 9 western airlines.

The Sukhoi Superjet 100 could be considered an example of the kinds of products the Russian aircraft industry can accomplish by seeking cooperation with western manufacturers. In its outward appearance and basic characteristics, it appears fairly conventional and its success will probably depend on the degree to which the Russians have been able to incorporate into it

the accomplishments of western technology more advanced than their own. Its manufacture can be compared to the cooperation agreement that the state-owned company Rostekhnologii has made with the Pirelli company. Under it, the companies will begin manufacturing tyres in a joint venture in the Samara region in 2011.

In a certain way, another new aircraft is more interesting. It is the Antonov An-148, which can cope with runways in poor condition.

Based on its product description, the plane would appear to be a kind of continuation of the "Soviet tank tradition" Like the Soviet tanks, which were better able than those of Nazi Germany to endure Russian nature with its frosts and dust, this aircraft has been designed specifically to cope with difficult conditions and land on airstrips at altitudes of up to 1,500 metres. Disembarking from the plane does not require special equipment at airports. In other words, it is especially well suited for domestic air services in Russia.

The aircraft is the result of Ukrainian-Russian cooperation. It is the first in 20 years to reach the manufacturing stage through this kind of cooperation. Yet it was developed very quickly, in only six years, without a subsidy from the Russian federal government and with an input of around $400 million. The characteristics that were particularly striven for in its manufacture are lightness and energy efficiency, for example by using new kinds of composite material solutions. It also features advance electronics to enable it to cope with demanding conditions. Low costs have been the aim in manufacturing. The aircraft's shape differs from that of west-

ern models in its size class. In general, only small aircraft are nowadays built with their wings connected to the upper fuselage. However, the Antonov An-148 has room for 70-90 passengers.

In December 2009 the aircraft made its first commercial flight from St. Petersburg to Moscow. It has still not been sold on the western market. The most significant deals outside Russia and Ukraine have been with Iran. An interesting question in any event is whether the Russian-Ukrainian aircraft industry will be able to mount a real challenge to the world's present major manufacturers or is the route of close cooperation with western airlines that the Sukhoi company has chosen the only possible way to achieve international success?

2.7. Russia as an energy and raw materials producer in the future

The energy sector and production of raw materials currently form the backbone of the Russian economy and will probably still do so in 2030. That would appear to be the case although production and distribution of energy/minerals has employed less that 5% of the country's labour force in the period since 2000. That is less that a third of the number employed in manufacturing. The energy sector has contributed around 60 per cent of Russia's export earnings and it is estimated that the federal government obtains about 40 per cent of its budget revenues from the oil industry.

Russia's energy and raw materials sector can be roughly divided into four main sub-sectors: oil production, gas production, electricity generation and exploiting various minerals from the ground. The probable development in these sub-sectors over the next few years would now seem to be that oil production will gradually decline and gas will not be such an important source of income as was forecast as recently as in the Russia 2017 report. The need for electricity produced in a way that is sustainable from the perspective of climate change is growing constantly in the world and in Russia. There is currently a shortage of electricity in Russia, although the country is still exporting it to especially China and Finland. Looked at from this perspective, the energy-related decisions made in Finland in spring 2010 seem well founded. Over the longer term, Russia's success as an electricity producer would appear to depend on implementation of its very ambitious nuclear power construction programme. It would appear that various mineral products will in the future be a clearly more important opportunity for Russia than was recognised in the Russia 2017 report.

It is difficult to forecast how quickly Russia's crude oil output, which in 2009 was greater even than Saudi Arabia's, will go significantly into decline. At the moment, two trends of

development would appear to be raising questions about the importance of gas as a key Russian export product. Thanks to new drilling technology, economic exploitation of "gas pockets" in clay shales has become possible. This "shale gas", as it is called, can be delivered to the European market in liquefied form from the United States and other parts of the world. It is especially abundant in Poland as well. The second trend of development that is lessening the importance of gas is the rapid development of lithium batteries. Especially on this basis, it can be predicted that in the future electricity will be the most important source of energy in cars. The importance of gas-fuelled cars can be predicted to remain fairly little also because of their impacts on climate. It is, however, true that in China it has been predicted that gas will be used locally to produce electricity also to charge car batteries.

The most important share of Russia's natural resources is located in the country's northern regions Diagram 3). In addition to oil and gas pipelines, the North-East Passage, which is remaining open for longer and longer each year as a result of climate change, offers a very substantial opportunity from the perspective exploiting natural resources. It can be predicted to be of essential relevance with exploitation of Russia's mineral resources in mind.

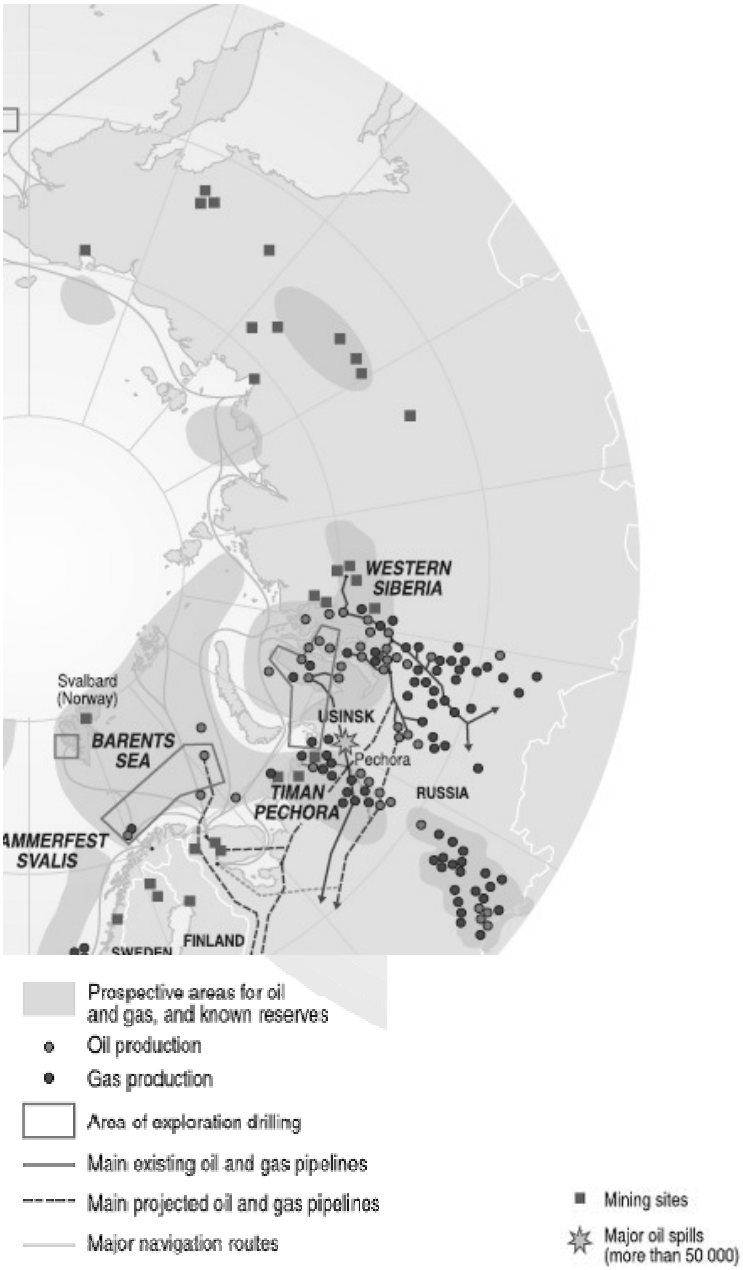
The importance of the North-East Passage's western end, i.e. the Kola Peninsula and Murmansk region, would appear to be growing, something that Yrjö Myllylä refers to in his article in this report. This importance would be founded on both Murmansk's logistical position and its status as a centre from which to exploit natural resources in its surrounding regions. Where its exploitable minerals are concerned, the Kola Peninsula is an exceptionally richly endowed area. One expert has even compared the wide range of opportunities that it offers with those of South Africa (Myllylä 2010 1, Roberts 2003).

Exploiting natural resources in northern regions will be a major challenge in Russia in the future. For Finland, participation in exploiting northern mineral resources both on the Kola Peninsula and especially in regions along the North-East Passage that were virtually inaccessible in the past offers a great opportunity. Especially in the development of Arctic technology in the form of both ships and other necessary vehicles and equipment, the North-East Passage would appear to offer great potential.

Rapid economic growth in China and Korea will probably boost demand for the metals and other minerals close to the North-East Passage. It is difficult to say what minerals will be in demand around 2030. For this reason, predicting the future of Russia in this respect will be

briefly summed up here in just two challenges facing the Russian economy: launching investments in the minerals sector and the opportunities that the North-East Passage offers.

Diagram 3 Natural resources in northern Russia (Myllylä 2010 2) (Industrial development in the Arctic)



Development prospects for Russia's energy and raw materials sector form a framework for the possibilities of modernising the country's economy that have been examined in the fore-

going. The division of labour between President Medvedev and Prime Minister Putin would appear to be that the former is especially concerned about Russia's modernisation, an innovative society and privatisation of the economy. Putin seems to be devoting his main attention to ways of getting companies in the energy and raw materials sector to make investments. These are needed for transport infrastructure and both improving existing production capacity and adding new production facilities.

A brief examination of Russia's future prospects in the various sectors of energy production is presented in the following.

Oil. In 2008 Russian oil production declined for the first time in about ten years. This strengthened the view that it had reached its peak level. Expectations were founded on the small number of new oil fields being discovered as well as the fairly low oil price.

However, oil production in Russia increased again in 2009, to about 1.5% above the 2008 level. According to oil ministry statistics, Russia produced about 10 million barrels a day in 2009. This made it the world's biggest oil producer. It was ahead of Saudi Arabia, traditionally the world's biggest producer, which reduced its output in accordance with OPEC decisions.

Besides the amount of oil produced, the increase in its price to about $70 a barrel in late 2009 has been of central importance for the Russian economy. The fact that the barrel price rose to even beyond $80 at the beginning of April 2010 reflects a general economic upswing in the world and especially the United States. It was forecast in the Russia 2017 report that Russia can go on without significant economic reassessments as long as it is able to produce oil in approximately the same volumes as it has done on average since 2000 and the price remains at least $60 a barrel. If the oil price continues to rise, an acute financing crisis in the Russian economy is not to be anticipated even if the amounts produced decline substantially.

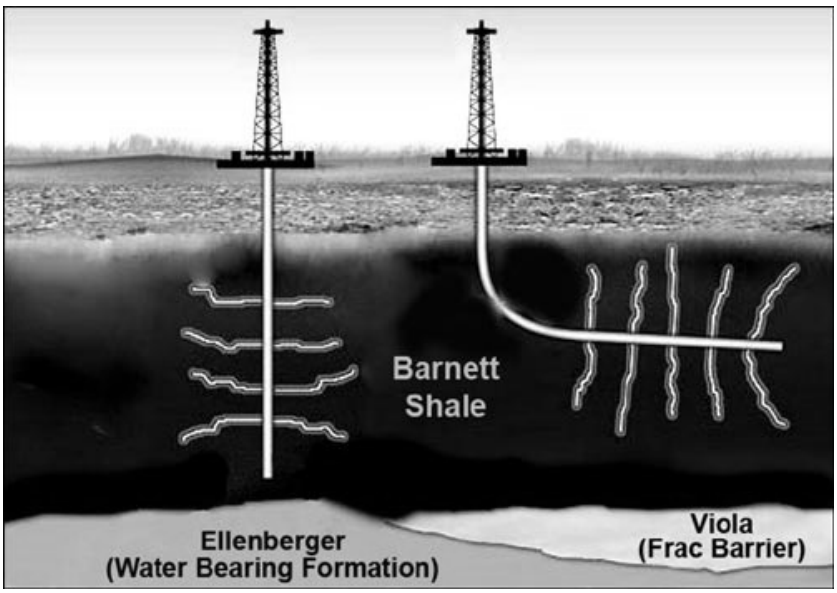
Russia is not a member of OPEC, which produces about 40% of the world's oil and tries to influence the oil price level by regulating the supply. According to a statement by President Medvedev in September 2009, Russia is not seeking OPEC membership, either, and is aiming for an oil price of over $70 a barrel. In a speech to agricultural producers he said: "Russia has no interest in a constantly rising oil price. A constantly rising oil price would mean that we would never change the structures of our economy" (Lazzaro, on the basis of a Reuters news report, 2009)

However, Russia is stepping up its oil exports to especially China. An oil pipeline to that country is due for completion towards the end of 2010. The plan is to pump about 1.6 million barrels a day, around 16% of Russia's present output, through the pipeline. That corresponds to over a third of the oil that Russia exported through pipelines in 2009 (http://en.rian.ru 29.3.2010).

Gas. As already stated in the foregoing, the traditional way of producing gas is now facing tough competition from deposits that were earlier considered uneconomic.

Large volumes of gas are trapped in smallish pockets in clay shale, which acts as a very good insulator. The problem has been to find an economic way of exploiting this "shale gas". The US company Schlumberger has developed a new drilling technique that enables gas pockets to be reached substantially less expensively than was earlier possible. This horizontal drilling technique is illustrated in the diagram below. Especially if the gas pockets are perpendicular to the surface, decisively more gas can be reached with this drilling technique.

Diagram 4 Reaching gas pockets using vertical and horizontal drilling techniques



A further benefit of horizontal drilling is that it can be done also in inhabited areas, i.e. underneath buildings, roads and other structures. It can also be used to extract gas from places like

covered landfill dumps. Besides gas, it can be used to access other resources, such as water, that are otherwise difficult to reach.

Another new technology that is considerably more controversial is so-called hydraulic separation to recover shale gas. It involves water, sand and chemicals being pumped under high pressure into an area of shale gas. Associated with it is a major risk of contaminating, among other things, drinking water. It also requires a lot of drilling points on the surface.

In Europe, there are significant deposits of shale gas in especially Poland. The consultancy Advanced Resources International has estimated the recoverable amounts of this gas in Poland at 3 trillion cubic metres. This is enough to satisfy domestic demand in the country for over 200 years (BBC news 8.4.2010). Poland currently receives more than 70% of its gas from Russia, which is felt in Poland to be a really bad dependency. Opportunities to exploit the gas reserves are now being eagerly sought in Poland. According to a statement by the country's chief geologist in February 2010, however, exploitation of gas resources on a significant scale would be possible only in 10-15 years' time. However, it will probably be possible to exploit some of the reserves earlier than that (www.naturalgasforeurope.com 26.3.2010).

The Russian gas market is dominated by the company Gazprom, which has an exclusive right to export gas from Russia. Its most important challenger in the European market is now inexpensive gas brought to Europe in liquefied form in tankers from the United States and other parts of the world. Besides the economic recession, shale gas has contributed to bringing the price down. Its share of total gas production in the United States is now 15-20%. Gazprom has traditionally tied the gas export price to the development of the oil pricey. Now, however, it has had to acknowledge the challenge that liquefied gas is mounting. In early 2010, alongside long-term contracts based on the oil price, it accepted gas trading on the spot market. The company has set 15% of total deliveries as the maximum amount to be sold in the European market in this way.

In 2009, with the aid of shale gas, the United States overtook Russia as the world's biggest gas producer. The Russian Natural Resources Minister Yuri Trutnev admitted in April 2010 that shale gas is a problem for Gazprom (www.reuters.com 19.4.2010). Despite the challenge, Gazprom's managing director predicted that the company will produce 566 billion cubic metres of gas in 2013, compared with 461 billion in 2009 and the forecast figure of 529 billion

for 2010. Production was 551 billion cubic metres in the peak year of 2008 (www.reuters.com 14.4.2010).

A key problem associated with gas in Russia is still the vast difference between the export price and what is paid in the domestic market. The difference has narrowed somewhat since the early years of the 21st century. In 2009, according to the Russian statistical service, Gazprom invoiced its foreign customers an average of $249 per unit. The unit price on the domestic market at the end of 2009 was, according to the same source, $92. It is, of course, true that prices fluctuate greatly and some sources have pointed to a difference of as much as five times between the prices charged on export markets and at home. In any case, the difference between gas supplied to users abroad and what is sold on the domestic market has narrowed in recent years. Namely, the corresponding differences in 2005 were 400 and 45. The goal the Gazprom has announced, that by 2014 the prices would be levelled out to the point that they are the same, allowing for transport costs, in Russia and on export markets, is still very challenging. Even if the supply of shale gas were to substantially reduce the price of gas on the European market, Russia and Gazprom have a very strong incentive to make gas use more efficient in Russia so that substantially more of it is left to export.

Nuclear power and the electricity market. According to a questionnaire-based survey of Russian companies conducted by the World Bank in late 2008, the availability of electricity was a clearly bigger problem for them than it had been two years earlier (Russian Economic Report 2010). Although there was a clear shortage of electricity in Russia, exports of it to the two key markets Finland and China fell by only 1.7 per cent from the previous year's level and totalled 14.2 billion kWh. By contrast, exports to former socialist countries fell sharply, by 80%, to only 0.8 billion kWh. The income received fell by a third, which meant an approximately 20% fall in the kilowatt price compared with 2008 (www.russia-power.org, 8.2.2010).

In 2006 Russia launched an ambitious programme to build nuclear power capacity. The goal set was to build 26 nuclear power stations. Despite the economic recession, the nuclear power construction programme has remained fairly well on schedule. The first station built within the framework of the programme, a 1,000-MW unit, was officially inaugurated in March 2010. Construction of two more with a combined capacity of about 1,800 MW likewise appears to be more or less on schedule. One of them is a so-called fast reactor. They are planned for completion in 2011-13. A fourth station, with a planned capacity of 1,200 MW is slightly behind schedule. Originally scheduled for completion in 2012, it will seemingly not come on stream until 2013-15. In addition, two other stations are under construction and 10 are waiting

to proceed from the planning to the construction stage. The combined capacity of these, which are planned to come on stream by 2018, will be 14,200 MW (www.rosatom.ru 22.3.2010).

To make up the electricity shortfall, investments in other forms of generation, such as the nuclear power that can only gradually be brought on stream, are very important for Russia. Foreign investments in the sector are also very essential. Their success can even be regarded as a kind of touchstone for Russian trustworthiness. If Russia breaks the promises it has given foreign companies in this sector, it can hardy expect any foreigner to make long-term investments there in the future.

From the perspective of economic relations between Finland and Russia, honouring promises is truly important, because in spring 2008 Fortum bought a majority shareholding in the western Siberian regional hydroelectric power plant TGC-10 for about €2.5 billion. Fortum's exposure in Russia increases to €4-5 billion when the investments that the Siberian plants need and a 25% slice of the TGC-1 hydroelectric power plant are added to the total. The majority of the latter is owned by the gas giant Gazprom.

If only for Fortum's sake, it is very important from Finland's point of view that the development in Russia proceeds according to the A RUSSIA OF CONTRACTS scenario. Promising from this perspective is a speech that Prime Minister Putin made at an energy industry conference in early March 2010. The conference was held in Siberia at the Sayano-Shushenskaya hydroelectric power plant in Khakassi. An accident at this plant claimed the lives of 75 workers in August 2009. In his speech, Putin praised Fortum, E.On and the Italian company Enel for having kept to their promises concerning investments in Russia.

Having first expressed his thanks for the power stations' modernisation plan and to the state-owned and foreign companies, Putin directed harsh criticism at the Russian oligarchs operating in the energy sector. The thrust of his criticism was especially the fact that the oligarchs had not kept the promises that they had given in return for the state subsidies they had received. Putin named twelve companies that had failed to honour their promises. They included OGK-3, which is controlled by Vladimir Potanin's Norilsk Nickel, and TGK-4, which is controlled by Mikhail Prokhorov's company Onexim. Potanin bought OGK-3 for about $2.7 billion, receiving as part of the deal a subsidy of about the same size, i.e. an enormous asset for free. However, the gift was given on the condition that investments would be made in return. Instead of Potanin having made investments with the around $15 billion that he received from selling electricity, he had spent, according to Putin, about $2.2 billion on specula-

tive investments. Putin's message would appear to be that whatever else happens in the Russian economy, promises made in the energy sector must be kept (www.rbth.ru)

There is a strong faith in Fortum that the contracts will be adhered to. Demonstrating this is the fact that the company plans to spend a further €1.8 billion to increase the capacity of its energy company behind the Urals (www.talouselama.fi 9.3.2010). In addition, Fortum's Russian subsidiary OAO Fortum and the Chelyabinsk regional administration have agreed to launch an extensive cooperative scheme to enhance energy efficiency (www.fortum.fi 29.1.2010). According to an agreement-in-principle signed in conjunction with the Russian Energy Minister Sergei Shmatko's visit to Helsinki on 28.1.2010, the parties will implement energy efficiency measures in the Chelyabinsk region in 2010–with the objectives of reducing the environmental impacts of producing and using energy and promoting efficient use of resources.

The most extensive measure in the programme is an automation and basic improvement project for the Chelyabinsk district heating network, as a result of which electricity loss in the region will be reduced by over 30 per cent and fuel consumption as well as emissions will decline substantially. The project is unique in its scale in Russia and will be financed in part by increasing the district heating tariffs that the regional administration regulates. Thanks to the improvements, it will be possible to guarantee consumers an uninterrupted and cheaper supply of district heating.

Fortum also intends to implement several technical improvements to generate heat and electricity more efficiently in its power stations in the Chelyabinsk region. The company has likewise launched a sustainable development programme with the aim of reducing environmental impacts both in the areas around the power stations and throughout the Chelyabinsk region.

PART II

A new Russia of contracts and neighbourly relations[59]

1. New scenario 4: A Russia of Contracts

1.1. The contract-based model and the starting points in making agreements

The reasoning outlined in main chapter I, which examines modernisation, is that Russia could evolve in the direction of a contract-based society. The references to Russian unofficial business customs presented in the article by Riitta Kosonen and Sinikka Parviainen can be understood as having a similar thrust. The most apt reference is, however, to be obtained from Russia, from the military doctrine revised this year. According to the pattern of thinking underlying it, the way in which the Russia to be built on modernisation will rise, strong, as a consequence of the latest reorientation of policy lines is as follows: First the economy will be modernised, something that will support military and foreign policy and through that the country's international status will be strengthened. From this will follow the gradual societal modernisation of Russia, which has gained strength as a state. The objective is clear, but conceptions of the means of achieving it are not.

Looking at the western world, an object of comparison for the Russia being built on a contractual basis can be found mainly in the United States. Unlike in Europe and especially the Nordic countries, the state in Russia is, in common with its counterpart in the USA, strong in the traditional sectors of order and security, but not in sectors belonging neither to the "soft side" of people's lives nor as a distributor of welfare. The state in Russia is a strong executive mechanism. Especially the importance of the courts system as an interpreter of contracts is highlighted in contractual models. The state is not a powerful legislator and will probably not become one. In contractual models, the state may achieve an undisputed position as a dispenser of justice.

Before describing the scenario of a Russia founded on contracts, it is appropriate to look a little at what entering contracts means, what types of contracts have been concluded in western contractual societal models and on what level this has been done. Concluding contracts cannot in practice be restricted only to the economy, or within it especially not to the corporate economy.

[59] Mainly written by Paula Tiihonen, 1.2. Scenario descriptions written by: Kuusi, Smith and Tiihonen.

One of the most important points of departure in thinking on contracts is the contractual relationship between people and the state. The starting point in this unwritten covenant is that people as citizens agree 1) to defend their country, 2) to obey the laws and 3) to pay taxes. The state guarantees the prerequisites for peace and people's wellbeing.

In an ordered and well-functioning society, a societal contract, broad or narrow, has been a starting point for stability and prosperity. In the Nordic countries, the societal contract has been interpreted broadly for the last 60 years. Consensus thinking has been enshrined in broad trilateral agreements - covering not only wages and terms of employment, but also many long-term societal policy matters in the sphere of social policy - between the state, employers and employees. Whereas in contract-centred models the agreements made by people on different levels and with various instances serve largely in their place, in the state-centred model, laws, regulations and the agreements concluded by the state dominate. In the United States, where there is no wish for "Big Government", insurance contracts substitute for a caring state. Insurance policies providing for benefits and compensation ensure protection in the event of injury or an accident, but also illness, old age and disability. Civil society has evolved to an advanced level in this model.

One of the stone foundations of the consensual society is the contract between generations. The generation that is active in the work force provides for children and the aged. Young people know that this task will in time be passed on also to them. In Russia the tradition of looking after one's own especially within the family or clan is strong. However, ageing of the population is already now placing tough demands on this contract.

Contracts on the level of Russia's economy and companies mean that actors in economic life agree what is to be done, how it will be done and how dispute issues will be resolved. What must first be decided is, of course, with whom an agreement will be entered into and who are within the compass of the contract. The legitimacy of contracts is a big and complex problem. The courts can confirm that a contract is binding, but in a democracy and the separation of powers in accordance with it, the means available to the courts are limited in actual fact to exercising influence on a case-by-case basis and after the fact.

"The confused societal situation in the disintegrated Soviet Union in the 1990s led to a lot of contracts with domestic and foreign operators being concluded hastily and with weak legitimation. Factories, even entire sectors of production, buildings and land changed ownership. The 1990s can be called an era of quick and often oral 'deals' – as compared with

carefully considered and prepared written binding 'contracts'. Considering the number of agreements, but overlooking their legitimation and bindingness, at least over the long term, it was a downright golden era for contracts. The 21st century saw a transition to an era of laws and in the 2010s there still seems to be a prevailing faith in the power of laws in many problems even of the kind that it would be better to deal with through a contract or, for example, by means of good administrative practice. The legitimacy of contracts concluded in the 1990s has not yet been resolved, making it difficult for Russian contracts culture to develop. Something that has, in turn, become a problem of abundant legislation is that not all old laws have been repealed when new ones were brought onto the statute books. The law in force is simply vague, which gives extensive opportunities to those who apply it."

A major question of principle is how the contractual model relates to democracy. Can a modern Russia of contracts function at all without democracy? Objects of comparison can be looked for in other emerging superpowers like China and India. They are both among the countries with rapid economic growth. India has had a democratic political system since its foundation. China has chosen its own model. There are a lot of differences between Russia and China, but what is relevant in this context is the difference in leadership. China is led by the Communist Party and Russia by the bureaucracy. Among small countries, Singapore and Korea provide an object of comparison. Both have experienced a rapid economic rise, but differ in democracy.

In the 20th century political democracy established itself as a universal human right, on which it is impossible for those who have embraced the liberal democratic model to compromise. An integral part of it is civil society, the building of which has always and everywhere been a slow process. A certain degree of legal order is easier to achieve than democracy. However, it must be in such a way that a consensual society in which such a fundamental matter of civil law as "ownership" has not been made clear is impossible to conceive of. In general, Russia's transition to a contract-based model is hampered badly by 1) the lack of a tradition of civil law and 2) the weakness of civil society's development as a counterweight to the bureaucracy.

The contract-based model brings practical problems with it as well. One of them is a "juristeria", which means growth in the power of jurists as interpreters of contracts. As contracts increase, there is an accelerating need to obtain ever more precise and at the same time ever more complex contracts, which jurists develop. In Russia, the transition from a strong state led by the executive to a consensual society means that the power of the state's regulatory bureaucracy will decline, but that of the contracts bureaucracy will increase.

Finnish and European companies trying to get into the American market have seen in practice the differences between the "contract cultures" of the two continents and also their seamy sides. Many companies have experienced stinging losses in the American market as a contractual model developed over a long period steamrolled them.

The scope of contracts extends into many sectors of life. What the narrow contractual model includes is that the state's only role is to create a good general framework. Then, for example, education is arranged in such a way that citizens can purchase the education that suits them best if state education is not provided or it is not what is desired. It is general practice in the United States for families even to enter into a contract with the state concerning fulfilment of their obligation to educate their children by arranging education themselves, i.e. as home tuition. Something that is alien to a contract of this kind is the idea of broad collective responsibility for other citizens. Family, church and various voluntary organisations are thought of as carers. State security is replaced by private insurance. It is for this reason that it has proved so difficult to get majority support for a public health care reform project firmly led by even a popular new president.

The American model has brought ample prosperity and success. This model does not serve to lessen the differences between the income, wealth and welfare levels that citizens enjoy. Nor is that its goal. Some citizens have been excluded from the scope of contracts or have not benefited from a contract.

Whether the emphasis in the relationship between the state and citizens is agreement on the basis of taking care of oneself and one's family or collective responsibility, it is essential in all societal models to ensure that the society remains cohesive. The question is of what at base people rely on in their own activities, on what the general rules of the game are founded and why they are observed. To simplify the matter, it is possible to distinguish four forces that guide and bind people: 1) fear, 2) self-interest, which often manifests itself as money, 3) honour and 4) the general and common interest. What is of essential relevance is how the Russians will develop with regard to these in the envisioned Russia of contracts. It is a question of building a sustainable identity for themselves.

Concluding contracts is something that is linked to culture. The Russians have experienced in the course of their history that generally speaking not much good can be expected from representatives of state power wielded from above in everyday life at least. What was important instead was to trust another Russian, a relative or a friend. One of the ways in

which friendship can be reinforced is by exchanging gifts in a fair proportion. This can be done also with a police officer controlling traffic, provided he is interpreted as an individual rather than as a representative of the state. That is why corruption in Russia is not a simple matter. It is an "everyman's contract to ensure smooth expedition of matters".

The key idea behind a contractual Russia is that binding agreements are voluntary, not based on edicts. When a contract has been voluntarily made, it is also expected that it will be adhered to irrespective of the relations of power between those who have entered into the contract. Even when one of the parties to a contract is the state, it is assumed that it, too, will honour it also in a situation when disputing the contract would be to the state's benefit. This means that the state or its representative must not promise anything that it cannot honour. On this point the contractual model encounters an almost insurmountable obstacle in Russia. The ruler with his machinery, from the times of the Czar and the Central Committee of the Communist Party to the present day, has been a completely overwhelming wielder of power. The power of the party has culminated in a strong executive. The fundamental and civil rights of citizens as well as especially the view that a citizen can triumph over the state in a court is an entirely new phenomenon. In actual fact, even in Finland it is only through the EU Court that in some everyday matters a citizen has finally been able to gain a victory over the state.

However, the fundamental idea of a contractual Russia is, notwithstanding the obstacles outlined in the foregoing, that one can set out from below to build a society free of corruption. Then what has to be done is to strengthen the procedures and institutions that support adherence to contracts that citizens have made between themselves and those made between citizens and institutions.

Just as elsewhere, citizens' influence can increase considerably also in Russia as 1) consumers and 2) taxpayers. The Russians as consumers have already become accustomed to demanding not only goods and services, but also quality. The same raising of the level of demand is possible for the Russians as taxpayers. Especially in a situation where oil revenues are dwindling, citizens assume that many of the services that society provides will continue based on tax revenues. In particular the well-educated middle class that has become prosperous is probably prepared to pay taxes, but not unconditionally. Tougher quality demands than in the past are being placed on the other party to the so-called tax contract, i.e. the state. There must be a return for tax funds paid and they must not be wasted. In the best case, the ascendant middle class will further demand that in the societal contract tax funds must suffice to take

care of the most disadvantaged. The contractual posture of this ascendant middle class contains the opportunity of reducing both red tape and corruption.

What is naturally of essential importance in a contractual Russia is the making of international-level agreements, in which there are also elements of collective responsibility and protecting one's own, in this case national, interest. How does Russia participate in agreement or programmes sponsored by the EU, the UN, the WTO, the OECD, the IMF or other international actors and with whom does it ally itself in them? On the international level a distinction can be made between actors basing themselves on a tradition of international law and those for whom the foundation is a new and looser contractual culture. Among the latter, the so-called UN summits on everything from children's rights to the information society became important in the 1990s. The intention at these conferences is to make major international agreements instead of the UN's decision-making procedure proper and permanent decision-making forums. In recent years, the so-called G-meetings in their various compositions have become effective wielders of contract-based power.

Something that has been becoming common practice in international relations is that like-minded states or other actors meet to agree among themselves on matters. Selective agreement among the like-minded is practised also within established organisations. That is what is done within the UN, but also within the EU. These meetings are not public, their representatives are not elected and the relations of power in them cannot be defined. Unofficial gatherings of heads of state are characterised as clubs of like-minded states and the power they wield as diplomacy without diplomats.

Russia has not belonged from the beginning to that most influential unofficial grouping of states that think alike the G7 nor to its precursor the G5, because these came into being as a consortium of political democracies during the Cold War era. The finance ministers of the USA, the UK, West Germany and France met at the White House in 1973, inviting also Japan to join their "library group", as it was called. In 1975 it became a group of heads of state that met annually. Italy joined in 1975 and Canada in 1976, when the group got its new name: G7. The EEC was given its own place there in 1977. Russia began receiving invitations in the early 1990s, when the name of the forum was changed to G8. Russia officially joined in 1998. India, China, South Africa, Mexico and Brazil acquired observer status in 2005, and the name began to metamorphose into G8+5. The G77 of neutral and developing countries had already been founded earlier, as well as later the G21 as well as the G20, G22 and G20+, but all of

these have remained marginal. The G20 has, of course, strengthened its position in conjunction with handling the 2009 global financial crisis.

The latest forum of contractual power is the G2 comprising the USA and China. At the long and thoroughly prepared for UN climate conference in Copenhagen in 2009, leadership, great power status and making alliances became, in the final metres, the key to a solution. The EU had set high objectives and wanted to direct the negotiations, but the USA did not go along; Russia as a strong power with its energy resources was seeking its own place, and China demonstrated its rising superpower status by meeting with several developing countries, bypassing the USA. In the end, the USA and China began finding common factors. In the future, the USA and China may agree among themselves on matters that affect all of humankind. Russia, but also the whole of Europe including Finland are outside the G2.

For the Finns, as Russia's neighbour, what comes above everything else in international policy on contracts is security. Preventing the spread of nuclear weapons and their falling into the wrong hands are well-known common subjects of agreements between great powers. In the military doctrine unveiled by Russia this year, the Collective Security Treaty Organisation (CSTO), the participating parties in which are Russia and Belarus, Armenia, Kazakhstan, Kyrgyzia, Tajikistan and Uzbekistan, is given a more important position than earlier. The treaty originally dates from 1992. A mention of rapid reaction forces was added to it in 2009. With the aid of the new military doctrine, Russia is announcing that through the CSTO is has its own military alliance with a collective defence obligation corresponding to that provided for in NATO's Article 5. Russia has also given notice that it is ready to defend its own interests and the security of its citizens outside its borders if necessary by use of military force. Millions of Russian citizens live in states that became independent after the dissolution of the Soviet Union. The Russians remind critics that the policy is the same as the one to which the United States has committed itself. The United States has in practice implemented it in attacking several other countries in the name of the "War on Terror". France has done the same in using its armed forces to defend its citizens' security in its former colonies. Russia is of the view that the rest of the world needs its input in global operations and combating terrorism (this theme was dealt with in the journal Idäntutkimus 1/2010).

In no country has the state leadership published its most important agreements. The history of diplomacy is the history of secret treaties. What is involved in a contract is trust. The "balance of terror" of the Cold War era is also a kind of contract. It is evident that in the struggle

against terrorism a contract of "tacit approval" similar to the one that existed between the superpowers in the struggle against nuclear war is evident in the struggle against terrorism.

This contractual Russia will not only have to choose which organisations, institutions and networks it wants to participate in, but also by specifically agreeing who are its "like-minded" contractual partners on each given level, in which region, sector, matter or over what time span. Also involved in making agreements are such of the elements highlighted in the foregoing as self-interest and collective responsibility, a variety of fears as well as the requirements of decent behaviour. All of this presupposes the building of a strong and clear identity.

Russia's geopolitical status as a contractual partner vis-à-vis other states, especially the great powers, is exceptional. The country has a rapidly shrinking population of 140 million (2% of the world total) and its economic importance is relatively minor. Not even immeasurable natural resources will be enough to make it a superpower in the future. But because its land area is so vast that its neighbours are states with many billions of inhabitants, peaceful and restless, developing and regressing (the trans-Atlantic bloc, China, India and the Middle East/Islamic world), its power position as a contractual partner will be indisputable.

If Russia begins the transition towards being a consensual society, it will have to compete in a race with its old and new contractual obligations. The problems that ageing of the population is causing for the intergenerational contract were mentioned in the foregoing. Similarly, serious shortcomings in the present liberalist democracy, which covers only politics, can be seen everywhere in the western countries. Taking the hegemony that the economy has achieved into consideration, it is problematic that a discourse on its relationship to democracy has not properly begun even in western countries. Citizens' trust in political democracy, on the one hand, and the true power of politics, on the other, are far too weak in view of future problems that will demand solutions. Distribution of income and climate change are examples of these. Climate change may also undermine earlier contracts that have guaranteed economic growth and wellbeing. It can even be plausibly argued that the biggest contract lies ahead when humankind has to agree with nature on what our shared future is to be. The preparatory work for this contract has not even been properly commenced in Russia.

1.2. Scenario 4: A Russia of contracts[60]

In the report summary, A Russia of Contracts scenario is positioned relative to the three scenarios of Russia 2017. The Russia of Contracts is not the prediction though it is told by an assumed historian of the year 2030. The new scenario belongs to the "futures map" of Russia beside the other scenarios discussed in the report summary. The futures map is useful if it helps decision makers to make better choices than without it.

Scenario story

The economic recession that began in 2008 demonstrated the Russian economy's close dependence on the world economy. Although Russia coped well with the recession in view of the circumstances, its effects on modernisation assumed centre stage in the discourse on Russia's development. The national leadership argued that, if it continued to do things the way it is now, Russia could not be a great power in 2030. An economy founded on dwindling oil reserves, deteriorating infrastructure and obsolete production facilities was slowly but threateningly atrophying. It was also difficult to attract foreign investors to a country that lacked the protection that a modern market economy gives investments.

It was fairly soon realised that modernisation demands a lot more than investing money in developing modern technology and legislation that punishes corruption. The Rusnano company did not become an important impelling force for high-tech production in Russia. The laws enacted to root out corruption in the police force led to hardly any improvement in the situation.

The Russian leadership noted that modernising their country would be a long process that would call for patience. A milestone in the development was President Medvedev's policy-outlining speech "Russia, forward!" in autumn 2009. In it he stated: "I intend to cause disappointment to supporters of constant revolution … There will be changes. They will be gradual, considered, stepwise. But inevitable and consistent."

The difficulties encountered in getting high-tech production under way demonstrated that technical know-how does not guarantee success in production that is demanding or presupposes creativity. This kind of production requires long-term commitment, which in turn calls for trust and predictability of activities. Building a new kind of corporate culture is central. Instead of an authoritarian command culture, initiative must be favoured and dissenting views

[60] The scenario was drafted jointly by Osmo Kuusi, Hanna Smith and Paula Tiihonen.

tolerated. A key insight was that the state could play a direct role in modernising large companies that are of central importance for the Russian economy. For small companies and foreign-owned ones, by contrast, what was most important was a free operating environment. Of central importance were simple legal provisions that could be unambiguously interpreted.

When success was not achieved in dealing with arbitrary police actions by means of legislation, a different kind of operational model was arrived at. The stimulus for the new policy came from citizens' feedback to President Medvedev's Internet site. In August 2009 the President brought up the theme of anti-corruption measures. The result was about 6,000 feedback messages. Everyday situations in which corruption manifests itself were reported in many of them. Testifying to the willingness of citizens to grasp the problem is the fact that this theme attracted more comments than any other of the discussions that the President had initiated. Indeed, it attracted more than even Medvedev's "Forward, Russia!" policy-outlining speech; with the about 5,000 comments that it received, this was nevertheless the speech that attracted most comments.

Inspired by the corruption-related feedback that Medvedev had received, a web site was opened to allow people to report anonymously situations in which officials dealt arbitrarily with clients by means of contradictory regulations or on the basis of a difference between established practice and a legal provision. It was especially emphasised that, instead of views of principle, what was being looked for were concrete suggestions as to how improvements could be made. Initially, improvements were sought in relation only to minor matters, such as whether a customs official allowed a bus passenger to walk to the tax-free shop at a border post or whether someone who had already gone through passport control should wait for a bus to be taken there. Newspapers picked up minor articles reporting shortcomings and published them in special columns, which broadened the discussion to include also those who did not use the Internet. That way, many ambiguous and mutually contradictory laws that generated everyday arbitrariness were corrected. Many of them dated from the Soviet era.

When citizens noticed that their comments were leading to measures, the web pages began to be congested. More and more complaints began to be made about also high-ranking persons. Something that became increasingly challenging was ascertaining what accusations were founded and which ones were not. Due to congestion and false accusations, especially officials demanded that the site be shut down. However, a temporary closure caused a major furore. The Russian political leadership increased its popularity with the people a lot by reopening the site.

In the 2010s, a lack of trust was a barrier to the private investment that the Russian economy sorely needed. Only few foreigners or Russians who had invested their money abroad dared to make long-term investments in the country, because they could not fully trust the written contracts they had concluded. In the early years of the 21st century, even big investments were declared unlawful by invoking contradictory legal provisions. In practice, the power of the strong, in which those with the most resources or the best relations with the administration, prevailed.

The risk premium levels for investments were very high at the beginning of the 2010s. However, the reforms, to be described later, that were introduced early in the decade changed the situation into one where foreigners could invest in Russia at considerably lower risk. In general, the prerequisites for especially small-scale enterprise improved substantially in Russia in the course of the 2010s.

The Russian government decided after the 2012 presidential election to introduce an extensive legalisation process for contracts that private persons or companies had concluded. The year 2000 was defined as the cut-off point in relation to which contracts concluded before or after it would be treated differently.

Under the reform, contracts concluded before 2000 were interpreted as deals the fairness of which could be called into question. The reason for this decision was the exceptional circumstances of the 1990s, which had produced many unfair solutions. By contrast, to bring clarity to the situation, every written contract concluded after 2000 was interpreted according to its letter. It was separately decided that no contract more than three years old and concluded since 2000 could be challenged as contrary to legal provisions.

A contract concluded before 2000 could be disputed not later than the end of 2013. Used as the starting point for assessing the fairness of contracts were the laws enacted for this purpose in 2012 To prevent pressure, courts comprising members whose identities were secret were constituted to assess the fairness of disputed contracts. Persons who had no ties to the quarters defined as national elites were chosen as judges. Although lawsuits on disputed deals were initiated in 2013, the final decisions were made only during Medvedev's second presidential term after 2018.

One case that contributed to the turn of events in 2012 was a dispute about the Rechnik settlement land. At issue was a 1998 court decision by means of which the City of Moscow took the land away from long-term residents. They began being evicted from their homes in Janu-

ary 2010. The decision was questionable to say the least, because the City of Moscow did not interfere with a residential area inhabited by wealthy people and with the same legal status. The evictions were halted when President Medvedev, after polemical writings in the press, asked the prosecution authorities to re-examine the matter. Also very important from the perspective of the rule of law was his strong support for courts that in the proceedings to evaluate fairness that began in 2013 handed down decisions that were disagreeable from the point of view of those in power. In particular his courageous support for the right of a Chechen who had fought against the Russian army to own land prompted many to really have faith that also the weak could obtain justice in Russia.

What became the biggest problem in the 2012 legislation were the laws that were still on the statute books in Russia, but had been enacted during the Soviet era. Something that proved especially awkward was that the Russian constitution enacted in 1993 did not correspond to the prevailing conditions. To improve the general credibility of laws, the constitution had to be brought into line with the prevailing reality. This was done, although it prompted heated protests in the EU and the United States.

Progress along the chosen road has by no means been unproblematic and the patience and determination that President Medvedev stressed in 2009 has been needed many times. Absolute prerequisites for progress have been stable political conditions in Russia and the mutual trust and cooperation between Medvedev and Putin that have proved seamless. They have alternated in the presidency. Putin became President in 2012 and now, in turn, assumed the prime ministership. In 2018 it was again Medvedev's turn to take over as President.

The good cooperation between Medvedev and Putin notwithstanding, the modernisation process occasionally advanced only in fits and starts in the period 2012-18. The reason for this was the difference between the values to which two different generations of Russians subscribed. The forces behind Putin had become adults during the Soviet era or in the chaotic years of the early 1990s. Medvedev, who during his term as Prime Minister bore the main responsibility for measures to increase respect for laws and contracts, sought his support from the new generation of lawyers and actors in the IT sector. It was only in 2018 that the generation he represented final began to gain the upper hand over the young adults of the Soviet era.

Now in 2030, Russia is substantially different from what it was in 2010, even though corruption and an extensive black economy have by no means been eradicated. The principles on which the rule of law is founded began strengthening in Russia during this period. Perhaps the

most important cultural change has been a rise to the forefront of Russian joyfulness and a retreat into the background of fear of those in power and a passive resignation to fate and shortcomings. From the perspective of changing the atmosphere as well as a newer more creative and more democratic corporate culture, three successful companies have been important trailblazers.

The first success story is that of the VOLGA potatoes that have conquered the European market. Scientific research has demonstrated that they genuinely lengthen life expectancy. However, the most important success factor has been a marketing campaign launched with pungent Cossack humour. It can even be said that a small entrepreneur's miracle potato has made Russianness a fashionable thing in an ageing Central Europe. McDonald´s put VOLGA potatoes on its menu as an alternative to French fries.

The way in which the second success story – the resurrected ZENIT camera – came about was that a large company operating in the raw materials market wanted to try financing a crazy idea. The professional managers of the company, which was run in an authoritarian fashion, found it difficult to stomach the "young undisciplined money-squanderers", who developed a new version of the old camera based on an analogue principle and Finnish carbon nanotubes. However, the company's owner took a shine these "nuts" and poured loads of money into their company without even expecting a return from his protégés. However, it turned out that the camera became a global hit product and the oligarch discovered that he had become even richer.

The third successful product, one that has attracted less attention, is RUSKOPTER. This helicopter is the outcome of systematic, long-term and critical work by young researchers. The success of its developers in their work gradually changed a community of workers who were frustrated under an authoritarian management into one proud of their own work and able to respect what others were doing. RUSKOPTER's breakthrough came in 2020 when it received a large order from the United States. Its special strength was its ability to operate in a variety of difficult natural conditions.

In foreign policy and Russia's external relations the period 2012-18 was a time of status quo precisely because of the re-ordering going on within Russia. However, the Russian economy has been constantly strengthening, making it possible also to continue to strengthen the armed forces that are so centrally important to Russia's national self-esteem. Conflicts have by no means been avoided in the area of the former Soviet Union. The possibility of the rule of law

principle strengthening in Russia was created by a rapprochement between Russia and the West.

2. How neighbourly relations will develop?

The following sections are a continuation to the article "General doctrines and operational models in policy on Russia" in the 2007 scenario report (Russia 2017, pp. 47-54). The focus of examination then was on the ways of thinking adopted in Finnish policy with respect to Russia. History was an important matter to Paasikivi in relations with Russia. Also adopted as a starting point in the article was that 100 years of shared history and 100 years of being neighbours create a foundation for the next 100 years. For this reason, a matter pondered in the article was what such doctrines and ways of thinking as the tradition of a strong state, legalism, democracy and freedom, power politics, Realpolitik, loyalty, the right of small peoples, universal morality and cosmopolitan interest have meant in relations with Russia.

Neighbourly relations are linked to building the nation, identity and vision of the future. No people has a secure and good future unless it is able to build a strong identity for itself. Ideally, an identity is built on a foundation of one's own strengths rather than enemy images. The history of the world shows, however, that an enemy image has belonged to the core of national identity. We need to analyse the foundation on which national identity is built, i.e. what group or culture people have wanted to belong to at any given time and to which they wish to continue to belong. Relative to Russia, Finland is a young nation. Both will have to clarify the picture of the future on which they will build their nation.

The objective in this neighbourly relations with Russia project was to write about, alongside Finnish perceptions of the future of Russia, the pictures that Russians have of the future of Finland – specifically as made by them. However, we did not succeed in this. Nevertheless we can examine where the ways in which the neighbours outline the future have at various times differed most, accorded with each other and to what degree can continuity be seen. It is possible that through this route we shall perhaps achieve a live dialogue on the future between today's makers of policy on it – including parliaments.

2.1 The Finns' view of neighbourly relations is defined by uncertainty and reservations

At any given time, people and the state leadership representing them have had some or other conception of the future. This applies also to relations between Finland and Russia. A brief and very simplified review of how Russia has been seen in Finland as a neighbour at intervals of 50 years is presented in the following. Also pondered a little at the same time is how well

the following 50-year period could be outlined in advance. Since modernisation is nowadays seen as the source of Russia's future power, we go with this theme in the historical part as well.

The review of the Finns' picture of Russia covers points in the 200-year history of neighbourly relations at 50-year intervals: 1809, 1859, 1909, 1959 and 2009. At this stage and especially since we failed to get an equivalent Russian evaluation, we had to be content with just general openings, illustrative glimpses and cross-sections.

a) 1809: Subjection to Russia permanent or temporary? The first phase of a century-long future in political union, a period in which Finland was given autonomous status, came unplanned. No one in Finland understood when the Russian's crossed the border in 1809 what it would mean in the short term, much less what the long-term implications would be. The whole situation, the war and the transfer of the Finns to the status of the Czar of Russia's subjects as a part of European great power politics came as a surprise to all. The men of Anjala and the signatories to the Liikkala Note had already earlier outlined utopian visions of an independent Finland, but no one took these scenarios, alternative for their, time for real.

When Finland had been annexed to the Russian Empire in the legal sense in the Peace of Hamina in the autumn of 1809, there was a sense of uncertainty about the situation. People had been under the rule of the King of Sweden for 600 years; no one could guess how long the Czar of Russia's period of power would last. The picture of the future and the picture of the neighbour were unclear. After all, Sweden decided (1809; confirmed in 1812) not to interfere in Finnish affairs, and did not want Finland back. The Finns did not know that yet in 1809.

A small part of the elite fled to Sweden. The situation calmed down fairly quickly when the Czar conspicuously came out with his "policy of pacification". It was promised that privileges and achieved benefits would be preserved, civil servants were awarded large salary increases and the educated classes were given numerous offices and lavish sums of money. Finland was given its own administration and economy. In fact, an image of fear didn't really have time to coalesce properly. The peasants feared that they would be deprived of their land and freedom, but the Czar promised them freedom and that serfdom would not be introduced. The right of ownership was preserved and a promise was given that the legal system inherited from Sweden would be respected. The elite were satisfied with the benefits they had achieved. The common people remained apprehensive.

According to Professor Päiviö Tommila, contemporary conceptions of a good Russia and of a relationship to the Czar that approached idol worship are aptly reflected in press articles written to honour the Czar Alexander I's visit to Finland. The benefits that Finland had gained through her "happy unification with the Russian realm under the sceptre of Czar Alexander" were subserviently depicted. A song sung in folk poetry went: "To be mentioned as the father of our Country/From our great Grand Duchy/Our quite beloved Czar". Tommila continues: "also in Finland there began a decades-long period based on official authority. The interpretation of the concept of Finland that the first generation of builders of the autonomous state adopted triumphed over that preferred by the younger generation. There was still no place for civic activity and attempts to build a national identity founded on the Finnish-speaking common people in a society where the key identity factor was the civil service." (Päiviö Tommila: Suomen autonomian synty 2008, pp. 176-177).

Russia's view of its own identity in the early 19th century can be summed up in simple terms as having been a strong desire to change into a modern realm like the great powers of Europe. The Czar, the young Alexander I, who had been inspired by Enlightenment philosophy, wanted a clear orientation towards western ideological currents. However, the leading elite in Finland adopted a doubtful attitude towards the ideas of the Enlightenment philosophers and liberalism, and clung tightly to the Swedish tradition. All in all, these pictures of the future must be regarded as common to both neighbours.

Summa summarum: The Finns' picture of Russia and the picture they had of the shared future were naturally uncertain in 1809, but with positive expectations. The hope was that the Czar's promises would be kept and that all of this would be true.

b) 1859: Europe was looked to during the era of flourishing neighbourly relations. Finland had been a part of the Empire for 50 years. In that time it had consolidated its position, although the liberal-minded Czar had been succeeded by the strict observer of military discipline Nicholas I, who reigned until 1855. He kept the promises that Alexander I had made. The essential aspect of the first five decades was that the Finns had escaped from constant wars. The economy had begun flourishing and administration was in their own hands.

All of the Finns' interests were bound up with the ruler. The change of Czar from Nicholas I to Alexander II in 1855 was a major matter, causing political and administrative changes that had been virtually impossible to see in advance. When he ascended the throne, the liberal- and

fresh-minded Alexander II had wanted to conspicuously influence the future, make the future. With the future-related proclamations of his time, of which the most important was the reform programme that he dictated into the minutes of the Senate in 1856 and the politics he practised, the Czar created a climate in which reform-mindedness quickly gained sway. A model was now actively sought from Europe, including ways of thinking.

In this second 50-year period the governments of both Russia and Finland wanted to become part of the industrial transition that was rapidly developing in the West. An economic reform programme and a liberal political climate in Finland provided the impetus for general prosperity and economic flourishing, which the separate Finnish currency introduced in 1860 well symbolised. The construction of railways, the Saimaa Canal and a road network as well as the emergence of the press created the prerequisites for economic growth. The various parts of Finland grew together. This created a foundation for the birth of the Finnish nation, the development of culture and rising national awareness. There was a belief in the power of education. Science, technology, art and culture were seen as matters of modernisation.

In Russia, the reforms that Alexander II had launched foundered in the 1870s on internal terrorism, which restored a belief in autocracy and engendered fear of liberalism. The government of the Empire put an end to the development of political liberalism also in Finland. This and a tensing of relations in the 1880s prompted fear in Finland. The unity of the Finns and their national identity strengthened. On the whole, the latter half of the 19th century must be regarded as a period of regression, of which the characteristic feature was mistrust, in the interaction and neighbourly relations that had developed between Finland and Russia in the early part of the century. The national self-awareness that had gained strength in both countries caused mutual sullenness and even hostility. In both Russia and Finland, identity was built on a foundation of mistrust.

Summa summarum: The Finns' picture of Russia and of the shared future was reserved in 1859, but mainly still positive. From the 1880s onwards it acquired doubting and fearful features.

c) 1909: Political stirring and political turmoil in Europe increased fearfulness. As always in periods of major political upheavals in society, fear began to dominate the Finns' picture of Russia. Whereas what had been involved in the earlier 50-year period had largely been a desire to be allowed to preserve the old status, with which people were fundamentally satisfied, what now gained sway was dissatisfaction. The Finns realised that they were not

being allowed to develop the own conditions in the way they themselves wanted. The working class and the labour movement representing it emerged as a new group creating the picture of Russia and determining relations with Russia. The movement adopted a critical attitude to authoritarian Czarist power. The labour movement everywhere in Europe wanted to depose monarchs, attain power and change the structures of the economy.

The same thing happened in 1917 as in 1809: great-power politics opened a window for Finland. This, too, had been neither foreseen nor planned.

The Bolsheviks' rise to power in Russia and the spread of communist revolution to Finland aroused fears in the Finns. It was also feared that once the Soviet Union had strengthened its position it would want to get Finland back into its sphere of power. The support that the Finnish communists received from the Soviet Union added to this threat image, which the government and citizens shared.

From the perspective of Finland's political development, it was essential that the perception of Finland's eastern neighbour became a clear and important watershed inside Finland. The Bolshevik big neighbour meant hope to the radical labour movement, fear to others. Although radicalisation of the working class was a pan-European phenomenon, it had not been foreseen that a revolution would take place in Russia and the communist dictatorship that it gave birth to came as a surprise to all. The Russian Revolution made it possible for Finland to emerge as an independent state, for which adequate advance preparations had not been made. The two world wars that happened during this period were likewise unforeseen.

For the Finns, the years after 1917 were in general a period of fear. In the building of an identity, roads diverged. Finland wanted to continue belonging to Western Europe, but the Soviet Union began building its own socialist superpower from within. It closed its border to non-socialist Europe. It severed also its personal information and cultural ties to the West. Personal unions and kinship ties to Europe vanished as the imperial family, the aristocracy and the bourgeoisie were destroyed.

The pace of societal change has fluctuated from one period to another. Besides, people in any given period are also blind to the significance that changes in their own time will assume over the longer term. Surprisingness and coincidence are a part of Finland's security path and exceptionally many of these elements have fitted into this 50-year period: the Russian Revolution, Finland's achievement of independence, the Finnish Civil War, two world wars and the Cold War that begun in the 1940s. In the international sharing out of spheres of power

and interest Finland was also in this period the focus of what was largely nothing more than superpower politics. The redrawing of spheres of interest that had been done in 1809 and 1917 repeated itself several times during this period. Despite the difficult starting conditions, the small state's realism-based statecraft skills and well-managed neighbourly relations have decided what shape the future has assumed over the longer term.

Summa summarum: The Finns' picture of Russia and the shared future was fearful in 1909 and the fears did not vanish throughout the period. There were several years of war during this period (1914-1918 and 1939-1944). The Soviet Union was an enemy against which the Finns fought as a single front from November 1939 to August 1944.

d) 1959: A period of major cooperation projects in the shadow of fearfulness. The characteristic features of neighbourly relations in 1959 and the decades that followed it were, on the one hand, major state-run cooperation projects, investments in a long-term shared future, and on the other, fear and mistrust on the part of citizens towards the new friendship policy. A united people's experiences of the war could not be wiped from the mind in an instant by declarations and agreements. The most essential theme of suspicion was the difference between social and economic systems.

No one in Finland saw the two things in this period that were most important from the perspective of relations with Russia: on the one hand, the continuation of the Cold War until the end of the 1980s and, on the other, the suddenness of the Soviet Union's disintegration. The Finns' weak ability to foresee their own future can not be blamed for this, because the disintegration of the Soviet Union was a part of the Cold War economic struggle between the superpowers, in which the socialist economic system and the political dictatorship associated with it suffered defeat by the capitalist economy and liberalist democracy. As in 1809, 1917, 1939-44 and 1947, also now great-power relations determined Finland's international status.

What was essential with building an identity in mind was that throughout the period Finland strictly guarded, alongside her official ties of friendship with the Soviet Union, her relations with western economic integration and clung to a liberalistic conception of democracy. The Finns' picture of the future as identity building deviated from the Soviet Union's picture of the future. On the official level, relations between the neighbours were very good during the period that the Treaty of Friendship, Cooperation and Mutual Assistance was in force. Finland wanted and also managed to be a friend of both the East and the West. Coexistence was

practised in a formally disciplined manner without glancing at any new opportunity. Both calculated their own interests. There was no reason to dream of anything else.

The fearful picture of Russia that persisted in Finland for a long time had extensive consequences; they cast a shadow on the ways of thinking of both countries' governments. Something that could be completely overlooked in even the broadest vision of the future of Finland was the development of the Soviet Union. A good example of this is a book about the Finnish economy in 2010 that was written in 1981 by President C E Carlson of Sitra, the Finnish Innovation Fund, a body subordinate to the Eduskunta. Carlson outlined two scenarios, in which he insightfully predicted at a range of 30 years, among other things, the decline of the Finnish forest industry and the reasons for it. The agricultural population's share was predicted to be 6%. The view taken in the report was that rationalisation of agriculture had changed Finland's regional structure into something reminiscent of the 16th century. According to Carlson, Finland would have "thinly scattered concentrations of habitation and between them extensive uninhabited wildernesses" (pp. 134-135). Optical cables and picture telephones dominate communication between both offices and homes. In their hands people would have flat display terminals for keeping in contact and searching for information; it would replace books and newspapers. All of this has been predicted quite aptly, but the Soviet Union is completely absent from it.

Finland has acted swiftly and flexibly during upheavals in neighbourly relations. When the Russian Revolution was taking place, the Finns declared themselves independent. When the Soviet Union was falling apart, the government pointed out that the Treaty of Friendship, Cooperation and Mutual Assistance, by the importance and perpetual character of which the Finns had sworn for 40 years, was history and no longer determined Finland's relations with her eastern neighbour.

However, the Cold War era left traumas in the Finns' thinking on Russia. The worst has been an attempt to lightly negate the foundation on which an entire generation based its relations with Russia. In politics and the economy, going along with the Soviet Union with its Treaty of Friendship, Cooperation and Mutual Assistance was the survival model for its time. The subsequent declarations outlining how this high-level friendship was only a "stage set" after all are what make the matter a problem. It cannot be assumed that citizens will be able to wipe memories of the official foreign and trade policy pursued for nearly half a century from their minds in an instant. Building a nation, identity and neighbourly relations is founded on the

political and economic leadership acting in accordance with the values, goals and policies that they have proclaimed.

This does not exclude the wisdoms of statecraft sustained and developed by old, and in part eternal, political doctrines. The aim in good politics and neighbourly relations is to achieve a tolerable synthesis under the pressure of many counter-forces and contradictions: choices have to be made between idealism and realism, the national and international good, practical sense and general moral demands, pursuing one's own and the general interest, the interests of small and big states and many enemy and friendship images.

Summa summarum: The Finns' picture of Russia became differentiated, but the underlying tone had become fearfully hopeful.

e) 2009: To what will pictures of the future fasten themselves? Official pictures of the future can now depart in clearly different directions. Finland can be seen to be integrating more closely with the West as Russia remains in its old positions.

The market and the economy seem to have been separating into a world unto themselves ever since the 1990s. A part of the business elite in Russia were strongly committed to the West as soon as the border had been opened. Rapidly coupling businessmen to the West is causing identity and credibility problems for the picture of the future on both sides of the border. A good picture of the times is provided by the purchase of the British newspaper The Independent by the Russian billionaire Alexander Lebedev in spring 2010. Lebedev, who is a former employee of the Russian security service tasked with monitoring foreign communications, acquired his wealth in the banking and aviation sectors. He owns the newspaper Novaya Gazeta, which is in part critical of those who hold power in Russia, and says newspapers are not a business for him, but rather an obligation. Looked at more broadly, an important question is prompted: if those who got rich quick in conjunction with the disintegration of the Soviet Union do not enjoy complete trust as owners and contractual partners, how will it be with the next generation? What will the attitude be to well-educated young Russians who speak foreign languages and have legally inherited their fathers' firms?

Based on modernisation, a lot has been loaded onto Russia's present leadership in the picture of the future. As it is transformed into reality, Russia's latest modernisation goal provides a new direction for the country. In a historical examination, points of comparison can be found with the reform proclamations issued by Alexander I in 1809 and Alexander II in 1855. Finland as a neighbour has benefited and is benefiting a lot from modernisation in Russia.

Finland's optimistic picture of the future is founded on European renewal, alongside which the modernisation of Russia is advancing.

Looking at today's starting points, Finland is closely involved in western integration. At the same time, the picture of the future Russia can be seen to be taking shape more and more clearly through USA-EU-Russian relations. NATO membership has long been a prominent issue.

Despite changes of government, the majority of Finns have had reservations about commitments to the West and in this especially to NATO membership. This is explainable by the caution that history has taught us to observe in our dealings with Russia. A question still being asked on a practical level fairly often is: How will we cope with Russia? It is typical of citizens' picture of the future that a majority that is of the same size and remains stable (nearly 60%) of the people state in opinion polls that they oppose NATO, foreigners coming to Finland and reducing the powers of the President in the sector of foreign policy. Over 60% of respondents in the latest Helsingin Sanomat poll took the view that NATO membership would weaken Finland's relations with Russia. Only a fifth of citizens feel that Russia is a great or fairly great threat to Finland.

The Finns adopt quite a practical attitude towards the world and changes in it. They do not see military confrontation as at all probable irrespective of whether Finland is a member of an alliance or not. If one had to name a single threat image, seen from the perspective of an ordinary person, in relations with Russia, it is most obviously a situation in which threats that are individually fairly improbable unfortunately coincide. What is involved is neighbourly relations at their most concrete – the border.

Finns have become accustomed since the Second World War to trusting that good neighbourly relations mean the 1,000-kilometre border – although it is one of the world's steepest gaps between standards of living – will firmly endure. Russia has kept its extensive frontier zone uninhabited, roadless and extremely tightly guarded. If the frontier were to become a border with NATO and if Russia took the view that it no longer had the same reasons to guard its border with its neighbour in the same way as earlier, what would happen? The Russians love their country, but what is there to prevent a mass of people who have suffered hardest of all flowing through Russia to Finland and on to the rest of the EU countries from the world's war-torn areas, regions where the economies have collapsed, failed states, famine-stricken areas or regions devastated by future climate catastrophes?

Immigration and with it the status of minorities have become significant issues in Finland only since the turn of the 21st century. There were 20,000 immigrants in the country at the beginning of the 1990s, but the total had increased to 200,000 a decade later. The biggest minority group consists of people with a Russian background, of whom there are now 40,000 and who are forecast to number 100,000 by 2030. The number may be considerably greater than this. The Statistical Centre has estimated that Finland will need about a million immigrants by 2025 in order for the dependency ratio and services structure to be maintained at even their present level.

We are unable to see the future, but we know what is being said about Russia's new military doctrine announced in February. The border is an important matter. Russia defined NATO's eastward enlargement and its new policy concerning its global powers to undertake military action independently of decisions by the UN Security Council as an unambiguous military threat. Also seen as external threats are the countries that belong to NATO and with which Russia does not have border agreements (Markku Kangaspuro, editorial, Idäntutkimus 1/2010).

Summa summarum: The Finns' picture of Russia and of the future of neighbourly relations was in 2009 quite unvarnished, perhaps at the same time also of little significance, neither positive nor negative. In the 200-year-old relationship between the neighbours, there has been a return to the starting point, i.e. a state of fairly neutral uncertainty. The difference is that in 1809 the keys to making the future were of necessity in the hands of a great power, i.e. the ruler of Russia. Now there has been a willingness to give some of the keys to the EU in the belief that "belonging to a superpower" will bring benefits and collective strength.

2.2 Neighbourly relations in the general framework of building an identity and nation

A thinking framework for building an identity was outlined in summary at the Nation Building conference arranged by the International Institute of Administrative Sciences (IIAS) in Finland on 7-11.7.2009. The Parliament's Committee for the Future held its own international seminar dealing with the future of nation building (6.7.2009), concentrating on identity building in neighbourly relations with Russia. Developed on the basis of these, one can formulate a general thinking framework for building a nation and neighbourly relations, one that lends itself to analysing Finland's relations with Russia both historically and with a view to the future. Analysed within the framework is who are the builders of – and from where – the nation, its identity and its relations with Russia.

We can build relations with Russia together or separately. The builders are we or they. The people – we and they – are involved in a variety of roles: as decision makers, wielders of influence, citizens, visitors, neighbours. A nation can be built from within, from without, from above or from below. Each box in the framework is based on different values. The dynamic of the alternatives in the framework is rather different. From the perspective of the long-term future, the drivers of development are also different.

Thinking framework for building neighbourly relations: Who and from where?

Nation/identity/neighbourly relations Who and from where?

Who	Within inside	The outside	Above	Below
We alone	1	2	3	4
We with them	5	6	7	8
They alone	9	10	11	12
They with us	13	14	15	16

Next a few opening comments about Finland's and the Finns' relations with Russia and pictures of the future using the above-outlined thinking framework for building neighbourly relations.

The worst alternative in building Finland's relations with Russia has been, is and will continue to be, box 9. Looked at historically, a situation in which "they alone" would have been building a Finnish nation, its identity, neighbourly relations and its picture of Russia "from within, i.e. from Finland" is not known in 200 years of history. Elements of the scenario have been in evidence and dangerous years have been experienced. When the fears and dangers are compared in relative terms with other European people's fearful pictures of the future and their experiences, Finland can be regarded as having been, at the end of the day, really lucky in this respect.

While the Finns were a part of the Russian great power during the period of autonomy, alternatives 10, 11 and 12 influenced their fear images. They were really possible development alternatives from time to time. During the Cold War, fear images 10 and 11 were strong. In the division into spheres of interest between the great powers during World War II, "they, of whom the Soviet Union was one" intervened most forcefully in Finnish history "from the outside, from above" in the management of our affairs.

Building one's nation "alone" has been strong in wishful images. Over the long term, boxes 1,2, 3 and 4 have not been for Finland a foundation for good and enduring neighbourly relations, but in the short term they have been a well-functioning, wise and sometimes the only alternative. There have been times in the history of Finland when alternative 1 was the only acceptable option. Everywhere in the world, nationalism is associated with nation building and it has had its rises and declines in Finland as well both in wishful images and in reality. When the Winter War was beginning, the Finns responded to the attack by the Soviet Union factually alone.

Since the latter half of the 20th century we have become accustomed to respecting democracy, civil society and people's participation and on this basis to think that the best alternative also for building a nation's identity and its relations with its neighbours is, self-evidently as it were, is "from below", with the ordinary people as its source. However, in the circumstances of rebellion in 1905-1906 and 1917-1918, a general strike, revolution and civil war, citizens exercising influence from below was a strong positive picture of the future for a part of the people, but for others it was a horror scenario. In building neighbourly relations with the Soviet Union, the "Reds" resorted to alternative 8. Attempting a popular insurrection "from below", they sought help "from them", i.e. those who were like-minded rebellious and revolutionary forces in our neighbouring country to the East. The same firm positive faith in the future associated with exerting influence "from below" was experienced on the "White" side several times during these upheavals as well as and most recently with the rise of the IKL (Patriotic People's Movement) in the 1930s. For some of the Finns also this new phase of nation building that had started from below turned into a fearful image, one part of which was a hostile relationship with Russia. The way in which building an identity and relations was attempted was "from below" and "from outside" and this time the "they" were like-minded German tribal brothers.

In the future, alternatives 5, 6, 7 and 8 will be the best for the Finns. Situations 10 and 11 are alternatives that have been coped with and will continue to have to be coped with. In periods of globalisation and internationalism, when the interests of major actors dominate, or in situations of war and conflict, relations are largely in reality "from outside" and "from above".

Among the EU Member States, it has become more difficult to demarcate between "us" and "them" or "from above" and "from outside". Some Finns see relations with Russia handled through the EU as our affairs, handled from inside and deriving their force from below.

Others conceive of the EU as “them” and as acting “from outside” and “from above” as a wielder of power. In the view of many, alternatives 14, 15 and 16 have become reality.

The Finns’ perceptions of NATO are divided, especially in fear images. Some Finns take the view that because NATO acts towards Russia on behalf of the entire Atlantic-European world and the EU’s interests, it is bad from Finland’s point of view to be outside the alliance, Others are of the opinion that since already EU membership has meant a shift towards a “them” and “from outside” situation, joining NATO will mean going even further. There is a fear that within the EU the big countries will marginalise the small ones in important matters. That way of thinking of a small country’s political leader has become deeply entrenched in the core of statecraft of the independent state of Finland and is its most important DNA.

The power of international cooperation is great. What is also essential from Finland’s long-term perspective is that we retain the power to decide in the final analysis what our relations with our neighbours are. Finland must be active. No option with Russia can remain unused or gateway to cooperation closed. Following this “we together with them” logic, there would not appear to be any reason to strip the president of all powers in relation to foreign policy. Also this political discussion forum, the highest possible in the hierarchy – the presidents among themselves and direct to boot – should be available when needed between Russia and Finland. A president representing “us” and "them”, who is directly elected by the people. When the Prime Minister leads EU policy, he can appeal to the President in the most difficult negotiation situation.

From Finland’s perspective, the uncertainty factors associated with building the nation and identity of the future are centrally linked in relations with Russia to which direction that country wants to commit itself in the global economy and political power configurations. The names of great powers and relations between them have changed in 200 years, but for Finland they have always had a big significance.

What can be learned from the historical review in the foregoing is that relations between Finland and Russia and the development of Finland’s international position are intertwined with great-power relationships. This does not mean that we should not hold the reins in our own hands. A small state must defend its interests by making agreements, but recognising realities at the same time.

The coming 50 years will be such a long time that the border between East and West will change. Finland will perhaps no longer be in a geopolitically important place. China’s rise to

constantly growing importance has long been the focus of visions. There have been fewer assessments of with whom it will ally itself and what this will mean. Under propitious circumstances, the Atlantic world's biggest power the USA and the East's biggest China will find so many common economic interests that they will recognise also the advantages of political partnership. Steered by trade policy, the liveliest and most important geopolitical route may run not across the Atlantic, but instead across the Pacific, completely bypassing Europe and Russia.

In this situation, both the EU and Russia are too small alone. They could, of course, over the longer term find each other geopolitically and agree to combine their dissipating strengths. This means, among other things, that the EU will in good time safeguard supplies of energy and other natural resources from Russia, but will also take care in cooperation with the Russians that the standard of its schools system, science and technology are raised, thereby combining the competence capital of two medium-sized powers. In this contractual model both must modernise their economy and society. From Finland's point of view, drawing Russia into this modernisation is of essential importance. What will be involved is a bilateral deal and with it a broad contract – a purposeful strengthening of the factors underpinning the economic rise of two big actors.

In any case, Europe desperately needs both energy and markets. It is specifically in the whole of Europe's interest that Russia strengthens economically and socially. This opening of the North-East Passage trade route symbolises this alternative future of a strengthening modern Russia. With the contract model in mind, it can at its best open the way to an opportunity to begin preparing for the most difficult contract that the future will call for – a covenant between humankind and nature to ensure both have a future.

You cannot outsource neighbourhood. We Finns have to take care of our neighbours. As Putin has said in Finland (for instance in Lappeenranta/EU-Russian Innovation Forum 27.5.2010) Russians take us as neighbours in the same way as we take them.

2.3 Weak signals in practice

New features, originating specifically from the Russian side, that have been seen in the activities of friendship societies can be interpreted as signs of contract thinking in neighbourly relations. Friendship activities are nowadays founded with increasing clarity on collaborative ac-

tion, or so-called partner thinking. The participants in it are both public actors and companies and NGOs.

The Finnish-Russian Society has been arranging events that promote economic cooperation, called "Suomi Days", in Russia since 1997, when Finpro gave up arranging Finnish Business Days events. At the same time, a strategic partnership with the Finnish-Russian Chamber of Commerce has been commenced to develop the "Suomi Days".

A similar contract-based partnership model has been used in the Finnish-Russian cultural forums that have been arranged since 2000. These forums are not just a single event every year in Russia or Finland, but instead the idea of the get-togethers is the partners' mutual projects and direct cooperation with actors in the sphere of culture. The projects cover a variety of the arts. They have been most numerous in the sectors of library cooperation and literature as well as in the fields of visual arts and music, but the virtual, Internet and multimedia sectors have also been involved. The objective is to promote cultural cooperation between Finland and Russia also on the grassroots level and regionally.

Partner thinking has likewise been adopted in cooperation between the Finno-Ugrian peoples. Finland is implementing the following projects together with its kindred peoples in Russia:

- A training programme for Finno-Ugrian peoples in 2008–11, within which training will be given to representatives of Finno-Ugrian NGOs as well as of Finno-Ugrian cultural centres (the Komi Republic and the Mordva Republic); the project is being funded by the Finnish Cultural Foundation,

- A language immersion project in 2009–13, in which the emergence of native-speaking language immersion locations will be assisted in the Karelian Republic as well as later elsewhere in Finno-Ugrian regions of Russia; the project is being funded by the Finnish Cultural Foundation, and

- A Youth future workshops project involving young Karelian, Veps and Ingrian people in the Karelian Republic in 2009–12; the project is being funded by the Ministry for Foreign Affairs.

On the university level, recent years have seen the creation of various networks and the signing of partnership agreements. One important area of emphasis at the Lappeenranta Technical University is Russia-related competence. The objective is cooperation with Russia's best universities taking the needs of the entire EU area into account.

The university is running 9 international master's programmes, in which also Russian-born students are being trained. The programmes are being implemented for the most part in cooperation with Russian partner universities. A system of fees for the master's programmes and scholarships for international students is currently under preparation. The objective is to conclude partnership agreements with Russia's best universities. With the aid of a network of innovation universities, the aim is to bring the universities together in science and the creation of new knowledge as well as to engage the economic sectors in both countries in these activities. Under the name Northern Dimension, in turn, an open social network in which the actors are universities, research institutes and local and EU authorities, has been built.

Language is an important matter in neighbourly relations. The importance of teaching Russian in schools was underscored in the 2007 scenario report. The most recent Kaleva Gallup survey (Maakuntalehdet/Taloustutkimus 2009) reveals that the Russian language interests the greater part of the Finns; 66% would give municipalities the freedom to choose Russian instead of Swedish for their schools' language curriculums, 29% opposed the idea and 5% did not express an opinion.

PART III

Research, perception and experience

Technology-innovative special economic zones and Russia's future modernisation: Lessons from China

Valtteri Kaartemo & Kari Liuhto [1]

Executive summary

(1) Special Economic Zones (SEZs) in Russia are not special enough to result in a major FDI inflow to Russia, which is a prerequisite for economic modernisation. The SEZs should either offer more benefits to foreign investors or the SEZs should be abolished. No matter which alternative is chosen, the major policy measures should be directed to improving the immaterial property rights and functioning of the legal system i.e. the improvement of the general investment climate.

(2) The overwhelming concentration on high-tech innovations is a risky innovation policy, since the development costs and possibility of failure is higher than that of low- and medium-tech innovations. Moreover, low- and medium-tech innovations' spill-over effects often occur faster than that of high-tech. Therefore, Russia's innovation policy should not only build on high-technology but on the products and services in which wide population of Russian companies have existing advantages.

(3) Russia's innovation policy is too heavily concentrated on technological advancement. The commercialisation of innovations is what matters in the end.

(4) Some 60% of the Russian GDP is formed by services, and therefore, service-oriented innovations would create the major economic impact. Currently, service-oriented innovations have been neglected in Russian innovation policy and special economic zones.

(5) Without the participation of the world's leading innovation companies, Russia's innovation reform will remain a political exercise. The Skoda case shows that international brand cooperation creates consumer confidence and success stories. Without international brand co-

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operation, it will take decades before "Made in Russia" stands for high quality. Without foreign participation, Russian natural resources will run out before innovation reform brings tangible changes to the Russian GDP.

(6) Should the Russian innovation reform lean on the military-industrial complex, the participation of leading foreign companies in Russia's innovation reform will remain modest and Western countries will implicitly restrict the inflow of Western high-tech to Russia i.e. the era of the neo-CoCom policy will commence.

(7) The innovation activity of the state-run corporations (Rosnano and Russian Technologies) and major private corporations is a necessary but not a sufficient condition to cause major reform in Russia. Therefore, the mobilisation of the private sectors' R&D expenditure, particularly among SMEs, is key in modernising Russia's natural resource-based economy. In this context, one should bear in mind that companies are not interested in economic modernisation but achieving their own goals. Currently, the private sector (including major private corporations) accounts for less than 25% of the R&D expenditure in Russia.

(8) The innovations have a zero impact on economic modernisation in Russia without their wide usage. Therefore, the usage of the available solutions (for instance, a wider usage of computers and the Internet) should be considered as a first step in the modernisation and convergence process.

(9) Modernisation should not be considered as a government programme but as a constant activity in everyday life. The literature clearly reveals that a major change occurs only when there is a real need to change. A chance to change leads only to a modification of existing patterns i.e. free and fair competition is the only democratic way to force the companies to constantly improve their practices. Common wisdom says that without competition there cannot be competitiveness. Therefore, Russia should abolish the obstacles to free competition, including the privileges of oligarchs.

(10) Russia's bureaucracy causes enormous inertia, and Russia's novel ideas at the top of society do not materialise at regional level without breaking the passive change resistance forces of the regional administration. The training of regional elites and the nomination of the new change forces is the only way to transform reform at the federal level to reach regional levels. Without corruption-free regional elites, any current reform is doomed to be a superficial politico-administrative exercise.

(11) The implementation of the reform takes decades, and therefore, Russia has to dedicate herself for a very long and to some extent painful process. One should bear in mind that one cannot implement a major reform without changing anything.

(12) Russia's innovation reform can be compared to car racing. Rosnano, Russian Technologies and innovation-financing institutions are fuel for the car engine, which is formed mainly by the Russian SMEs and large corporations. The research institutions and academia provide the headlights to see a bit further ahead. The political leadership forming the driving team (the driver and the navigator) should have a consensus on the direction they want to steer their vehicle. The driving team can avoid the road blocks ahead created by bureaucracy only by studying the route in advance. However, the driving tandem cannot influence the speed of the competing teams. Unlawful measures result in disqualification and loss of permission to participate in the global race. The Russian population monitors the developments from the back seat, and possibly changes the driving tandem, if they do not show acceptable results rapidly enough. Even if the future of Russia's modernisation is everything but certain, one cannot win without participating in the race. Fortunately, President Medvedev's team has realised this, which gives Russia a chance to succeed.

Introduction

"*In the twenty-first century, our country once again needs to undergo comprehensive modernisation… Instead of a primitive raw materials economy we will create a smart economy producing unique knowledge, new goods and technology of use to people.*" (Russian President Dmitry Medvedev, in: State of the nation address 2009).

Good news is that the need for economic modernisation is realised at the very highest level of Russian decision-making. However, the modernisation process is not a one-man-job but requires the implementation of the strategy throughout the economy, and particularly actions at grass root level. This has frequently been emphasised by President Medvedev.

Special economic zones (SEZ) can be seen as one practical tool in the process of economic modernisation. The last time Russia tried using them was in the 1990's but it ended up in disappointment, as the SEZs became associated with criminal activities and tax evasion. Despite this, in 2005 four new technology-innovative special economic zones (TI-SEZ) were set up (in St. Petersburg, Dubna, Zelenograd and Tomsk) in order to facilitate Russia's transformation from a resource-based economy to a more innovative system (Vedomosti 2005). These

kinds of TI-SEZs focusing on innovation-generation are the first of their kind in the world, although they resemble traditional SEZs.

The history[2] and benefits provided by the Russian SEZs have been covered earlier (e.g. Tuominen & Lamminen 2008; Liuhto 2009). Therefore, we do not tap into these details. Instead *we study the Russian technology-innovative SEZs in comparison with the Chinese experience*.

We must remember that the TI-SEZs cannot be separated from their context. Only by designing the SEZs according to the special features of the Russian economic environment, they may be developed as key forces in the modernisation process. Although Russia is different from other countries, it is not unique in terms of its socialist past, legacy of planned-economy or availability of natural resources. Interestingly, these features may all be found among other BRIC countries. Consequently, Russia is not unique in its challenges for the future of innovation development. (Grützmann et al. 2009; Kaartemo 2009.) The problems of corruption and administrative inefficiency also featured in Chinese SEZs but they did not block their success.

There are also a number of differences in the contexts, both spatially (between China and Russia) and temporally (between 1980 and 2010). These differences can be found e.g. in terms of foreign investments[3] and attitude towards entrepreneurship[4]. These must be taken into account for understanding that the earlier Chinese success story may not be directly ap-

[2] The authors acknowledge that this is not the first time when Russia has introduced special economic zones. For instance, Ivan IV of Russia established a special zone for the English in 1555 in the region which is nowadays known as Archangel.

[3] In the beginning of the 1980's, the role of SEZs was important as a target for foreign direct investments attracting 60 % of all FDI inflows to China. Later on, FDI flows were directed mostly elsewhere. It was evident that the foreign investors were not only interested in export-processing but they were attracted by the Chinese market. (Wong 1987.)
According to the most recent UNCTAD (2009) report, Russia attracted US$ 80 billion in foreign investments in 2008. This is 4% of global FDI flows. When China launched the SEZs in 1980's, the FDI flows to China were at a marginal level – around US$ 1 billion.
Although the times were different in terms of competition, Chinese SEZs had to compete with other development regions in Asia (Wong 1987). However, China benefited from rising labour costs in its neighbouring countries, which shifted labour-intensive production to China (Knoth 2000). Also, competition was not as strong back then as it is now with almost the whole world open for foreign investors. In addition, Russia's potential is not as tempting as that of China.
Many ethnic Chinese residing overseas were willing to invest in China, and most of the FDI flows originated from Hong Kong. With a common language and culture, and family ties it was easy for them to operate in a country without a clear legal framework (Knoth 2000). Investors were practically waiting at the doorstep to invest in the country, and therefore investment opportunities or special economic zones had not to be promoted as such. According to our understanding, Russian emigrant investors are not sharing the same expectations, as they have had the opportunities to invest in Russia for many years.
The cultural differences between China and Russia also include the savings rate and investment rate, which have traditionally been higher in China. Due to statistical problems, it is however, difficult to compare China in 1980 with Russia in 2010 in these terms.

[4] According to latest surveys, the Russian people have lost their interest in entrepreneurship (Kaartemo 2009). It has also been found out that compared to Russian entrepreneurs, Chinese entrepreneurs are more risk-taking (Djankov et al. 2006).

plied in the Russian context. However, we believe that the Chinese case has an important political lesson for Russian decision-makers.

The main premise of the article is that TI-SEZs might be necessary but not sufficient instruments for the modernisation process in Russia (Liuhto & Vahtra 2009). This means that the purpose of the TI-SEZs must be linked with the aims of the modernisation process. In order to enhance the process, they need to contain the "specialty factor", which means that the zones must differ in characteristics from the rest of the economy. Moreover, the impact of the zones must be dispersed throughout the rest of the economy to have a wider influence on the modernisation process. Alone, the TI-SEZs do not provide anything. It is the effective use of these instruments, which may have impact.

Table 1 Differences between Russian TI-SEZs and Chinese SEZs

SEZ factors	**Russia**	**China**
1. Purpose and administration	Administrative task – economic and political reasoning mixed	Demand from market – economic and political reasoning separated
2. Specialty	Potential advantages in otherwise non-special regions	Existing advantages in the oasis of the business environment
3. Impact	Focus on domestic products to domestic market with limited industrial and regional impact	Focus on foreign quality products to foreign markets with wider spill-over effects

Purpose and administration: It is of crucial importance to clearly formulate the aims which should be realised within SEZs. Only by formulating the aims of the TI-SEZs, can it be assessed whether they are the best instruments to reach the intended aims. In the case of Russia, it is difficult to understand the concrete goals of the TI-SEZs, which could be used as criteria for assessing the performance of the SEZs.

These difficulties lead to the imminent situation that TI-SEZs are under threat of becoming purely political tasks. Economic reasoning has mixed with political ideology, which is not a promising platform for innovation development. Although political support is needed for SEZs, it is clear that we should not have a common cell for "purpose and administration" in Table 1. However, in the case of Russia, it is a challenging task to analyse them separately.

Administration of special economic zones should be designed to be effective and flexible. On one hand, it should have enough power to influence decision-making in terms of related policy-making. On the other hand, it should rather have the characteristics of a company than of a governmental bureau. The Chinese experience suggests that as much as possible should be delegated from governmental agents to private actors. The government should only guarantee that there is enough funding for the development of the zones in the long run, which decreases the risk of investment in SEZs. (Knoth 2000.)

It is interesting to note that SEZs were initiated in China "*to develop external economic cooperation and technical exchanges and promote the socialist modernisation program*" (BFAI 1986, 95 in: Knoth 2000, 25). In this respect, China was the first one to incorporate SEZs to boost technology transfer and modernisation.

The management of the Chinese SEZs can be seen related to their administrative and legislative role. For instance, Shenzhen SEZ established its own municipal government in the 1980's and possessed an independent administrative system later in the 1990's. The direct involvement of the government in entrepreneurial decision-making and the regulation of the economic system by bureaucratic institutions were massively reduced, and the whole administration was streamlined (Knoth 2000). Eventually, Shenzhen became a city of its own, a subordinate to the province of Guangdong (Meng 2005).

Russia has moved in another direction. In October 2009, a decision was made to centralise the SEZ administration from the Federal Agency for Special Economic Zones directly to the Economic Development Ministry by a need to improve SEZ administration. Although the earlier independence of RosOEZ remains unclear, this move can be interpreted as a step backward from separated decision-making. Anyway, it may even be questioned whether TI-SEZs are used in Russia to solve deep structural problems or whether they are used by bureaucrats to cover these issues.

All in all, the purpose of the SEZs should be based on business needs, instead of political motives – be they either federal or regional. In our interviews, we have heard that Russian companies have registered to TI-SEZs as a part of the deal for federal funding. The news is worrisome. The TI-SEZs should be based on the needs of the companies, not to obtain administrative privileges. Since, when the privileges eventually fade away, so do the companies. In other words, the TI-SEZs should provide such value that companies are willing to register there voluntarily.

Specialty: In Russia, the benefits of the SEZs can be compressed to a more efficient administration, duty-free customs, tax benefits, readily available infrastructure, and diminished labour costs.

Considering the role of TI-SEZs in the Russian modernisation process, it may be firstly questioned whether the SEZ-related measures are enough to tackle the general problems of the Russian innovation system. Are the TI-SEZs able to overcome the weaknesses in the quality of governance, such as ineffective protection of immaterial property rights, weak quality of government regulations, lack of co-operation and coordination, and the low level of financial support (Dezhina & Peltola 2008; Kaartemo et al. 2009)? As TI-SEZs should be based on the idea of providing a better environment for innovation development, the proposed benefits may not be that attractive.

The long history of established universities and research institutes nearby the TI-SEZs remarkably increases the potential of the TI-SEZs. However, Russia is known for difficulties in the linkage between industry and the research institutes, which the zones are not able to solve. As such, this is linked to the idea that the zones cannot create comparative advantage alone but the activities should be based on existing advantages.

In Chinese SEZs, the companies were, in the first stage, provided with more attractive infrastructure than what was available elsewhere. Later, the interest of companies transformed from the land to industrial issues. The evolution of Chinese SEZs was not only a result of changes in internal conditions (e.g. regional economic development strategy and the FEZs unbalanced development) but also due to changes in external conditions (e.g. WTO membership in 2001 and wider regional economic integration). Original SEZ preferential policy transformed to a comprehensive economic and structural advantage programme which emphasised the advantages of capital, technology, qualified personnel and a market-oriented economy. Tax holidays, financial subsidies and administrative privileges were reduced and replaced by high-tech and industry-oriented preferential policy. Consequently, the duty free import of equipment, raw material and semi-finished materials were eventually cancelled. (Meng 2005.) This is interestingly in sharp contrast with the preferences currently provided by the Russian SEZs.

Thus, the benefits of Chinese SEZs were not limited to short-term tax breaks or customs reliefs. Instead, new laws were introduced in the SEZs in order to provide foreign companies labour productivity not available elsewhere in China. For instance, there were changes in con-

tracts and wage systems. Companies became free to hire and fire their employees, and there were significant changes in the wage system which increased labour productivity remarkably. Also other changes such as a tender system were introduced first in the SEZs in order to improve cost-efficiency. (Wong 1987.) All in all, the incentives of SEZs aimed at making the business environment favourable for foreign companies with firstly a possibility to enter the zone quickly (with good infrastructure and streamlined administrative regulations), and secondly with a possibility for a fast exit (reduced foreign exchange control and unlimited profit repatriation).

It is clear that the initial incentives were not enough for the companies to shift their production to China, as freedom of hiring and firing people was not an exceptional case in the world economy. In fact, investors were willing to invest in SEZs only if they perceived the zones as more attractive than rest of the country. "*It seems that host governments wishing to attract inward FDI should concentrate on the reduction of country risk as their main policy focus, since globalized capital markets enable investors to invest only when combinations of expected return and risk are perceived to be attractive*." (Buck et al. 2000)

In China, special economic zones were established as a part of the open policy. Special economic zones provided foreign companies with privileges and opportunities to invest in the country, which was otherwise close to impossible. In this sense, the SEZs could be seen as oases in the Chinese business environment.

Should SEZs fail in reducing obstacles to investment, only companies which had invested in the country, even without extra incentives, accept the additional benefits of the SEZs (Knoth 2000). In fact, the level of taxation and labour costs are internationally relatively low in Russia[5]. These cannot be seen as major reasons to hold back foreign investors.

Impact: Should the TI-SEZs be considered as tools for the modernisation of the economy, they need to have a wide impact on the national economy. In other words, it is not enough to have an oasis, as it cannot alone provide fruitful soil for the surrounding desert.

[5] The ILO (2010) statistics indicate that the hourly labour cost in manufacturing was around 3 euros in Russia in 2007. This is minimal compared to the labour costs in the European Union and the United States. On the other hand, it may be difficult to compete in labour costs with countries like India and China. Therefore, we see that benefits related to labour costs have, at best, only marginal impact in attracting foreign companies to invest in TI-SEZs.
Although tax incentives may provide more attractive benefits to companies, it is unclear whether they may be used for attracting purposeful companies to invest in TI-SEZs. In the best case scenario, major tax breaks bring leading foreign companies to Russia. In the worst case, the tax holidays only repeat the mistake of the 1990's attracting tax evasion and other criminal activities.

Regional-oriented preferential policy in China led to increasing gaps between the SEZs and other regions. It led to an importation of industries with low technology and limited technology transfer. Therefore, the change to cost-oriented and industry-oriented preferential policy was seen crucial. (Meng 2005.) Chinese SEZs were very comprehensive with a wide scope of operations in order to create favourable conditions for business operations. Similarly, the companies were neither only foreign or local; nor private or state-owned. Companies were encouraged to establish various connections with various counterparts in order to promote technology transfer and growth through the expanded economic links. Otherwise, the experimentation would have remained limited. (Ge 1999.) The creation of separate growth poles cannot alone generate enough for the modernisation of the whole economy. Instead, the sectors with preferential treatment in zones should include all those sectors for which domestic companies have abilities to establish production. (Knoth 2000.)

In Russian SEZs, the decision-makers have not followed the aforementioned piece of advice. They have instead decided which industries are represented in each zone. This limits operations on the fields in which Russian companies might have a comparative advantage such as the wood industry. According to Yuri Zhdanov, ex-director of RosOEZ (Federal Agency for Management of Special Economic Zones), they received plenty of applications related to wood processing at the initiation process of SEZs. These were not regarded as being creative as "*the whole country is doing it anyway, without SEZ regime*" (Vedomosti 2005). In China, this was in turn seen as the crucial part to ensure both horizontal and vertical linkages between companies in the SEZ and within the rest of the economy. Although in Russia, other companies, such as some service firms, may also operate in the TI-SEZs, they are excluded from receiving any benefits from the administration.

This is related to the general problem in Russia, as innovations are considered to be something fancy and high-technology by definition[6]. Also innovations in the wood industry are innovations, and they can be as important (and potentially even more important) for economic modernisation as innovations in nanotechnology.

Moreover, the impact of TI-SEZs is not limited only by industry classifications but also in terms of the focus towards foreign collaboration.

Chinese Special Economic Zones (SEZs) have been braced by their achievements in attracting foreign capital, facilitating export growth, attracting foreign exchange earnings and technol-

[6] "*What we need is breakthrough technology.*" (President Medvedev in Medetsky 2009)

ogy transfer and management methods. The SEZs have had wider spill-over effects and they also led to innovative measures beyond the borders of the SEZs. (Wong 1987.)

Russian TI-SEZs seem to be in contrast with the conventional definition of SEZs "*aiming at promoting foreign trade, diversifying the production of exports and overcoming structural balance of payments pressures, importing modern technology and know-how, and improving supply conditions on the domestic market*" (Ahrens & Meyer-Baudeck 1995, 88). Generally, the incentives for foreign investors have been emphasised, and SEZs are seen as the way to overcome the obstacles for foreign investments.

But how many foreign managers have heard that Russian TI-SEZs have been initiated? Based on our survey results in Finland, we dare to claim that most foreign technology companies do not even know that TI-SEZs exist in Russia[7]. Russian TI-SEZs are oriented towards domestic companies. For instance, Russian TI-SEZs do not have foreign representative offices which would provide information to potential foreign investors, and the official website is not available in sense-making English. This domestic-orientation may be risky to the future development of the zones. Earlier it has been noted that "*only the massive inflow of foreign capital can guarantee the rapid development of such zones*" (Knoth 2000).

Currently, there are no globally-recognised foreign companies registered in technology-innovative SEZs. Cooperation with these kinds of companies would provide opportunities for the transfer of knowledge and branding cooperation. It has proved to be successful, for instance, in the development of IBM-Lenovo and in the improved country-of-origin image of the Czech Republic in the field of automotive industry. These are important lessons, as innovations are not only about technological inventions but the commercial success of the product is embedded in the concept[8].

In order to attract foreign investments, Russia should be clear with its economic policy. With recent turmoil within the strategic sectors (Liuhto 2008; Liuhto 2009) many companies have become cautious about future developments in Russia before investing heavily in the country. It also has to be remembered that other countries are developing their smart economies. Therefore, Russia should analyse its position in today's global economic context. TI-SEZs

[7] This was found in our survey which was sent to companies located in technology and business parks in Finland in 2009. Top managers from 159 companies responded to the survey indicating that most of them did not know that there are technology-innovative special economic zones in Russia. Other findings of the survey are available in Kaartemo et al. (2009).

[8] In this sense, the allocation of R&D funding to military-industrial complex further diminishes the possibilities for a wider impact on economic modernisation, as commercial success stories and spill-over effects may be challenging to find in a closed military innovation system.

have the possibility to act as platforms for economic modernisation but this requires a political lesson.

Policy lesson

It is good news for Russia that China did not have a system close to perfect but it still managed to run SEZs in the modernisation process. However, it is not simply enough to apply the successful measures by China within the Russian context. Whereas Wong (1989) claims that Chinese SEZs provide a good model for other countries and regions, it is necessary to understand the context of Chinese SEZs before similar strategies are undertaken (Garcia & Lora 2009).

In order to understand the context of Chinese SEZs, an analysis of the success factors has to be made in contemporary dimension. In particular, SEZs should be seen as a part of other policies in a transformation economy, as alone they cannot solve all the problems. Whereas these contextual differences might explain some of the differences between Russian TI-SEZs and Chinese SEZs, they do not sufficiently explain all differences. By acknowledging this, we provide the following policy lesson.

It has to be remembered that the Chinese success story evolved with a huge price tag and problems associated with the SEZs (Wong 1987). Therefore, the aims and measures of the zones should be carefully planned in accordance with other economic policies. It is of the utmost importance to define the purpose of the TI-SEZs in a measurable way, in order to analyse whether the implementation of the long-term strategy is directed towards fulfilling the purpose.

In Russia, it is not evident what the aims of the technology-innovative SEZs are. Naturally, they are related to facilitating the innovative environment but it is unclear how the SEZs are about to help companies in practice. Therefore, it is difficult to assess how the provided benefits support companies to generate innovations.

In case innovation development is the priority, the incentives should be firstly targeted in improving the factors which currently hinder innovation development in Russia. The problems of the Russian innovation system are so deeply-rooted that perhaps this all has potentially only marginal impact. The structural problems take a long time to be fixed. Secondly, the incentives should be targeted in improving the factors which hold back foreign companies for investing in Russia. The Chinese developed their SEZs with the help of foreign knowledge and funding. In Russia collaboration with foreigners may be seen important at the top-level of

decision-making but at grass root level the aim seems to be one of taking the best advantage of federal funding. This is the stage where innovations, economic modernisation and the importance of foreign collaboration are easily forgotten.

The decision-makers must thoroughly consider: *Why would a foreign company invest and import their newest technology to Russian TI-SEZs?* Traditionally SEZs have been seen as tools to attract foreign firms but this seems not to be the case in Russia. The current TI-SEZs do not have much to offer foreign companies. With an increasing public sector share in the Russian economy[9], the TI-SEZs might be developed as safe havens for foreign companies. But this requires explicit commitment which builds up trust and confidence in TI-SEZs. Currently, the uncertainty over administration makes it difficult to assess the future of these SEZs. In our opinion, separate legislation for SEZ, which would be foreign firm-friendly by nature, might make the TI-SEZs more attractive for foreign investors. For instance, property rights might be better protected with separate legislation in the TI-SEZs.

The current problems arise from the fact that the Russian TI-SEZs have been born out of political logic instead of economic reasoning. It may be argued whether this is the right way. Should Russia be willing to continue with SEZs, it must develop the zones with bottom-up ideas in order to provide attractive incentives for investors.

Currently, we see that the TI-SEZs will most probably fail in revealing their potential in terms of economic modernisation in the near future[10]. As President Medvedev is demanding explicit results in less than 7 years (Interfax 2009), the prospects for Russian technology-innovative SEZs look gloomy. Waiting for the results in seven years is utopia. It looks probable that the technology-innovative SEZs will not be allocated enough resources for development after seven years. Thus, it is unlikely that we will witness important role of the TI-SEZs in Russian modernisation.

In the case that the TI-SEZs are considered to lead to explicit results, major reforms are needed. It is interesting that the same policy recommendations which were given regarding

[9] "*The public sector share in the economy has never gone below 40 percent, and during the crisis the state has seen its role increasing of course.*" (President Medvedev, in: State of the nation address 2009) "*Russia should reduce state and regional authorities' ownership of business to 30 percent or less, from about 50 percent now.*" (Deputy Prime Minister Kudrin, in: Gilman 2009).

[10] Chubais has realised that transition typically takes some 20-25 years. "*We are moving on to a new stage that is based on innovation development... The new stage will take 20-25 years... If we do not begin the transition now, we will fall behind developed countries forever.*" (Anatoly Chubais, Head of Rosnano, January 23rd, 2010).
The Chinese culture and united political system have made it possible to wait for decades to see the implementation of the SEZs to end up with positive spillover effects on the modernisation process. Similar patience is now needed from the Russians.

the Chinese SEZs in the late-1980's seem to be valid for the Russian TI-SEZs in 2010 (Wong 1987):

- *The upgrading of administrative efficiency, avoiding bureaucratic red tape*
- *The formulation of a more efficient legal system so that the interests of the foreign investor can be protected*
- *The allowance of a greater proportion of production from foreign firms to enter the domestic market which would serve as an additional incentive for foreign investors*

China reacted, in the main, to these instructions, and this enhanced the role of SEZs in the process of economic modernisation. Russian decision-makers should accordingly define the purpose of the TI-SEZs, answer to the needs of business and ensure the wide economic impact of the activities undertaken in the TI-SEZs. This is the only way the technology-innovative special economic zones may take up a significant role in modernising Russia.

"*Go, Russia!*" – keeping in mind that building a new reality (modern Russia) requires a comprehensive and profound reform, since, so far, partial reforms in the country have had a tendency to cause only leadership changes.

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Coexisting official and unofficial practices in Russian business life

Riitta Kosonen & Sinikka Parviainen[1]

Introduction

Russian business life is a combination of grey market transactions and principled transparent companies. How prominent unofficial and grey market practices are in 2030 depends on the prevailing economic situation. During economic growth there is a general aim for transparency in business culture, and development moves towards a Western style of good governance in both public and private sector. However, a working culture based on unofficial relationships and networks, deep-rooted in Russian history and cultural heritage, is constantly present in the background, resurfacing as a way to survive in a time of crisis. The ability to function unofficially has throughout Russian history proved to be effective and improved Russia's crisis resilience. Russians have shown their innovativeness and tenacity in the many economic difficulties experienced during the post-socialist transition period, and the financial crisis that started in 2008 is no exception.

The Russian business environment is characterised by various unofficial and grey market practices such as barter, corruption and paternalistic relationships between employer and employees. It is important to note that unofficial practices take different forms in Russia than in Finland. In Western countries, 'unofficial economy' is considered to consist of illegal and legal economic practices that take place outside official rules and norms. In Russia, however, different bodies of government have an important role in maintaining unofficial practices, both intentionally and inadvertently.

In Russia, the unofficial economy consists of profit-seeking practices that are not officially allowed but that in practice are not banned, either. The phenomenon is partly caused by inconsistent implementation of legislation and laws, which is taken advantage of in both the private and public sector. Outstanding tax payments are a good example of this. Tax inspections are only carried out in the most blatant and politically significant cases as otherwise the authorities would have to prosecute a vast number of businesses. What the authorities turn a blind eye to has changed over time and is not necessarily predictable. At the same time, the line between the official and unofficial has shifted throughout the post-socialist transition pe-

[1]

riod. The most famous example of this change and of unclear legislation is the case of the petroleum company Yukos' former owner and CEO Mihail Khodorkovsky. In the 1990s, Khodorkovsky took advantage of fast changes and unclear legislation to obtain Yukos shares and avoid taxes. In 2005, Khodorkovsky was sentenced for these same deals apparently for political reasons and as an example to other businessmen (Kahn 2006). Khodorkovsky's defence's main argument was that actions of Khodorkovsky and his partners were not explicitly illegal at the time they took place.

Unofficial practices in Russian business also have an impact on their stakeholders: the public sector, other businesses and employees. In this discussion paper, the phenomenon is examined taking into consideration these stakeholders. Thus, the article deals with unofficial networks on a general level, public sector corruption, the feasibility of legislation, barter trade between companies, the enforceability of inter-company contracts, the unofficial financial market, paternalism and unofficial work. The strengthening and weakening of various unofficial phenomena in Russian business in the last decades describes both the persistence and flexibility of unofficial practices in Russia: during the Soviet era the loopholes of the planned economy were solved unofficially, in the 1990s unofficial networks were used to support production under difficult conditions, in the economic growth of the 2000s they almost disappeared completely, and in 2008 they raised their head again in response to the global economic crisis. To what extent these practices are present in Russian business in 2030 will depend on the existing economic conditions. The ability to resort to these practices will, however, be present.

Unofficial personal networks

Social relationships have advantages in conducting business in all parts of the world. In Russia, however, good social networks are foremost important in business having an effect on all of a company's stakeholders from officials and employees to other businesses. Unofficial networks have been exceptionally significant in Russia in bridging gaps in the formal environment, such as unstable legislation and an ill-functioning financial market. In addition, by using personal relationships companies have been able to achieve significant advantages, such as avoid tax payments (Kosonen 2008). Personal networks have had a historically important role in Russia, resurfacing in problematic times.

Under socialism unofficial networks were an important means to alleviate problems in the planned economy and reach production aims set from above. Also during the chaotic years of the 1990s personal relationships remained an important means to survive. Businesses alleviated uncertainty caused by unstable legislation and a weak economy by applying old and fa-

miliar unofficial problem-solving methods from the socialist era to the new market economy (Kosonen and Rautava 2002; Kosonen 2002, 2008).

The crisis of 1998 was a turning point as regards using personal relationships, and during the 2000s their significance in business co-operation has declined. Economic growth has made businesses healthier and encouraged transparency, economic reforms have modernised legislation, and better enforcement of inter-company contracts in courts has decreased the importance of personal relationships. Their significance has not, however, disappeared. Personal relationships are still quite strongly needed in interaction between businesses and the public sector (Kosonen 2008). This is above all due to problems in law implementation, particularly at the local level, and loopholes in legislation that allow authorities to treat companies unequally. Finnish companies operating in Russia have realised the importance of having good relationships with the public sector. In the words of a Finnish company representative: "*Your relationship with the public sector is critical. If you don't have those relationships, you will have to wait. Having that relationship also means remembering birthdays, name days, Women's Day and New Year with chocolates and flowers. Then things will move forward much faster."* (Heininen et al. 2008, 107.)

In addition to the public sector, having good relationships in local business life is beneficial, especially in difficult times such as the 1990s, when they can be vital to a company. This is something that Western countries have perhaps not properly understood. An interviewed representative of a company from Leningrad Province sees many advantages in the Russian style of forming personal relationships: *"Another thing is co-operation with businessmen, that's very important. We have always put friendly relationships first. We still don't have a Western mentality, and I don't know if we ever will. It's a national feature of Russian people, and not necessarily one of the worst ones. When we do business we can just call, agree, turn up, make a decision. But for example if I go to Finland and need beds, everyone smiles and says "put your money there and we'll bring them" and that's that. In Russia you can pay after one or two months, but in Finland you have to pay right away."* (Heininen et al. 2008, 108.)

The tradition of forming unofficial networks is deep in Russian society, its roots reaching back hundreds of years. *Blat*[2]*,* the culture of reciprocity based on personal relationships, flourished during the Soviet era, and during transition it has been used as a protective shield against uncertainties brought by the market economy. Thus, *blat* has had an influence on the

[2] Originally, before the 1920s, the word *blat* was used to describe small-scale criminal activity, but there are many theories and explanations for the meaning and origin of the word (Ledeneva 1998, 10).

formation of Russian's modern business culture. Another tradition of forming personal relationship networks, *krugovaya poruka*[3], dates back further than the Soviet era to the times of the first Tsars, when it developed into an internal control and protection mechanism for rural villages against the despotism of rulers (Ledeneva 2006). As phenomena *blat* and *krugovaya poruka* are related to reciprocal favours in rural villages, for example during sowing and harvesting crops (Kelly 2000). This centuries-long tradition of reciprocal favours, as well as bribery, in part, is born out of the patrimonial[4] nature of power in Russia's political culture, a lack of legitimacy particularly as regards to property rights, and a weak market (Ledeneva, Lovell and Rogachevskii 2000).

Like *krugovaya poruka* also *blat* is still present in Russian business life, politics and, in particular, interaction between the public and private sector, though changing with time and adapting to changing demands. In the Soviet era *blat* was practised under the guise of friendship or on the basis of genuine friendship (Ledeneva 2008, Kosonen 2008). The redistribution of the state's resources unofficially was considered justified because everything was collectively owned and it was not believed to cause anyone any great personal costs (Ledeneva 2006). While *blat* maintained the Soviet system by bridging its gaps, it also eroded the system's credibility from the inside (Ledeneva 1998).

After socialism, the sense and meaning of *blat* changed. The good-natured reciprocity of the socialist era was no longer present in *blat*; bartering became more business-like, and all services were carefully valued in money. This market economy *blat* also involves a risk of misconception if the reciprocal nature the exchange is not understood by one party (Ledeneva 2008). In addition, in the market economy, the consequences of unofficial activities are often a lot more harmful to society, causing greater social and financial costs than the socialist era small-scale reciprocal services, which were often only for private consumption (Ledeneva 2008). In general, the unofficial network economy has hindered Russia's institutional and business development (Kosonen 2008, Kosonen and Rautava 2002), and it has also made obtaining reliable information and general transparency of the economy more difficult by forming information islands (Seabright 2000, 4).

[3] *Krug* or *krugovaya* means a circle, and *poruka* means a guarantee or security (authors' translation).
[4] Patrimonial means a system where the ruler does not distinguish between their own and society's property (Quimpo 2007). According to Max Weber (1919), in a patrimonial form of government patriarchal (father's) power in the family is reflected in wider social relationships in society. In addition, Weber (1919) believed that as s society becomes modernised patrimonial forms of government lead to bureaucratic rationalism becoming the dominant form of government.

Despite its obvious negative side effects, relationship-based networks have been significant in modern Russia in alleviating institutional problems such as legislation. For example, during 1992–98 networks supported trade and production, which stopped the standard of living from collapsing in extremely unfavourable conditions. Unofficial relationship-based networks have remained important in Russian society because they have proved to be efficient and useful in alleviating problematic situations. Thus, in Russia *"a bankruptcy of social capital can be just as serious as financial bankruptcy"* (Kosonen et al. 2008, 163). In difficult times, networks become stronger in response to problems, regardless of whether the problems are caused by planned economy, despotism or a banking crisis. In 2030, as a phenomenon bounded by culture, unofficial personal networks will still have a fairly important presence in Russian business.

Corruption

Another significant and wide-spread unofficial method of influencing in Russian business is corruption. Corruption is not a new phenomenon in Russian bureaucracy as it was already a notorious habit of the Tsars' authorities. Russians themselves take a relaxed attitude towards corruption, as shown by this remark made by a Russian businessman: *"Well, it can be interpreted in many ways. In some countries bribes have been made legal. If you donate someone something from the goodness of your heart and it happens to be exactly what that person needs, where's the harm in that?"* (Kosonen et al. 2008, 74.) The battle against corruption that started during President Putin's reign managed to clean up the culture of Russian authorities to some extent, but the effect only lasted a few years only to increase again in second half of the 2000s (Transparency International 2007).

Unclear laws and regulations and officials' low salaries created a fertile ground for corruption, particularly during the 1990s. Fast changes and unpredictability in legislation causes insecurity, especially as the implementation of the same law can vary depending on the region and individual official. Also officials themselves are not always knowledgeable about current legislation. An interviewed company representative from Leningrad Province claims to sometimes have better knowledge on legislation than Russian officials: *"If a law has been passed in Moscow and comes into effect, it isn't necessarily seen here at the border for weeks. We've sometimes had such problems. We've sometimes taken a Russian language copy of the law to show."* (Heininen et al. 2008, 89). There is also speculation about whether new legislation is deliberately not put into effect if it can reduce officials' possibilities to receive bribes.

In addition to corruption, heavy bureaucracy hinders the feasibility of legislation and the operation of businesses. For example, Russia ranked in place 120 out of 181 countries in the 2009 World Bank's Doing Business Index measuring how favourable the environment is for business[5]. Compared to the ex-Soviet economies of East Europe and Central Asia, Russia still needs to take a significant number of steps to enforce inter-company contracts in the legal system (World Bank 2009). Thus, it is understandable that in order to avoid more bureaucracy companies resort to unofficial means and bribery (Ledeneva 2006, Vinogradova 2006).

Some of the biggest problems as regards the public sector are unpredictability and despotism. For example, when obtaining permits and licenses, the public sector constantly demands illegal payments for often illegal or unnecessary licenses. Numerous inspections carried out by various officials often cause significant problems for companies and are often a mere way for the officials to extract money from companies (Kosonen et al. 2008). It is especially difficult for Western companies to adapt to this culture of corruption and bureaucracy. A Russian working for a Finnish company says he often gets caught in an awkward situation during official inspections: *"The last time we had inspectors they asked, '10,000 roubles from the firm or 5,000 from you?' I replied that preferably from me as otherwise the Finns would think I can't do my job. It is very hard to prove to foreigners that even if you do everything right the inspectors will find something anyway and demand a fine."* (Kosonen et al. 2008, 64).

The corrupt nature of officials causes businesses great costs and at worst hinders business activities. In a survey conducted in 2008–09 by the World Bank that included interviews with over a thousand Russian entrepreneurs or company managers, 50 % of respondents identified corruption by officials as a major constraint to business (World Bank 2010). The high cost of bureaucracy has led to salaries being paid either partly or completely off the books. Cash-in-hand salaries are most common around Moscow and St. Petersburg (Bouev 2007) because costs are higher in the big cities, including unofficial payments to the authorities. Salaries or pay rises are paid off the books also because lower salary payments suggest a low profit and thus lower the interest of local authorities for extracting bribes.

However, it has been observed that in societies where institutions are ineffective corruption can also act as oil in the wheels of the economy by reducing the burden of bureaucracy (Méon and Weil 2008). Paying bribes enables dynamic businesses to prosper, which otherwise would

[5] The index measures how easy it is in the target country to start up a business, obtain permits, employ people, register a business, get credit, trade across borders, enforce contracts, close a business, and how good the investor protection, tax laws and practices are.

stumble and fall due to sluggish and unpredictable bureaucracy. In practice this means that heavy official bureaucracy can be avoided with bribery and, thus, time and money can be saved. On the other hand, in societies where institutions are effective corruption has a purely negative effect (Méon and Weil 2008). Corruption, like other unofficial means, can in some ways be seen as a rational response to surrounding conditions.

However, corruption and bureaucracy reduce foreign interest in investing in Russia. Finnish companies consider corruption, particularly related to customs and bureaucracy, a central problem in the Russian business environment (FRCC Russian Trade Barometer 2008). Investments in Russia that are important to economic growth have been at a considerably lower level during the 1990s and 2000s than in for example Estonia, where the level of corruption is low (Kosonen et al. 2008, 14). Corruption and heavy bureaucracy are hard to get rid of in Russia, as doing so would require changing both legislation and the whole operational culture. In the past two decades of post-socialist transition corruption has persisted as an integral part of Russian business. Furthermore, there is also no indication that the situation would be any marked change after another two decades by the year 2030.

Contract enforcement

In Russia, unofficial means are still needed to varying extents to enforce inter-company contracts. Inter-company trade has suffered from lack of confidence throughout the post-socialist transition due to corruption, ineffectiveness and lack or resources of contract enforcing institutions, and a general lack of predictability in legal enforceability and legislation (Vinogradova 2006). In such uncertainty, particularly in the 'wild years' of the 1990s, written contracts were rather insignificant, and they were not drawn up to enforce contracts but mainly to deceive tax authorities and often in retrospect (Vinogradova 2006). In addition, courts were not considered impartial particularly in the 1990s, when unofficial social networks functioned as contract enforcing institutions. Companies' receivables were often collected even by illegal means rather than in courts.

Chaos and illegalities in enforcing contracts decreased as the general business environment improved in the 2000s. Some positive reforms were carried out in the legal system both at the federation and local level during the 2000s: legal institutions and courts of arbitration were given more resources, and they were supported by new federation-wide law reforms[6] (EBRD 2004). In enforcing contracts, Russia ranked relatively well (place 18 out of 180 countries) in

[6] In 1997 laws were passed on legal officials and carrying out sentences, and in 2002 a new law was passed on streamlining the practices of courts of arbitration.

the 2009 World Bank's Doing Business Index (World Bank 2009). Reforms are also starting to be seen in companies' changing attitudes towards the legal system. In particular, courts of arbitration are beginning to be considered relatively impartial and efficient even compared to some developed countries (Hendley 2005), and legal costs are relatively not as big as in the ex-socialist countries of East and Central Europe (World Bank 2009). For example, in Leningrad Province confidence in the legal system grew during Putin's presidency, and courts of law have become increasingly popular places to resolve conflicts (Heininen et al. 2008). Growing legal enforceability is also seen in the fact that in Leningrad Province written contracts and receipts from business partners are becoming increasingly important.

However, legal institutions still suffer from a lack of resources, and supervision of enforcing sentences is problematic particularly if it requires co-operation with other state regulatory authorities (Vinogradova 2006). An example of this is the case of Stockmann, a Finnish chain of department stores, in Moscow in 2008. Stockmann's management had a dispute with the department store's new landlord, first about the amount of rent and later about the lease agreement (Vihma 2008). The International Commercial Arbitration Court of Moscow passed judgment in favour of Stockmann in two court cases. However, the enforceability of the court's decision remains unsure because it first has to be verified in lower courts of justice. Stockmann is not hopeful about the decision being enforced as lower courts of justice often reject decisions in such cases because they are not familiar with international law (Vihma 2008). Bribery is also common in lower courts of justice. In addition, the matter is made more complicated by ambiguities relating to the ownership of the bank acting as the counterparty in the case.

As the above example suggests, the legal system suffers not so much anymore from problems related to partiality, but above all enforceability. Court cases can last a long time and differ largely from each other depending on whether the counterparty is a government institution, a strong local corporation or a small private company. Companies often feel that they would not receive impartial treatment if the counterparty is for example local government or a major local corporation, and for that reason might not take the matter to court (Hendley 2005). Furthermore, westernised legislation and legal practices are often incompatible for Russia's legal system, and aims of progressive law reform based on western legislative principles do not always reflect the reality in Russia (Hendley 2007).

The rationalisation of Russia's business environment still requires streamlining contract practices and contract enforcing institutions as well as making processes in these institutions more

transparent. As a result, abiding by law and transparent business can become worthwhile. Before this happens, Russia will remain a difficult business environment, particularly for small businesses in big towns (OPORA 2005). A representative of a small Russian enterprise makes the following remarks on recent changes in the business environment: *"Starting up business is now harder. We are in a process where small businesses are being suffocated. Manufacturing machinery, for example, can't be a small-scale enterprise. On a small scale you can have services and so on. It used to be possible to start up something; the water was murkier. Now the water has become clear, you swim around in it, you get seen and the big fish will eat you."* (Heininen et al. 2008, 88.) Improvements in the business environment require more resources and strong central leadership to carry out regional reform, which can be politically hard particularly in a time of crisis. However, there has been progress towards a rule of law based contract enforcement, which gives grounds for optimism on further development in this field by 2030.

Barter

Barter has been one of the most characteristic forms of unofficial interaction in Russia. Barter has increased particularly during financial difficulties. Depending on the state of the economy, bartering networks are either openly in use or simmering under the surface waiting to emerge when a new crisis erupts. Barter has first and foremost been a means to survive and a way to get production inputs when credit has been too costly. Only as a secondary motive, companies have used it to conceal activities from authorities.

During the 1990s up to the crisis of 1998, it was practically impossible to get money from banks, and the entire economy ran more or less on barter. The scale of barter in the 1990s can only be compared to the years of hyperinflation in Germany in the 1930s (Commander and Mummsen 1998). There is no precedent of a similar phenomenon in such a modern economy as Russia, and the complexity of barter networks of the 1990s is without comparison in any known society (Seabright 2000). During years of crisis bartering became a business concept for whole clusters of companies. For example, Pirs, a machinery and equipment manufacturer operating in Vyborg at the end of the 1990s, developed a whole business cluster around barter. Pirs sold its products to coal mines, and because the mines could not pay in cash Pirs took payment in coal. Pirs would then trade the coal with farmers for dairy products and vegetables, which Pirs sold to consumers for money (Kosonen 2002, 175–76). This chain worked successfully as long as businesses had financial problems. In the long run, however, this arrangement hindered companies' investment opportunities.

From the perspective of Western economics, bartering seems like an absurd option due to loss of efficiency. However, even from a theoretical point of view barter can be seen as an optimal alternative when there is a lack of liquid loan money. The attractiveness of barter is enhanced by Russia's institutional problems and the historical and cultural traditions of grey market activities and unofficial networking. In Russia, it has been and still is safer to work in unofficial networks where everyone has the same interest and internal supervision and coercion ensures members' reliability. Networks were especially useful in the operational environment of the 1990s, when trade enforcing institutions such as the legal system were deficient and it was difficult to obtain impartial information on reliable trade partners.

Exchanging goods can increase trust even between strange trade partners because goods, unlike money, can be more easily traced back to their source (Marin and Schnitzer 2002). For this reason unofficial network economy supports the optimality of barter in the Russian context especially during financially unstable times (Ledeneva 2006) and in more complex forms than would have been possible in a market economy following the Western model. It was because of barter and networks that both effective and ineffective Russian businesses were able to continue production despite the difficult conditions of the 1990s.

The effects of the latest financial crisis on the Russian economy proved to be graver than expected, and in 2009 the Russian economy subtracted by 7.9 % (Rosstat). Banks' tighter loan policies have an impact particularly on small and medium sized companies. With a lack of working capital, the Russian business is forced to resort to old ways of survival: companies are increasingly relying on networking and bartering, as in the 1990s.

According to the Bank of Finland Institute for Economies in Transition, the share of barter is officially only 2% of the sale value of Russia's industrial production, but it seems to be on the rise as companies' financial situation has worsened (BOFIT Weekly 17/2009). Signs of the growing phenomenon were seen in the media as early as November 2008, when, for example, a Finnish company that has operated in Russia for a long time stated that it would practise barter at the request of local partners (Schönberg 2008). The increase of barter could also lead to an increase in tax evasion as e.g. in their bookkeeping companies can price exchanged products cheaper than they really are (BOFIT Weekly 17/2009).

Despite the ongoing crisis in Russia, the share of bartering is not likely to reach the level of the 1990's, when its share was at its height in August 1998 an estimated 50% of all transactions (Kim, Pirttilä and Rautava 2001). Despite a serious shortage of financing, the govern-

ments' severe measures related to tackling inflation that exacerbated the credit-squeeze in the 1990's are not in place. Also, company managers are showing willingness to improve their companies' efficiency. Bartering will probably be resorted to in the building industry, which in particular has suffered from the crisis, and local government, which fears the impacts of unemployment. For example, leaders of the Republic of Bashkortostan in south-west Russia have actively encouraged companies to form bartering networks (Barry 2009).

While propping up industrial companies in distress, the resurfacing of barter could have a negative effect on Russia's institutional development and the transparency of business activities. However, it can also protect people's income at a particularly difficult time. The roots of bartering, and the networking economy that supports it, are deep in Russian society, and their significance is enhanced in a time of crisis. These special characteristics of Russian business life should be better understood in Western countries. Barter follows economic fluctuations. In economically distressing times, it provides businesses with the needed leeway to survive, but as conditions improve it can hinder investment and decrease efficiency. Incidence of barter in 2030 is, therefore connected to the prevailing economic situation.

Financial market

Russia's financial market is characterised by the coexistence of official and unofficial practices. By international comparison, Russia's financial market is still undeveloped, and the banking sector produces about 45% of Russia's gross national product, compared to 100–300% in developed countries (Mashkina, Heliste and Kosonen 2007). The financial market still suffers from serious structural problems, such as complicated and ambiguous legislation and difficult accounting practices and ownership. The ill functioning financial market steers companies to finance their activities by unofficial means.

Based on the favourable development of the last years, the financial market, related legislation and regulation could develop in the direction of Western financial markets, though slowed down by the banking crises. The disappearance of unofficial practices altogether would require stable financial markets, improved access to credit and change in the general business environment that would encourage small and medium sized businesses to abide by law. Hence, also in the medium-term unofficial financing practices will still coexist with official practices particularly as regards small and medium sized companies.

Russians' confidence in the development of the financial market has been tested many times. In the 1990s, Russia's banking sector was privatised at a fast pace and the number of banks

rose, but the crisis of 1998 destroyed the possibilities of private banks to develop (Mashkina, Heliste and Kosonen 2007). As a consequence of the 1998 crisis, over half of Russian banks lost their solvency (Chowdhury 2003), and many Russians lost all their savings. This destroyed the confidence of many Russians in private banks for a long time.

As a consequence of the crisis, in the 2000s the state has increased its ownership of the banking sector. At present, the state owns four of Russia's biggest banks, Sberbank, Vneshtorgbank, Gazprombank and Bank Moskvi, which together control over 40% of Russia's financial market (Vernikov 2007). The number of small private banks has decreased throughout the 2000s, and in 2007 their number was about 1,300 (Mashkina, Heliste and Kosonen 2007). This is still a relatively high number, and many small banks are thought to have weak solvency.

Due to a favourable economic situation, Russia's financial sector developed quickly in the 2000s. Company bank loans rose by an estimated annual rate of 50% throughout the 2000s until the autumn of 2008 (Heininen et al. 2009). This was partly due to a developing consumer and other private credit market, which has also offered financing for business activities more easily than actual business loan instruments. In particular, leasing and factoring[7] financing has been in great demand among small businesses (Heininen et al. 2009). For example, in 2005 bank loans were used to start up businesses in only 10% of cases, whereas in 2007 the share was 24% (OPORA 2006, 2008). The share of own financing is, however, still high (75–79%), but the share of other private financiers of initial capital has decreased. The share of public financing is still only a couple of percent (OPORA 2008).

Similarly, the use of unofficial sources of finance decreased slightly in the 2000s (Heininen et al. 2009). Growth of financial markets has also caused some distorted features as regards small and medium sized companies. This is also influenced by the common practice of banks to look at both the official and unofficial accounts of a loan applicant, which has resulted in the bank loan market becoming partly accessible to grey market companies, allowing banks to expand their customer base. The financial crisis that began in 2008 has brought the development of the financial market to a halt, and market-based financing has become too expensive particularly for small and medium sized companies. This forces companies to resort increasingly to unofficial practices. In 2007, when the financial crisis had not yet had an effect on

[7] Factoring is a form of financing whereby sales receivables transferred by the client to the financing company and funds accumulated from the receivables act as security for all of the client's receivables (Karhunen et al. 2009).

Russia's economy, the unofficial loan market was worth an estimated 6-8 billion dollars, growing at an annual rate of 15–25% (Heininen et al. 2009). Increased bartering also plays a role in weakening the development of Russia's financial sector (BOFIT Weekly 17/2009).

Unofficial sources of financing have always been important to small and medium sized companies regardless of favourable developments in the financial market and state financing programmes aimed at them (Heininen et al. 2009). In addition to bad experiences, banking practices and loan requirements are considered despotic. There are no consistent practices for approving loans, but instead the criteria vary from one bank to another. Thus, it is hard for companies to understand what is required of them and on what basis. This creates distrust between banks and companies (Heininen et al. 2009). Government programmes in turn have not been attractive to small and medium sized companies because companies are unwilling to reveal their accounts to officials as they almost always have something to hide. Possible sources of funding for small and medium sized companies are often relatives, friends and unofficial bankers (Heininen et al. 2009).

Loan agreements with unofficial bankers entail a great risk to both parties, but they are often the easiest funding option for small businesses. Unofficial financiers often do not require guarantees, but if payments are late the consequences can be serious. The unofficial loan market is often connected to criminal activity, and the source of the money is often unclear. Unofficial financiers can also be seen as 'business angels' who make risk investments (Heininen et al. 2009). The unofficial loan market also includes agents who operate on the border of legal and illegal and who have access to a large network for getting credit. The extent of the phenomenon is exemplified by the fact that Russian bookshops sell guidebooks on how to get a business angel involved in your business (Heininen et al. 2009).

Unofficial credit markets enhance other grey market phenomena, as the loan has to be paid back off the books and hence trade has to be done partially under the table. In order to avoid problems with the authorities, often only rent and a part of salaries are paid officially (Heininen et al. 2009). To give another example, a certificate of cash-in-hand salaries signed by the company's accountant or manager can act as a guarantee for taking out a loan. A legally registered bank will not report this to officials in fear of losing the customer. Thus, both parties in agreement breach tax regulations (Heininen et al. 2009).

Future development of the financial sector depends on action taken by the state and legislators to make official loans possible also for small and medium sized companies. However, due to

transparency demands imposed by the financier, in practice bank loans remained out of the reach of many Russian small businesses, even though loan offering ostensibly increased during the years of economic growth in the 2000s. Due to the unstable environment, shortcomings in legislation and fairly high taxation, Russian small businesses are not able or willing to operate entirely outside of the grey market. The framework and means for unofficial practices exist in Russian society and have long roots in Russian history, but they will only prevail as long as institutional shortcomings force people to resort to them. Unofficial financial markets will in all probability remain as the main sources of funding for small and medium sized companies in 2030, despite a continuous development towards better functioning financial markets.

Paternalism

Because the public sector is unable to offer required services, social services offered by companies continue to be an important way for companies to commit employees and form good relationships with local government, particularly in remote areas. Paternalistic relationships between a company and its employees have their roots in socialism, when it was common for one large factory to be the only employer of a town and, in accordance with the planned economy, offer its employees and the whole town services ranging from kindergartens to heat distribution.

This culture is still strong in today's Russia, even though offering social services and infrastructure is no longer an official requirement. At the local level, large and medium sized companies participate in providing social services such as building homes, producing electricity and building and repairing local infrastructure. For example, according to a questionnaire study carried out in 2003[8] 80% of large companies still participate in the production of heat in their local areas (Leppänen, Linden and Solanko 2008). This kind of 'industrial feudalism' (Ericson 1999) was born as the public sector was unable to fulfil its responsibilities. Based on the old tradition, the public sector assumes that local large companies will produce the required social services and infrastructure. At the same time, relations between the public sector and business life are becoming political.

Businesses have seen offering public services as an important means to improving their production capacity (Leppänen, Linden and Solanko 2008). Without local investment in im-

[8] The study was a joint project of the Center for Markets in Transition (CEMAT), the Bank of Finland Institute for Economies in Transition, and the Moscow Centre for Financial and Economic Research. 404 medium sized and large companies in 40 regions were interviewed.

provements, bad infrastructure can lead to production stops and cause serious business problems. Offering social services has also become a competitive advantage in the labour market. For instance, by building affordable apartments a company can attract employees from other areas if (and usually this is the case) no suitable staff is available locally. The housing situation in production areas is often appalling, as is the case in Russia generally (Mashkina, Heliste and Kosonen 2007), and people are not willing to move to areas where there is no suitable housing. For example, a Finnish company Nokian Renkaat is to complete an entire residential area near St Petersburg by 2011 in connection with expanding the Vsevolozhsk factory, and the apartments will be sold to employees at the cost price. The package also includes a low interest mortgage. According to Nokian Renkaat's technical manager, the aim of this is to *"commit people to the company"* (Mölsä 2007). The condition for getting an apartment is signing a seven-year work contract with the Nokian Renkaat factory.

Cases like Nokian Renkaat will become more common in Russia as the competition for good employees increases. There is already a great demand for employees, only momentarily alleviated by the financial crisis. Russia's population growth has been negative since the collapse of the Soviet Union. For example, in 1996 Russia's population was about 148 million, whereas in 2008 it was only 142 million (Rosstat). In 2008 the death rate was almost 1.5 times compared to the birth rate, and double in big cities such as St Petersburg (Rosstat).

In 2006, then president Putin declared the declining birth rate to be Russia's biggest problem (Chivers 2006). Led by Putin, financial benefits paid out to mothers were increased and a 'maternity capital' of 250,000 roubles (approximately 5,800 euros) for children born after the first child was offered. In 2007, Russia experienced a slight baby boom, and the birth rate rose for the first time since the Soviet era to 1.4 children per woman. UN Development Programme experts state that although maternity allowances were needed, the maternity capital system cannot achieve permanent change in the birth rate (UNDP 2008). The capital system is considered too expensive, badly planned and too concentrated on financial incentive, which can distort motives for child-bearing (UNDP 2008).

The most worrying demographic trend as regards the workforce is the high mortality rate of working aged men and the low life expectancy of men in general. The most important causes of death of working aged men are alcohol and traffic accidents. The UN estimates that by 2030 Russia's population will be down to 128.8 million[9] (UN 2008), and that the share of

[9] Here, the birth rate was estimated according to average birth rate i.e. to approach the rate of 1.85 children per woman until 2050. For more information on the methodology, see http://esa.un.org/unpp/index.asp?panel=4

working aged Russians[10] will decrease from 101.2 million to 84.2 million during 2010-2030. Immigration is not expected to be a solution to the problem as it would be politically difficult due to e.g. growing xenophobia, especially against immigrants from Central Asia. This means that in coming years companies will have to offer even better services when competing for a decreasing number of employees.

By offering services that in many countries would belong to the public sector, companies also form good relationships with the local public administration (Leppänen, Linden and Solanko 2008). The public sector's approval is important for a company and facilitates conducting business by, for example, smaller public payments or quicker handling of the company's affairs (Haaparanta and Juurikkala 2007). In the short term this of course has a positive effect because without services offered by companies there would be no social services at all or their quality would be clearly worse. At the local level, this practice has led to very close relationships between the public sector and big companies, which in the longer run can have a negative effect on small and medium sized companies and the development of a healthy competitive environment (Leppänen, Linden and Solanko 2008). For example, according to a representative of a small company interviewed in Leningrad Province, local officials are negative about small and medium sized companies entering the area because they know that those companies are unable to invest in social services to the extent of bigger companies (Heininen et al. 2008).

Companies have offered social services for over twenty years during the post-socialist transition, the scale varying according to the economic situation. In the 1990s, offering social services was very wide-spread (Leppänen, Linden and Solanko 2008), and during the 2000s paternalistic offering of services has become more of a competitive advantage used to commit the most important stakeholders, personnel and local administration, to the company.

The paternalistic system will continue so long as infrastructure and services produced by the public sector are insufficient, Russia's institutional structure remains weak, and Soviet era buildings and other facilities for social administration are feasible with small repairs and costs (Leppänen, Linden and Solanko 2008). For the time being, good and close relationships with local officials are vital for business for both Russian and foreign companies (Kosonen 2008), and costs of poor infrastructure are still too significant to bypass. Though Russia's financial situation, local administration and institutional environment have improved significantly, the

[10] The share of 15–64-year-olds in the population.

'division of labour' between the public sector and companies will still exist and be used by both parties for a long time to come. The paternalistic model is also called out for by Russia's diminishing workforce, which due to the demographic development of the country will in the long run be a concern. In the light of these concerns it is likely that the Russian business sustains its paternalistic structure up to 2030.

Unofficial labour market

Along with other unofficial phenomena, cash-in-hand salaries are on the rise, playing their part in strengthening the grey market. Cash-in-hand salaries are part of the grey market vicious circle: if you cannot declare your income to the authorities, everything else in the official sector can also become impossible. In 2007, an estimated 40% of salaries paid in Russia were paid either completely or partly off the books (Bouev 2007). No solution to this problem is in sight, as under-the-table salaries are a widely spread practice that stems from the firms' under-the-table incomes caused by the perceived need of tax evasion.

Throughout the post-socialist transition, the share of unofficial work has grown particularly as additional income, and work is often done in both the unofficial and the official sector (Bouev 2007). In addition, it is common that salaries are paid according to two different accounting systems within the same company. In 2004, the share of unofficial work was 18% of all full-time work (12.7 million jobs) and 94% of all part-time work (11.9 million jobs) (Gorbatcheva 2005). According to another estimate, in 2002 14.4% of Russia's workforce earned their living from the unofficial sector (Chen and Vanek 2005). However, estimating the amount of cash-in-hand work is of course difficult, and estimates are rough. According to some estimates, during the transition period unofficial sector jobs have grown faster than jobs in the official sector (Bivens and Gammage 2005).

In Russia, concealing salary payments from tax authorities is part of a deeper tradition of unofficial activity and the need to hide activities from corrupt officials. Corruption and tax evasion are considered negative phenomena, but cleaning the slate completely is just too expensive. As an entrepreneur from St Petersburg puts it, *"I dream of and strive for clean accounts, but I can't afford that right now. We simply wouldn't have money left for anything else."* (Heininen et al. 2009, 74.)

The reason behind paying cash-in-hand salaries is often pure tax evasion. Social tax, considered the chief reason for tax evasion, was during 2001-05 brought down from 35.6% to 26% (Kuznetsov and Goncharenko 2008). The consequences of the tax cut did not, however, reach

the aims set for it, because at the same time the right to deduct company development costs from taxes was removed (Heininen et al. 2008). In 2003 taxation was simplified, and companies could decide whether they wanted to pay their taxes according to the new or old system (Heininen et al. 2008). This reform did encourage some, often larger, companies to publish their salary accounts, but most small and medium sized companies continued to pay under-the-table salaries in order to avoid heavy bureaucracy and various official and unofficial payments (Bouev 2007). Small and medium sized companies suffer from despotism by authorities more often than large companies (CEFIR 2007).

In Russia, reforms and rebuilding aiming at a market economy have had a negative impact on the quality of cash-in-hand work and the benefits of employees (Chen and Vanek 2005). At the same time, the share of unofficial work has not decreased significantly. Companies' need to save has increased due to financial uncertainty, and at the same time authorities want their share of extra income. Due to the economic crisis, employees are moving over to the unofficial sector as otherwise they might not get paid their salaries at all. Outstanding salary payments almost doubled during the first quarter of 2009 due to the weak financial situation of companies, affecting half a million employees at the end of March (BOFIT Weekly 17/2009). In addition, employees who have moved to the official sector during the past years are returning to unofficial work, and development that has taken place over the past years has taken a step backwards.

When the institutional environment, such as the taxation system and bureaucracy, becomes less limiting to business, working in the official sector also becomes more common. The problem, however, is that the line between unofficial and official becomes even more blurred. As mentioned before, earning cash-in-hand salary does not necessarily prevent you from getting a bank loan, which otherwise might be an incentive for working in the official sector (Bouev 2007). The problem of unofficial salary cannot be solved by just decreasing social taxation, but by getting rid of corruption and making other unofficial business activities unprofitable. Achieving this would require tighter regulation from central government, which however often meets resistance from local government. Instead of giving "the stick" to workers and entrepreneurs more of the "carrot" is needed to build a more positive long-term outlook on one's own, one's family's and firm's future. Considering the above-mentioned contradictory development processes and needs it is more than probable that off-the-books salaries, especially for small and medium sized enterprises, are a wide-spread practise in Russia also in 2030.

Conclusions

Businesses and individual citizens will continue to use unofficial and even illegal solutions to alleviate problems, such as economic uncertainty and heavy bureaucracy, as long as the supporting institutional framework that supports transparent activities is not in place. Unofficial means are, therefore, a rational solution to uncertain conditions. However, they will disappear on their own when they become ineffective and start to erode the foundation of economic development (Kosonen 2008). This can happen as social and institutional frameworks improve. It should, however, be kept in mind that changes in culture-specific unofficial practices lag behind official, top-down led changes. A permanent change in unofficial practices would require definitions of official institutions, such as legal sticks and carrots that mirror social reality. At the same time, implementing law should be consistent and show consistency. Different bodies such as tax officials, central government and local government should pull in the same direction to make the business environment clearer and more equal.

Table 1. Unofficial practices in Russia

	Manifestation of the problem	Background	Factors with a growth effect	Factors with a dampening effect
Personal networks	• Important in business relations with all firms' interest groups • In the 1990's very significant in business, declining importance in the 2000's but importance in relation to the public sector and in acquiring financing	• Centuries old tradition of reciprocal exchange in rural Russia • Historical tradition in network formation (*krugovaya poruka*). • Culture of reciprocal exchange (*blat*) that flourished and got its specific form during the Soviet times.	• Uncertainty and lack of trust in the economy • Political instability • Absence of rule of law	• Increase of transparency in economic relations and society in general • Emergence of rule of law, improvements in the judicial system • Reforms and entrenchment of institutional environment.
Contract enforcement	• Contracts based on personal networks • 1990's contracts mostly oral, increase in written contracts in the 2000's	• After the collapse of the static Soviet contract arrangements, the lack of new formal contract enforcement institutions necessitated trust-based informal contracts based on personal networks.	• Unpredictability and lack of trust between economic actors • Absence of rule of law • In efficient judicial system • Growing importance of personal networks in business	• Improved economic situation • Social stability • Improvements in the judicial system • Streamlining of contract practices.

Corruption	• Unofficial payments for speedy processing of officially required procedures in registering, licensing, tax and customs. • Fines for committed offences but targeted only to certain firms (for political or otherwise unrelated aims) • Unofficial payments during official inspections (health, tax authorities) • Fines for fabricated offences	• Tradition of corruption inherited from the tsarist regime • Low remuneration for government officials especially in the 1990's • Incoherent legislation and lack of customary practice in implementation • Heavy bureaucracy inherited from previous regimes	• Incoherent legislation and lack of customary practice in implementation • Heavy bureaucracy • Low remuneration for government officials	• Simplified and unambiguous legislation • Institutional development • In crease in transparency • Better remuneration for government officials

Paternalism	• Local officials require mainly large companies to contribute to the local infrastructure and to provide social services due shortage of funds in the public sector. • Firms offer services that are usually provided by the public sector in exchange for good relations with officials and for employee commitments • In the 1990's paternalism wide-spread from education to energy, in the 2000's more concentrated on infrastructure and housing.	• Soviet tradition and setting for employer's extended social responsibility • After the soviet demise, the inability of the public sector to provide social services • Shortage of skilled workers increased the need for employee commitment	• Public sector financial problems • Large regional monopsonies (sole employers) and monopoly dominated industry • Shortage of (skilled) workers, weak demographic development in Russia • Partial and opaque treatment of firms by local administrations	• Improved financial situation of the public sector and local administration • Improved availability of (skilled) workers • Diversified industry structure and increased competition

Barter	• Wide-spread in the Soviet times especially used for small favours for personal consumption • In the 1990's wide-spread inn business but not for personal consumption, declining in the 2000's and 2008 small-scale but used in business due to he credit-squeeze.	• Underdeveloped financial markets • Tradition of reciprocal exchange and formation of personal networks • Experience and know-how on organising complicated barter chains from the Soviet times and the 1990's.	• Payment arrears • Lack of liquid credit in the markets • Crisis in the global financial markets, uncertainty in the economy • The tendency to create exclusive personal networks in business • Lack of trust between potential trade partners	• Favourable economic situation • Increased availability of credit • Increased transparency and predictability in the economy • Decrease in the significance of personal networks in the economy

Unofficial financial markets	• Unofficial bankers, business angels • Unofficial credit offered by official banks • Finance in exchange for payment in kind	• Underdeveloped banking sector • Severe banking sector crisis weakened trust in banks and market-based credit	• Distrust between banks and towards firms (mainly SMEs) • Opaque financial market and bookkeeping regulation and legislation • SMEs need to hide activity from officials, high taxation levels • Uncertainty in the economy • High levels of interest rates, non-transparent conditions by banks for customers or strict conditions for credit • Low bank solvency	• Improved general economic situation and decrease in uncertainty • Improved availability of finance for banks in domestic and international markets • Legislation reform in removing illegal activity, simplification and removing ambiguities from accounting requirements • Firms increasing legal activity • Low interest rates

Unofficial labour markets	• Most companies have both an unofficial and official salary bookkeeping • Salary raises or remuneration from extra work often unofficially or through tangible benefits • Cash widely used for payments to avoid taxation • In 2007 approximately 40% salaries paid unofficially	• After the soviet demise, new official infrastructure for worker-employer relations was slow to emerge • Due to inadequate legislation nor the employer or the employer see the benefits of paying taxes • Due to the extensive nature of the problem, government supervision task is overwhelming.	• Opaque tax legislation and complicated procedures for payment of taxes • Increase in income tax • Need to hide activity from officials, increase in corruption and arbitrariness of government officials • Worsening financial situation for firms • Underdeveloped worker protection legislation and its supervision • Weak workers' unions	• Improved general economic situation and decrease in uncertainty • Simplification of tax legislation • Increased predictability in actions by government officials • Emergence of rule of law • Increased need to be paid officially (e.g. for mortgage). • Enforced worker protection and increased negotiating power for unions.

Sources: BOFIT Weekly 17/2009, Bouev (2007), CEFIR (2007), Chen and Vanek (2005), Chowdhury (2003), Commander and Mumssen (1998), EBRD (2004), Haaparanta and Juurikkala (2007), Hendley (2005; 2007), Kahn (2006), Heininen et al. (2009), Kim, Pirttilä and Rautava (2001), Kosonen (2008), Kosonen and Rautava (2002), Kuznetsov and Goncharenko (2008), Ledeneva (1998; 2006), Leppänen, Linden and Solanko (2008), World Bank (2009), OPORA (2006), UNDP (2008), UN (2008).

The past decade has been full of reform initiatives for improving the investment climate amongst others, but their results have left a lot to be desired particularly at the local level. During the good times of the 2000s when raw material prices were high, steps were taken towards institutional reform and improving legislation, but not to a sufficient extent. However, it should be kept in mind that a decade is a short period of time in developing a constitutional state and legal enforceability. Giving up the use of unofficial relationships in business will not happen for some time as it takes decades of a proven functioning and impartial legal system to change people's conceptions. This is why in the future it will still be easy to resort to familiar unofficial practices especially in difficult times and the public sector is not able to alleviate problems.

With the help of international organisations such as the World Bank and European Bank for Reconstruction and Development, there are several ongoing initiatives in Russia to remove corruption, develop co-operation between the private and public sector, and reduce bureaucracy for investors and local companies. In addition, President Medvedev[1] assures that he is committed to increasing government transparency. These reforms may be slowed down by the current financial crisis, but the direction is nonetheless right. In 2030, Russia will still be on its way to becoming a modern transparent economy and progress will certainly have taken place. However, in difficult situations, old practices will still come in useful.

It would seem that in 2030 Russian business will still be quite strongly influenced by corruption, which is deep-rooted in Russian society, the cash-in-hand job market, particularly as regards part-time work and extra work, and paternalism, which due to for example. a shortage of workforce will have become a fairly established part of the division of labour between businesses and the public sector. The most vulnerable areas are the financial market, the scale of barter and the culture of inter-company contracts. Unofficial financing is enhanced particularly by small and medium sized companies' need to conceal their activities from the public sector and the tendency of financial institutions to take into account unofficial income and grant unofficial credit. This erodes the foundation of improving transparency even though favourable economic development might enhance the development of the financial market. Barter on the other hand is sensitive to changes in the economy. It fades away when companies become more stable, but is used again when economic uncertainty increases. Commit-

[1] On 15 April 2009 President Medvedev gave his first interview to the Russian newspaper Novaja Gazeta, which is known as the opposition's paper and the employer of the murdered journalist Anna Politkovskaja. This has been seen as a sign that the new president wants to distance himself from his predecessor's politics and supporters, the so-called *Siloviks*.

ment to written contracts also improves along with transparency. Personal networks and trust-based business becomes more prominent as the economy takes a plunge.

Getting rid of the unofficial business culture in Russia would require a combined effect of many changes. Legislation and its implementation should develop so as to make companies operate in a transparent manner. Bureaucracy and corruption should be an obstacle to business development. Public infrastructure should be enhanced so that it could offer proper prerequisites for business. The situation as regards workforce also needs to improve considerably. It is very unlikely that many of these factors will be achieved by 2030. Therefore, unofficial practices in business will still have strong presence in the Russia of 2030. Unofficial characteristics of the Russian economy form a tangle that cannot be easily unravelled because many parts of the tangle are not even considered problems. 'The unofficial' is a historically formed Russian way of solving many problems. Thus, it is important that it is acknowledged and examined from a value neutral perspective.

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The Murmansk region's growing importance in the energy economy and logistics creates opportunities also for Finnish companies[1]

Yrjö Myllylä[2]

Exploitation of Russia's northern energy and ore natural resources as well as traffic through the North-East Passage are significantly adding to the importance of the Murmansk region and creating markets for companies operating in the sectors of Arctic transport, energy and environmental technology. The Murmansk region[3] has a key position in exploitation of Russia's northern energy and ore natural resources and as a node for navigation through the North-East Passage[4]. A northward shift of Russia's geopolitical centre of gravity, growth of the world economy and factors associated with climate change have given questions relating to development of the Murmansk region and use of the North-East Passage greater topical relevance than they earlier had. The growing importance of Arctic regions has been accentuated in the strategies of the major powers in the region and of the EU. Finland also began creating her own Arctic regions strategy in the autumn of 2009 (statement by the Ministry for Foreign Affairs 2009).

The North-East Passage provides a potential alternative world trade route for transports that currently go through, e.g. the Suez Canal or the Panama Canal. For example, a ship's voyage from Shanghai to Hamburg would be shortened by over 6,000 kilometres if it sailed through the North-East Passage rather than the Suez Canal. Russia's geopolitical and geoeconomic centre of gravity shifted northwards when the main southern oil-producing regions, such as Kazakhstan and Turkmenistan, became independent. The relative importance of North-West

[1] The conclusions set forth in the article are the author's own. The key words in the article and the thesis research on which it is based are: the Murmansk region, Arctic, North-east Passage, strong predictive trends, clusters, logistics, regional development, geography, futures research, the Delphi method. This article has been produced as a part of the project "Finland at the focal point of Arctic and Baltic and growth regions", which was commissioned by the Regional Development Unit of the Ministry of Employment and the Economy.

[2] The author is a doctor of social science and works as an expert on regional forecasting with Oy Aluekehitys RD (www.rdmarketinfo.net). The text of the article is founded in its key parts on the author's doctoral dissertation, which was examined at the University of Joensuu on 28.12.2007 (Myllylä 2007). The dissertation is available as an online publication on the web site of the university's library: http://joypub.joensuu.fi/joypub.

[3] By "Murmansk region" is meant, in this context, the administrative area of the Murmansk Oblast (province), the Kola Peninsula. It currently has a population of just under a million. The city of Murmansk in the region is still the most populous located within the Arctic Circle. That even in spite of the fact that the Murmansk region has been suffering the sharpest decline in population of any of the regions in North-West Russia since the disintegration of the Soviet Union (with its population having fallen by around a quarter) and the population of the largest city in the region, Murmansk, has also declined sharply.

[4] By "North-East Passage" is meant the route that connects Europe with Asia and North America through the sea areas north of Russia.

Russia and Siberia, which depend on the North-East Passage, is growing in Russia's oil and gas production.

Oil and natural gas are Russia's most important export items. They have been brought to Europe with the aid of infrastructure, largely pipeline networks that were built decades ago. However, the situation with respect to the transport system is changing as Russia tries to control its transports itself. At the same time, interest in the North has increased due especially to the greater energy requirements of the world economy and as existing oil and gas fields become depleted.

Indeed, the high prices that crude oil and natural gas products as well as other natural resources command on the world market have created prosperous pockets of development in remote regional economies in Arctic regions that have abundant oil and gas resources. Higher raw material prices make exploitation of natural resources in Arctic regions more profitable than it earlier was. These regions are located to the North-East of Finland. In addition, the Murmansk region is exceptional also by virtue of its mineral resources. Minerals occur in rich concentrations in the region as a result of the geological processes that deposited them, and indeed the region has been compared by geologists to South Africa (Roberts 2003). Also elsewhere in the Barents and North-West Russia regions as well as in the central Siberian region that is within the sphere of influence of the North-East Passage (e.g. in Norilsk) there are mine products the exploitation of which is economic as growth in the world economy boosts raw material prices.

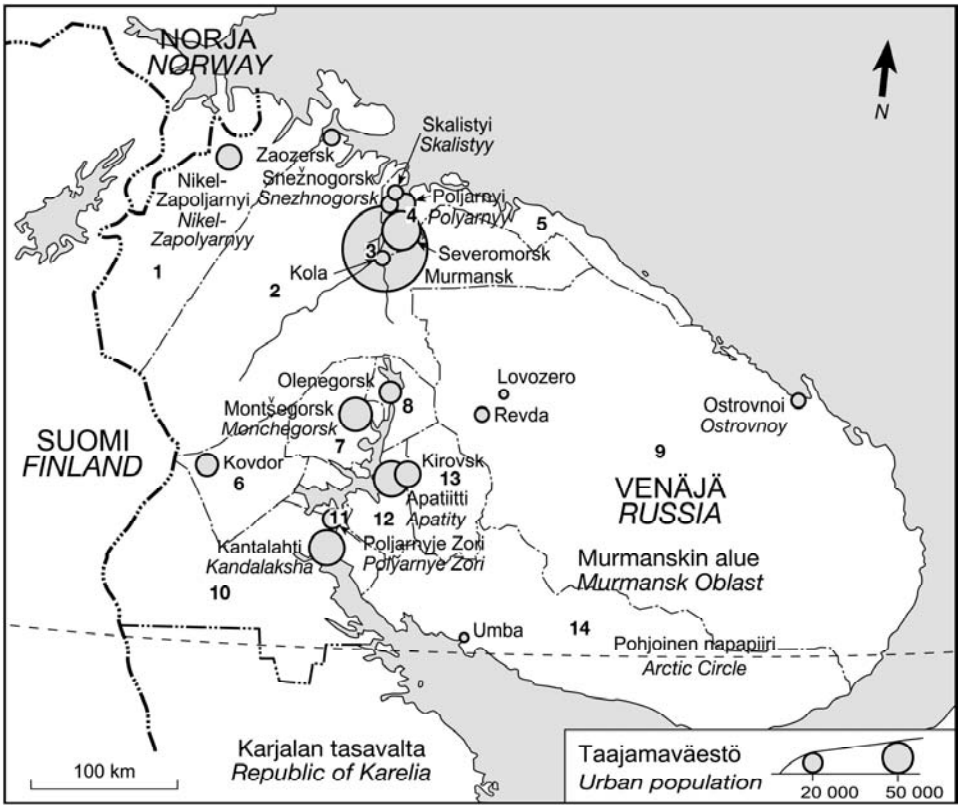

Figure1. Concentrations of population in the Murmansk region as well as administrative districts and urban centres there. Source: Myllylä 2007.

Climate and energy questions have prompted actors in the sector to ponder the possibilities of the North-East Passage, which links Europe and Asia as well as the East Coast of the United States. Although it is not being used as a route for trade between these regions at present, the use of the North-East Passage as an international trade route is drawing closer. It is nowadays being used to a growing extent to transport natural resources to Murmansk from regions close to the sea route.

It can be expected that when world trade traffic begins on the North-East Passage, its effects over the long term could be even very significant for the economies of northern regions and also of Finland.[5] It is appropriate to forecast what the status of North-west Russia and especially of Murmansk in its northern location will be within the pattern of the new developing transport system and how industry and logistics in North-West Russia and the Murmansk region will develop in the framework of changes and what effects the changes will have on

[5] When this traffic will begin and what effects it will have on Finland can not be gone into in detail in this article, because the matter would require further basic research, something for which the author is prepared if opportunities present themselves.

Finland's regional development and what opportunities they will present for this. And further, what effects this may have within the EU context.

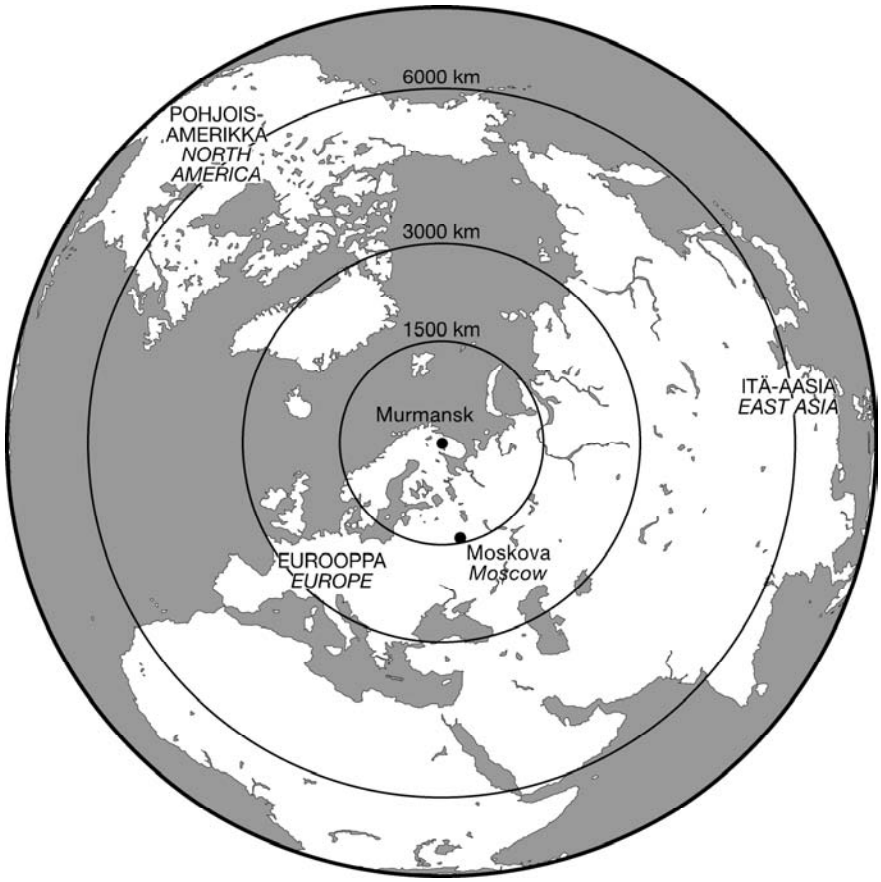

Figure 2. Location of the Murmansk region. There are relatively short sea connections from Murmansk and the Arctic gas and oil fields to the currently most important market areas, especially Europe and the US East Coast, which has recently being growing in importance. Source: Myllylä & Tykkyläinen 2007: 30. Diagram reproduced with the permission of the authors and the Finnish Geographical Society.

Conclusions reached from the Delphi panels' results:

1. Russia is "northernising" and exploitation of the natural resources of Arctic regions is increasing.

Within Russia, its geopolitical centre of gravity has shifted northwards and with powerful growth in exports of oil and gas will move also to the Arctic Ocean over the next few decades. The Murmansk region will probably become an important node of the oil and gas industry and of logistics. The development and its pace will depend largely on how the world economy develops and on the policy pursued by the Russian state.

Murmansk provides North-West Russia with the only link to the ocean that remains ice-free all year round and the distance from there to key market areas is short. Also the role of the Gulf of Finland is a key one in Russia's European trade as the country seeks new competitive routes and strives to control its transports itself. New, strengthening logistic flows in Murmansk and the furthest end of the Gulf of Finland function also as key motors of regional development and as significant opportunities for Finnish economic life. Thus Finland's immediate environs are being transformed by investments. Especially the needs of Arctic transport and energy production technology and the logistics associated with it offer Finnish companies opportunities in exports to a Russia growing rich on oil and gas revenues.

2. The beginning of a wave of development in oil production in Arctic regions is supporting the growth of the Murmansk region.

The effects on coastal towns and cities of exploitation of the Arctic region's energy resources are partly similar to what was seen around the North Sea from the 1960-70s onwards as the oil fields there were brought on stream for the first time. The focus of these effects is mainly on localities along the coast of the Murmansk region, especially the city of Murmansk itself (cf. the impact of exploitation of North Sea oil and gas fields on the development of Aberdeen in Scotland or Stavanger in Norway or the Shetland Islands).

The effects of exploiting Arctic energy resources are partly also different from those in the case of the North Sea due to the city of Murmansk's special logistical status for traffic to North-West Russia and the North-East Passage. Murmansk is the location of North-West Russia's only ocean port with good rail connections from other parts of Russia, something that accentuates its status as a transport node and terminal area. The summer of 2008, for ex-

ample, saw the use for the first time of an oil transport system in the middle of ice when the Varandein system, designed by the Finnish company Aker Arctic Technology Oy for the private oil companies Lukoil and ConocoPhillips was inaugurated. The companies have reported that oil from the field has been transported to Murmansk in shuttle vessels designed by Aker Arctic (Niini, 2009). By the autumn of 2009, about 3.5 million tonnes of oil had been transferred to large vessels to be taken to China along conventional routes. Progress has also been made with exporting ores, and new technology, including cost-saving ore transport vessels, have been brought into use to exploit natural resources profitably. In this traffic based on use of the North-East passage, the Murmansk region and its towns where minerals are processed have received ore reserves from central Siberia for further refining.

3. Use of the North East Passage – international interest growing.

The adoption of the North-East Passage as a major world trade route provides a future option. Climate change will accelerate this development, because it is lengthening the part of the year for which the North-East Passage is navigable and making it easier to use the natural resources close to it. As climate change advances and technology develops, year-round use of the North-East Passage as a world trade navigation route is probable. *At the moment, it is hardly used at all to sail through to transport cargo. However, a new kind of use of it has already begun in order to exploit the natural resources within its sphere of influence*. Finnish expertise in relation to transport systems and cost-saving innovations in transport technology have had a key influence in this. Looked at from the perspective of Finnish production of Arctic transport and other technology, it is important to forecast the prerequisites that would have to be met in order to exploit the oil fields in the middle stretch of the North-East Passage, including those in the Petschora Sea or the Kara Sea, in such a way that the oil would be transported direct from the region to, e.g., Asian markets rather than via Murmansk as at present. This could affect demand for such items as large special tanker vessels and Arctic environmental technology.

There are a lot of questions and much to be studied in relation to the adoption of the North-East Passage as a channel for world trade other than that involving exploitation of natural resources in Russia. Russia has its own interests in the channel, which runs partly through its territorial waters.

In addition to long-range forecasting projects relating to the North-East Passage, it would pay Finland to be involved at the moment in developing the logistical processes for the route that are already under way based on Murmansk. The city will continue to be the North-East Passage's most central node in Russia and thus offers opportunities to be involved in follow-up processes.

4. Finland could be able to offer system-related know-how and technological innovations in key logistical processes in Murmansk and North-West Russia.

The central node in the logistical processes of the Murmansk region and North-West Russia is the city of Murmansk (or the furthest end of the Gulf of Finland, the St. Petersburg-Leningrad region). The adoption of the North-East Passage as a world trade route could also have an effect on links between Finland and Russia as, among other things, world trade distribution systems develop and change. Strengthening Finland's role as a technology supplier could underscore also the importance of these contacts to Russia, among other things in supplying capital goods. Developing telecommunications, air services and road traffic between Finland and Murmansk is necessary with economic cooperation in mind.

The Salla railway line has not yet assumed essential relevance for the development of North-West Russia and the Murmansk region, but it is an important and warranted project from the perspective of northern Finland and the North Cap region. Gas transports to northern Finland could provide a further argument in favour of the Salla line. The importance of natural gas and the development of distribution systems in the economy of Finland as a whole and particularly the northern part of the country should be assessed, because, with the development of liquefaction and transport technologies for it, natural gas is becoming a global trade commodity that does not depend on pipelines to get it to markets. Using natural gas is also a more environment-friendly alternative than using oil. If necessary, the gas distribution system could probably also be partly used in the production and distribution of bioenergy.

Among other factors, privatisation of electricity utilities in Russia and the rising price of electrical energy are contributing to a situation in which building an electricity transmission network from the Murmansk region to the Nordic countries is important from the perspective of the former region's development. The region produces abundant electricity from hydropower and nuclear plants and natural gas-fired power plants and wind power are likely to be added to

this in the future; where wind power is concerned, few parts of the world enjoy such exceptionally favourable conditions as the Murmansk region.

Project themes

Arctic transport and energy-production systems a central theme

1. Drafting a Finnish research and development programme for *Arctic transport, energy and environment technologies*.

2. The launch of a strategic *cluster development project* between Finland and Murmansk as well as Russia's northern regions, especially from the perspective of development of North-West Russia's energy, mining and logistics sectors.

3. *Cooperation in the field of research and training competence relating to development of logistics* in North-West Russia and Arctic regions – such as studying and forecasting the use of the North-East Passage.

4. Developing tourism in Finland and North-West Russia *as a part of tourism in northern Europe.*

5. *Natural gas in Finland* need assessment (taking into consideration inter alia the use of the Salla railway line in distribution as well as changing over to using gas as fuel for climate-related reasons).

6. In addition to the one for Murmansk, drafting of *future economic profiles* also for the economic areas in North-West Russia.

7. Development of the economic structure of the *monoindustrial cities* in North-West Russia.

8. *Innovative orders* by the Finnish State and the EU associated with inter alia Arctic research (e.g. the EU's Aurora Borealis research vessel) and oil pollution control and icebreaker equipment in the Baltic Sea.

9. *Visits to ports, shipyards and companies* by persons who decide on logistics in the Murmansk, North-West Russia and North-East Passage region to present technological know-how (such as ships and cargo-handling equipment) and the transport services that Finland offers.

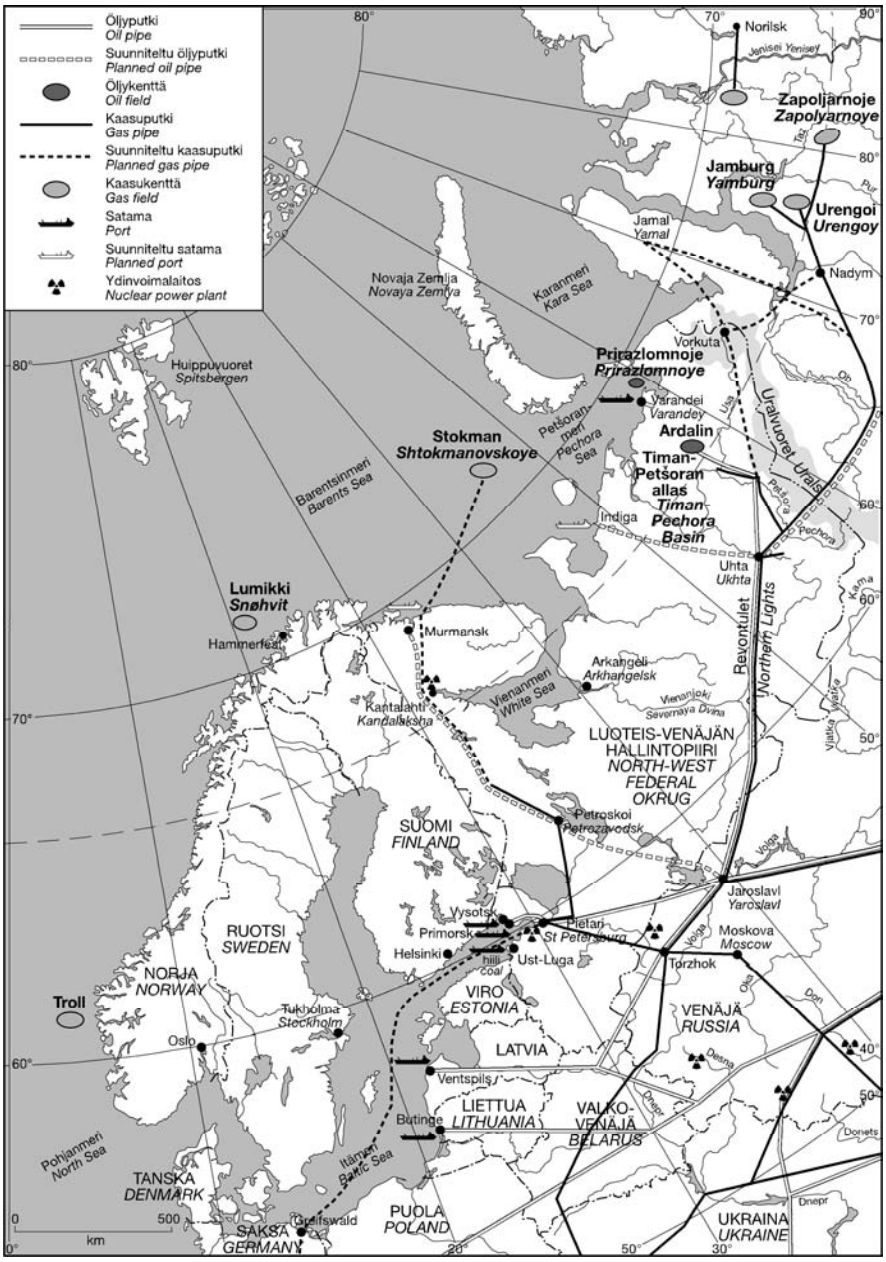

Figure 3. The trunk network of oil and gas pipelines in North-West Russia. The existing network and the plans unveiled in recent years to expand it and develop ports. Source: Myllylä & Tykkyläinen 2007. Reproduced with the permission of the authors and the Finnish Geographical Society.

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Finland's and Russia's policies on adjacent areas and neighbourly relations

Tapio Välinoro[1]

From as mediating and transit role to being part of an integrating economy

South-East Finland's role as a partner of the new Russia has for the past two decades been mainly that of a transit channel for raw material imports and manufactured goods and as a destination for short shopping trips and brief holidays.

Our country's most important forest industry area has been procuring up to 30% of its total wood raw material requirements from Russia. This commodity has become more difficult to obtain and supplies of it look uncertain. At the same time, companies have been investing in facilities with a low degree of processing, such as sawmills, in Russia. Now investments are on hold.

Already in the late 1990s the transit task changed from being that of transport through South-East Finland from Russia to third countries and became that of serving as a kind of distribution centre for exports of consumer goods to Russia.

At the same time, shopping tourism is becoming a more diversified and longer-duration way of spending a holiday in Finland.

This development is leading to ever more intensive cross-border activities in various sectors of economic life. What is involved is integration of service and production structures. This poses new demands to both bilateral adjacent-areas cooperation between Finland and Russia and the EU-Russia partnership programme.

From transport to production chains – from infrastructure to innovations

The efficient functioning of customs and border posts is important also in the new phase of development. However, the development of infrastructure must be seen as development of the traffic system as a whole rather than of individual border posts. Development inputs must be channelled into cross-border service and production chains and increasing their efficiency. This applies equally to fast train services, air traffic via Finland to serve the St. Petersburg region, improving road conditions and new shipping routes.

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Alongside heavy inputs into infrastructure, the emphasis must be shifted onto creating cross-border innovation networks. University and research activities must be seen as cross-border in character. That way, the structure of third-level education in South-East Finland can be strengthened. Bringing business parks into being on the Russian side of the border will create a foundation for Finnish companies to establish themselves in a new market.

Industrialisation and new structures – making ports a part of a joint system in the eastern Gulf of Finland

Russia can not continue for long to be an economy based on exporting raw materials and energy nor as a retail outlet for western goods. What lies ahead is industrialisation of the country by modernising the old and creating the new. Western companies' assembly facilities, with all of the components being imported, are not a permanent situation. Also Russian parts manufacturing is gradually beginning to develop.

Industrialisation opens up export markets in the investment phase, but it also creates an opportunity for cross-border production and service chains to come into being. Thus solutions to some of today's problems associated with the use of raw materials can also be sought in a new way. Integrating production means also integrating factors of production such as utilisation of raw materials and labour, maintenance and factory services.

A gradual shift is being made from the raw materials and consumer goods transit task to a logistics system for two-way material flows of subcontracting and end products. Traffic through border posts is becoming a more balanced mix of imports and exports. The role of ports on the Finnish side of the border as feeder gateways to Russian ports is growing and compensating for lost transports of basic industry goods. Thus also the ports are becoming a part of an integrating traffic system.

Demand for services growing – inputs into experience services

South-East Finland offers excellent prerequisites for meeting North-West Russia's growing demand for leisure and wellbeing services. Service capacity is being increased substantially in the Saimaa region.

The income formerly generated by the basic industry disappearing from the regional economy of South-East Finland will be partly compensated for by income from services production. Demand for a diverse range of experience and treatment services is growing. Services must be dimensioned to meet Russian rather than domestic demand. A possible abolition of the visa requirement would mean a tenfold increase in the capacity needed within a short period.

South-East Finland's opportunities to serve as a "tourism transit zone" from St. Petersburg westwards are improving. The need for complementary air links via Finland and the growth of cruise traffic in the Baltic offer new business opportunities.

A policy on adjacent areas and neighbourly relations to support integration

Finland's and Russia's bilateral adjacent-areas cooperation as well as the partnership policy between the EU and Russia must be geared to support the development described above. During the lifetime of the programmes currently in effect, project activities must be coordinated better and there must be a better ability to channel funds to objects with a greater impact than at present. The starting point in utilising inputs must be that both regions – South-East Finland and North-West Russia - benefit.

On the national level, a common view must be strengthened. On the regional level, the project process must be speeded up and targeting of inputs ensured. The EU's ponderous administration of programmes must be lightened.

In the period 2014-20 we must be able to achieve a policy that vigorously promotes integration and is gotten under way right at the beginning of the programme period – and not, as in the current period, only in the third year. That way, also the EU's external frontier policy will genuinely lend itself to improving the Union's competitiveness by availing of the opportunities that Russia's development presents.

What is Russian National Identity?

Jeremy Smith[1]

A good starting point for thinking about Russian identity is to look at reactions to the reign of Peter the Great. *Peter* has remained controversial among Russians for his efforts to Europeanise the country, and evaluations have reflected the splits in attitude towards Russia's place in the world. The great Russian historian and man of letters Nikolai Karamzin summed up the difficulty of such an evaluation by presenting two apparently contradictory summaries:

> *Germans, Frenchmen, Englishmen were ahead of the Russians by at least six centuries; Peter moved us with his powerful hand, and we almost caught up with them in several years. All the pitiful complaints about the alteration of the Russian character, about the loss of Russian moral face either are nothing but a joke or derive from the lack of thorough thinking. Letters to a Russian Traveller (c.1790):*
>
> *Once upon a time we used to call all other Europeans infidels, now we call them brothers. For whom was it easier to conquer Russia – for infidels or for brothers? That is, whom was she likely to resist better?…We became citizens of the world but ceased to some extent to be citizens of Russia. Peter is at fault. Memoirs on Ancient and Modern Russia (1810).*

This pair of quotes encapsulates one of the many contradictions involved in Russian national identity. In the first, Peter the Great is to be admired for modernizing Russia, and complaints about loss of Russian character are to be laughed at. In the second, Russia is made more vulnerable to foreign influence and has lost its own identity – 'Peter is at fault'.

These quotes are separated by twenty years, and it is no coincidence that it was precisely in this period that the notion of the modern European nation was really taking shape. This was expressed first through the French revolution and the German romantic movement, spearheaded by intellectuals inspired by the ideas of the European Enlightenment. By the middle of the 19th century it had spread across Europe, embracing on its way all the larger national minorities of the Austro-Hungarian Empire and some of the minorities (Poland, Finland and Georgia) of the Russian Empire. What made possible the creation of, on the one hand, national movements for unification in places like the German and Italian lands and, on the other

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hand, insurrectionary movements for national independence in places like the Czech lands and Poland, was the ability of intellectuals to unite around a national idea and make common cause with a section of the nobility and the rising bourgeois classes.

In order to understand the response of Russian intellectuals and politicians to the tide of national identity which swept across Europe in the late eighteenth and nineteenth centuries, we should first look at those features which had helped to define Russianness over the preceding millennium. In studies of most national identities, adherence to symbols, language, works of literature, a view of national history, and parliamentary or monarchical institutions are frequently stressed. In Russia, all of these elements are important, but the most significant defining features can be found in relation to three longstanding institutions: the Russian Orthodox Church, the tsarist autocracy, and the peasant commune.

Until well into the modern era, the Slavic inhabitants of the Russian lands, if asked to identify themselves, would have been far more likely to label themselves as Orthodox rather than as Russian. Orthodox Christianity has therefore rightly been viewed as the key component of Russian identity. But the way believers viewed orthodoxy, and the way it related to popular beliefs and to the monarchy, was always complex. Orthodox Christianity was introduced to the Russian lands by Prince Vladimir of Kiev in the year 988. According to legend, emissaries sent by Vladimir to observe the Byzantine rites reported back to the Prince that the services were such that 'we knew not whether we were in heaven or on earth'. While diplomatic and trade relations with Byzantium probably had more to do with Vladimir's decision than such aesthetic considerations, the manner in which Orthodox Christianity was introduced and the legends surrounding it are of some significance. It was the Prince who introduced the religion from above, in the absence of any grass roots movement. For many centuries, the leading clergy of the Orthodox Church in the Russian lands were brought in from abroad, from the Byzantine Empire itself or from Greece or Bulgaria. The bible, too, was based on the Bulgarian translation, although this was initially comprehensible to the Russian people. The result of this subordinate position to the church in Byzantium was that there was not tradition of independent theological scholarship in Russia. These factors combined with the emphasis in Orthodox services of the congregation as passive observers of rites celebrated by the clergy, to create a gap between the clergy and congregation which was never fully overcome. At the same time the politically subordinate role of the church to the state held the potential for conflict, particularly at times when the Church did adopt a political role. It did so frequently as a series of secession struggles tore apart the Rurikid dynasty, and the Church reached the height

of its power when Metropolitan Aleksey was chosen as Regent for the young Prince Dmitrii (later Donskoi) in 1359, making him effective ruler of Muscovy for a while.

The triangular relationship of Church-State-Congregation was frequently a tense one, which did not bode well for Orthodoxy becoming the cornerstone of identity. And yet this is exactly what had happened by the end of the sixteenth century. In part this was down to the intensely religious nature of the Russian peasant who, even if she or he did not trust the church authorities or the local priest, could conduct worship at home in front of the family icons. But the Church as an institution paradoxically saw its authority strengthened by the period of Mongol rule, when the Russian lands were divided up between Princes who owed fealty to the Mongols. At this time, the Church was the one institution that spanned these different principalities, and the move of the Church capital to Moscow in 1322 reinforced both the standing of the Church and Muscovy's claim to leadership of the Russians. The Church's role in organizing resistance to the Poles and then bringing about a reconciliation of competing forces at the end of the Time of Troubles in the early seventeenth century further emphasized the central political and social role of the Russian Orthodox Church.

The authority of the Russian Orthodox Church was dealt a severe blow by the Great Schism of 1653, which split the church over the prescribed rites of worship, and by Peter the Great's abolition of the patriarchate and creation of the Most Holy Synod in 1721 as a government institution. The subordination of the church to the state was completed by Nicholas I when he reduced the Synod to the status of a regular government department in 1833. But some time before these developments, the international standing of the Russian Orthodox Church had been reinforced as a consequence of the 1439 decisions of the Council of Florence to set aside the differences between the Byzantine and Catholic churches, and the fall of Byzantium to Ottoman Turkish troops in 1453. This left the Russian Orthodox Church, in the eyes of its clergy and followers, as the last bastion of the true faith, and gave rise to the doctrine of Moscow as the 'Third Rome'. Although never accepted as official church doctrine or backed, by the Russian tsar, the doctrine of the Third Rome and the associated Messianism influenced Russian literature, theology, and foreign policy for centuries to come. The idea that Russia was the last hope for Christianity and therefore had a mission to save humanity can be found in Dostoevsky and, according to some historians, in the internationalist aspects of Bolshevism.

The next important feature of identity, tsarist autocracy, is important not just for the state but for popular attitudes. Russia's Time of Troubles ended in 1613 with the election of a new tsar,

Mikhail Romanov, and the creation of a new dynasty. The restoration of autocracy was explicit and not only accepted, but welcomed by the different strata of society who were behind Mikhail's election. From then until the reign of the last Romanov, Nicholas II, not only did the tsars believe in their divinely appointed duty to rule Russia, but this was widely accepted by others. The Russian peasant view of the tsar as their 'little father' thus had deep roots. Even at times of peasant revolt, the rebels more often as not saw themselves as acting in accord with the tsar but against corrupt local officials and landowners. In more widespread rebellions, leaders like Stenka Razin or Emilian Pugachev claimed themselves to be the true tsar leading peasants and Cossacks against an imposter. Historians have also seen echoes of the popular Russian attachment to the tsar in the Soviet cults of Lenin and Stalin.

Finally, the peasant commune was an institution which exercised considerable authority in parts of Russia, and was especially powerful from the emancipation of the peasants in 1861 until they were destroyed by Stalin's collectivization policies of the early 1930s. The communes took decisions by unanimous consensus, and on the surface were extremely democratic institutions. In practice, it seems likely that in most communes a small number of elders dominated. Their functions included meting out justice, assigning tasks in the village, dealing with common resources like water and woodland and, in some regions, the periodic redistribution of land. They also retained huge power over individuals through the right to prevent people leaving or joining the commune. Overall, they were highly egalitarian organizations which put collective prosperity above individual considerations and are seen to have shared many values in common with communism.

How was Russia able to respond to the challenge of the rise of the modern nation? The development of the national idea in Europe in the wake of the eighteenth century enlightenment did not pass Russia by altogether. Catherine the Great showed considerable interest in enlightenment thinking and did a great deal to develop Russian cultural institutions. An unintended byproduct of her relaxation of the service obligations of the Russian nobility also allowed for the emergence of a Russian intellectual class, the intelligentsia, which had the means and the time to indulge in literary exercises which included a focus on the Russian nation. Karamzin, and his changing view of nationhood, was one product of this era. The 'discovery' towards the end of the nineteenth century of the Medieval poem *The Lay of Igor's Host* and its attempted adoption as a national epic mirrored developments among the German national romantics and elsewhere. The growth of the idea of the Russian nation was important in inspiring the golden and silver ages of Russian literature and music in the nineteenth century. Yet, in Russia's case, there were severe limitations on the development of a modern nation. In the

first place, the idea of the nation inevitably involves some notion of equality at a certain level of all members of that nation, a somewhat democratic concept. This was thoroughly at odds with the principle of tsarist autocracy and a social structure which granted privileges to the nobility even after the abolition of serfdom. So great were the divides within Russian society that historian Geoffrey Hosking has written about the existence of two Russian nations – the official nation of the regime and the unofficial, somewhat subversive, nation of peasant Russia.

In the second place Russian intellectuals, even if they were united in their opposition to the administration, could not reach a common understanding of what the essence of the Russian nation was or, rather, what it should be. Petr Chaadaev laid down the challenge in 1836: 'Alone in the world, we have given nothing to the world, learnt nothing from the world, and bestowed not a single idea upon the fund of human ideas. We have not contributed in any way to the progress of the human spirit, and whatever has come to us from that progress we have disfigured'. From this point, the westernisers (*zapadniki*) movement was born, and almost immediately it was contested by the Slavophiles, who were closer in spirit to the second of the quotations of Karamzin above. Most famously, these two movements were divided by their attitude to Europe and the West, but this was only one, and not necessarily the most important, of the issues dividing Russian intellectuals: more immediate disagreements were over the future of the peasant commune, the desirability of capitalist industrial development, attitudes to the tsar, whether the Russian nation included non-Slavs and so on. The important thing from the point of view of this discussion is that, at the crucial moment when other nations, big and small, were defining their own versions of the nation, standardizing literary languages, promoting a national epic, choosing a national costume, and 'inventing traditions' in all sorts of ways, no consensus emerged, even among Russian intellectuals themselves, as to what sort of nation Russia was.

By the beginning of the twentieth century the time for such national development was past and revolutionary politics had taken over. While an intellectual consensus did emerge in Bolshevik Russia, it did so under duress and was outwardly internationalist. There may be examples of successful state-sponsored national development in history, including the development of non-Russian nations in the Soviet time, but for all the misleading talk of Russification the Soviets failed to develop a Russian nation. As a rule, national projects are more successful when developed by an independent intelligentsia, but in the USSR intellectual life was stifled. This is not to deny the brave and significant efforts of Soviet dissidents, but if we name just a

few of the most famous – the Medvedevs, Dmitrii Ligachev, Sakharov, Solzhenitsyn – we can see immediately that while they were united by their opposition to bureaucratic communism, they shared no common view of the Russian nation.

For a variety of reasons I will not go into here, in the post-Soviet period there was little more chance for intellectual cohesion. The muzzles Putin has succeeded in putting on the Russian media do not bode well for the emergence of a clear intellectual vision in the future. We can engage in fruitful and interesting discussions as to whether Russia is European or Asian, whether it should be treated as a great power, whether an ethnic or civic conception of the nation should prevail. But the key question in this regard for Russia's future is whether in the universities, journals, literature and news media a unified vision of the Russian nation can emerge which can itself provide a stable alternative basis for non-state development.

National identity is not fixed for eternity: it is fluid and adaptable, subject to manipulation. The forces of modernization and globalization, demographic shifts, natural and manmade catastrophes, revolutions, wars, economic booms and slumps have an impact on the way people think about themselves and their countries. From the eighteenth century onwards political and intellectual elites have sought to manipulate national identity, either to their own material ends or with the more altruistic aim of strengthening the social fabric of their societies. Often they have succeeded in these projects, but frequently they have failed, or found their efforts have led to unintended outcomes. And yet elements of national identity have proven remarkably enduring.

From this perspective, it is perhaps a mistake to view Russia as still in any kind of transition. Political traditions, ways of doing business, approaches to foreign policy, attitudes towards gender roles, gays, and ethnic identity will all change in Russia, as they will everywhere else in the world. After all, it is not so long ago that it was unthinkable that a majority of Americans would embrace a coloured leader for their country. But it is misleading to make the teleological assumption that lay beneath the Washington Consensus, that not only is there an optimal way for economies and states to be run, but that progress towards that model is inevitable and unidirectional. In short, we can no longer assume that certain features of Russian politics, society, and attitudes, which may be unsavory in the eyes of western observers, persist only because insufficient time has been allowed or because they stem from the Soviet legacy. Rather we have to accept that, while Russia will change, some characteristics are just a part of what Russia is, and there is no reason to suppose they will change in the direction we would like them to.

Some of the features which make Russia different are embedded in objective factors: size and distance, climate, soil type, location and so on. But some are subjective, harder to define, and can be included under the heading 'Russian national identity'. So what features of Russian national identity can we expect to continue to play a role in the future? Russian orthodoxy has regained a certain amount of its status since the fall of communism and has won new adherents. It has also shown itself capable of taking an independent stance, despite its reputation as a tool of state policy. Even non-believers among Russians see orthodoxy as a part of their identity, but the Church itself has little mobilisational potential. In spite of its institutional weakness, Orthodoxy has important ramifications for foreign policy, firstly because it encourages identification with the interests of fellow orthodox Slavs, such as the Serbs, to whom Russians fell much closer than they do to non-Orthodox Slavs such as Poles, or to non-Slav orthodox such as Greeks. The traditions of Messianism have also not disappeared entirely. Echos can be found in Russia's continuing aspiration to great power status and in policies towards the near abroad.

Russians are not averse to democracy, but having selected a leader, all the signs are that state leaders command absolute respect. This is what enabled Boris Yeltsin to win a second term as President in spite of a generally poor performance in the first term, and allowed him in effect to appoint his successor. The traditions of respect towards the leader also help to explain the extraordinary popularity of President/Prime Minister Putin. The legacy of the tradition of the tsar as a key marker of Russian identity can clearly be seen here and it does not, in spite of the hopes of western liberals in the 1990s, look like changing any time soon.

The egalitarian traditions of the Russian peasant commune have not disappeared altogether either. Although notions of economic egalitarianism were more or less destroyed in the 1990s, the idea of putting the collective good in the first place has troubled many western observers as one consequence is the tendency to pay less attention to the rights of individuals. Finally, the communes were also centres of peasant rebellion, and we should not forget that once a ruler lost the faith of his people, revolt could be widespread and violent, as happened in 1905 and 1917. While the Soviet and post-Soviet experience suggests that the capacity to fight against authority has been knocked out of the Russian people, we should not rule out the possibility of large-scale popular mobilization in the right circumstances somewhere in the future.

Cultural cooperation

Maija Lummepuro[1]

Basis and prerequisites for cultural cooperation two decades ago

In the autumn of 2011, it will be twenty years since the dissolution of the Soviet Union. The emerging perestroika led to a gradual change in cultural cooperation. The fall of the Soviet Union had various repercussions on the culture sector and associated international cooperation. Two important factors for change were freedom of expression, which started to gain ground during perestroika, and the decentralisation of administrative powers. With this development, the different regions of Russia, including the Finno-Ugric areas, became active operators and their interest in internationalisation grew exponentially. The reverse side of the wave of liberation in society, especially in the cultural sector, was the loss of a financial safety net. Alongside the recession in the early 1990s, another challenge was the rapid change in the cultural sector and the need for both Russia and Finland to reform their cooperation networks and develop forms of cooperation on a new premise. Both the representatives of the cultural administration and actors in the field of art and culture were faced with this demand.

With the dissolution of the Soviet Union, the Treaty of Friendship, Cooperation and Mutual Assistance between Finland and the USSR no longer applied and the countries concluded a treaty determining the basic principles of Finnish-Russian relations and sectoral agreements on cooperation. On 11 July 1992 the Republic of Finland and the Russian Federation concluded a framework agreement on cooperation in the fields of culture, education and research. It was implemented by means of regularly negotiated protocols up to 1999. By the 21st century, the cooperation was based on direct relations between operators in Finland and Russia and was so active that the protocol practice could be renounced. There was need for new forms of cooperation and agreements in support of the concrete initiatives put forward by cultural actors and the cultural administrations. To this end, the Finnish and Russian ministries responsible for culture concluded an agreement on art and culture in the autumn of 2005. It was unlike the previous agreements in that it was concluded directly between the ministries to promote cooperation in the art and culture sector and had clear cultural policy objectives. In addition to bilateral cooperation, the ministries considered it important to agree on the devel-

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opment of cultural cooperation between the EU and Russia and to promote the objectives of the Northern Dimension policy in the field of culture.

From the formal contractual cooperation of the Soviet era and the early 1990s, a huge step had been taken towards goal-oriented cooperation and concrete co-action between cultural operators. In 2010 the focus is on creating favourable conditions for interaction between cultures, on consolidating the resource base for cooperation and on encouraging direct cooperation between operators.

Setting our sight on the future, we should ask what we can do to develop cultural cooperation during the next twenty years. What will Finnish and Russian cultural sectors and their cooperation be like in 2030? What kind of impact, competitiveness and assets will it have in the rapidly globalising world?

Cultural cooperation in the 21st century - cultural administrations as facilitators

Within the government, the Ministry of Education implements cooperation with Russia as outlined in government policies. The programmes of Prime Minister Matti Vanhanen's First and Second Cabinets record the aim to carry on the development of good relations between Finland and Russia and actively influence the content of these relations. Cooperation with Russia has been one of the priorities for the Ministry of Education for a long time. Relevant aims were recorded in the Ministry's Strategy 2015. The principle underpinning the cultural policy strategy up to 2020, adopted by the Ministry in 2009, is that Finland will work actively in international organisations to promote cultural diversity. In bilateral, multilateral and Nordic cooperation the focus is on actively influencing the objective-setting in joint cultural policies and their implementation. The emphasis in cultural exchanges is on direct cooperation between operators in the cultural field, instead of formal agreements and programmes. Cultural action to be taken in the Ministry of Education sector has also been recorded in the Government's Russia programme, which was published in 2009.

As part of the development of international cooperation, the Ministry devised a separate Russia programme "Finland, Russia and international cooperation" for the period 2003-2007. Based on the action outlined in it, the Ministry's Department for Cultural, Sport and Youth Policy drew up a Russia Programme in Art and Culture, which the Ministry adopted on 2 August 2005. It caters for the development needs in Finnish-Russian cooperation and puts forward proposals for the development of cooperation between the European Union and Russia and for the promotion of cultural action within the regional Councils of the Barents Euro-

Arctic Region, the Arctic Region and the Baltic Sea Region with the aim of strengthening the Northern Dimension Partnership on Culture.

In the Russia Programme in Art and Culture, the mission of Russia cooperation has been crystallised into the precept "The priorities and objectives for art and culture in the Russia Programme focus on creating favourable conditions for cultural cooperation and encouraging cultural actors to develop direct interaction in the bilateral and multilateral contexts." On the one hand, the programme priorities address the development of favourable conditions for broad-based cooperation in the cultural sector, taking account of its special civil society characteristics; on the other hand, they focus on assessing and developing forms of action and institutions that promote concrete cooperation. The third priority is to influence Russia cooperation through multilateral cooperation channels. The priorities fall into six sections as follows:

1. Enhance conditions for direct cooperation between cultural actors and to develop cooperation networks with a view to a high quality of art and culture and a strong civil society;
2. Develop and renew the Finnish-Russian Cultural Forum activities, drawing on the results of the review made in 2004;
3. Assess and develop the performance of existing actions and institutions relevant to Russia cooperation;
4. Promote EU-Russia partnership policy, which is a priority in multilateral cooperation and to actively influence the implementation of cultural road maps related to the road maps of four common spaces, which were accepted by the European Union and the Russian Federation in the Moscow Summit in 10.5.2005.
5. Develop cultural cooperation within the Barents Euro-Arctic Region, the Arctic Region and the Baltic Sea Region through their cultural organs with a view to strengthening Northern cultural partnership;
6. Strengthen the financial base in art and cultural cooperation with Russia.

Under these priorities there are seven spearhead aims:

1. Increase knowledge of the other country's culture and promote practical cooperation between Finland and Russia with a view to open and varied cultural interaction;
2. Enhance the competitiveness and appreciation of Finnish art and culture in bilateral and multilateral cooperation with Russia;

3. Create favourable conditions for consolidating the Northern cultural partnership;
4. Encourage art and cultural actors in Finland and in Russia to cooperate in utilising and implementing bilateral and European Union programmes;
5. Enhance preparedness for art and cultural projects through education and information;
6. Promote cooperation and exchange of information between Finnish and Russian art and cultural administrators;
7. Promote cooperation in youth culture and arts by means of a cooperation protocol signed between the authorities of youth sector of Finland and Russia.

Finnish-Russian Cultural Forum

Ten years ago, the Finnish and Russian ministries of culture identified a need to build up co-operation networks for cultural actors and develop a platform for the purpose with a view to helping Finnish and Russian operators find the cooperation partner they need. This launched the development of a cultural forum where the operators could seek suitable partners for concrete project proposals. In the action model devised, interested parties convene to a Cultural Forum to negotiate on the implementation of their project proposals. Interpreters are available to help with mutual understanding. These are both professionals and Finnish students of Russian and Russian students of Finnish. In addition to the project negotiations, the Forum participants discuss topical issues in cultural policy and get to know the cultural provision and services in the hosting city. The Cultural Forum has systematically improved prerequisites for concrete cooperation and helped develop networks. In connection with the Forums, the ministers of culture hold talks on the implementation of the cooperation agreement of 2005 and future cooperation.

Between 2000 and 2009, partners have been sought for over 1,150 project proposals and the negotiations have led to over 600 joint projects. In Finland the Cultural Forum is administered by the Finland-Russia Society. The volume and regional impact of the cooperation can be described in a statistical form as follows:

Number of project proposals and negotiations at the Forums 2000–2009

Forum	Year	No. of project proposals *	No. of project negotiations	No. of projects**	Old/new cooperation***
Helsinki	2000	38	39	-	-
Novgorod	2001	91	65	-	-
Lappeenranta	2002	69	78	-	-
St Petersburg	2003	106	46	-	-
Turku	2004	78	63	72	25/35
Vologda	2005	154	76	85	27/55
Kajaani	2006	102	60	101	22/40
Tver	2007	171	65	71	27/38
Jyväskylä	2008	118	78	124	41/37
Syktyvkar	2009	227	52	57	93/134
Total		1154	622		

Source: www.kultforum.org

* Formerly, when the Forum was held in Finland, Finns put forward the proposals and in Russia it was the Russian partners' turn. Since 2006 both parties may put forward proposals.

** On some projects, negotiations are held with several partners. The figure indicates the number of negotiations held at the Forum.

*** If a joint project is follow-up to an earlier one, it is "old" cooperation.

In regional terms, the Cultural Forum covers all the provinces in Finland. The regional development has been led by the Governors. Over the past ten years, the Provinces of Western Finland and Southern Finland have put forward more proposals than the other provinces. In the Provinces of Oulu and Lapland, cultural cooperation is also conducted through Barents cooperation channels.

The table below is a regional breakdown of the project proposals made to Russian partners at Forums held in Finland:

Cultural Forums in Finland

Province	Helsinki 2000	Lappeen-ranta 2002	Turku 2005	Kajaani 2006	Jyväskylä 2008	Total
Southern Finland	3	32	19	32	35	121
Eastern Finland	9	9	15	12	22	67
Lapland	15	7	3	3	2	30
Western Finland		17	27	29	29	102
Oulu	12	23	16	25	15	91
Ahvenanmaa						0
Whole country						0
Total	39	88	80	101	103	411

Source: www.kultforum.org

Project proposals by regions

Region	Jyväskylä 2008 ****
Moscow	**2**
Perm region	**1**
Republic of Karelia	**1**
Republic of Komi	**4**
Republic of Mordva	**1**
Autonomous District of Hanti-Mansia	**3**
Tiumen region	**1**
Republic of Udmurtia	**2**
Total	**15**

Source: www.kultforum.org In addition to these, Russian partners put forward proposals to Finns.

The table below is a regional breakdown of the project proposals made to Finnish partners at Forums held in Russia:

Region	**Novgorod 2001**	**St Peters-burg 2003**	**Vologda 2005**	**Tver 2007**	**Syktyvkar 2009**	**Total**
Archangel Region	8	10	8	6	1	33
Kaliningrad Region	4	1	1		-	6
Republic of Karelia	11	14	30	30	61	146
Republic of Kom	12	13	17	24	55	121
Leningrad Region	5	16	4	12	13	50
Moscow				1	1	2
Murmansk Region	5	8	9	15	12	49
Autonomous District of Nenetsia			1		1	2
Novgorod Region	12	10	18	11	6	57
City of St Petersburg	22	12	29	42	40	145
Pihkova Region	7	9	11	6	4	37
Tver Region	4	10	3	16	4	37
Vologda Region	1	3	23	2	6	35
Jaroslav Region				4	1	5
Kemerovo Region				1		1
Smolensk Region				1	1	2
Republic of Bashkortostan					2	2
Republic of Mordovia					1	1
Republic of Mari					5	5
Republic of Tiumen					1	1
Total	91	106	154	171	215	737

Source: www.kultforum.org

Project proposals by regions

Province	**Tver 2007**	**Syktyvkar 2009*****
Southern Finland	2	3
Eastern Finland	1	5
Lapland	1	1
Oulu	3	1
Western Finland		2
Total	**7**	**12**

Source: www.kultforum.org

In addition to these, Finnish partners put forward proposals to Russians.

A key aim in the Cultural Forums is to support varied networking between partners and facilitate project cooperation between operators in different cultural sectors. The Forum activities have brought together partners interested in the same theme and made it possible to undertake extensive projects that require the contribution of many organisations, such as those in cultural tourism. The table below is an overview of projects negotiated at the Forums by forms of art and cultural areas:

Project proposals discussed at the Cultural Forums by art and culture sectors 2000–2009

Sector/field of project	Helsinki	Novgorod	Lappeen-ranta	St Petersburg	Turku	Vologda	Kajaani	Tver	Jyväskylä	Syktyvkar	Total
Administrative training/ cooperation between cultural administrations	10	8	11	9		2	3	2	7	9	61
Education, cultural exchanges, sharing of experiences (student exchanges, language learning)				32	4		6	6	6	8	62
Children's and youth projects, tolerance education				6	2		13	27	21	23	92
Library cooperation, literature and literary arts	4	6	12	9	10	20	11	26	12	31	141
Art education	0	4	6		3	1					14
Pictorial arts (+ design and film from 2006)	0	6	10	10	12	12	24	20	23	20	137
Tourism	4	8	6		10	16	6	15	3	10	78
Music/instruction, research	1	6	3	13	7	15					45
Music/orchestras, dance and audio arts	4	18	5		9	14	13	23	12	35	133
Museum	1	6	7	8	2	8	6	16	5	7	66
Circus	1	1	1	1	0	0					4
Industrial arts/arts and crafts	3	5	4	6	3	8	5	13	7	18	72
Theatre, inc. puppetry	3	4	4	9	5	12	3	10	3	11	64
Film, photography	2	7	0	4	5	1					19
Folklore and cultural tradition	5	12	0		8	22	3	6	13	30	99
War history						6	3		2		11
Transart projects						17	5	7	4	22	55
Virtual, internet, multimedia projects							1				1
Total	**38**	**91**	**69**	**106**	**78**	**154**	**102**	**171**	**118**	**227**	**1153**

www.kultforum.org

After ten years of operation, the Cultural Forum is in a phase of strong growth and development. In 2010 the Finnish provinces were abolished and replaced by fifteen centres for economic development, transport and the environment. In these centres, culture falls within the remit of "economic development, labour force, competence and cultural activities". The Cultural Forum activities will be developed further in accordance with the priorities set by the centres for cooperation with adjacent areas and for cultural policy. Russia has wanted to develop and extend the activities to cover other federation subjects besides the 12 regions in the north-west of the country. The first time project proposals came from other areas was in 2007. The cooperation will be gradually enlarged according to demand and supply based on concrete project proposals.

Finno-Ugric cooperation and the challenge of multicultural environment

Finno-Ugric cooperation rests on the linguistic kinship of the Finns, the Hungarians, the Estonians, and the Finno-Ugric peoples living in Russia. This is the only link between the 20 languages in the Finno-Ugric linguistic family. Its roots go back to a common parent language spoken some 6000 years ago. In cultural terms, the Finno-Ugric peoples differ greatly.

The Finno-Ugric peoples can be classified into four groups on the basis of their languages:

1) Peoples in no immediate demographic or linguistic danger (Hungarians, Finns, Estonians)
2) Potentially endangered peoples (the North Sámi, the Mordvins, the Mari, the Udmurts, the Komi)
3) Endangered peoples (part of the Sámi, the Khanty, the Mansi, the Nenets, the Karelians, the Veps)
4) Extremely endangered peoples (the Livonians, the Votes, the Ingrians, the smallest Sámi groups – inc. the Russian Sámi, most of the Samoyedians).

Our nearest related languages are the Baltic-Finnish languages, such as Estonian, Karelian and Vepsian. Most of our linguistic relatives are found further in Siberia. For the first time, the cultures and languages of these distant peoples, who live west of the Ural Mountains in north-western, western and southern parts of Siberia and along the Volga River, were studied by Matias Aleksanteri Castrén in his expeditions in the 19th century.

During the past twenty years, Finno-Ugric cooperation has been actively developed both by civil society partners and by authorities. During perestroika, in 1989, there was a conference

on Finno-Ugric literature in the capital of the Republic of Mari, Joškar-Ola, with participants also from Finland, Hungary and Estonia. On the initiative of the Finnish participants, an association bearing the name of Matias Aleksanteri Castrén was established in 1990 to cherish the native-language cultures of the kindred peoples living in the Soviet Union, now Russia.

The input of the Finnish government into promoting Finno-Ugric cooperation is based on the agreements signed in 1992 between Finland and Russia on the principles of their mutual relations and cooperation in the fields of culture, education and research. Soon after this, Parliament took initiative for a programme for supporting the kindred peoples in Russia and their cultures. The Kindred Peoples Programme, which was prepared by the Ministry of Education, was ready in 1993 and its implementation began in 1994. The Ministry of Education has granted around 350,000 euro annually to the programme. At the practical level, it is coordinated and implemented by the M. A. Castrén Society.

In a review conducted in 2005, the Kindred Peoples Programme was found to be an effective entity, which should be continued and developed in both national and EU contexts. The review listed the following important development targets: 1. Assessment of the forms of action and their targeting to enhance and support minority languages and cultures especially in Russia; 2. Emphasis on the Finno-Ugric peoples' own initiative and problem-solving based on their own circumstances; 3. Development of minority policy and international cooperation; 4. Search for new contacts in the Finno-Ugric areas; 5. Piloting of new kinds of cooperation partners and new forms of action; and 6. Acquisition of external financing from different sources for the new forms of action.

Over the past sixteen years, there has been determined concerted efforts to develop projects relating to the teaching of native languages; writer training; publication and translation; postgraduate education in the humanities in Finland and instruction of Finnish in Russia; museum cooperation; library cooperation and an information service; development of electronic communications; supportive subscriptions of native language newspapers and periodicals and equipment purchases; cultural exchanges; and information service for Finns. Between 1998 and 2008 the M. A. Castrén Society carried out altogether 417 joint projects. With the help of the Kindred Peoples Programme, other partners have implemented 55 joint Finno-Ugric projects. The diverse joint projects have concretely advanced initiatives put forward by the Finno-Ugric peoples and build up Finno-Ugric cultural identity. The M. A. Castrén Society has a journalism award to highlight the appreciation of native-language culture. In Finland,

awareness of the Finno-Ugric peoples has been heightened by means of Kindred Peoples Days, which are arranged annually around Finno-Ugric themes since 1994.

In addition to administering the Kindred Peoples Programme, the Ministry of Education develops cooperation with Russian central and regional authorities responsible for nationality questions and for cultural cooperation among the Russian regions. Matters relating to indigenous Finno-Ugric peoples and national minorities come under several authorities. The Russian Ministry of Regional Development drafts legislation relating to the rights of indigenous people to their own land and coordinates the preparation of a national development programme, which also comes under the remit of the Ministry of Culture. The Presidential Executive Office has also addressed questions of support and development of Finno-Ugric peoples in Russia. The year 2007 saw the institution of two new Finno-Ugric centres: The Finno-Ugric Centre of the Russian Federation in the Komi capital Syktyvkar and the Finno-Ugric Centre in Saransk. Both centres seek to support and develop Finno-Ugric languages and cultures both nationally and by means of international networks and projects. The President of Finland, Tarja Halonen, met the Russian President Vladimir Putin and Hungarian President Prime Minister Ferenc Gyurcsán in Saransk, the capital of the Republic of Mordva, in July 2007. Next year the Presidents of Finland, Hungary, Russia and Estonia met at the Fifth World Congress of the Finno-Ugric Peoples in Khanty-Mansisk, the capital of the Autonomic District of Khanty-Mansisk. The presence of presidents and prime ministers at these events has been taken as a sign of political and moral support to the Finno-Ugric movement, which underscores tolerance, ethnic interaction and cultural diversity. The high-level support is also considered vital for multilingualism and the preservation of small languages.

Northern Dimension (ND) policy and EU-Russia cooperation in the culture sector

Ever since joining the EU, Finland has actively pursued a policy which calls attention to the northern areas of Europe and their needs in the Union. Alongside bilateral cooperation with Russia, Finland has been interested in promoting EU-Russia cooperation. In the EU Finland has been given an expert role based on its history and location. This enabled Finland to take up matters and viewpoints considered relevant within the EU. The Northern Dimension (ND) was first implemented as EU external relations policy with Russia. This made Russia a target of various programmes but led to no real partnership. In view of this, Finland initiated a conscious and active reform of the ND policy as part of the preparation of Finland's second EU Presidency. As a result, the leaders of the EU and the heads of state of Russia, Norway and Iceland convened in Finland in November 2006 to agree on new cooperation principles,

which are recorded in a declaration and a framework document. The foremost result of the reform is that, from the beginning of 2007, ND policy has been developed on the basis of an equal partnership of the EU, Russia, Norway and Iceland. It was also agreed that the model of sectoral ND partnerships will be further developed because it is based on concrete objectives and projects. The financing of the projects is agreed jointly. It was decided, based on the encouraging experience gained within the ND Environmental Partnership and the ND Partnership in Public Health and Social Well-being, that this model was the best way to address cultural matters of interest to the whole northern area. In 2009 decisions were taken on two new partnerships - on Transport and Logistics and on Culture.

In the culture sector, Finland's second EU Presidency offered an opportunity to launch systematic development of EU-Russia cooperation. The aim is to devise a joint programme on culture. The first EU-Russia expert meeting was held in Kajaani in the autumn of 2006. The meeting decided to recommend the establishment of a joint EU-Russia working group on culture to prepare an action plan. The work set off at this meeting began to be known as the Kajaani process. One of its chief achievements is the first meeting of the Permanent Partnership Council of Ministers of Culture held in Lisbon in October 2007 during the Portuguese Presidency. Another important goal was reached in October 2009 when the Russian Federation Ministry of Culture arranged a conference on "Russia-EU: Signs on the Road Map of Cultural Cooperation" in Moscow, as agreed upon by the Permanent Partnership Council. Its primary goal was to network cultural actors in the EU and Russia, speed up project cooperation and channel the wishes and needs of the field to those drawing up the action programme. The programme is currently being developed by the joint working group on culture.

For some time now, European Union project funding has been granted for concrete cooperation between actors in the cultural sector. In 2008 a project called "Seeds of Imagination" devised by the Finnish Theatre Information Centre received 300,000 euro from the EU Institution Building Partnership Programme (Support to EU-Russia Cultural Cooperative Initiatives). This project is geared to construct and strengthen collaboration between Russia and Finland.

After co-Nordic ground work during 2007 and 2008, the preparation of the ND Partnership on Culture began within the EU as part of the Kajaani process. Russia has participated in the preparation from the outset. The Nordic Council of Ministers has provided important support in the form of financing and its Secretariat's technical assistance. The Council has also reported on the progress to the cooperation bodies of foreign ministers and senior officials re-

sponsible for the coordination of ND policy. At their meeting in St Petersburg in October 2008, the ND foreign ministers noted that the culture sector offers a noteworthy opportunity for consolidating cooperation. The ministers decided to set up an ad hoc expert group to review the desirability and feasibility of the Partnership on Culture in the ND area.

A forum on the preparation of the ND Partnership was arranged in Helsinki on 11 and 12 September 2009. It endorsed the expert group's recommendation to establish the Partnership, especially with a view to creating favourable conditions for the creative industries and for the development of cultural cooperation in the ND area. A senior officials' meeting decided on the establishment of the Partnership in Stockholm during the Swedish Presidency, on 12 November 2009. According to experts, the Partnership on Culture should be used to boost cultural services and their availability in the ND area, international interest in the area and, through this, the economic impact and global competitiveness of the culture sector. A working group comprising ND partners was set up to prepare the action model for the Partnership. The proposal for the action model is projected to come before the ND ministers in the autumn of 2010.

The aim of the Partnership on Culture is to enhance the visibility and weight of art and culture in international politics. Reaching this aim requires that the creative economy basis in the culture sector is strengthened and the creation of projects with economic impact is supported. This would ensure that the Partnership will serve aims set for cultural and industrial policy in the ND area. In addition, the Partnership is geared to respond to the challenge of globalisation and improve the competitiveness and attraction of our northern area in international contexts.

Potential development projects within the Partnership system could be geared to develop service products and concepts in various art and culture sectors; consolidate the business basis of the pictorial arts markets with a view to entry into international markets (galleries, art fairs, auctions); promote business in the music industry through a new form of cooperation in production, concert activities and distribution; and develop the service structure in the film industry. Interesting joint action in terms of the ND area could be major projects with interesting business prospects, which could secure private as well as public funding. The Partnership on Culture should also aim at developing high-standard art and culture production and cultural services in the ND area. It is important to base activities on the competence and innovation of the culture sector and on the exportation of high-quality art, with an additional aim of succeeding in the international market. In this way, creative economy projects could flourish economically and enhance the macro-economy and competitiveness in their region.

As a measure for promoting the practical implementation of the Partnership, the Institute for Russia and Eastern Europe, an agency subordinate to the Ministry of Education, put in place a "Creative Compass" project together with the Russian Federation Ministry of Culture and various organisations working in the north-west of Russia. The aim is to promote the realisation of the ND Partnership on Culture by means of Finnish-Russian cooperation.

Important multilateral organisations with a vital contribution to the Partnership include the Nordic Council of Ministers, the Barents Euro-Arctic Council, the Arctic Council and the Council of the Baltic Sea States. The art and culture networks and programmes of these northern regional councils play an important part in the development of an operational environment for the cultural and creative industries in the ND area.

Developments in the culture sector and cooperation prospects in 2030

The nature of cultural cooperation with Russia and its prerequisites have undergone significant changes over the past ten years. The societal change in Russia made for more transparent and goal-oriented cooperation. The poor funding base, which was a particular challenge in the 1990s, gradually grew stronger and by the 21st century it was possible to achieve goals of mutual interest through equal partnership. Before the financial crisis of 2008, Russia had begun to increasingly appreciate the importance of equal partnership in multilateral and bilateral cooperation also as regards financing. The premise of equal partnership has not been renounced even during the current financial crisis, but some compromises have had to be made as concerns the planned realisation of single projects in 2010.

Societal development and economic trends will bring a multitude of new possibilities, objectives and challenges in the years to come. It is very likely that the culture sector will be to the fore when the potential in the creative industries is recognised as an asset in the development of the national economy, for instance in the production of experiential industry services and cultural services that promote sustainable development.

It is difficult to predict the direction and rate of development over the coming twenty years, but from what can be gathered from the past twenty years, it is fair to assume that long-term cooperation will be a significant force in the development of cultural interaction. Developing and setting up joint projects necessitate a lot of intellectual and material resources. And successful cooperation always has an underpinning of well working partnerships based on trust. These relations require long-term, goal-oriented commitment. Whatever the changes taking

place in the operational environment, input into long-term cooperation is the best investment now and in the future.

From the perspective of a small country, it is important to determine strategic priorities and policy lines for each administrative sector. This is the best way to promote one's aims with multilateral organisations and increase one's relative weight in cooperation with large partner countries, such as Russia. Solid expertise and an active role make it possible to develop strategically important entities. In the multilateral context, such long-term cooperation initiatives actively promoted by Finland include EU-Russia cooperation and the Partnership on Culture as part of the reformed ND policy.

In bilateral cooperation, future action entities that need to be developed in the long term are dynamic interaction between cultural administrations, direct cooperation between practical implementers and the mobility of persons and cultural objects. A feasible and developable action model to this end is the Finnish-Russian Cultural Forum and the implementation of the art and culture agreement concluded between the ministries. In addition, it is important to develop legislation that removes obstacles to cross-border exchanges of cultural actors and cultural objects.

The decades to come will also be decisive as regards the possibility for Russia - with its 160 nationalities - to maintain its cultural diversity and the vitality of its minorities, who speak over 100 languages, and to foster their appreciation of their own language and culture and their willingness to develop them. At an estimate, there are currently 5000–6000 languages spoken in the world. Globalisation has shortened distances and lowered the boundaries between cultures. However, at the heart of cultural diversity is the idea that every language reflects a unique view of the world and culture and the way in which language groups analyse their own world and the world around them. When a language dies, we lose an irreplaceable part of our knowledge and understanding of human thinking and adjustment. Over the past 300 years the rate at which languages disappear has accelerated significantly and we are now facing a situation in which some 3000 of these languages are regarded as endangered. Awareness of this trend and long-term work for cultural diversity will be among the foremost issues in both bilateral and multilateral cooperation in the future.

In the administrative sector of the Ministry of Education and Culture, the implementation of the Kindred Peoples Programme will provide a strong basis for Finno-Ugric cultural cooperation between Finland and Russia in the near future. The programme was set up to support and

develop the national languages and cultures of the Finno-Ugric peoples living in Russia and interaction among them. The World Congress of the Finno-Ugric Peoples is an important international forum for discussion and influence. The headquarters of the consultation committee of Finno-Ugric peoples is located in Finland.

Misperceptions about our neighbour

Susanna Niinivaara[1]

Whatever matter is involved, it becomes more difficult to understand if one has already decided in advance what one's view on it is. One does not notice change if one is completely convinced that no change is taking place and that none will, either. For this reason the Finnish discourse on Russia walks with a limp – not always, but often. Russia is changing faster than the Finns' conceptions of their eastern neighbour.

The Finnish discourse on Russia and our relationship with that country labours under the burden of misleading perceptions, which contribute to Russia being seen only partly. Here are five of the misperceptions.

1st misperception: Russia is the Soviet Union

I worked as the daily Helsingin Sanomat's Moscow correspondent from 2006 to 2009. To begin my work stint I had prepared for myself a list of the themes that I wanted to deal with during the first six months. One of them was the Russian, and especially the Muscovite, middle class: how they lived and worked, what they earned and consumed, and so on. My idea was that the Russia featuring in the media needed to be put on a mundane basis. Perhaps a little spelling out of things to explain that Russia is more than politicking by men in dark suits.

And I did indeed do articles about the middle class.

At the same time in Finland, and also in the newspaper I represented, there was still a tendency to express wonder at and find slightly odd the Russian tourists flooding into Finland. Along these lines: Where did they get the money? Were the poor devils coming because there was nothing to buy in Russia?

Something that seemed especially wondrous was the sight of Russians in the Stockmann department store. "Sometimes in Stockmann you no longer realise what country you are in, with all the Russian that is spoken there," I heard when I popped over to Finland around New Year's.

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I corrected what I could: the Russians go to work, save money and make holiday trips – for example to Finland. Tourism is the middle class's global form of recreation. The sales in Stockmann in Helsinki are an inexpensive pleasure for Muscovites compared with Moscow prices. Even my hairdresser in Moscow was able to tell me that.

But when one yields to a misperception, is carried along with it and thinks of Russia as the Soviet Union, Russian tourists in Helsinki look exotic. After all, everyone knows that there was nothing to go shopping with in the Soviet Union and nothing to buy anyway.

The unchanging delusion that Russia is the Soviet Union finds expression also when the state of Russia's democracy is discussed.

On the one hand, Russia is expected to change immediately into a functioning (preferably Finnish-type democracy), but at the same time this is said to be impossible. It ends up in circular thinking: Russia can never be a democracy, because it has never been one. Evidence supporting this assertion is sought in history and the national character. At its worst, circular reasoning can lead to signs that democracy is being killed are looked for so frantically that when democracy breathes, this is not noticed.

2nd misconception: Russia is a monolith

And this misperception is well suited as a continuation of the first. Russia is seen as a centrally-directed chunk, where everyone does what the President orders. And the President gives his orders on the basis of some or other great and precise plan oriented far into the future. There is only one mind in Russia, and thus the opinions of the political leadership become those of the people as a whole. (A minor variation on the theme is arrived at by reflecting on whether it is the President or the Prime Minister who gives the orders, or both of them together. And when will the power struggle begin.)

The point behind this thinking is that, especially when interpreted retrospectively, everything can be made to fit into the "great plan".

The choice of First Deputy Prime Minister **Dmitri Medvedev** as a presidential candidate in December 2007 and his subsequent election fitted in with the great plan. In the real world, it was only in late autumn that Medvedev's selection as a candidate was assured; other alternatives were on offer for a long time.

And, of course, Russia embarked on the war in Georgia in August with a precise plan in its pocket, one in which it was said towards the end: recognise the independence of South Os-

setia and Abkhazia. In the real world, the war and the still ongoing follow up measures to deal with it featured a variety of views and rapidly arrived-at solutions within the Russian political leadership. Declaring the regions independent was hardly a Russian objective before the war – nor did the decision enjoy unreserved support everywhere in the Russian political elite.

3rd misconception: there is no opposition in Russia

Since, after all, Russia is the Soviet Union and a one-man state that is centrally directed under tough discipline, then of course there is no opposition there.

At some stage I began responding to those who made the assertion that there is no opposition in Russia by asking them this question: who, then, do I interview when I write articles about the Russian opposition?

There are several different opposition groups in Russia. Some are parties with representation in the Duma, such as the Russian Communist Party. There are parties like Yabloko, which has no seats in the Duma. And then there are numerous and various groups that have not constituted themselves as parties and which represent the opposition relative to those who currently hold power and above all the dominant United Russia party.

Sometimes these opposition groups work together, sometimes separately and sometimes partially in unison. Especially where the opposition that has not organised itself in party form is concerned, it is difficult to say how many supporters it has. There are no official membership registers and the numbers taking part in street demonstration give only a partial picture of how much support there is. The risk of being arrested for taking part in an unauthorised demonstration is so great that it takes courage to go to one. Bystanders in fear of being arrested are also always present; they do not shout slogans but, when asked, say they support the demonstrators.

It would be sensible to believe that there is an opposition, i.e. political differences of opinion, in Russia. However, it is even more difficult to measure its *power* than its support.

In Russia the opposition does not have the same kind of power as, say, the Social Democrats have in Finland at time of writing. But surely we are not so silly as to compare the Finnish political system directly to the Russian one – despite the fact that both states call themselves democracies.

Describing the various and disparate opposition groupings as a completely powerless band is in any case an analysis that goes badly wrong. One of the ways in which the power of the op-

position in Russia is revealed is when one looks at how those who currently hold power react to street demonstrations.

It is difficult to get permits for demonstrations in Moscow and illegal gatherings are suppressed using the overwhelming power of the police and security forces. Those who wield power in Russia fear crowds on the streets because of their unpredictability. A spectre in the background is, for example, Ukraine's Orange Revolution, in which street demonstrations proved themselves to be a powerful force for change.

When people dare to show their dissent openly, it makes new, and even surprising, coalitions of forces possible. This was seen in spring 2009 in Vladivostok, a remote place from the perspective of Moscow; there car dealers incensed at rises in taxes on vehicle imports, groups opposed to United Russia and demanding democracy and war veterans dissatisfied with army reforms joined together in street demonstrations. The local police were not enthusiastic about smothering the expressions of opinion, for which reason riot police were flown in from Moscow just in case.

In Kaliningrad in February 2010 as many as 10,000 people took to the streets to demonstrate against those in power. Once again, those taking part were car dealers disgruntled at the import tariffs on vehicles, but also those who had lost their jobs as a result of the economic crisis and radical groups opposed to the current power-holders were involved.

4th misperception: Russia exists only in relation to Finland.

Russia is believed to make decisions with especially Finland in mind. There is a perception that in the background to Russia's decisions there is not only an expressed Finland agenda, but also and especially an unstated one.

For example, the export levies imposed on Russian raw wood were explained in the media, heeding statements by the Finnish forest industry sector, as especially a decision made to annoy Finland. In actual fact, Russia's special concern was China, where wood goes both legally and illegally. What Russia was trying to achieve with the export levies was to promote downstream processing of wood in Russia rather than having it turned into furniture in China and being shipped back to its country of origin from there.

5th misperception: the Cold War didn't die after all

The Cold War ended, but the body refuses to remain in the grave. There is still a temptation to outline the world according to old front lines. According to someone who stumbles into this,

it is not possible to criticise both US and Russian policy at the same time. One has to choose a side and stay there.

The ghost of the Cold War disturbs especially the discourse on security policy and Finland's relationship with the NATO military alliance. When the debate on Finland's possible membership of NATO once again livens up with parliamentary elections approaching, the ghost of the Cold War haunts more eagerly than earlier.

To conclude

If so many illusions (and only a few of them are mentioned here!) interfere with the way we look at Russia, then what country is Russia at the end of it all?

The essence of Russia is that it is many things at the same time. Several simultaneous events that are tugging in different directions are ongoing in Russia, and it is difficult – if not nearly impossible – to elevate one of them to the status of guiding star that determines what all the others do. Russia is a transition economy and a transition democracy, and will remain in that kind of transformational state for years, if not decades. (As a thought game and for the purpose of comparison, one could reflect on Finnish democracy in the 1970s.)

One of the most interesting themes from the perspective of Russia's future is to follow in which direction the way in which both the people and the wielders of power relate to difference of opinion will develop. Will different opinions be seen as a resource that makes societal innovations possible or as something that rocks stability? At least one thing on which opinions differ in Russia is how to answer that question.

Reading in Russia: on the verge of abyss

Natalia Baschmakoff[1]

Introduction

Jeffrey Brooks concludes his path-breaking book *When Russia Learned to Read: Literacy and Popular Literature, 1861-1917* with the following words:

> *Literacy is one of the building blocs of modern social life, but the skills of reading and writing are significant only when they are used (Brooks 1988, 353).*

In the Russian case, the book market of the late 19th – early 20th centuries answered to the demands of the common reader by publishing a great amount of commercial popular literature targeted to the first generation of mass readers. At the same time, the law of supply and demand was balanced. How does the situation look today and in the near future? In this brief outline I will give some snapshots of Russia's development to a reading nation.

Imperial Russia had a reputation for being a "logo-centric society". In 1825 already, predicting the near future of Russian readers, Faddei Bulgarin (1789-1859), the leading critic of the early 19th century, encouraged the upper classes to abandon reading in French and to concentrate on Russian:

As long as the Russian audience shuns Russian reading, as long as the title of a scholar scares men of the world, as long as the high society will not become friends with the Russian language and will not rejoice in the successes of our literature, our science, our arts and skills, as long will we not equalize ourselves with other nations and remain always behind them (Moskovskii Telegraf 1825, 260-261).

Bulgarin had his reasons: although the achievements of the early romanticism were put into words in a refined Russian by Pushkin and other representatives of the Russian "Golden Age" authors, they were read only by a small educated upper class circle. It is only decades later that Russia really learned to read.

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Common literacy expanded rapidly during the last half century of the old regime after the Emancipation Reform and abolition of serfdom in 1861 were proclaimed. Emancipation, urbanization, and industrial growth meant also new opportunities and a new evolution of popular taste for the former uneducated people. Once the lower classes learned to read, they turned from their oral heritage to the printed word, and a multitude of new types of publications would hence serve their needs. (Brooks 1988, xiii-xiv.) The intelligentsia, which felt a debt to the uneducated people and believed in the transforming power of educative literature, was highly concerned about the quality and content of the publications that reached the newly literate. My own grandfather, Iakov Bashmakov, was among those, who believed that there will be no civil society without higher civil education of the masses. Hence, he specialized on big non-expensive editions of textbooks on Russian history, economy and culture destined for trade schools all over the Empire.

Soviet Russia inherited the reputation of logo-centricity; it became a society with a high level not only of reading, but also of interpreting and reading between the lines. Logo-centricity became a distinguishing feature of Russian culture in many fields[2]; for instance, lately, it has been a common place to describe Russian rock culture – in contrast to the Western one – as logo-centric, stuffed with numerous hidden meanings that refer to the peculiarities of the Soviet/post-Soviet way of life. The same can be said about Russian rap.

In the Soviet Union the symbolic importance attached to the status of reading was unusually great. It is important to emphasize, though, that the "fetishization" of reading came from above and below simultaneously: the ruling regime saw print culture as an instrument of "cultural revolution", while the newborn Soviet intelligentsia considered reading as an activity both prestigious and socially advantageous (Lovell 2000, 156). Those who had had the opportunity to travel to the Soviet Union in the late 1950s-early 1960s remember how amazing it was for a Westerner to see metro passengers in masses all reading – from nursery school children to old babushkas, standing on escalators, waiting on the platforms. One easily had the impression that *the whole nation was reading*. Indeed, Soviet Russia had the reputation of the *most reading country in the world.*[3] Many a Russian, though, used to laugh bitterly at this

[2] In the Soviet Union logo-centricity of the society became also an ideological tool of propaganda. Especially the advice literature and the program of *kul'turnost'* ('culturedness') were to attract Soviet mass readers for efficiency at work, hygienic living and intellectual self-improvement. (Kelly 1999, 199.)

[3] During the Post-Soviet decades the situation has changed drastically. In 2006, with the percentage of 23% of active adult readers only, Russia lost its reputation of the most reading country in the world. The leading countries of permanent readers became Great Britain (52%), Sweden (44%) and Finland (43%). (Vdovenko 2006).

"reading nation" cliché, saying: "Yes, we are a logo-centric nation, because we *have to*. Reading about other worlds is the only way to dream and to escape the dull reality."

During Soviet times the print culture was characterized by a very low degree of differentiation, and the socio-cultural abnormalities caused by the resultant *defitsit* (lack of choise) acted as the dynamo of the reading boom of the perestroika years (Lovell 2000, 128). High reading activity was often also interpreted as a substitute for many unattainable forms of leisure and entertainment that were unknown to the socialist society. In a way, the label of a "reading nation" also heightened the cultural status of the Soviet people as "the (very) poor relation of the prosperous West" (Lovell 2006, 3).

The *Glasnost* Euphoria

Today the situation has radically altered; not only because of the Internet, but also because of the great changes in reading habits and the domestic book market that developed during the *perestroika* and *glasnost* period. In the late 1980s and shortly after the collapse of the Soviet Union, the new government granted its people an unprecedented degree of freedom. Journalists could print whatever they wanted, and citizens could read whatever they could get hold of. (Lovell 2006, 8.) The state no longer controlled media, and publishing business expanded rapidly. Former state-owned and governed publishing houses in Moscow and Leningrad were privatized or transformed into cooperatives. Small – often one-man – publishing enterprises and new journals and magazines[4] appeared all over the country, taking advantage of readers' hunger for formerly forbidden and unavailable texts, e.g. public discourse on totalitarian crimes of the Stalin era, banned authors or émigré classics. An average Soviet family might have subscribed in the 1980s to half a dozen newspapers and periodicals, mostly the so called "thick" ones, which one could see stored up in piles in private homes' entrance halls and loggias (Lovell 2000, 150). One could also find volumes of Anna Akhmatova or Ivan Bunin published not only in Moscow, but also in Astrakhan, Yelets, or Pskov. The annual reviews like *Minuvshee* and *Litsa* took upon surface life stories, facts and events suppressed during the bygone Soviet years.

This period of a *euphorically* reading nation did not last. The economic crises of the transition years of the 1990s struck heavily both the book market and the readers. Especially it hurt the periodicals: In 1992 many of them were on the brink of closure (Lovell 2000, 128). Furthermore, since Russia lost its economic basis of a totalitarian superpower and became the "poor

[4] E.g. *Vestnik Novoi Literatury,* which concentrated on publishing underground texts of the 1970s and others. See more in Lovell 2000, 150-159.

relation of the West", it lost as well its cultural glamour to the Western readers. Tolstoy and Dostoyevsky no longer seemed quite so worth reading when Russians were seen to be not uniquely soulful but deprived and tasteless (Lovell 2006, 3).

The Reader Vanishes

The post-Soviet period has been described as an unprecedented crisis for the print culture in general. An unfortunate remnant from the Soviet system was the poor co-ordination between the links in the chain of book production and distribution. Thus, from 1992 onwards, several governmental committees were set up to safeguard publishing from the pressures of the market. Also several subsequent publishing programs were launched in order to help the book producers. (Lovell 2000, 129.) One considerable obstacle on a book's way to the Russian reader is the weakness of the channels of book distribution compared to the Western ones. Also the transfer expenses are high. Thus, the 2500 Russian bookstores are not able to supply all available literature to stores in remote parts of the country.[5]

The crisis of the book market naturally reflected on the readers. Publishers started to focus and differentiate their products for special groups of readers: women, gardeners and churchgoers were among the first ones targeted by the post-Soviet publishers. Some groups of readers, however, suffered from the new, market-driven differentiation, namely academics, students and school children. This was partly due to an unlucky policy of the government. During the last Soviet years, and still in 1991-92, The Ministry of Information decided to transfer a large portion of Russian textbook orders to GDR and other countries of the Warsaw Pact, but in April 1993, panicked by the economic crisis, it dithered as it decided whether it could afford to pay orders from Germany. This indecision, however, had fatal consequences for public education: several post-Soviet academic years began with many learners deprived of essential study materials. (Lovell 2000, 139.)

No wonder that expressions of Soviet nostalgia were heard when the market economy did not work or worked badly. In an interview to the daily newspaper *Kommersant*, the president of the book distributing enterprise "Biblio-Globus", Mr. Boris Esen'kin, was sighing for the times gone by, when he, in 2003, wished those in power to restore the book's status on post-Soviet generations' scale of values[6]:

[5] The density of the bookstores to the amount of readers in the Western countries is 1:10.000-15.000. In Russia – 1:60.000 (Levina 2005).

[6] More about changing values of young people in Russia today see in Vanhala-Aniszewski & Siilin 2007.

At present all publishing houses have reached the nadir: the editions are coming down with increasing speed […] and if, for a while, they manage to rise, it is only thanks to re-editions of short-lived books, hastily written on command. In these circumstances it is the state's task to *proclaim a doctrine in favor of literacy*, and to tell people that it is precisely literacy that is the foundation for a strong and prosperous country to build on. If such measures are not taken, there will be nobody to come and rule over this state in the future. (Priamaia Rech 2003, italics mine N.B.)

During the years that followed the depression this "appeal to the superior power" was heard, and several governmental reading campaigns were organized in Russia.[7] Librarians, critics and sociologists all agree that none of them, however, was a success or had any impact on Russians' eagerness to read. According to sociologists,[8] reading in Russia is today "on the verge of an abyss".

The statistics tell that in 2008 – 46% of the adult population did not read books at all. Compared to the 34% that did not read books in 2003 this figure looks very sad. Yet sadder still is the fact that the figure of *permanent readers* dropped during the same period from 26% to 16%. When asked why they do not read, the interviewees answered most often: "Books are too thick and too heavy and in general they 'burden one'." Should the respondents then read more journals and magazines or electronic texts? No. According to statistics also the figure of *permanent readers* of periodicals has dropped from 21% in 2003 to 9% in 2008, and the figure of those who *never read periodicals* has risen from 32% in 2004 to 54% in 2008. The most interesting figure, however, is the one that tells that 58% of the *young people* do not read periodicals at all. Whatever they read, moreover, females read on the average twice as much as males. (Chtenie 2009, 4.)

Sociologists see the decreasing figures that today hit the book industry not as a symptom of depression, since they decreased even during the years of economic growth, but as an indicator of the postmodern society that is based on efficiency, completion, and performance. Consequently the task of the book (or any text) is understood today principally as a source of information and libraries (or the Internet) are used as encyclopedias.

[7] The most famous of the reading campaigns started three years ago when, on November 8th, 2006, president Putin declared the year 2007 to be that of the Russian Language.
[8] Natalia Zorkaia and Boris Dubin, researchers from the Levada Centre (Chtenie 2009, 4).

Looking at the Generation NEXT

Generation NEXT, or, as some sociologists[9] call it, the "millenials" are children of consumerism. Their attitude towards the world in general and towards the knowledge about the world in particular can be characterized as supermarket behavior: you satisfy your presumed needs immediately, you take this-n-that and consume by impulse. Their everyday life is marked by the central and constant presence of computers, mobile phones, iPods and other electronic mass media channels, and thus their consciousness is constantly fragmented. This state of affairs has created new chamber cultures of "screenagers", "Nintendo generation", "mobile generation" and others. (Taylor 2006, 212.) The scale of values of this generation diametrically diverges from that of their parents. As to the Russian youth, they mostly read just fragments of the national classics in their textbooks, or get to know Ilya Oblomov, Natasha Rostova, Anna Karenina and other Russian literary heroes only through movies (Tsedrik 2009).

Should then the hybrid *Vook* or video/book become the millenials' future even in Russia as it is in the US? It is highly possible. Yet here we have to remember the fatal imbalance between Russian metropolises and provinces as regards the accessibility of modern technique – both concrete, in terms of distance, and social in terms of economic inequality. But obviously even in remote villages Russian youngsters are no less smart than their Western counterparts in learning how to use new digital media.

"As discourse moves from printed pages to network screens, says Bob Stein from *The Institute for the Future of the Book* (Hesse 2009, C8), the dominant mode will be things that are multi-modal and multilayered. The age of pure linear content is going to pass with the rise of digital network content." It is no coincidence that many current hybrid books are aimed at youngsters – the first generation of "digital natives" who feel stark naked without a cell phone, iPod or a couple of laptops strapped to their persons. But whatever assumptions we might now make about hybrid books, kindles or other new "reading-toys" and techniques, there is a good chance they will not hold true when the medium grows up. "Things like the Vook are trivial. We're going to see an explosion of experimentation before we see a dominant new format. We're at the very beginning stages", concludes Stein. (Ibid.)

Modern Russian urban middle class youngsters, especially those living in the big cities, follow the global development of the digital media. Thus, after having looked at the Far West,

[9] Neil Howe and William Strauss (see Omelchenko 2006).

we could look into the Far East when trying to peep into the young Russians' future reading habits.

Describing today's Japanese society, professor Yoshio Sugimoto[10] talks about a "prosperity generation" and its social attitudes – self-interest and defense of private life. This generation, says Sugimoto (2003, 76), "has not abandoned print media in general but pays attention to a wide range of publications other than the established newspapers and magazines". However:

[One] aspect of the subculture of the prosperity generation concerns a decline in both progress orientation and political radicalism, a trend which is said to characterize postmodern societies. Unlike older generations, the prosperity generation is *not interested in pursuing knowledge for the progress of society or in succeeding in the corporate world.* Nor is it interested in organizing a revolutionary movement to fight the injustice of the existing order. For these youngsters, the dominant themes are playfulness, gaming, escape, tentativeness, anarchy, and schizophrenic differentiation, in contradistinction to the rigidity, calculation, loyalty, fixity, hierarchy, and paranoiac integration of modern society. (Sugimoto 2003, 76-77, italics mine, N.B.)

Conclusion

What are the dangers that lurk in a society consisting of readers who can read but do not use their literacy? To put it in Stephen Lovell's words: "If there is one word that can characterize post-Soviet Russia, it is uncertainty" (Lovell 2006, 9). Contemporary society – urban Russia included – is characterized by a newfound ability to control the world of nature and *worlds of illusion*. How does postmodern society use this newfound ability? It certainly can use it for enormous good. But it can also use it to create a culture where images, simulations, story lines, performances and rhetoric are *used to manipulate the public, to sell products, to promote phony candidates and spread false ideas.* Consequently, postmodern society turns out to be a realm of illusion in more than one sense. It is easier than ever, by means of rhetoric, to sell them hidden political agendas, among other things. This means that the literacy of future Russians *does* matter. The question is: will they read and learn to be critical enough to face manipulative contents.

[10] Yoshio Sugimoto, Professor Emeritus, La Trobe University, Australia, *An Introduction to Japanese Society*, 2003.

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APPENDIX

Reading in Russia 2003-2008

Research team led by Natalia Zorkaia (Levada Centre, Moscow)

2003	2008
34 % do not read books at all	46% do not read books at all
26% read books permanently	16% read books permanently
32% do not read journals or magazines at all	54% do not read journals or magazines at all
21% read magazines permanently	9% read magazines permanently
	58% of the **young generation** do not read journals or magazines at all