

## **RUSSIA'S ECONOMY AND SOCIETY FACE NEW CHALLENGES**

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The end of the Soviet era brought about fundamental changes in Russia's economy and its conditions. The transformation from a command to a market economy was painful and caused numerous derivative problems. Privatization paved the way for the oligarchs, who were able to accumulate immense riches due to their connections with politicians and secret-service officials. The old structures in the country's economic life dissolved but were not replaced. This, in turn, resulted in a tangle of corruption involving the state, the secret service, and the mafia which, working hand in hand, drove the country's economy into a decline in the long run.

Even today, this dilemma has not been overcome completely, although some things were achieved: A two-tier banking system with a specifically Western character was established. Foreign trade was liberalized, and the tax system reformed. The economy logged high growth rates which, however, have been declining again since 2003 and would hardly have been achieved in the first place without the exports of crude oil and natural gas. The Russian-Armenian economist Aganbegyan thinks he knows what lies behind all this: As they were expected to bring quick profits, the deposits that could be exploited most easily were plundered without thinking about sustainability or environmental protection.

The economic and political legacy assumed by Russia's new president, Mr Medvedev, is tricky. His objective of achieving high economic growth rates and increasing the nation's prosperity implies a rise in the demand for primary and secondary energy among both the industry and the population. According to plans, 13 to 15 million new consumers are to be connected to the gas supply system each year. To do this, new deposits would have to be developed which, however, are located in Eastern Siberia and the Far East, where there is no suitable infrastructure and nobody who could address themselves to the tasks on the spot.

The Far East, where sparsely populated Russian regions border on Chinese areas with a high population density, poses a specific problem. On one side of the border, there are four million Russians, on the other, one hundred million Chinese. The Russian newspaper *Izvestija*, for example, voiced the concerns of the Russians living in this region early in 2006, predicting that the Far East would be colonized by the Chinese in ten years' time, and that it would ultimately pass to China entirely. Chinese immigration into Russia's east is indeed massive, leading to severe ethnic conflicts as the immigrants are unwilling to integrate. Not only Russia's population is increasingly wor-

ried; the government in Moscow also appreciates the economic and political challenge this development represents. To solve this problem, enormous investments would be required in transport and social infrastructure as well as in education.

Domestic capital formation is absolutely insufficient, so that Russia's industry is forced to draw on foreign capital resources. The trend to take out loans abroad has been pointing upward for years: At the moment, the foreign debts of the government and Russia's enterprises total 527 billion US Dollars.

According to Russian economists, the country's economic problems are exacerbated by a misdirected economic policy. The aspects named in this context include the weakness of the national financial system, high dependence on foreign markets, increasing corruption, the dearth of qualified workers and employees, the tax increase, and the decreasing profitability of most Russian enterprises.

The social situation of the population is problematic. The reasons for this lie in low wages and the constantly growing inflation (officially put at 16 percent at the moment), against which the state takes little or no action, and which is exacerbated by the international financial crisis. Although the registered unemployment rate has gone down, hidden unemployment is still a reason for concern. Another indicator for the precariousness of the situation is the depressingly high suicide rate especially among adolescents and army members. Moreover, the public-health system must be improved. The state does talk about providing health care free of charge, but most Russians cannot afford medication. It is not least excessive alcoholism that has caused the statistical life expectancy of Russia's population to sink far below the average of the Western industrial countries. Finally, housing shortage is another highly explosive issue, especially in the cities. Although President Putin declared the housing problem the most important task of his time, it still has not been tackled.

Corruption is a particular evil. Having become common practice a long time ago, it has assumed dimensions that prompted Mr Medvedev to call it one of 'the worst problems' at the beginning of his term of office. However, as the anti-corruption committees of 2003 and 2004 did not cover themselves in glory, it may hardly be expected that the current state of affairs will change substantially.

The situation of the legal system and the impartiality of jurisdiction in Russia must also be rated as critical. The practice of so-called telephone jurisdiction was made an issue by the new president himself. Rooted in Soviet traditions, this practice implies ringing up interested parties and asking about their preferences regarding the quality and tendency of a sentence before it is

passed. In the past, these parties belonged to the secret service or the administration, whereas today they include other criminal structures that still have a great influence on jurisdiction, all the more so as many judges are corrupt. Not least because of the injustice of 'telephone jurisdiction', many Russian prisons are overcrowded, and the conditions prevailing there are inhumane. Suggestions to improve the functionality of the judicial system, its independence, and the training of judges are being developed. Russia certainly still has a long way to go to the rule of law. It is not to be expected that the president's efforts will achieve a breakthrough.

Environmental protection was never a prime goal for Moscow, neither before nor after the fall of the Soviet Union. The soil and the rivers in oil extraction areas are still being contaminated, the sewage plants in the big cities cannot cope, and the quality of the drinking water in many megacities is extremely bad. The population's health was and still is threatened by numerous stomach and intestinal infections, and hepatitis has become part of everyday life. Air and water pollution have assumed proportions that are as menacing as the consequences of alcoholism.

Now, where is the Russian Federation going? The country is at a crossroads: On the one hand, it enjoys high growth rates; on the other, this growth depends on crude-oil and natural-gas exports. Extraction, however, is declining. To solve these problems, capital would have to be employed, but the conditions for this are lacking. With its profoundly dualist structure, Russia resembles a developing country: The discrepancy between Russia's highly developed industries and weakly developed, internationally uncompetitive economic sectors elsewhere constitutes 'sectoral dualism'. And the gap between its small, extremely rich elite and the alarmingly large number of poor people is 'social dualism'.

However, overcoming the two dualisms requires not only capital but also focussed action, such as the consistent introduction of market economy. This, however, is hampered by monopolistic power structures that are still being encouraged by the state which intervenes actively in all areas of economic life, to the satisfaction of the business tycoons. National companies are being founded, promoting further thinking in socialist categories. Lenin's postulate of the primacy of politics over the economy has not lost any of its relevance in today's Russia.

One of the problems that need to be solved in Russia in the near future is how to improve the infrastructure. Large parts of the country are not at all or only insufficiently accessible. At the same time, tackling the environmental problem does hardly admit of delay, especially as it hampers economic growth and causes severe social distortions.

Given the path currently pursued by the country, there are hardly any reasons to view Russia's future optimistically. However, the great number of problems also means that there is in almost all economic sectors a demand for new technologies that Russia will hardly be able to meet on short notice. On the one hand, Germany is in a position to supply these technologies; on the other, it will be dependent on importing Russian energy carriers in the long run. Therefore, economic cooperation between the two countries appears secure, to the benefit of all.

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