
«Unstable equilibrium». Russian regions versus federal centre.

Andrey Shalyov

The interrelations between the federal center and the regions are gradually becoming one of the most important issues on the agenda of the current Russian political establishment. The highly centralized political, financial and economic system established over the last ten years has provided stability and growth and staled the country's disintegration, and is seen by many as the most important achievement of the decade.

Nevertheless, the federal center's goal to smoothen threatening gaps in social and economic development in the Russian regions by means of redistribution of the national wealth has failed, and after years of fast economic growth Russia again faces growing tensions between the central power and the federal subjects.

Russian regional policies have undergone several major changes in the Post-Soviet period. What is the dynamics of today's relations between Moscow and the regions?

Evolution of Russian regional policy

Differences and variations in the level of economic development, social welfare and infrastructure between regions within a country is not a unique Russian phenomenon. Many countries experience similar disproportions in regional development, and especially in periods of economic growth. Almost everywhere, national governments are trying to lessen these disproportions.

In Russia, however, the growth of unevenness in regional development is aggravated by the vast territory of the country stretching across eleven time zones, as well as by the fact that the northern and far eastern parts of the country were developed in line with the principles of Soviet plan economy, regardless of principles of economic efficiency. This was especially the case in the period of the so-called «Great Socialist Constructions».¹

For at least 25 years, industrialization and development of the mineral resources of the Russian northern and far eastern regions was provided by the inexhaustible resources

of the GULAG system. After that dramatic period, in the years of the so-called «developed socialism», these regions were developed due to enormous state investments and commanding mobilization of labor resources. Today, under the conditions of free market economy, many of these territories have lost their economical perspectives and are unable to take part in the generally positive social and economic trends in the country. This situation first of all relates to the regions of the Far East, Siberia and the High North.

In the post-Soviet period, the federal policy towards the regions has undergone a significant evolution. In the first years after so-called «perestrojka», which could also be called a period of «democratic romanticism»², the influence of the regions in relations with the central power was rather big and the role of some prominent regional leaders on the federal political arena was commensurable to the authority of the President of Russia. The governors could threaten to stop the transfer of taxes to the federal center, to introduce restrictions for cargo and finance flows or even establish their own regional currencies. Several regions threatened the federal center with leaving the Federation, and one of these threats was in fact materialized (Republic of Chechnya). This situation seemed very similar to the period of feudal division when the supreme regent was considered only the first among equals. Under these conditions, the central power had to carry out a policy of balancing between the necessity to protect national interests and at the same time meet regional demands. Many federal subjects tried to elaborate their own models of interrelations with the central powers and to formalize them in special bilateral agreements. The 1993-1994 reform of inter-budgetary relations, which laid down common rules for assignments of federal taxes to regional budgets, as well as the governors election campaign of 1996, only increased the power of the regional elites.

The end of the Yeltsin period

The start of a new stage of interrelations between Moscow and the regions coincides in time with the end of the political career of President Yeltsin and his team. It was characterized by a strict and consecutive policy of centralization and submission of the regions to the central power. Evidently, this period was vitally important considering the real threat of disintegration of the country. However, as has often been the case in Russian history, the ruling political group, having achieved its main goal, continued moving in the prescribed direction, thus breaking the established balance of interests. Besides that, the proclaimed policy of centralization had no economic substantiation and was dictated by only political reasons. In the economic aspect, this policy did not bring anything, except a growing differentiation of the regions in terms of economic and social development. It also deprived the regions of the investment attractiveness, as well as economic initiatives.

The vertical philosophy of new Russian regionalism

A significant factor aggravating today's situation of regional disproportions is the asymmetry in the Russian federal structure. This asymmetry to some extent looks like an anachronism inherited from Stalin's conception of the «national question solution» in the country. Of the 83 subjects of the federation, 21 have the status of republic, eight are krajs, 47 – oblasts, four – autonomous okrugs, one – autonomous oblast and two – cities of federal significance. The differences between these six statuses are obscurely insignificant, with the one exception that the republics may have their own constitutions and state language and the oblasts can territorially include the neighboring autonomous okrugs.

This political and economic heterogeneity implies a certain danger of national disintegration, a trend which was in full measure experienced in the transition years of the 1990s, a period also known as the «Parade of sovereignties». The slogan «take sovereignty as much as you can swallow», which was rashly put forward by President Boris Yeltsin, caused a widening of the differences between the regions and these differences were further nurtured by the special agreements concluded between the regions and the federal power. The agreements, pushed forward by a total of 42 regions, defined and delimited areas of competence and authority.

Threatened by the disintegration of the country, the new political elite which came to power in the end of 1990s started a systematic and successive policy of centralization and smoothening of political and economic differences.

One of the first reforms carried out by the administration of President Vladimir Putin was the establishing of the federal districts, which were commissioned with bringing the regional legislations in line with the federal code. This was successfully achieved. On the second stage, the Putin administration started a process of bringing down the independence of the regional administrative leaders. This process was logically completed with the abolishment of direct popular election of the governors, as well as with the reformation of the upper chamber of parliament, the Federation Council. From this point on, the governors were to be appointed by the regional councils of deputies based on an official presentation of candidates by the President. The governors also lost their seats of representation in the Federation Council.

These reforms have formally restored the country's common political area, based on the concept of the so-called Russian «power vertical». However, these reforms have also made the current political and administrative system vulnerable. Critics point at the system's contradiction with the principles of federalism as laid down in the Constitution. Increasingly often, former long-serving top representatives of the system are among the critics.

In the economic field, the policy of President Vladimir Putin was concentrated on the redistribution of national welfare between the federal subjects. The main proclaimed goal of this policy was a lower number of regions-recipients and a smoothening of the regions' levels of economic and social development. The dominating instrument in this process became the new principles of the financial-budgetary system. The budgetary reform was aimed at balancing the regional budgets with the help of federal programs, as well as financial transfers from the federal funds. The Ministry of Finance worked out a relatively transparent and understandable mechanism for defining the amounts of financial transfers. This mechanism is based on a correlation calculation of the regional tax potential index and the index of budgetary expenses.

Rich country of «poor» regions

Today, seven of eight Russian regions get subsidies from the federal budget, which normally means that their own budgets have deficits and their own revenues can not cover the social obligations. Only ten regions make up a small group of so-called donor-regions. Among them are the cities of Moscow and St. Petersburg, as well as a number of petroleum producing regions. This fact does not mean however that the remaining regions in Russia are so poor that they are unable to provide their own budget money. The situation rather illustrates a deliberate state policy of binding the regions to the federal center. This situation is quite evidently a consequence of the consternation of the political elite caused by the collapse of the Soviet Union and followed by the «parade of sovereignties». The ghost of the «rose and orange revolutions» on the territory of the CIS after 2003 made the situation no better.

Over the last 15 years, the number of donor-regions in Russia has dropped 3,5 times. In 1993, they totaled 35. After year 2000, they dropped to 18. Today, as mentioned above, they are only ten. While the situation in the 1990s could be explained by the economic downturn, the situation in the period of fast economic growth after 1998 can be explained exclusively by a redistribution of the added values in favor of the federal center. This looks evident when taken into consideration the fact that the federal budget was profitable after year 2000.

From the end of the 1990s, the federal center seized more and more of the taxes collected in the regions. While eight years ago, the distribution of taxes between the regions and the center was proportionally 50:50, the center today takes approximately 70 percent of all taxes.³ Thus, while seven years ago, 60 percent of the taxes on extracted valuable mineral resources were included in the regional budgets, the regions in 2002 got only 20 percent of this tax, in 2003 - 15 percent, and in 2005 - five percent.⁴ In fall 2009, the government decided to concentrate this tax completely on the federal level, which will bring approximately 100-150 billion rubles extra to the central budget

in the years 2010-2012. In 2008, the regional budgets' total tax revenues from mineral resource development were estimated to 79 billion rubles.⁵

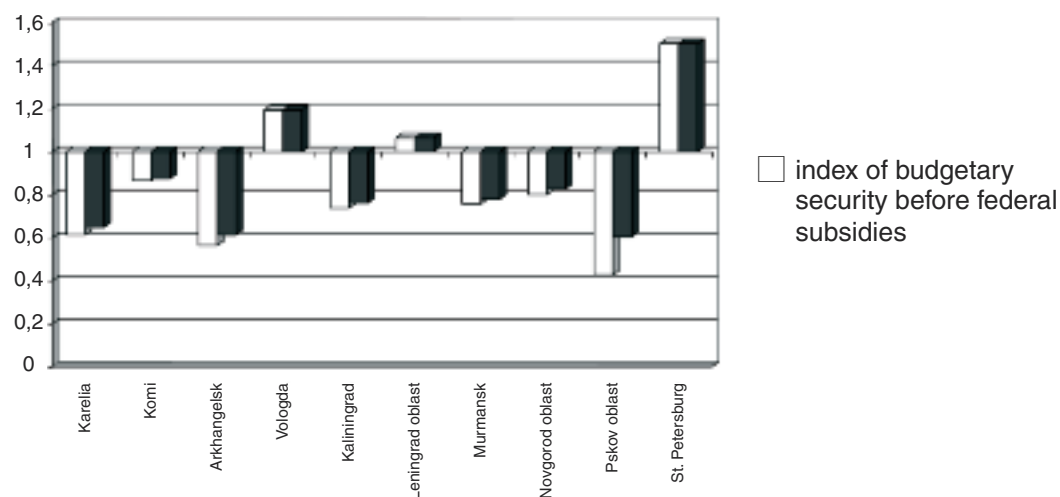
The tax on the development of natural gas was in 2004 completely transferred to the federal budget. In addition, in 2005 the federal government seized a part of the profit tax from the regions, which normally makes up 25-58 percent of the budgets of the industrially developed regions.

Being strictly concentrated in the federal Finance Ministry, the state revenues are subsequently being redistributed to the regions through different federal funds established by the government.⁶ The federal transfers to the regional budgets in 2009 amounted to 37,6 percent of the federal budget, or almost three trillion rubles.⁷

The Russian part of the Barents Region has an average index of budgetary security approximately 30 percent lower than the federal average. This is, however, significantly better than in areas like the Siberian, Southern and Far East Federal Districts, and also higher than in most of the subjects in the Central Federal Districts (except Moscow, Belgorod, Lipetsk and Yaroslavl regions). Among the Russian Barents regions, Arkhangelsk Oblast has the lowest index of budget security and subsequently gets more financial support from Moscow than Murmansk Oblast, the Republic of Karelia and the Komi Republic.

However, the federal subsidies nevertheless only slightly improve the budgetary security index and do not change the general picture of development disparity between the Russian regions.

Diagram «Index of Budget Security of the North-West Russian Regions» (2008)

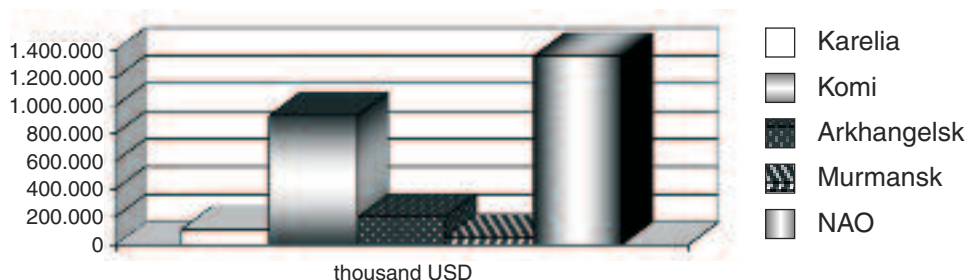


The budgetary reform is motivated by political reasons rather than by economic needs. It is also a proven fact that some regions get preferences, which can hardly be explained by economic expediency. For example, the Republic of Tatarstan is a donor-region, but has still for a long time got federal subsidies in an amount equal to 8-10 percent of its budget.⁸

The City of Moscow, which is on the first place in the country by the level of budgetary security sends only 50 percent of all regional taxes collected to the federal budget, while regions like the Komi Republic, Tymen region, Khanty-Mansiysky Autonomous Okrug - from 65 to 80 percent.⁹ At the same time, there are regions in Russia with budgets 90 percent dependent on federal transfers. These are first of all the republics of the North Caucasus, among them the Republics of Chechnya, Dagestan and Ingushetia, as well as some territories of the Far East and Siberia.

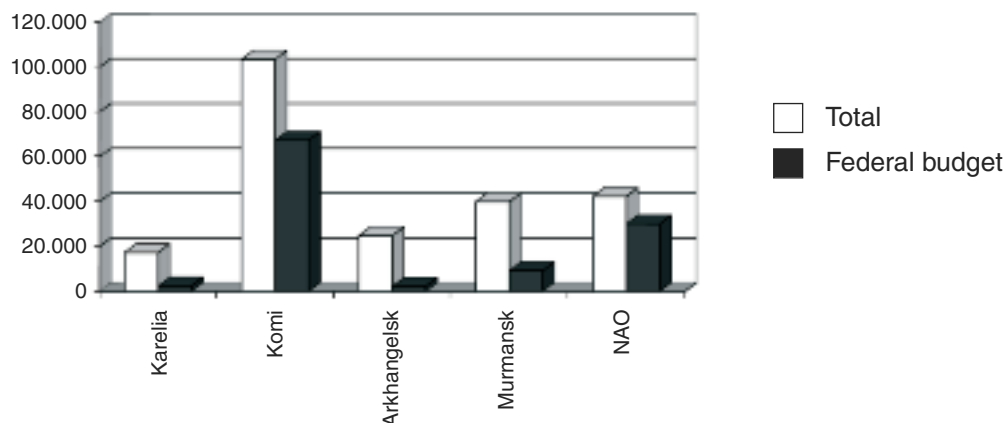
The northern territories of Russia in 2008 provided 46,7 percent of all revenues to the federal budget. They also secured 28,2 percent of the total investments in the main capital and 17,7 percent of foreign investments - a sum exceeding 18 billion USD.¹⁰ Of this amount, about 2,7 billion USD, or 15 percent, was invested in the Russian part of the Barents Region.

Diagram «Foreign Investments in the Barents Russian Regions in 2008»



The federal subjects in Russian part of the Barents Region (Murmansk and Arkhangelsk oblast, Republics of Karelia, Komi Republic and the Nenets Autonomous Okrug) transferred 49 percent of all taxes collected on their territories to the federal budget. However, these regions' share of the total incomes of the federal budget is relatively modest - less than three percent (2008). The federal government seizes from the regions mostly taxes connected with the development of hydrocarbon and other mineral resources. For example, the Nenets Autonomous Okrug, which has an economy almost totally dependent of the oil and gas industry, transferred more than 70 percent of all its taxes to the federal budget, the Komi Republic with its more diversified economy transferred around 65 percent, while Murmansk oblast - only 23 percent, Karelia - 14 percent and Arkhangelsk oblast - less than nine percent.

Diagram. The amount of taxes collected on the territories of the Russian Barents Region (million rubles).



The less mineral resources extracted on the territory of a region, the less is the share of taxes it transfers to Moscow. For example, the incomes from the mineral resource development on the territory of Arkhangelsk Oblast is eight times less than in the Komi Republic, six times less than in Murmansk Oblast and four times less than in Karelia. In this system, the regions with the more developed manufacturing industry have a preference, because they are in position to keep a bigger share of the taxes for themselves. In particular this advantage is enjoyed by St. Petersburg and Moscow, which also have the possibility to keep in their regional budgets the profit tax from the companies registered on their territories, as well as the wealth tax.

It is a well-known fact that a major part of the biggest Russian industrial companies – the so-called «vertically integrated companies», as well as 80 percent of the financial sector companies, are registered in the two big cities where they also pay a big part of their taxes. Due to this fact, the amount of profit tax per capita included in the budget of Moscow is for example is 16,5 times higher than in Arkhangelsk Oblast, more than 13 times higher than in Karelia and almost seven times higher than in the Komi Republic and Murmansk Oblast. The amount of the physical persons income tax per capita in the Moscow budget is 17,5 times higher than in Arkhangelsk Oblast.

This system forces the regions to fight for the local registration of the industrial companies working on their respective territories, which subsequently also makes the regional authorities very dependent on these companies.¹¹

The results of the federal reforms aiming at smoothing the differences between the levels of economic and social development of the regions are quite evident – the gap between the richest and poorest regions only continues to grow.

Dead end. Where to go?

«The gap in incomes between the Russian regions is intolerably big», said Alexander Shokhin, leader of the Russian Union of Manufacturers and Entrepreneurs and former minister of economy in the Yeltsin administration, in a round table debate in the St. Petersburg Economic Forum in June 2007.¹²

«The difference in the per capita gross regional product between Moscow and for example Ingushetia is 28 times. By share of industrial production the difference is 5,2 times, by the incomes of population per capita – 4,4 times. This situation has a very harmful influence on the Russian economy», he stressed.

Shokhin argued that the state in fact has openly admitted that the mechanism of the national wealth redistribution, as well as the so-called national projects, have been inefficient.

In spring 2007, former minister of regional development Vladimir Yakovlev acknowledged the failure of the federal program «Reduction of differences in social-economic development of the Russian regions» adopted in late 2001. This program was to lower the differences between the rich and poor regions of Russia by 1,5 times by 2010 and twice – by the year 2015. Yakovlev informed that the gross regional product in the 46 poorest Russian regions from 2003 to 2006 did not grow. The industrial production in these regions in this period grew 5,5 percent, while average growth in Russia in the period amounted to 85 percent. The average monthly incomes of the population in the 46 weakest regions in the period increased with 1400 rubles, while growth in the same period was twice bigger in the country as a whole. And this gap continues to deepen.¹³

The results of the mentioned federal programs were so negative that the Ministry of Finance requested the State Duma to stop their implementation and to transfer the resources to the Fund of financial support of the regions. The growing disillusionment with the concept of leveling the differences of the regions by means of redistribution of national wealth gave rise to a tendency of transferring the focal point in the regional policy to the more prosperous regions. In the federal purposeful investment program, the government emphasizes support to the regions referred to the so-called «locomotives of growth».

«In fact only four-five regions in the country are developing successfully», Professor Alexei Shulus, the rector of the Academy of Labor and Social Relations, maintains. «All others stay below the average Russian level», he adds. He concludes that this situation makes it almost impossible to talk about a common social area of the country. He believes the situation also hampers the constitutional rights of the citizens, especially the idea of social responsibility as stated in Article 7 of the Russian Constitution.¹⁴

Feeling disappointed with the results of the policy of leveling the regional differences, the government started to look for other instruments to improve the situation. In January 2006, the Investments Fund of the Russian Federation was established under the Ministry of Regional Development of Russia. By mid-2009, the Fund had approved 21 investments projects of federal importance and allocated 400 billion rubles for their realization. The main condition for funds allocation to a project is the attraction of financial resources from other sources by twice or more exceeding the fund allocation. That is far from always realistic.

This fund is unlikely to improve the situation with regard to the disparity of economic development in the country simply because the sources of the Federal Investments Fund are mostly allocated to the strong regions with highest investor attractiveness. For example, in 2007, almost ten percent of the state investments were received by St. Petersburg, nine percent - by Moscow, five-six percent - by Moscow Oblast and Krasnoyarsk Krai.¹⁵

New federal measures

In autumn of 2008, the Russian government adopted a national Conception of the social-economic development for the period to 2020. A big part of this document outlines optimistic expectations about the spatial and regional development of the country. At the same time, the document describes the domestic social and economic divides as a possible serious threat.

As a first step of the conception implementation, the government intends to lower the threat level by means of developing new centers of economic development in the south of the country, Eastern Siberia and in the Far East.¹⁶

Northwest Russia will see the establishment of the new centers in the years 2013-2020, a period which coincides with the starting oil and gas offshore developments in the Russian Arctic. The necessity of developing sea ports and the Northern Sea Route is mentioned already in the first phase of the Conception realization. According to the document, the northern regions of the country have a big importance in the development of the Arctic offshore resources, transport, bio-resources, fishery and fish resources manufacturing.¹⁷

Polarized development

The next step in the formation of a new state regional policy is likely to be the adoption of development strategies for the federal districts. Many experts believe these documents will mark the switch from a «philosophy of leveling» to a «philosophy of polarized

development». The idea of regional polarized development presupposes the prioritized support of the regions referred to as «carrying territories», meant to become future growth locomotives also for neighboring more depressive areas. However, the selection criteria of the «carrying territories» are not yet sufficiently clear. Another moot point is that the fast development of the «carrying territories» could bring also a number of negative consequences for the neighboring areas.

A critical point for the success of the idea will be the extensive development of horizontal cooperative relations between the regions and major attention to the interests of the economically weak regions as classified by the Ministry of Regional Development. Otherwise, the already major differences between the regions could turn fatal due to flow-out of investments and labor resources from the depressive regions to the growth zones. Most likely, the government will have to maintain a certain balance between the distributive and stimulating tools in its regional policy. The development strategies of the federal districts are to be based on the social-economic development strategies of the subjects.

New regional opposition

As we have seen, the centralization of the budgetary-financial system did not significantly lower the danger of Russian territorial disintegration: on the contrary, the differences in the social and economic development of the regions increased. So did also the number of regions-recipients. The excessive concentration of the financial resources of the country in the federal center obviously causes a certain displeasure both among the donor-regions and the recipient regions. On the one hand, the donors believe that the federal authorities take too much of the taxes collected on their territories, while the recipients consider that the federal authorities do not leave them enough economic means for own development.

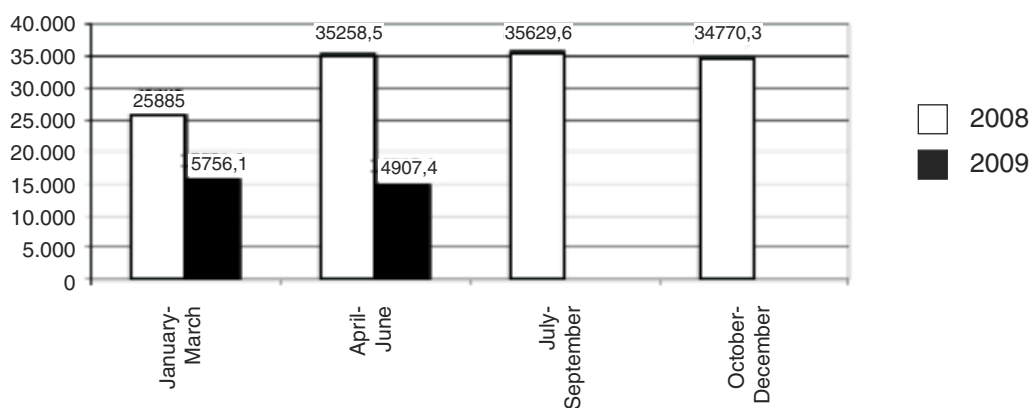
Recent events also indicate that the political centralization has not brought sufficient stability in the regions, nor the desired loyalty towards the federal center. This can be illustrated by the more frequent political demarches of regional leaders like Rakhimov (Bashkiria), Shaimiev (Tatarstan), Luzhkov (Moscow) or former Murmansk Governor Yury Yevdokimov against dictates from central authorities. They all demand more independence in decision-making processes on the regional level.

The growing antagonism between the center and the regions is far more deeply rooted than the sporadic squabbles between the federal authorities and single regional leaders. The results of several opinion polls indicate a growing regional need for self-identification in relations with the federal center. Also the opinion poll carried out by the FORIS center for the Barents Secretariat in Murmansk Oblast illustrates this trend. For

example, the poll shows that a majority of the population support joint efforts of Russia and NATO in provision of security in the Arctic. This position could be interpreted as a challenge to Russian national security.

When the main part of the taxes collected in the regions is concentrated in the federal center, the regions experience a major deficit of investments resources necessary for their own development. The small part of taxes, which the regions are allowed to keep in their own regional budgets, has in the times of economic crisis shrunk quickly. For example, according to Arkhangelsk Oblast Governor Ilya Mikhalchuk, the incomes of the Arkhangelsk regional budget in the first half of 2009 dropped 45 percent.¹⁸ The regions are today facing a dilemma – either cut social obligations or dramatically decrease investment activities.

Diagram «Level of investments in the main capital in Arkhangelsk oblast 2008-2009» (million rubles)



The economic crisis will have serious consequences for the Russian regional policy. Most of the Russian regions experienced a shock when revenues to the regional budgets dropped dramatically. Tax revenues in the first six months of 2009 dropped 25 percent. The highest levels of income drops were observed in the industrially developed regions and in the regions with economies based on resource developing industries.¹⁹ The economic crisis has increased the influence of the central power even more. Many regions are now facing a danger of bankruptcy and it seems unrealistic for them to overcome the situation without firm help from the state. Moscow has sent out optimistic signals about overcoming the crisis in the near future. However the regions' expectations for the next 2-3 years look different. For example, the regional budget 2010 of Arkhangelsk Oblast is adopted with an almost 10 percent deficit.²⁰ In Murmansk Oblast the budget deficit in 2010 will amount to 19 percent²¹ and in Karelia - 11, percent.²² The situation will hardly improve in the next two or three years.

Time will show which model of interrelations between the center and the regions will be chosen by Moscow: the policy of further centralization, which already has proved its inefficiency, or the model of federalism of the mid-1990s, which was perceived as a threat against national security. Possibly, a new regional philosophy based on the balance of regional and national interests can be elaborated.

Footnotes

¹ The period of 1927-1941 and 1945-1955

² This period has also been called «the period of creeping decentralization»

³ Milov, Vladimir. «Mezhregiondyr», *Gazeta.ru* (<http://www.gazeta.ru/column/milov/3210648.shtml>) 15 June 2009

⁴ Kurlyandskaya, Galina. «Moskva i regiony delyat nalogovye dokhody ot nefti i gaza», *Tsentral'naya Fiskalnaya Politika* ([www.fpcenter.ru/.../FF%20OilGaz%20 %20 %20 .doc](http://www.fpcenter.ru/.../FF%20OilGaz%20%20%20.doc))

⁵ Finansovye Izvestiya (<http://www.finiz.ru/nalog/article1259574>)

⁶ Perechneyeva, Irina. «Osoznannaya neobkhodimost», *Expert Ural* (<http://www.expert-ural.com/1-200-2268/>) 17 January 2005 or «Predlozhenie Minfina o snizhenii stavki naloga na pribil podcherkivaet sistemnye riski dlya kreditosposobnost rossiiskikh regionalnykh i mestnykh organov vlasti» *Bankir.ru* (<http://bankir.ru/news/article/1063986>)

⁷ Among these are: The fund of federal support of the regions which is distributed among those regions which level of budgetary security is lower than in average in the country; the fund of support of reformation of regional finances (distributed on the condition of competition); the fund of compensation (distributed according to the number of consumers of budget services in the regions); the fund of regional development; the fund of co-financing of the social expenses.

⁸ See information from website Byudzhetnaya Sistema Rossiiskoy Federatsii (The Russian Federation's Budget System) (http://budgetrf.ru/Publications/Schpalata/Zakluchenia/ACH_ZAKL200911041925/ACH_ZAKL200911041925_p_015.htm)

⁹ «Natalya Zubarevich: «Rossiiskaya ekonomika poka slaba dlya provedeniya politiki ekonomicheskogo vyravnivaniya regionov», *Klub Regionov* (from journal *Expert*), (<http://club-rf.ru/expert/1717/>) 22 July 2008

¹⁰ Zubarevich, Nataliya, «Российские регионы: из роста в кризис», *Fond Liberalnaya Missia*, (<http://www.liberal.ru/seminars/cat/4401>) Seminar speech transcript

- ¹¹ «О социально-экономическом положении и исполнении бюджетов субъектов Российской Федерации, полностью или частично отнесенных к северным районам, в 2008 году». (<http://severcom.ru/analytics/>)
- ¹² «Mezhdubudzhetye otnoshenia v 2009-2011 godakh». Russian Ministry of Finance (http://www1.minfin.ru/ru/budget/regions/mb/mb2009_2011/)
- ¹³ «Shokhin: Razryv mezhdu rossiskimi regionami nedopustimo velik», *Rosbalt.ru*, (<http://www.rosbalt.ru/2007/06/09/298879.html>) 9 June 2009
- ¹⁴ «Federalnaya programme ne reshila neravenstva regionov», *Kommersant.ru* (<http://www.kommersant.ru/doc.aspx?DocsID=768151>) 24 May 2007
- ¹⁵ «Dokhodny razryv», *Rossiiskaya Gazeta*, (<http://www.rg.ru/2008/09/10/regiony.html>), 10 September 2008
- ¹⁶ Gosudarstvenny restr projektov, v otnoshenii kotorikh prinyato reshenie o predostavlenii sredstv Investitsionnogo fonda RF, *Minregion.ru*, (<http://www.minregion.ru/WorkItems/ListNews.aspx?PageID=438>)
- ¹⁷ It is worth noting that only half a year before the adoption of the Conception, then President Putin talked about the necessity of developing new centers of social and economic development also in the Urals and Volga river regions. However, the economic crisis made the authorities correct their previous plans. In the adopted variant, the development of the new centers in these regions is postponed to the second phase of the concept realization (2013-2020).
- ¹⁸ *Conception of long-term social and economic development of the Russian Federation until 2020*, (<http://www.economy.gov.ru/wps/wcm/myconnect/economylib/mert/welcome/pressservice/eventschronicle/doc1217949648141>)
- ¹⁹ Speech at meeting with the representatives of trade unions, October 9, 2009, TV and radio company «Pomorie»
- ²⁰ Sotsialny atlas rossiiskikh regionov (http://atlas.socpol.ru/overviews/social_sphere/kris.shtml) from Independent Institute of Social Policy.
- ²¹ «Byudzhet Arkhangel'skoy oblasti prinyat v pervom chtenii», *Arnews.ru* (<http://www.arnews.ru/news/1223954.html>) 11 November 2009
- ²² «Defitsit projekta byudzheta Murmanskoy oblasti na 2010 god sostavlyayet 5,57 mlrd rubley», *BN.ru* (<http://www.bn.ru/news/2009/10/14/49727.html>), 14 November 2009
- ²³ «Defitsit byudzheta Karelii sostavit 1,485 mlrd rubley», *FKnovosti* (<http://www.fcinfo.ru/themes/basic/materials-document.asp?folder=1446&matID=229866>) 6 November 2009



The city centre of Arkhangelsk. (Photo: Trude Pettersen)

Epilogue

More cross-border cooperation

Atle Staalesen

Summing up his presidency, Vladimir Putin in a speech to the State Council in February 2008 with triumph stressed that Russia in his eight-year long rule had overcome the crisis of the 1990s and now was a country of economic growth, stability and strength.

«Russia has returned to the world arena as a strong country – a country with which others reckon and which can stand up for itself», Putin said.¹

The better times had made Russia able to enhance its role in global affairs and step up foreign policy engagements. The country's new Foreign Policy Concept, adopted just few months after Putin retired from the presidency, reads that Russia now is in the position to participate not only in the implementation of the world agenda, but also in its *making*.²

Symptomatically, both Putin and several of his associates on a number of occasions made it clear that Russia no longer needed, nor wanted, aid from abroad. Former presidential aide to the EU Sergei Yastrzhembskii stressed that «our country has once and for all stopped being a donor aid recipient»³ and Economic Development Minister German Gref expressed surprise when a reporter from Swedish Radio said that Sweden over the last years had spent more than 60 million USD on development projects in Russia. «We do not request any help whatsoever from anybody», Gref underlined.⁴

The stronger Russia of today is increasingly able to itself determine the character of cooperation with neighboring states. That is opening new opportunities for an enhanced and equal participation in international cross-border initiatives. At the same time, strong Russian positions are also challenging relations with foreign partners.

Cross-border cooperation is becoming a cornerstone in European East-West relations with Russia. That could benefit the Barents Cooperation, which for many years has been based on practically-oriented border-crossing projects the in the High North.

Different Russia

The Russian economy in the period 2000-2008 experienced good times with major growth. As noted by Putin in his State Council speech, the country's economy in 2007 grew 8,1 percent. In the whole eight-year period, people's incomes increased 150 percent, foreign investments increased seven-fold, international trade was up more than 400 percent and the funds market skyrocketed an impressive 2200 percent. Meanwhile, unemployment and poverty shrunk more than 50 percent.⁵

At the same time, more and more Russians have got the chance to travel abroad. Young Russians, and especially in the cities, have adopted the same youth trends and fashions as their fellow young people in the West, and become users of the same globalised information tools as elsewhere in the modern world.

Almost 20 years after the breakup of the Soviet Union, Russians have doubtless got closer to their neighbors in the west, both in terms of physical contact, lifestyle and thinking.

Still, Russia today remains a country highly different from most of its western neighbors, not only geographically, culturally and politically, but also with regard to social and economic development.

That fact has been clearly illustrated by President Dmitry Medvedev himself. In his article «Russia, forward!» published in September 2009, the president admits that the twenty years of post-Soviet reforms have failed to resolve Russia's basic problems; the country still has a «primitive raw material dependent economy, chronic corruption, and old mind sets».⁶ In addition, the country still needs to develop a fully-fledged democracy and civil society, innovative people and better health standards, he maintains.

Many of these problems are evident also in a number of international index studies.

For example, the Human Development Index 2009 from the United Nations Development Programme ranks Russia far behind all EU members as number 71 of 180 countries.⁷ Anti-corruption watchdog Transparency International ranks Russia number 149 of 180 countries (2009).⁸ In the Freedom House Index 2009, Russia is one of the countries categorized as «not free»⁹, and the 2009 Economic Freedom Index from the Heritage Foundation concludes that Russia is among the «mostly unfree» countries and ranks it number 146 of 179.¹⁰ Likewise, the Freedom of the Press Index 2009 from Reporters Without Borders ranks Russia number 153 of 175 countries.¹¹

Even the Global Peace Index places Russia among the worst-off countries. According to the index, which is produced by the Institute for Economics and Peace, Russia is

one of the least peaceful countries in the world. Its 2009 ranking is number 136 of 144 countries, which is down 18 places from 2007.¹²

These studies show a persisting gap between Russia and Western Europe with regard to the role and the development of the state, society and the individual.

On the one hand, these differences generally complicate cross-border understanding and subsequently also cross-border project cooperation. On the other hand, however, they also illustrate a significant need for continued multi-level East-West cooperation as a means of leveling conditions.

Project politics

Norway is among the countries, which remains highly committed to project cooperation with Russia. In the country's High North Policy, cross-border projects in the Barents Region continue to be a top priority and Foreign Minister Jonas Gahr Støre has on several occasions said that his long-term goal is to make relations with the Russians «as good as between the Nordic countries».¹³

The project funds of the Norwegian Barents Secretariat are among the key instruments in the country's project cooperation with Russia. As described by Margrethe Alnes in this book, these projects are all oriented on cross-border activities with direct participation of both Russians and Norwegians.

This approach is increasingly gaining ground also in EU relations with Russia. The EU's seven new ENPI CBC programmes with Russia, which in the years to come will constitute a backbone in regional East-West cooperation, all have projects in the border areas as top priority.

On the Russian side, the authorities have signaled a special interest in projects within the field of energy, transport infrastructure, innovation and small and medium-sized companies.¹⁴ Meanwhile, projects within the field of human rights, civil society development and local self-government remain more politically sensitive, especially if they are operated by the non-governmental sector

As a matter of fact, the authorities, spearheaded by Vladimir Putin himself, have on several occasions expressed harsh criticism of foreign project donors, which they argue are actively trying to influence the political development in the country.

In his speech to the nation in 2007, Putin said that «an increasing flow of money from abroad is used to directly interfere in our internal affairs». He strongly signaled that for-

eign organizations were trying to «colonize» Russia and that they were only serving the national interests of their respective countries.¹⁵

A few months later, Putin elaborated on this position. In front of 5000 cheering supporters at the Luzhniki Stadium in Moscow, the outgoing president with harsh words not only bugged the political opposition but also seriously discredited countrymen engaged in international projects.

«Unfortunately, there are still people in the country who like jackals hang around in foreign embassies, foreign diplomatic offices and rely on support from foreign funds and governments and not from their own people», Putin said.¹⁶

The speeches from Putin might have been aimed at a few politically active organizations. They should also be seen in the context of the ongoing election campaign ahead of the 2007 State Duma election. However, the message was still clear enough to make a big number of organizations engaged in international activities shiver. As noted by Margrethe Alnes, the statements was one of the reasons why also a foreign organization like the Norwegian Barents Secretariat in 2008 decided to re-organize its project procedures, making it harder for Russian applicants to receive grants.

The speeches from Putin have together with his introduction of stricter Russian NGO legislation sent clear signals about Russian official views of international project cooperation.

However, the Russian position is not unified. Thus, the tone from Putin's successor Dmitry Medvedev is very different. In his article titled «Russia, forward!», the President on the contrary invites foreigners to Russia on a broad basis. Russia must «harmonize its relations with western democracies» and «We are extremely interested in rapprochement and mutual intertwining of our cultures and economies», the President writes.¹⁷

Also Foreign Minister Sergey Lavrov's positive statements about the human dimension in the Barents Euro-Arctic Cooperation, as described by Rune Rafaelsen in this book, show a diversified Russian approach to cross-border projects.

More Barents Cooperation

The Barents Cooperation has in its 17 years of existence successfully stimulated contacts and interaction across the Nordic-Russian borders. Today, cooperation in the region faces new challenges as climate change, big energy projects and industrial opportunities attract the attention of new powerful interests.

There is, however, no reason to assume that the new times will lower the importance of the Barents Cooperation.

On the contrary, the Euro-Arctic Cooperation can serve as an important platform for international talks on High North issues. It can also be an alternative arena for political contacts between the Nordic countries, the EU and Russia. Such a role appeared evident in the fall of 2009, when Swedish Foreign Minister Carl Bildt used the Barents Council session in Murmansk in a bid to soften relations with Russia. After several years of freezing Swedish-Russian relations, Mr. Bildt needed a re-launch of contacts and cooperation, not only because of the country's chairmanship of the EU Council, but also because of the takeover of the chair in the Euro-Arctic Council.

At the same time, the stakeholders in the Barents Cooperation can continue to develop the structures for regional political cooperation, and further strengthen cross-border people-to-people projects. That will bring on the unique character of the cooperation.

The Barents Secretariat poll from Murmansk Oblast indicates that there is a strong will in the region for such developments. The study shows that more than 80 percent of respondents want Murmansk Oblast to engage more in international cooperation. Similarly, more than 65 percent of respondents want Russia and Norway to engage in joint exploration of the Barents Sea shelf and 79,5 percent believe international business cooperation can help improve the economic situation in the Kola Peninsula.

As illustrated by the contributors to this book, regional cross-border cooperation helps stimulate contacts and initiatives between neighboring peoples and has therefore important security implications. Today's challenges in European East-West relations must be met by more openness and cooperation, and not by more closed borders and isolation.

Footnotes

¹ Putin, Vladimir. «O strategii razvitiya Rossii do 2020 goda» in *Rossiya 2020. Tseli i zadachi razvitya strany 2020*. Moscow 2008. p.10

² *Konseptsia vneslney politiki RF*. (<http://www.kremlin.ru/text/docs/2008/07/204108.shtml>)

³ Sorokina, Nadezhda. «Lichnaya khimia politikov», *Rossiiskaya Gazeta*, 6 November 2007 (<http://www.rg.ru/2007/11/06/politiki.html>)

- ⁴ Mosander, Jan «Svensk bistand förväner rysk minister», *Sveriges Radio* (<http://www.sr.se/cgi-bin/ekot/artikel.asp?artikel=1169040>)
- ⁵ Putin, Vladimir. «O strategii razvitiya Rossii do 2020 goda» in *Rossiya 2020. Tseli i zadachi razvitya strany 2020*. Moscow 2008
- ⁶ Medvedev, Dmitry. «Rossiya, vperyod», *Kremlin.ru*, 10 September 2009
- ⁷ *Overcoming barriers: Human mobility and development* (<http://hdr.undp.org/en/reports/global/hdr2009/>)
- ⁸ *Global Corruption Report 2009* (http://www.transparency.org/publications/gcr/gcr_2009#dnld)
- ⁹ In the Freedom House index, Russia is one of the 42 countries categorized as «not free». A total of 193 countries are included in the ranking. 89 countries are categorized as «free», while 62 countries are «partly free». (<http://www.freedomhouse.org/template.cfm?page=445>)
- ¹⁰ *2009 Index of Economic Freedom* (<http://www.heritage.org/Index/>)
- ¹¹ *Press Freedom Index 2009* (<http://www.rsf.org/en-classement1003-2009.html>)
- ¹² *Global Peace Index*. (<http://www.visionofhumanity.org/images/content/GPI-2009/2009-GPI-ResultsReport-20090526.pdf>)
- ¹³ See e.g. «Barents Cooperation remain priority for Norway», *BarentsObserver.com* (<http://www.barentsobserver.com/index.php?id=4449858&xxforcedir=1&noredir=1>) 11 January 2008
- ¹⁴ «Viktor Basargin prinyal uchastie v konferentsii po prigranichnomu sotrudnichestvu» *Minregion.ru* 28 September 2009 (<http://www.minregion.ru/WorkItems/NewsItem.aspx?NewsID=1401>)
- ¹⁵ Putin, V.V. «Poslanie Federalnomu Sobraniu Rossiskoy Federatsii». *Izbrannye rechi i vystuplenia*, Moscow 2008. p. 409
- ¹⁶ «Vystuplenie Vladimira Putina na forume svoikh storonnikov». *Vesti.ru*, 21 October 2007 (<http://www.vesti.ru/doc.html?id=148531>)
- ¹⁷ «Rossiya, vperyod!» Stacia Dmitriya Medvedeva. *Kremlin.ru* (<http://www.kremlin.ru/news/5413>) 10 September 2009