

“Scoring Russia and the G8”

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Last year Russia became the world's tenth largest economy, according to the International Monetary Fund. It's a remarkable achievement, especially when you consider that until recently Russia's GDP was smaller than Holland's. Yet, ironically, Russia took a lot of flak, in 2006, the year of its presidency of the G8 group of the world's richest nations.

Tenth place, or eighth – who cares? Well, China and India perhaps. In any case, the impressive growth of Russia's economy cannot be disputed. The decline of its democracy raises more serious questions, which were discussed ad infinitum during Russia's G8 presidency in the full glare of media criticism, which began on New Year's Day with the gas cut-off to Ukraine.

The G8 presidency raised many queries. Russia's status as a market economy can hardly be disputed any longer. Both the United States and the European Union have recognised Russia as a market economy. During his first four-year term, President Putin undertook substantial market reforms, notably a radical tax reform introducing a flat income tax of 13 percent, and a major judicial reform. The arrest of Russia's richest man, Mikhail Khodorkovsky, in October 2003 and the ensuing confiscation of his oil company, Yukos, signalled an end to market reform and a certain backsliding. At present, swift nationalisation is taking place, as state-controlled enterprises purchase successful private enterprises on a wide scale. The European Bank for Reconstruction and Development assesses that the private share in Russia's GDP shrank from 70 percent in 2004 to 65 percent in 2005. The state-dominated natural gas monopoly Gazprom has suddenly become the world's seventh biggest corporation in terms of market capitalisation, and optimists predict that it will soon overtake ExxonMobil as the world's most valuable company.

Yet the rationale for Russia's membership, let alone its presidency of the G8 is thin. It is decades behind the other members economically, with a per capita GDP of \$2,140, compared to \$21,500 for Italy, which has the second-lowest GDP, while Russia is a lightweight on issues such as currency policy and cannot meaningfully influence decisions. If economic standing alone were the criterion for membership in the G8, China – not Russia – would be a G8 member.

No wonder the process of Russia's integration has been gradual. Soviet President Mikhail Gorbachev was first to meet with the G7 leaders, on the sidelines of their summit in London in 1991. Russian President Boris Yeltsin participated in 1992 and 1993. In Naples in 1994, Russia's attendance was extended to half the summit, and the label G8 was first used. In Denver in 1997, President Bill Clinton invited President Yeltsin to attend the whole summit, which he called G8. Only in Evian, France, in 2003 did Russia also take part in the preparation of all the documents to be adopted by the G8. Even so, Russia's participation is still not full-fledged.

The G7 ministers of finance and central bank governors meet separately, with their Russian colleagues attending only part of some meetings.

Russia was elevated to G8 membership during the Yeltsin era in the hope that a seat at the top table would encourage it towards greater democracy and economic reform. Things did not work out that way. Many of the successes of Putin's leadership – tax reform, balanced budgets, sharply reduced international lending and a booming economy – have been overshadowed by state intervention, particularly in the oil and gas sector, and by an authoritarianism that increasingly challenges the founding principles of the G8. In 2005, US senators John McCain and Joseph Lieberman sponsored a resolution urging President Bush to work for the suspension of Russia's membership until the Russian government accepted and adhered to "the norms and standards of free, democratic societies as generally practiced by every other member nation of the Group of 8 nations". Writing in the *Financial Times*, Jeffrey Garten called Russia's chairmanship "farcical", saying: "Two trends are changing the world for the better – freer markets and democratization – but, alone among the summit members, Russia is moving in the opposite direction."

As a result, Moscow's leadership of the G8 threatened to reduce the group's credibility and relevance to zero. It also posed a question mark over the G8 summit held in St. Petersburg in July. In the run-up to the summit, I helped to compile a report reappraising Russia's performance, according to various political, economic and social criteria.

This scorecard aimed to clarify the challenges and to suggest how they could be handled, if Russia's presidential year was to make sense. In recent years, soaring oil and gas prices have transformed Russia's otherwise sluggish economic growth, but instead of using the windfall to accelerate reform, Putin has arguably put it into reverse by adopting the authoritarian model of governance he calls 'managed democracy'. Putin wanted to use the G8 presidency to reclaim Russia's status as a world power and to focus the debate on issues affecting the former Soviet Union – energy security, education and health. Yet many Western observers fear that Russia makes a mockery of the G8 by failing to live up to the basic norms of a democratic society.

Apologists for Russia believe that such criticism distorts reality by failing to take into account the broader picture of the country's post-Soviet transition. Of course Russia has undergone an extraordinary transformation over the past decade and a half. It has changed from a communist dictatorship to a multiparty democracy, at least constitutionally. A centrally planned economy has been reshaped into a capitalist order based on markets and private property. Its army has withdrawn peacefully from both eastern Europe and the other former Soviet republics, allowing the latter to become independent countries. In place of a belligerent adversary with thousands of nuclear missiles pointed at it, the West finds a partner ready to cooperate in resolving the uranium dispute with Iran, in fighting terrorism, and in containing civil wars, even if that co-operation sometimes takes an unpredictable form, as with its overtures to Hamas.

Russia, of course, has a right to pursue and defend its national interests but the gas dispute with Ukraine illustrated the danger that Russia's emergence as a global energy power may itself create new vulnerabilities through dependence on a country willing to use its energy power for political coercion.

In other words, the G8 presidency in 2006 encapsulated a paradox: a Russia poised for integration and global leadership, but posing fundamental questions about its reliability and responsibility as a great power.

Scoring the G8

The purpose of the G8 is to think about issues of free trade and democracy in a global perspective, in order to keep up with the reality of the market. Yet the Group may be limited in its response to the challenges of globalisation. One important limitation is a lack of data. Without the relevant data it is often hard to tell whether a country is meeting its own targets or living up to the commitments made at the first summit of the G6 (as it then was) at Rambouillet, outside Paris, in November 1975.

The idea behind "scoring" the G8 presidency was to fill a knowledge gap, rating Russia against twelve criteria, such as economic openness, fiscal governance and rule of law.

Methodology

It was necessary to devise an innovative scoring system that would not only capture specific features upon which each country's membership of the Group is based. It would also give a brief yet comprehensive assessment of the presiding country's leadership role in international affairs, as it relates to such issues as stable exchange rate policy, crisis management, global leadership initiatives, fulfilment of international obligations, and responsible climate change policies. Each country is compared to a common framework. That framework sets out a formulation of the basis for membership, which argues that membership requires: a) liberal democracy b) economic weight c) global governance. In each of these three areas, four commitments from the Rambouillet declaration were identified, and the country's performance in terms of that commitment scored against a variety of policy indicators.

The data to score Russia's performance against the policy indicators was collected from existing documentation and statistical sources of independent expert organisations such as Transparency International, the IMF and World Bank, UN, EU, and so on. Data was aggregated over a historical time period, while a robust index methodology ensured that the measures used did not overlap with each other and there was no double counting.

The need for a scorecard is unavoidable. If the G8 is to meet its targets on eradicating poverty, on energy and education, on employment and jobs, if it is to maintain cohesive, healthy societies, and to live up to its founding values of openness and equality, then it must take a close look at the policies of its respective members governing freedom and democracy and trade. The G8 Scorecard was the first attempt to present individual country's performance in the light of the Rambouillet commitments in a concise and comparable format.

Aims

1. To present data on G8 commitments in a way that allows for comparison between member states and non-member states;
2. To enable monitoring of the extent to which the country presiding over the G8 is implementing principles of freedom and democracy agreed to by all of them;
3. To identify examples of good practice among member states;
4. To allow for comparison over time by updating the scorecard annually.

The scorecard assessed a range of criteria for G8 membership as well as effectiveness in the role of the presidency. The twelve ranking criteria spanned economic, political and administrative features of Russia. The proposed criteria were taken from the G8's founding declaration in 1975 and scored according to the following indicators:

1. Openness and freedom of speech
2. Political governance
3. Rule of law
4. Civil society
5. Economic weight in the world
6. Inflation
7. Economic stability and solvency
8. Unemployment
9. Trade volume
10. Level of protectionism
11. Energy market conditions

12. Discernible stance on key international issues

Rambouillet 1975. Below are the G8 commitments based on the Founding Declaration (G6) Rambouillet 1975:

COMMITMENTS	INDICATOR
Liberal Democracy	
We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success ... is essential to, democratic societies everywhere	1. Open Society 2. Elections 3. Rule of law 4. Social Capital
Stable and Growing Economy	
We are each responsible for assuring the prosperity of a major industrial economy. The growth and stability of our economies will help the entire industrial world and developing countries to prosper	5. Economic growth and stability
We will not accept another outburst of inflation	6. Low inflation
Our monetary authorities will act to counter disorderly market conditions, or erratic fluctuations, in exchange rates	7. Stable exchange rate and market conditions
The industrial democracies are determined to overcome high unemployment	8. Unemployment levels (national and regional)
Global Governance	
We must seek to restore growth in the volume of world trade	9. Trade volume
Multilateral trade negotiations should be accelerated ... they should aim at achieving substantial tariff cuts, even eliminating tariffs in some areas, at significantly expanding agricultural trade and at reducing non-tariff measures	10. Trade restrictions, especially in agriculture
We shall spare no effort in order to ensure more balanced conditions and a harmonious and steady development in the world energy market	11. Energy market conditions and policies
We will play our part, through the IMF and other appropriate international fora, in making urgent improvements in international arrangements for the stabilization of the export earnings of developing countries and in measures to assist them in financing their deficits	12. Discernible stance on key international issues

OPEN SOCIETY

Russia's 1993 Constitution provides for freedom of speech and press but in practice the Kremlin, having re-imposed state control over the country's main national television networks – Channel One, RTR and NTV – continues to limit these

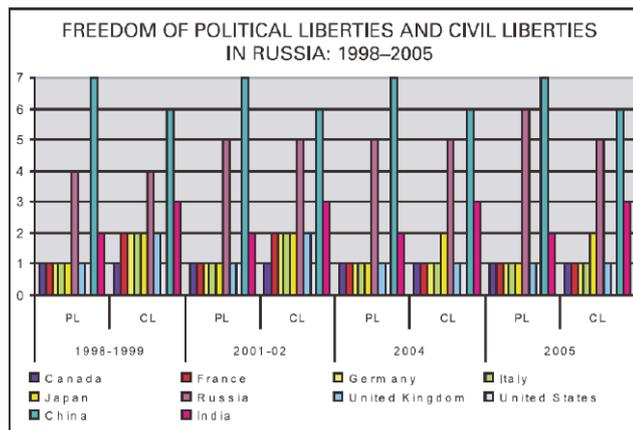


Figure 1

Source: Freedom House
Figure 1 measures political rights (PL) and civil liberties (CL) on a one-to-seven scale. One represents the highest degree of 'freedom' and seven the lowest.

rights. Most print media are privately owned, and such ownership allows for the existence of a few independent, critical media outlets, but their impact on public opinion was limited by low circulation numbers. Significantly, in 2005, Russian state-controlled natural gas monopoly Gazprom bought a 50 per cent stake in one

of Russia's oldest newspapers, the Izvestia daily, previously owned by oligarch Vladimir Potanin. Gazprom was also used as the tool, in 2001, for wresting control of the fiercely Kremlin-critical NTV from its exiled media tycoon Vladimir Gusinsky. It also owns a majority of the leading Ekho Moskvyy radio station.

In 2004, Russia scored 30 on a Freedom House scale that rates a country's level of 'political pressures, controls, and violence' against the media from 0 (best) to 40 (worst). This placed Russia below Iran, whose government had banned 40 newspapers in just two years, imprisoned more journalists than any other country, and sentenced others to be flogged. A law, drafted before the Moscow theatre siege in 2002, and rammed through the Duma after it, clamps down on reporting in 'emergency situations'. Most free countries have such laws, but in Russia the authorities have enormous discretion over what counts as an emergency.

In 2006, Freedom House downgraded Russia's democracy ratings for the third consecutive year, from 5.61 in 2005 to 5.75 on a scale with 1 as the best and 7 as worst. The NGO criticised Putin for moves to centralise power, introducing a 7% threshold for political parties running for parliament, and passing a new law restricting the operation of NGOs.

OPEN SOCIETY ANALYSIS

The fall of the Soviet Union presented Russia's politicians with an historic opportunity to shape a more 'free' or 'democratic' future. Unfortunately, the Russian experiment in democracy seems to be unfolding rather badly. The first post-Soviet decade was a period of chaotic reform, with governance often seeming to descend into near anarchy. Under President Boris Yeltsin, Russia was a somewhat flawed democracy, but it was still a rather free society. This is no longer the case. Russia's regime has changed significantly in the course of the last five years, with a steady reduction of democratic freedom and media rights.

In his six years in office, President Putin has often stated that he is in favour of political freedoms and an open society. The subject was a major theme of his "state of the nation" address in May 2006. But his critics say he only pays lip service to the issue, and Russia's G8 presidency in 2006 merely served to underline how far the country now stands from normal democratic procedures. Indem experts also argue that increase in corruption under Putin is due to the undemocratic changes he has brought in. Courts depend on political power, the media is under the Kremlin's thumb, and NGOs are under extreme pressure. In Putin's Russia there is less and less room for anything that could expand public transparency.

The Russian government is formally in favour of political freedoms and an open society, and there was talk of the other seven nations trying to nudge Putin in that direction during the St Petersburg summit in July. Unfortunately the Israel-Lebanon war overshadowed this initiative, which came to nothing. In short, Russia's 16-year experiment with democracy has failed, and even in a best-case scenario it is likely to be a generation or more before Russia recovers from the cur-

rent backsliding and once again orients itself towards an open society and pluralistic politics.

ELECTIONS

The 1993 Constitution established a governmental structure with the president as head of state, a government headed by a prime minister, and a bicameral legislature consisting of a lower house (State Duma) and an upper house (Federation Council). But Russia's political institutions and civic freedoms are imperfect in many ways. And the trend under Putin has been worrying and could deteriorate further. The country has a multiparty system, but the pro-presidential United Russia party that controls more than two thirds of the State Duma puts majority support within reach for all presidential priorities.

The Organisation for Security and Cooperation in Europe stated bluntly after the 2003 parliamentary elections that opposition candidates had been denied fair coverage and noted that television stations gave them a fraction of the extensive and largely positive coverage given to Putin. The liberal-democratic party, the Union of Right Forces (SPS), was wiped off the political map. Yabloko, the party of social democracy since the first Duma in 1993, was extinguished too. Both fell short of the 5 per cent needed to form a Duma block.

President Vladimir Putin was re-elected the following spring in an election process that the OSCE determined did not meet international standards in a number of respects, particularly in equal access to the media by all candidates and secrecy of the ballot. However, the outcome was generally understood to have represented the will of the people.

Yet a comparison of electoral support for major political parties in legislative and presidential elections from 1995 to 2004 suggests that the shift in preference towards Putin's United Russia party, the 'party of power', has had a devastating effect on the multiparty system in Russia. The analysis of voting data reveals that the overwhelming support of Putin might reflect some irregular results in specific regions of Russia where there was an unusually high voter turnout and where distribution of relative support for major candidates was skewed in favour of the incumbent president. But the political system in Russia can no longer be characterised as a system of stable and predictable voter preferences. Under such conditions, the prospects for the formation and development of an effective multiparty system appear quite bleak.

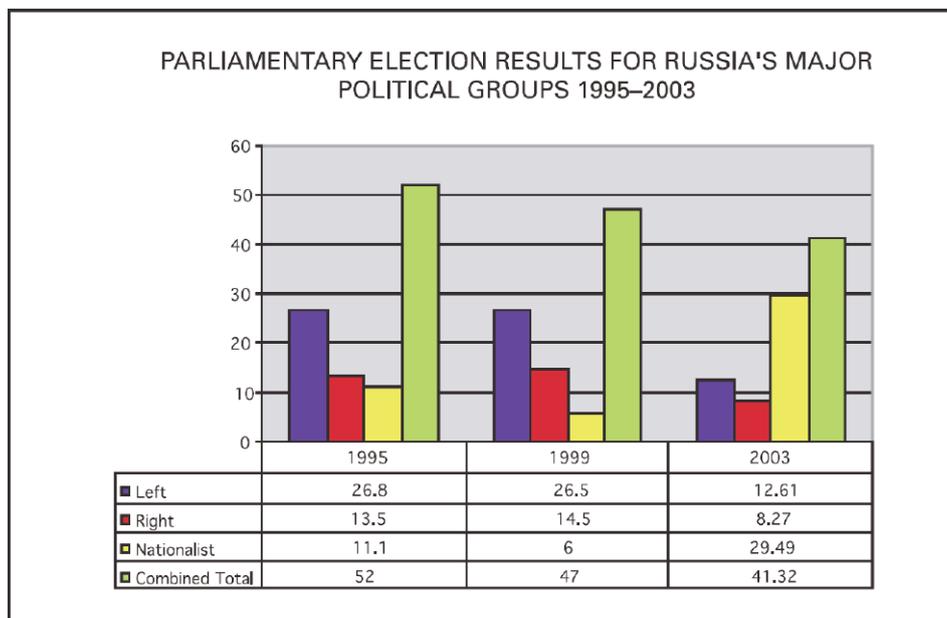


Figure 2

Source: Oleg Panfilov, *Putin and the Press: the Revival of Sovietstyle Propaganda*

Figure 2 shows the percentage electoral support for each of Russia's main political groupings between 1995 and 2003. It shows the drop in support for parties on the left of the political spectrum, mirroring the decline in support for the communist party, and the growth, at the expense of more democratic and liberal parties, of nationalist groups in 2003. In each parliamentary election the combined total of all three political groupings represents a majority only in 1995.

A move from election to nomination by the President of regional governors further strengthened the power of the executive branch in the wake of the Beslan tragedy in 2004.

Western evaluations of Russia's political institutions in the last ten years have been scathing. Freedom House has given Russia a '5' for political since 2000 on a scale ranging from '12 (highest) to '1' (lowest). This score suggests that Russia's political regime is less free than Brazil's military junta of the late 1970s and ranks its commitment to civil liberties below that of Nigeria in 1991 under the dictatorship of Major General Ibrahim Babangida.

Critics of Russia's democracy focus on several points. Russian leaders are accused of manipulating elections through control of the state media, harassment or censorship of the independent press, and use of judicial and administrative levers to intimidate or incapacitate rivals. Voters are portrayed as apathetic and gullible. At the same time, big business is seen as subverting the democratic process through its financial support of favoured candidates.

Parliamentary democracy, then, is dead. United Russia, a collection of political vehicles for various national and regional leaders, is by no means homogeneous, but its internal debates are held behind closed doors instead of on the floor of the Duma.

RULE OF LAW

The rule of law is hardly a new idea. Over two and a half thousand years ago, Solon provided the Athenians with laws so that they would have “the certainty of being governed legally in accordance with known rules”. Unsurprisingly the idea fell out of favour in Europe during centuries of absolute rule but the Magna Carta reintroduced the concept which has since become a venerable part of Western political philosophy.

Suddenly it is everywhere. The rule of law is a cornerstone of democracy and essential to a well-functioning market economy that protects individual human rights. Since the end of the Cold War, however, policymakers in the West have seized on the rule of law as an elixir for Eastern bloc countries in transition. Yet Russia in particular, a country that is almost unmanageably vast, has little experience of the rule of law. So it is ironic – but again perhaps unsurprising – that in the six years since he pledged to uphold democracy as a “dictatorship of law”, President Vladimir Putin has increased the role of the federal security service in governing Russia and arbitrarily wielded the power of state institutions such as the courts, the tax inspectors and the police, for political ends. The periods of freedom and the rule of law in Russia were always brief and precarious – fleeting episodes in the long history of autocratic government, in which the country was governed not by law but by the will of its rulers.

The Communist era is an obvious example. Within two or three years of seizing power, Lenin abolished in favour of the state all private property except small landholdings. Stalin completed the process by “collectivising” agriculture. The Soviet state always used the pretence of respecting the law in its actions against dissent. The same tactic is evident in today’s Russia, and so this pamphlet will examine the recent shift to “hyper-legalism” as a weapon used by the authorities under the lawyer president Putin. “It now seems clear,” writes Andrew Jack, a former Moscow bureau chief at the Financial Times, “that the ‘dictatorship’ is playing a greater part than the law.”

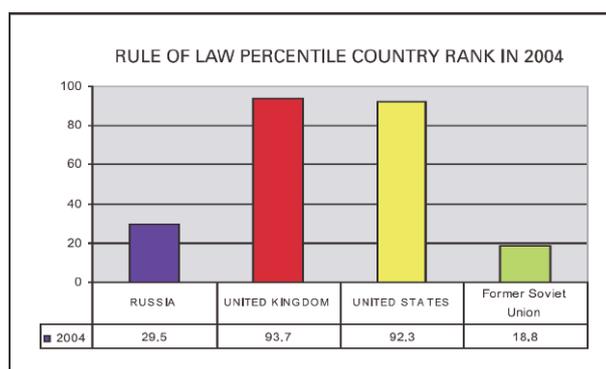


Figure 3

Source: The World Bank using Kaufmann D., A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004

Figure 3 shows Russia’s percentile country rank on the rule of law. Countries range from ‘best’ (top of the chart) to ‘worst’ (bottom of the chart) in 2004. This data reflects the statistical responses, reported by institutes, NGOs and international organisations and given by a range of surveyed respondents, to the rule of law and its quality in Russia, the United Kingdom, United States the former Soviet Union.

The scorecard looked at how political corruption in today's Russia undermines individual rights and freedoms, and weakens monitoring of executive and legislature as well as the accountability of other levers of government, such as the prosecutors and tax police. It also suggested that Russia is in danger of returning to the Soviet model where a lack of prosecutorial independence effectively undermined the rule of law. In the words of Yelena Bonner, the widow of the country's best-known human-rights campaigner, Andrei Sakharov, Putin is "modernising Stalinism".

The Yukos affair is a case in point. In October 2003, Mikhail Khodorkovsky, chief executive of the Russian oil giant Yukos, and thought to be the richest man in Russia – not to mention a major financier of the reformist Yabloko party – was arrested on charges of fraud, forgery, embezzlement and tax evasion. Many observers believe the affair was triggered not only by Khodorkovsky's rising political ambitions, but also by an incident between Putin and the so-called oligarchs earlier that year, when Khodorkovsky supposedly criticised the widespread corruption and misrule of law in today's Russia.

Nothing typifies the contradictions of Putin's Russia quite like the Khodorkovsky saga. It dramatises the tension between the rule of power and the rule of law, exemplifies the opacity of decision-making, and divides opinion about Putin's real motives, especially in the West, where the Yukos trial was widely perceived as politically motivated. Such allegations of prosecutorial misconduct raise questions about judicial independence and selective application of investment and tax laws. Similarly, a series of cases of alleged espionage has led to concerns regarding the lack of due process and the influence of the FSB in judicial proceedings. Yet instead of insisting that Russia uphold the rule of law and respect fundamental human rights, the European Union has failed to exert the necessary pressure.

History is partly to blame. In the aftermath of the Cold War, it became fashionable in the West to assume that the Russian Federation might transform to Western standards of market economics and democracy. Perceiving a new democratic spirit in Russia under former president Boris Yeltsin, the EU signed the Partnership and Cooperation Agreement (PCA) with Russia in 1994, outlining the framework for future relations. The agreement, which took three long years to ratify, encompassed assistance to help reform legal systems (criminal, civil, administrative, and commercial laws and regulations) as well as judicial and law enforcement institutions (ministries of justice, courts and police, including their organisations, procedures, and personnel). Indeed creating the proper institutional attributes in Russia – the necessary laws, a "well-functioning" judiciary and a "good" law enforcement apparatus – became for many US policymakers in the Clinton era the goal of reform efforts. The Russia that was "lost", in other words, was more of an opportunity, or an ideal, than a down-to-earth reality: a society with the rule of law, with law and order, and with a government bound by that law, and by human rights.

By the end of Yeltsin's second term of office it had become clear that the Russian president was neither able nor willing to guide the country towards this Western model of perfection. The spoils of privatisation led to organised crime and corruption. A greedy band of insiders carved up Russia's vast natural resources. Many of

these oligarchs were closely linked to the Kremlin, and the resulting kleptocracy often blurred a line between economic and political power to the detriment of citizens' rights. Like the other "robber barons", Khodorkovsky, who was already rich due to some clever wheeling and dealing in the last years of the Soviet Union, became super-rich thanks to a pact between business and the Kremlin to ward off a Communist comeback in the 1996 presidential election. In return for supporting Boris Yeltsin, he was allowed to buy control of his oil company, Yukos, for \$309m in 1995. His own bank, Menatep, ran the auction. Like his fellow magnates, he expanded his business empire by dealing ruthlessly with business partners, creditors and minority shareholders.

The last half-decade has undoubtedly witnessed a number of improvements. The most significant is that a small group of obscenely rich Kremlin cronies no longer run the country. Russia under Putin has had more predictable and efficient justice than it did under Yeltsin. The reduction of corruption has helped to ensure that the central government can rule, regular businesses can operate, and local government officials do not have impunity before the law. Putin set out on a road to create a stable and safer Russia. Unfortunately that road does always not lead in the direction of what you might call a democratic country. Curbing corruption has become one of the catchphrases for legitimising Putin's "strong presidency" and rebuilding the so-called "vertical power" – Putin's main project to modernise and strengthen the Russian state. In line with this project, the former KGB colonel has amassed more power at the central level, reestablishing executive control over the Duma and much of the judiciary and reinstating elements of state power such as the reformed security service, or FSB. It is also evident that such verticality is becoming a powerful tool in the hands of the president who may turn it selectively against unhelpful officials or political opponents. Under Putin, the role of law as a political tool is back in fashion, and so it doesn't help that many of the country's criminal procedures still date from the totalitarian era, as do the judges and prosecutors implementing them.

The Kremlin and its apologists speak of "consolidation". They argue that a firm stance is necessary after the chaotic liberalism of the Yeltsin era. Russia is, apparently, too big and too backward to be governed like a Western country. Democracy is fine in principle, but it must be managed. The first step is to get people to obey the law, and that must be done by establishing a sense of order and authority. Only "vertical power", or so the argument goes, can push through necessary economic reforms to create the middle-class Russians who will, in time, become cheerleaders for true democracy and the rule of law.

The Yukos case is important in Putin's Russia not for the details so much as for the broader picture it paints of the continued failings in the country's law enforcement system. Russia's legal institutions have shed few of their Soviet habits and remain ineffective, politically subordinated, and corrupt. The government may have attempted a number of reform initiatives, including the drafting of new civil and criminal codes. Yet these have been neutralised by the tendency of Putin's henchmen, the shadowy siloviki, to act extralegally and by the new private sector's troubling lawlessness. The operations of Moscow's Basmany Court – where the judges had close connections to the Kremlin and the prosecutor-general's office,

and consistently found in their favour – even gave rise to a new derogatory phrase, the basmannatsia of the legal process.

Putin's sacking of the prosecutor-general, in June 2006, therefore sent shock waves through Russia's political spectrum, as it was completely unexpected and seemed to entail a redistribution of power among powerful clans inside the Kremlin. The prosecutor-general is the top law enforcement official in Russia, and until his dismissal Vladimir Ustinov had set a record for prosecutorial longevity in post-Soviet history. His candidacy, submitted by Putin to the Federation Council, was first approved in May 2000. In April 2005, the senators extended his powers for another five-year term. Thus Ustinov had retained his job for over six years, while his predecessors in the 1990s never held out for more than four years and sometimes ended their careers in jail or in public disgrace. Alexei Ilyushenko, the prosecutor-general from 1994 to 1996, was found guilty of embezzlement and spent several years in prison. Yuri Skuratov, the prosecutor-general from 1997 to 1999, was secretly filmed in bed with two prostitutes, and ignited a political crisis in Russia in 1999, when he refused to leave office until the kompromat, or "compromising" footage, was shown on state television.

The departure of Ustinov could mark a turning-point for Russia's "dictatorship of law". After all, it was his report, in 2003, warning that Putin faced a "creeping oligarchic coup", that led to Khodorkovsky's eight-year jail sentence in Siberia, and to the takeover of Yukos assets by the state oil company Rosneft, whose chairman Igor Sechin is not only the most powerful of Putin's siloviki but also, coincidentally, the father-in-law of Ustinov's son. Some experts claim that Putin finally grew tired of dealing with the "family" connection between his prosecutor-general and the siloviki. Others suggest that it is precisely the manner in which Ustinov was sacked – hurriedly, without any explanation, by a change to the Federation Council session agenda – that will help us to understand what the prosecutor-general's office has been all these years: not the punishing sword of justice, but a Kremlin tool in the struggle against overt and alleged opponents of all the president's men.

On 30 November 2007, the current Partnership and Cooperation Agreement between the Russian Federation and the European Union expires. It will be automatically extended on an annual basis - unless either side withdraws. As mentioned above, the agreement, among other mostly economic issues, gave Yeltsin's administration the benefit of the doubt over its "respect for democratic principles and human rights". Under Putin, law and order has improved, as has the predictability and stability of legal institutions. Yet the executive is less bound to law. Meanwhile, human rights are now more threatened by the state. In Moscow, several judges have been removed from the city court after disagreements with the court's chairwoman. It is not unusual for a judge to be removed in the middle of a trial, and for the new judge to dismiss the entire jury and select a new one before the trial continues. The European Court of Human Rights has cited Russia for manipulation of jury selection, especially in sensitive cases.

The economic background to the PCA may hold the key. The European Union struck the original agreement with a poor country still emerging from the post-

Communist twilight. Twelve years on, the boom in oil and gas prices has changed everything. Never in its history has Russia been so prosperous, with its \$200 billion in foreign exchange reserves, shrinking debt, a stock market up 83% last year, dozens of companies preparing for IPOs and well over a hundred thousand dollar millionaires, quite apart from the billionaires in the Forbes list – a trend that has led Goldman Sachs to project that by 2025 Russia could be a six-trillion-dollar economy and number five in the world GDP league table.

The fundamentals of the Putin boom are proximity to the “vertical of power”, debasement of judicial independence, the establishment of a new Kremlin-based oligarchy, and fuel diplomacy which Russia is now beginning to use as a lever for its newly resurgent foreign policy. In the long run, however, Russia will face problems because Putin has deliberately avoided introducing something he claims to hold dear: the rule of law. When the robber barons who built the foundations of American industry got too powerful at the end of the nineteenth century, the government passed antitrust laws to break up the barons’ monopolies, and enforced those laws evenly and openly. Putin prefers to limit the influence of business on politics by rewriting laws and regulations. That is the easy part. Far-reaching institutional reform, also necessary, is arduous and slow. Judges, lawyers, and bureaucrats must be retrained, and fixtures like court systems, police forces, and prisons must be restructured. The judiciary is reliant on magistrates’ schools, law schools, bar associations, clerks and administrative workers, and other supporting groups. Police require prisons, intelligence services, bail systems, and cooperative systems with border guards and other law enforcement bodies, among other institutions.

To see how much remains to be done in Putin’s Russia, but a useful starting point would be to measure the country’s “the rule of law” according to five basic criteria, assessing Russia’s performance in terms of government bound by law, equality before the law, law and order, predictable and efficient government and human rights. Such an assessment would make clear that rule by law is the sine qua non of the rule of law. It would help to show that it is now a matter of urgency for Russia to respect judicial independence and abide by the principles of the European Convention on Human Rights and other international agreements, including the PCA, as a legal framework based on respect for democracy, the law and human rights.

SOCIAL CAPITAL

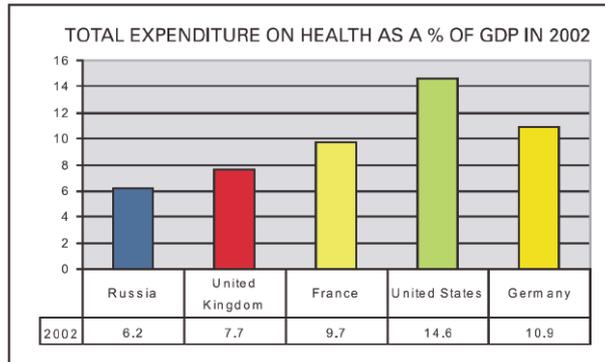


Figure 4

Source: World Health Organisation
Figure 4 shows the variance in total expenditure on health, as a percentage of GDP, amongst key G8 countries in 2002. Total health expenditure is the sum of Public Health Expenditure and Private Health Expenditure.

Civil society in Russia is highly fragile and, under Putin, government pressure has further obstructed the development of social capital and undermined the effectiveness of independent non-governmental organisations (NGOs). The Kremlin has in recent years cracked down on such organisation as potential fronts for espionage, prompting accusations of renewed cold war-esque spy fever from the security services, the FSB. Increased counter-intelligence, though in keeping with efforts to reinforce state control, has boosted accusations that the Russian government is seeking 'to manage' civil society by tightening scrutiny of many foreign-funded – as well as domestic – NGOs.

Putin is evidently suspicious of civil society. He sees the NGOs as a decoy for foreign influence in Russia, and blames them for fomenting change through "colour revolutions" in neighbouring states. Meanwhile the Western media focuses freely on the negative of life in Russia: increasing racist attacks on gypsies or people from the Caucasus; a critical health situation; the loss of a free media; and above all what is considered Putin's assault on public associations and NGOs, particularly those that have headquarters outside the country, particularly in the United States.

The result of the Kremlin crackdown has been to discourage foreign support for activists. The US Agency for International Development, one of the biggest donors, has provisionally agreed to pull out of Russia by 2007. In 2004, the Peace Corps and the Organisation for Security and Co-operation in Europe's mission to Chechnya left after their operating agreements were cancelled. The Open Society Institute, an international pro-democracy foundation run by George Soros, closed its Moscow office after its landlord demanded a tenfold increase in rent and sent in a gang of thugs.

Freedom House has given Russia a '5' for civil liberties since 2000, though lobbyists have won legislation to allow a civilian inspection of prisons, amendments to restrict officials' power to mess businesses around and curbs on human trafficking.

Definitions of social capital usually share two characteristics: it is about cooperative networks of individuals, and the production of goods and services and representative institutions that help make democracy work, such as non-governmental organisations, for example. Differences of definition lead to disagreement about measures, and measurement problems are compounded by the lack of studies in

Russia specifically designed to provide empirical measures of social capital. The post hoc use of statistics collected for other purposes involves data having problematic validity for the concepts and hypotheses they are used to support.

Nevertheless research in Russia has identified the continuing use of informal social capital networks to cope with organisational failure, in hospitals, say, or in other bureaucratic state organisations not working routinely. The G8 Scorecard believes this holistic approach is consistent with the creation of a national measure of a country's Net Social Capital, analogous to GDP. Accordingly it measures a country's total expenditure on health as a percentage of GDP. In the circumstances it should then be possible to say whether a country's stock of social capital is increasing or decreasing and link differences in national economic growth with differences in a country's stock of social capital.

ECONOMIC GROWTH AND STABILITY

The transition from the centrally planned system to a market-based one severely disrupted the economy and the collection of data. The post-Soviet production collapse, although real, was therefore milder than appears in official statistics. The same statistics give a snapshot of today's economy in Russia that is almost too rosy. For example, gross domestic product grew by seven per cent in 2006, slightly less than in 2005, though even with the help of rocketing prices of oil and gas, the overall performance remained sluggish, falling well short of Putin's declared goal of doubling GDP in a decade, which would require unbroken growth of eight per cent year on year.

Ironically, there is also evidence that Russia's economy may be drowning in the ocean of petrodollars. A quick glance at Russia's economic data yields ground for optimism, but a closer inspection reveals an undue dependency on oil and gas revenue. Oil prices may stay high for a while if the turmoil in the Middle East continues. But when they fall, growth will stutter, unless other parts of the economy have become stronger by then. Large swathes of Soviet-era industry have failed to restructure. Small businesses, though growing fast, still account for a mere 12 per cent of GDP, as against 30-70 per cent in other G8 economies. Only government-backed reform will enable these businesses to achieve sustainable growth in the long term.

LOW INFLATION

Annual inflation in Russia for 2006 stood at 10.9 per cent, according to official figures published by the Economic Development and Trade ministry, despite earlier forecasts that the figure was likely to exceed twelve per cent. Petrol prices grew by 15.8 per cent in 2005, compared with a 31 per cent increase in 2004. Housing and utilities charges increased 32.7 per cent, up ten per cent on 2004. The primary

source of inflationary pressures in Russia remains the huge balance of payments surplus. (Figure 5, Figure 6)

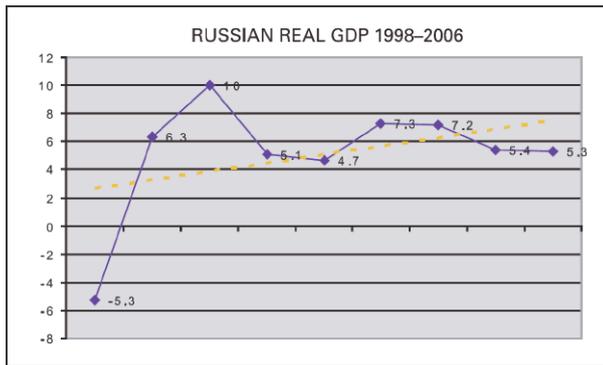


Figure 5

Source: IMF Statistical Appendix
Figure 5 shows Russia's real GDP percentage change during the period 1998-2006. It shows the overall trend and also the projected figures for 2005 and 2006.



Figure 6

Source: IMF Statistical Appendix
Figure 6 shows the percentage change in Russian consumer prices between 1998 and 2004. It shows the overall trend and the projected figures for 2005 and 2006.

Russia's oil cash is a mixed blessing. Combined with a weak dollar, it has driven up the rouble much faster than the central bank would like, leading some economists to argue that Russia still risks catching 'Dutch disease': a strong currency, rising imports, less competitive exports.

STABLE EXCHANGE RATE AND MARKET CONDITIONS

Since the 1998 financial crash, Russia – to the surprise of some Western observers – has seen impressive economic growth, and the government deserves high marks for its reform policy in some areas. But unemployment in Russia is different from unemployment in the West. First, official data hardly reflect the real situation. It is very easy to count the number of the unemployed in the West: it is enough to count the number of people, registered on the dole because the number coincides with the number of unemployment allowances.

In Russia, only 1.3 million people are registered in labour registry offices, though according to official data, there are about seven million unemployed in the country, which is ten per cent of the economically active population of the country. The rate of unemployment also varies greatly from region to region. It is the highest in regions where economic recession is partly a result of political conflict. In the North Caucasus republic of Ingushetia, for example, the figure stands at 34.9 per cent. In large cities and economically developed regions the unemployment rate is considerably lower.

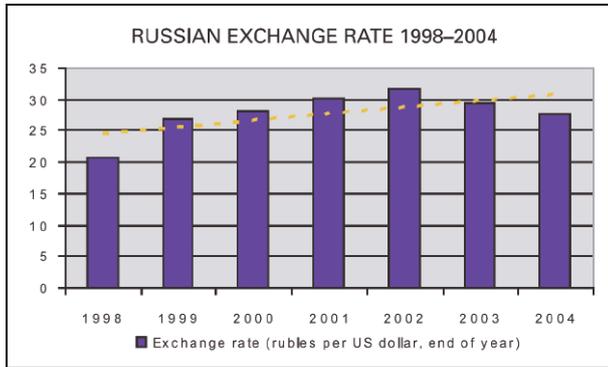


Figure 7

Source: IMF Russian Federation Statistical Appendix, October 2005
 Figure 7 shows the Russian exchange rate, in rubles per US dollar, between 1998 and 2004.

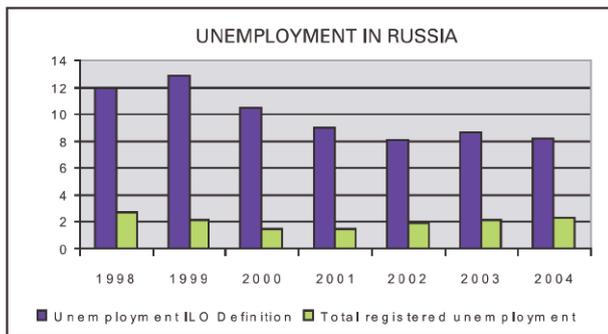


Figure 8

Source: IMF Russian Federation Statistical Appendix, October 2005 and Federal State Statistics Service & Ministry of Labour & Social Development
 Figure 8 shows the variance between registered unemployment and ILO defined unemployment over the period 1998-2004.

GLOBAL GOVERNANCE

The task of integrating Russia's economy with the rest of the world through commerce and expanded foreign investment remains the high priority of the government's economic reform. Towards that end, Russia has joined the IMF and the World Bank and hopes to become a member of the WTO.

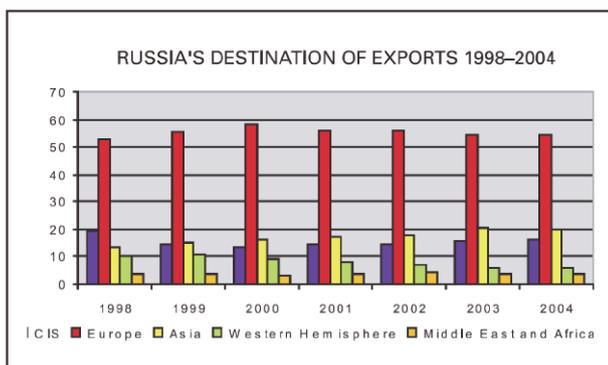


Figure 9

Source: IMF Russian Federation Statistical Appendix, October 2005

The direction of Russian foreign trade has also changed radically over the past two decades. In 1985, some 55 per cent of Soviet exports and 54 per cent of imports were with its former allies in Eastern Europe. By contrast, 26 per cent of exports and 28 per cent of imports were with the G7 nations. During the 1990s, however, Russia actively sought new markets, with the result that by 2004, 53 per cent of its exports and 47 per cent of imports were with Europe, and approximately 20 per cent in both directions with Asia.

In terms of Russia's trading partners, Germany is by far the European leader in exports and imports, with Britain another large export customer. Europe is, in overall terms, the primary destination for Russian exports.

The lack of diversity in Russian exports remains a legacy of the Soviet period, when the central planning regime called for production of manufactured goods for domestic consumption with little consideration for the export market. Given this priority, most of the Soviet Union's consumer goods were of low quality by world standards. That its exportables are still concentrated in a few categories restricts Russia's potential sources of foreign currency to a few markets.

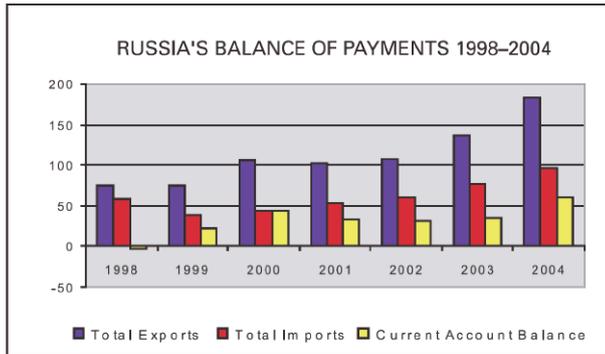


Figure 10

Source: IMF Russian Federation Statistical Appendix, October 2005

ENERGY MARKET CONDITIONS AND POLICIES

Russia holds the world's largest natural gas reserves, and its oil reserves may equal those of Iraq. As world energy demand grows, particularly because of China's explosive rise as an economic force, Russia's wealth and potential power are certain to grow as well.

The Kremlin's deployment of energy for foreign-policy influence is primarily exercised within the civilized bounds of normal state-to-state power politics. At the same time, President Putin declares openly that Russia will reassert its rightful place on the world stage with wealth and influence built on global energy contracts, and in 2005, the Kremlin moved decisively to strengthen its vertical power in the energy sector, paving the way for the consolidation of the state's control over the oil and gas sector.

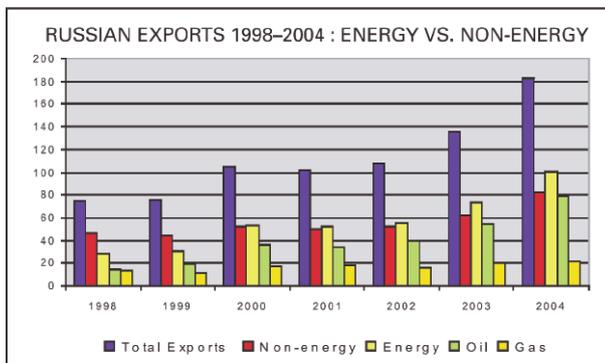


Figure 11

Source: IMF Russian Federation Statistical Appendix, October 2005
Figure 11 examines the variance between non-energy and energy exports, namely oil and gas, as constituents of total exports.

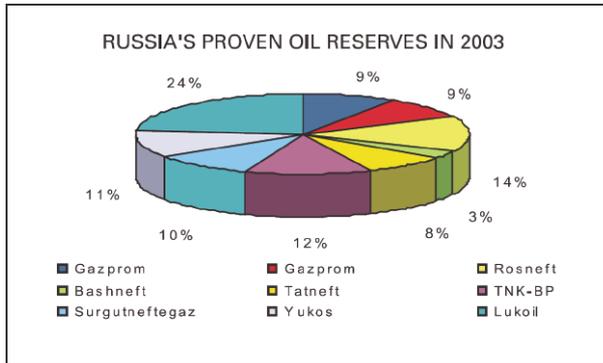


Figure 12

Source: Energy Information Administration (EIA), John Grace
 Figure 12 shows Russia's proven oil reserves in 2003 (68 billion barrels). It also lists the key commercial public and private companies which have a stake in this industry, including their total per cent ownership.

DISCERNIBLE STANCE ON KEY INTERNATIONAL ISSUES

Russia undoubtedly has a potential role to play in reducing energy insecurity for the United States and Europe by diversifying energy supply sources. But the 2006 dispute with Ukraine illustrated that Russia's emergence as a global energy power may itself create new vulnerabilities through dependence on a country willing to use its energy 'superpower' for political coercion.

Western diplomats complain that in its foreign policy Putin's Russia has repeatedly sided with 'pariah states' including Iran, Syria and Uzbekistan, but otherwise it cooperates on security in the Middle East and in the struggle against terrorism and proliferation. Indeed recent diplomatic moves concerning Iran's nuclear programme have only suggested that Russia and the West share a common assessment and goals with respect to Tehran.

Elsewhere Russia agreed in 2005 to cancel £1.1bn in debt from Africa left over from the Soviet era, though it was initially sceptical about the value of more aid to Africa, and it may be that Putin merely wishes to cite the debt cancellation project as a springboard to the St Petersburg summit where he will propose aid to the former Soviet republics: Georgia, Uzbekistan, Tajikistan and Moldova.

Russia's foreign policy under Putin has been to seek greater integration into the world economy, and as part of this objective it has sought to join all existing forms of global cooperation. Holding the G8 presidency therefore represented a major achievement for Russian policy, and can be seen as a political recognition of Russia's desire to play a new and more active role in world governance. Yet it also marked the beginning of a new phase in Russia's cooperation with the West. During the first phase, in the aftermath of the collapse of the Soviet Union, Russia's stance towards the outside world was characterised by deference to the United States and Europe's major countries. This arose due to political and economic reasons. Politically, the 'Atlanticist' school of foreign policy viewed Russia as a natural ally of the West. Economically, Russia with its economy in a mess as a result of a sudden switch to a free-market economy was dependent on the West for resuscitation.

Russia was understandably eager to avoid controversy at the G8, but it is disconcerting that the Petersburg summit did not follow the lead of Britain at Gleneagles in 2005 by inviting major developing economies such as China, India and Brazil to attend.

Other areas of concern would include Russia's help to Iran in building a nuclear reactor and \$1 billion arms deal signed with Tehran in November 2005. Moscow also blocked moves to censure Syria over the assassination of Rafik Hariri, the former Lebanese Prime Minister, while the Kremlin has backed Uzbekistan's autocratic regime in the wake of the Andijan massacre in May 2005. Russia maintains troops in Transdniester, a separatist region of Moldova, despite committing to withdraw them in 1999. Moscow is trying to reform the Organisation for Security and Co-operation in Europe to prevent it from criticising rigged elections in the former Soviet Union.

At the start of 2006, however, Russia conclusively proved during its gas dispute with Ukraine (and the European Union) that it was prepared to use the supply of Russian oil and gas as political tools of diplomacy to further its national security interests. This new stance, if it continues, will have knock-on effects in areas of policy beyond the energy sector, ranging from climate change (where Russia's belated acceptance of Kyoto targets rescued the protocol from a period of hibernation) to security policy, where Putin's revival of a militarised tradition betokens Russia's failure to emerge from the first phase with a truly democratic, non-imperial ethos.

Conclusion

There are reasons to be optimistic about Russia's potential to become a full-fledged democracy. According to Freedom House – a non-governmental organisation that monitors political rights – under Putin, Russia is classified as being only “partly free” though the state's hostility to foreign NGOs is a matter of public record, and now harsh legislation. Nevertheless, last year's presidency of the G8, a club for the world's richest, market-driven democracies with the exception of Russia, is a significant event because it raises the old question of whether Russia is an open democracy or a market economy at all.

Russia was elevated to G8 membership during the Yeltsin era in the hope that a seat at the top table would encourage it towards greater democracy and economic reform. Things did not work out that way. Many of the successes of Putin's leadership – tax reform, balanced budgets, sharply reduced international lending and a booming economy – have been overshadowed by state intervention, particularly in the oil and gas sector, and by an authoritarianism that increasingly challenges the founding principles of the G8.

Apologists for Russia believe that such criticism distorts reality by failing to take into account the broader picture of the country's post-Soviet transition. Of course, Russia has undergone an extraordinary transformation over the last 15 years. It has changed from a communist dictatorship to a multiparty democracy,

at least constitutionally. A centrally planned economy has been reshaped into a capitalist order based on markets and private property. Its army has withdrawn peacefully from both eastern Europe and the other former Soviet republics, allowing the latter to become independent countries. In place of a belligerent adversary with thousands of nuclear missiles pointed at it, the West finds a partner ready to cooperate in resolving the uranium dispute with Iran, in fighting terrorism, and in containing civil wars, even if that co-operation sometimes takes an unpredictable form, as with the recent overtures to Hamas.

Yet the purpose of the G8 is to think about issues of free trade and democracy in a global perspective, in order to keep up with the reality of the market. Unfortunately the Group may be limited in its response to the challenges of globalisation. One important limitation is a lack of data. Without the relevant data it is often hard to tell whether a country is meeting its own targets or living up to the commitments made at the first summit in Rambouillet in 1975.

The key findings of “scoring” Russia were that:

- the size of Russia’s economy does not merit its inclusion in the G8;
- Russia is neither politically nor economically free, according to the principles set out in the founding declaration of the G6 at Rambouillet in 1975;
- Russia’s presidency of the G8 is correspondingly anomalous;
- the other G8 nations must develop a concerted policy to force Putin to live up to his international obligations.

However, according to the pro-Putin analyst Sergei Markov, it is important to note the Kremlin believes that Russia has as much democracy as it can have at this stage of its development. This view suggests that in the 1990s, Russia moved too hastily toward democracy – and the result was anarchy. Now its political leaders have to take a few steps back.

By the same token, Putin’s supporters justify Russia’s foreign policy in terms of the country simply trying to protect its commercial interests, especially in both the defence and energy sectors as well as counterbalancing US unilateralism. Nevertheless Putin’s domestic and foreign policies have thrown into doubt both the legitimacy of Russia’s membership of the G8 and the future shape of the organisation itself – begging the question, if Russia, why not China and India?