



Russia in the Spotlight: G8 Scorecard

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Disclaimer

The views in this paper are not necessarily those of the Foreign Policy Centre.

Preface

The origins of the G8 lie in the economic turmoil of the early 1970s but over the years its *raison d'être* has shifted to embrace global issues ranging from debt relief to climate change. Yet, as is well known, the G8 is not governed by rules or regulations, or bound by a formal charter. It remains an informal club, operating largely invisibly, a centre of world governance. A recent description by US Secretary of State Condoleezza Rice – 'a group of democracies ... fully committed to free market principles, free trade, rule of law' – still encapsulates the core values of the G8. Nevertheless the actual membership of the club has become a key issue in global political debate. Just as important is its capacity to function in a manner that is effective and relevant to the rest of the world.

It is important that governmental and non-governmental actors remain fully engaged with this debate, but there is a great need for objective information by which to compare the policies and conduct of the various G8 members, and that is why the Foreign Policy Centre is launching its G8 Scorecard, as a major instrument for providing such information in a concise and comparable format.

In 2006 Russia holds the presidency of the G8 a club for the world's richest, market-driven democracies – until Russia joined. The Foreign Policy Centre believes that this presidency is a significant event because it raises the old question of whether Russia is an open democracy or a free-market economy at all. Despite having an economy the size of Portugal's, Russia was elevated to G8 membership 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 Vladimir 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 2006, therefore, the FPC will be scoring Russia's presidency against a list of key economic and democratic indicators.

The FPC's G8 Scorecard is designed so that its results will be accessible to a wide group of stakeholders. The research undertaken for this project benefited greatly from existing research but adds in a

specific way to the body of knowledge about the G8 in particular, and about democracy and freedom in general.

Nevertheless it is important to clarify what the Scorecard is not. The scorecard will be published annually but it is not a 'naming and shaming' exercise. Rather the aim is that by providing transparent, comparable data, we will be better able to monitor, co-ordinate and improve the policies of the leading industrial nations in the world.

Stephen Twigg

Director

Foreign Policy Centre

Executive Summary

Background

The need for a scorecard is unavoidable. If the G8 is to meet its targets on energy and education, on employment and jobs and climate change, maintain cohesive, healthy societies, and live up to its founding values of equality and openness, then it must take a close look at its policies governing freedom and democracy and trade.

Rationale

The G8 Scorecard was conceived to fill a knowledge gap on what the organisation is about. It is important for the international community to think about issues of free trade and democracy in a global perspective in order to keep up with the reality of the market. This is the first attempt to present the G8 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 through the year – and annually.

Methodology

The FPC has devised an innovative scoring system to capture specific features upon which each country's membership of the Group is based. It also gives 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. For each indicator, the country holding the G8 presidency is given a score of 1-5, denoted by a traffic light colour gradation, to reflect how successfully its policy is in the given area.

Key Findings

The key findings of the G8 Scorecard are 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.

The G8 presidency in 2006 encapsulates a paradox: a Russia poised for integration and global leadership, but posing fundamental questions about its reliability and responsibility as a great power.

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Section I: An Introduction

The G8 began life almost 30 years ago when six government leaders — invited by French president Valéry Giscard d'Estaing — gathered at the Château de Rambouillet on the outskirts of Paris on a grey weekend in mid November 1975. The heads of France, the United States, West Germany, Italy, Japan and the United Kingdom met against a backdrop of economic crisis – unemployment, inflation and the first oil crisis – to discuss the need to bring stability to the world economy and to preserve the ability of capital to function amid increasing economic turbulence. Thus the aim of the new grouping was to release a political momentum that would change the world for the better, or so it was thought, by accelerating two trends: freer markets and democratisation.

Yet over the past three decades the scope of the G8 has expanded from its original economic, monetary and financial brief because free markets are not self-sustaining. They presume the existence of governments that are capable of enforcing the rule of law, adjudicating disputes, and establishing property rights as the basis of long-term investment and growth. Accordingly, the G8 has set itself a new goal, that of making globalisation 'work', especially for the world's poor, by providing the co-ordination needed between rich countries whose economic and political weight makes them key players in global governance.

The purpose of the G8, in other words, is to be a driving force for 'liberal capitalism', an international system in which the authority of law and security of property are compatible with freedom of speech and human rights. Unfortunately there is often a systematic mismatch between this goal of a worldwide free market and the anarchic workings of globalisation in practice. It may be argued, for instance, that in Russia, as in Indonesia, globalised financial markets have not assisted the transition to democracy and a liberal market economy. Indeed they have made the transition more difficult. Market-friendly reforms need to be accompanied by positive acts of institutional reform and by the building of civil society. Since the G8 is merely an informal club, however, without administrative structure, or rules and regulations, or a formal charter, its credibility lies in the willingness of

the eight members to make strong commitments, and in the ability of the presiding country to advance initiatives within the legitimate bodies (UN, WTO and the international financial institutions) overseeing such reforms. A recent description by US Secretary of State Condoleezza Rice best encapsulates the core values of the G8: 'a group of democracies ... fully committed to free market principles, free trade, [and the] rule of law'.

The G8 Scorecard

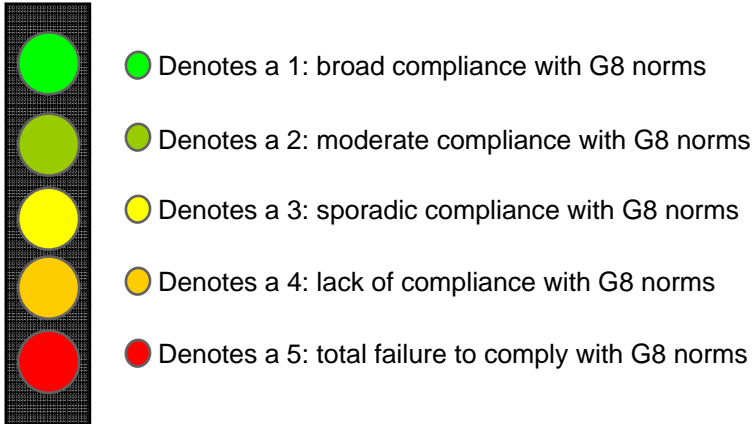
The purpose of the G8 is to think about issues of free trade and democracy in a global perspective, in order to keep up with the reality of the market. Yet the Group may be limited in its response to the challenges of globalisation. One important limitation is a lack of data. Without the relevant data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

The Foreign Policy Centre is therefore launching the G8 Scorecard in order to fill a knowledge gap. Each year the FPC will evaluate the performance of the country that holds the rotating presidency of the G8. It will rate the country in question against twelve criteria, such as economic openness, fiscal governance and rule of law.

Methodology

The FPC has devised an innovative scoring system that will not only capture specific features upon which each country's membership of the Group is based. It will 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.

For each indicator, the country was therefore given a score of 1-5, denoted by a traffic light colour gradation, to reflect how successfully its policy is in the given area:



The lower the score the more successful it is judged to be in that particular area.

The data to score the G8 Scorecard 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 has been aggregated over a historical time period, while a robust index methodology ensures that the measures used do not overlap with each other and there is 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 is 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 through the year – and annually.

Assessing country capability in the G8

The scorecard assesses a range of criteria for G8 membership as well as effectiveness in the role of the presidency. Our twelve ranking criteria span economic, political and administrative features of the countries. The criteria we propose are 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	
<ul style="list-style-type: none"> 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 	<ol style="list-style-type: none"> Open Society Elections Rule of law Social Capital
Stable and Growing Economy	
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> We will not accept another outburst of inflation 	6. Low inflation
<ul style="list-style-type: none"> Our monetary authorities will act to counter disorderly market conditions, or erratic fluctuations, in exchange rates 	7. Stable exchange rate and market conditions
<ul style="list-style-type: none"> The industrial democracies are determined to overcome high unemployment 	8. Unemployment levels (national and regional)
Global Governance	
<ul style="list-style-type: none"> We must seek to restore growth in the volume of world trade 	9. Trade volume

COMMITMENTS	INDICATOR
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> 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. Discernable stance on key international issues

To arrive at the index value or score against each of the twelve criteria, a number of sub-criteria will be used:

- Economic weight in the world
 - Percentage of world GDP
 - Percentage of world GDP per capita
 - Percentage of world GDP in purchasing power parity (PPP) terms
- Outward orientation of the economy
 - Percentage of world trade
 - Degree of currency convertibility
 - Ease of inward and outward investment
- Economic Stability and Solvency
 - Central bank independence

- Foreign debt as a percentage of foreign reserves
 - Economic crises in the past 10 years
4. Political governance
 - Quality of elections (free and fair)
 - Corporate influence on politics
 - Transparency and corruption
 5. Rule of law
 - Judiciary independence and activism
 - Quality of lawmaking
 - Legal structure
 6. Free and fair media
 - Freedom from censorship
 - Ownership structure of media
 - Press briefings
 7. Internal administrative and technocratic capability
 - Quality of civil service
 - International agencies (e.g. DFID, ODI) staffing, structure and funding
 8. Relations with civil society
 - Numbers of NGOs
 - Meetings between NGOs and governments
 9. Credible multilateralism
 - International relations
 - Relations with Developing Countries
 10. Discernible stance on key international issues
 - Statements on core international objectives

It is not easy to develop comparable data between countries. It entails the danger of (over)simplifying complex policies. Policies are adopted in different situations and responding to different circumstances, but must be reduced to the point that they can be compared. Nevertheless the policies of different countries are often compared, and democratic societies have shown that they are able to provide a normative

framework of shared purposes and consensus, within which conflict can both thrive and be contained. Such societies, in turn, require the formulation of some social virtues, and face the challenge of determining what comprises a good, not merely a civil, society. For instance, democratic societies now share a moral commitment to the environment and to the protection of their vulnerable members.

The methodology of the G8 Scorecard was designed such that the output would be useful for a wide group of stakeholders. This informed the choice of format – the aim is to provide accessible, comprehensible and transparent information. The idea was not to write twelve lengthy reports describing policies in detail, but to summarise them into a quick reference document. The information summarised in the Scorecard was all available in the public domain. What the Scorecard offers, for the first time, is a simplified, unified format for assessing the G8 presidency.

The G8 Background

The G8 has its roots in the 1973 oil crisis and subsequent global recession but its prehistory dates back two years earlier. On 15 August 1971, a financial crisis led to the brutal destruction of the system of fixed exchange rates that had reigned since the international financial system was founded at Bretton Woods, New Hampshire, at the end of World War Two. These troubles led the United States to form the Library Group, a gathering of senior financial officials from the United States, West Germany, France and the UK who first met in the White House Library in the wake of the 1973 oil crisis. In 1975, French President Giscard d'Estaing invited the heads of state from those countries, plus Italy and Japan, to the summit in Rambouillet and proposed regular meetings in order to preserve the ability of capital to function amidst increasing economic turbulence. The participants agreed to an annual meeting organised under a rotating presidency, forming what was dubbed the Group of Six (G6). At the subsequent annual summit in Puerto Rico, it became the Group of Seven (G7) when Canada joined at the insistence of US President Gerald Ford who wished to counterbalance what he saw as growing European influence. The later accession of Russia is discussed below.

The G8 is not an institution. It has no constitution or permanent secretariat or headquarters. It is merely an informal gathering of

political leaders from the eight largest economies in the world with the exception that Russia, which is the sixteenth largest, is a member instead of China, which is sixth. (The European Commission is also represented.) These industrial nations control, between them, approximately 70 per cent of the world's economic output. The co-ordination of these nations and their unequal influence over international institutions such as the World Bank, IMF, NATO, WTO and OECD ensures that their interests dominate the world order. The G8 nations hold just under 50 per cent of voting rights of global bodies as the IMF and World Bank. The other 176 member states hold the rest.

The leaders of these countries would argue that, while their economic and social models and political persuasions may vary, they are united by universal values of democracy, human rights and free-market economics outlined at the inaugural summit in France.

Communiqué Declaration of Rambouillet

17 November 1975

The leaders of France, West Germany, Italy, Japan, the United Kingdom and the United States of America met in the Château de Rambouillet, from 15 to 17 November 1975, and at the end of the meeting they issued the following declaration:

1. In these three days we held a searching and productive exchange of views on the world economic situation, on economic problems common to our countries, on their human, social and political implications, and on plans for resolving them.
2. We came together because of shared beliefs and shared responsibilities. We are each responsible for the government of an open, democratic society, dedicated to individual liberty and social advancement. Our success will strengthen, indeed is essential to, democratic societies everywhere. 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.
3. To assure in a world of growing interdependence the success of the objectives set out in this declaration, we intend to play our own full part

and strengthen our efforts for closer international cooperation and constructive dialogue among all countries, transcending differences in stages of economic development, degrees of resource endowment and political and social systems.

4. The industrial democracies are determined to overcome high unemployment, continuing inflation and serious energy problems. The purpose of our meeting was to review our progress, identify more clearly the problems that we must overcome in the future, and to set a course that we will follow in the period ahead.
5. The most urgent task is to assure the recovery of our economies and to reduce the waste of human resources involved in unemployment. In consolidating the recovery, it is essential to avoid unleashing additional inflationary forces which would threaten its success. The objective must be growth that is steady and lasting. In this way, consumer and business confidence will be restored.
6. We are confident that our present policies are compatible and complementary and that recovery is under way. Nevertheless, we recognize the need for vigilance and adaptability in our policies. We will not allow the recovery to falter. We will not accept another outburst of inflation.
7. We also concentrated on the need for new efforts in the areas of world trade, monetary matters and raw materials, including energy.
8. As domestic recovery and economic expansion proceed, we must seek to restore growth in the volume of world trade. Growth and price stability will be fostered by maintenance of an open trading system. In a period where pressures are developing for a return to protectionism, it is essential for the main trading nations to confirm their commitment to the principles of the OECD [Organisation for Economic Co-operation and Development] pledge and to avoid resorting to measures by which they could try to solve their problems at the expense of others, with damaging consequences in the economic, social and political fields. There is a responsibility on all countries, especially those with strong balance-of-payments positions and on those with current deficits, to pursue policies which will permit the expansion of world trade to their mutual advantage.

9. We believe that the multilateral trade negotiations should be accelerated. In accordance with the principles agreed to in the Tokyo Declaration, 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. They should seek to achieve the maximum possible level of trade liberalisation therefrom. We propose as our goal completion of the negotiations in 1977.

10. We look to an orderly and fruitful increase in our economic relations with socialist countries as an important element in progress in détente, and in world economic growth. We will also intensify our efforts to achieve a prompt conclusion of the negotiations concerning export credits.

11. With regard to monetary problems, we affirm our intention to work for greater stability. This involves efforts to restore greater stability in underlying economic and financial conditions in the world economy. At the same time, our monetary authorities will act to counter disorderly market conditions, or erratic fluctuations, in exchange rates. We welcome the rapprochement, reached at the request of many other countries, between the views of the U.S. and France on the need for stability that the reform of the international monetary system must promote. This rapprochement will facilitate agreement through the IMF at the next session of the Interim Committee in Jamaica on the outstanding issues of international monetary reform.

12. A cooperative relationship and improved understanding between the developing nations and the industrial world is fundamental to the prosperity of each. Sustained growth in our economies is necessary to growth in developing countries; and their growth contributes significantly to health in our own economies. The present large deficits in the current accounts of the developing countries represent a critical problem for them and also for the rest of the world. This must be dealt with in a number of complementary ways. Recent proposals in several international meetings have already improved the atmosphere of the discussion between developed and developing countries. But early practical action is needed to assist the developing countries. Accordingly, 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. In this context, priority should be given to the poorest developing countries.

13. World economic growth is clearly linked to the increasing availability of energy sources. We are determined to secure for our economies the energy sources needed for their growth. Our common interests require that we continue to cooperate in order to reduce our dependence on imported energy through conservation and the development of alternative sources. Through these measures as well as international cooperation between producer and consumer countries, responding to the long-term interests of both, we shall spare no effort in order to ensure more balanced conditions and a harmonious and steady development in the world energy market.

14. We welcome the convening of the Conference on International Economic Co-operation scheduled for December 16. We will conduct this dialogue in a positive spirit to assure that the interests of all concerned are protected and advanced. We believe that industrialized and developing countries alike have a critical stake in the future success of the world economy and in the cooperative political relationships on which it must be based.

15. We intend to intensify our cooperation on all these problems in the framework of existing institutions as well as in all the relevant international organizations.

The first meetings of the G6 and G7 were known as 'economic summits', and there was a clear focus on global economic issues. Over the past three decades the scope of discussion has also evolved from the first, supposedly one-off, meeting outside Paris that focussed on macro-economic policy. Now issues of security, trade, relations with developing countries and other trans-national issues and even domestic issues, such as employment, are discussed. The G8 agenda has also widened to incorporate socio-economic, political, security, and environmental themes. In the 1970s, for example, the emphasis was on international financial issues and oil crises. In the 1980s, the GATT and subsequently WTO rounds trade negotiations bulked large, as did the increasing importance of the development agenda. The 1990s began with a focus on the post-Cold War reconstruction of Eastern Europe, with attention soon turning to the integration of Russia into the global economy. More recently the agenda has been dominated by the

question of how to respond to globalisation, with issues such as development, environment, international crime and terrorism increasingly eroding the barriers between domestic and international policies.

Background on Russia’s Involvement in the G8

At the end of the Cold War, the Soviet leader Mikhail Gorbachev was invited to attend G7 meetings as an official observer, and following the collapse of the USSR, his successor, Boris Yeltsin, began meeting with his G7 counterparts after the main summit as the West began to court Russia in order to integrate former Soviet countries into the global capitalist system. This new group became known as the P8 (Political 8), or colloquially the ‘G7 plus 1’, starting with the 1994 Naples summit.

At the instigation of then US President Bill Clinton, Russia was allowed to participate more fully beginning in the 1998 Birmingham summit, which marked the creation of the Group of Eight. The move was seen as Yeltsin’s reward for pursuing economic reforms, and for Russia’s neutrality in respect to the eastward expansion of NATO. However, Russia was excluded from the meeting for financial ministers as it was not a major economic power. The term ‘G7’ now refers specifically to this ministerial level meeting.

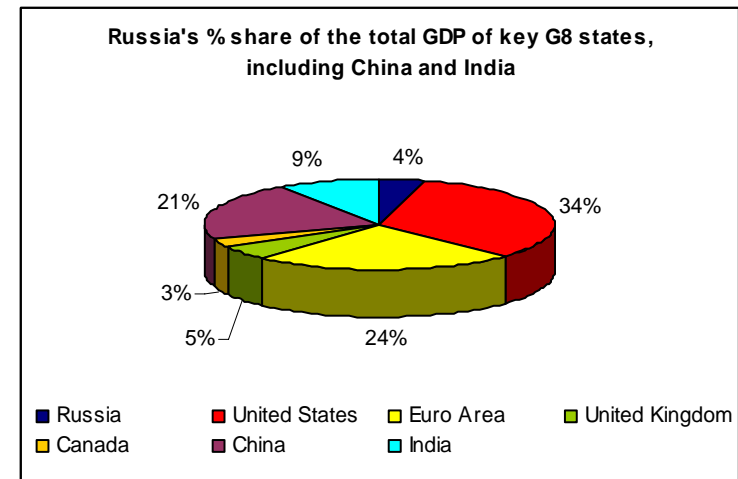
During the 2002 G8 meetings in Kananaskis, Canada, Russia was offered full membership for showing ‘remarkable economic and democratic transformation’ and invited to hold the presidency in 2006. Nevertheless the question of Russia’s economic and democratic instability, relative to other members of the G8, still casts a shadow over its place at the top table. In 2005, US Senators Joe Lieberman and John McCain called for Russia to be suspended from the G8 until democratic and political freedoms are ensured by President Vladimir Putin.

Scoring Russia’s G8 Credentials

The rationale for Russia’s membership 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. Therefore Russia’s presidency of G8 Group

in 2006 is abnormal by definition. Figure 2, for example, shows Russia’s lower aggregate share of total world GDP in comparison to China and India, both of whom are not, at present, members of the G8.

Figure 1



Source: IMF Statistical Appendix

Figure 2



Source: IMF Statistical Appendix

Figure 1 shows Russia's percentage share of the total GDP of the following countries: the combined Euro Area, the US, UK, Canada, China and India. The Euro area is defined here as: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.

Figure 2 shows Russia's aggregate percentage of total world GDP, exports of goods & services and population compared to the US, the Euro area, the UK and China and India.

Yet Russia has never been what its leaders fondly imagine is a 'normal country', to quote a phrase from Boris Yeltsin's 1994 memoir, 'The Struggle for Russia'. In the aftermath of the fall of Communism, the goal of normalcy seemed to be in perfect harmony with the idea of post-Soviet democracy and capitalism. One blended with the other. Soon, however, after the application of economic 'shock therapy', a gap suddenly opened, and the honeymoon of the two ideas turned into a tense cohabitation. The situation was made much worse by the privatization fiasco of the mid-1990s, the inevitably repellent, larva-like stage of what Marx in 'Das Kapital' called 'primitive accumulation' attended by the usual assortment of gross inequality, crime and a stock market crash. For those in the habit of saying the words 'capitalism' and 'democracy' in the same breath, the fate of Russia under Yeltsin's successor, Vladimir Putin, is a useful reminder of their fundamental heterogeneity.

Soaring oil and gas prices have transformed 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 wants 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. The July summit in St Petersburg will be the high point of Russia's presidency, and by the end of the year it hopes to win not only full membership of the group, whose finance ministers still meet as the G7, but also accession to the World Trade Organisation. At the same time, many Western observers fear that Russia will make a mockery of the G8 by failing to live up to the basic norms of a democratic society.

Those fears were heightened, on New Year's Day, when Putin marked the beginning of Russia's G8 presidency by declaring a new 'cold war'. He briefly cut off natural gas supplies to Ukraine and therefore much of Europe, brandishing Russia's vast energy reserves as his Soviet predecessors once flaunted nuclear rockets. The Russian-Ukrainian gas dispute served as a wake-up call for the European Union, which obtains a quarter of its gas from Russia. (The EU is likely to import up to 75 per cent of its natural gas requirements by 2020.) Russia is destined by virtue of its wealth of natural resources to become a pivotal player on the global energy chessboard in the coming decades. 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.

But the energy showdown between Russia and Ukraine did more than jeopardise Europe's gas supply during the coldest weeks of the year. It also suggested that the new G8 president may not yet be ready to become a leader in the global market.

Without its vast reserves of oil and gas Russia would not be G8 president in 2006. As the Scorecard makes clear, Russia is still only a junior partner in other respects – democracy, rule of law, open society, free media – yet to achieve full G8 membership. Indeed Russia owes its place at the top table of developed nations not to the strength of its economy, which ranks well below that of other member nations, but to doubtful credentials as a responsible energy supplier.

President Putin has often told Western governments that, unlike OPEC, Russia is not going to use energy for political reasons. He claims Russia is a stable country where politics will not disrupt energy flows. And yet it was hard to avoid the conclusion in the first days of January that the Kremlin was punishing Ukraine for the Orange Revolution which saw a pro-Western leader oust Putin's favoured candidate in presidential elections just over twelve months ago.










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 on disarmament, fighting terrorism, and containing civil wars, argue the academics, Andrei Shleifer, economics professor at Harvard University, and Daniel Treisman, political science professor at University of California Los Angeles, in a celebrated article for *Foreign Affairs*.¹ Berating the Western media for overstating Putin's autocratic tendencies, they argue that on just about any measure Russia is now 'a normal country', doing no worse than the average in the developing world. This year's G8 Scorecard will put such a claim to the test.

One thing is clear, however. In international relations Russia still behaves like a major power, a legitimate member of the G8, as opposed to any other 'normal country' of the middle rank. In other words, Russia is boxing above its weight – a country with a GDP similar to that of the Netherlands or Turkey can hardly be seen as a leading industrial power in the world. Yet it is evident that the Russian leadership aspires to a more exalted role in the world. The Scorecard assesses how far Russia still has to go before it can be accepted as a 'normal' member of the G8. GDP per capita among the G7 is tightly grouped around a level some three times higher than that of the aspiring eighth member of the club. The median ranking on Transparency International's corruption perception index is 18 for the G7 versus 86 for Russia. (Even Italy, perceived as the most corrupt of the G7, ranks 35 – a big gap for Russia to close. It shows that by the standard of the G7 – a standard accepted by the Russian leadership itself – Russia is still an abnormal member of the Group.

¹ Andrei Shleifer, Daniel Treisman, 'A Normal Country: Russia After Communism', *Foreign Affairs*, 30 March 2004.

Scoring Russia's Performance

Indicator	Data Source	Score
Liberal Democracy		
▪ Open Society	Freedom House	
▪ Elections	Oleg Panfilov, Putin and the Press: the Revival of Soviet-style Propaganda, The Foreign Policy Centre	
▪ Rule of Law	The World Bank	
▪ Social Capital	World Health Organisation	
Stable and Growing Economy		
▪ Economic growth and stability	IMF Statistical Appendix and IMF Russian Federation Statistical Appendix, October 2005	
▪ Low inflation	IMF Statistical Appendix	
▪ Stable exchange rate and market conditions	IMF Russian Federation Statistical Appendix, October 2005	
▪ Unemployment levels (national and regional)	IMF Russian Federation Statistical Appendix, October 2005 (using Federal State Statistics Service and Ministry of Labour and Social Development)	
Global Governance		
▪ Trade volume	IMF Russian Fed. Statistical Appendix, Oct. 2005	

Indicator	Data Source	Score
Trade restrictions, especially in agriculture	Economist Intelligence Unit, Country Forecast Russia November 2005	●
Energy market conditions and policies	Energy Information Administration (EIA)	●
Discernable stance on key international issues	Electronic and print media	●

Section II: Russia's G8 Scorecard

Liberal Democracy Indicators

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 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.

According to the Committee to protect Journalists, eleven reporters have been murdered in contract-style killings since President Putin

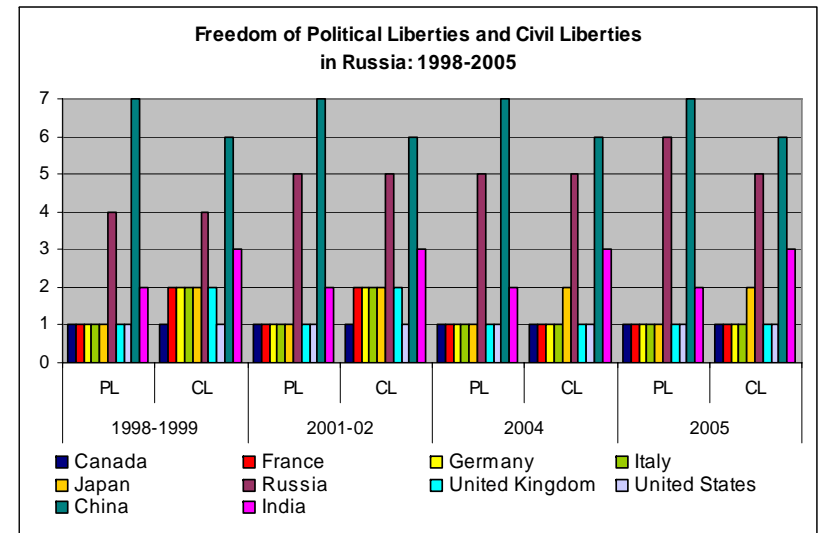
came to power in 1999.

The Russian media is also vulnerable to legal attacks. 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.

The chief religion of Russia is Russian Orthodox Christianity, which is professed by about 75 per cent of citizens who describe themselves as religious believers. Islam, professed by about 20 per cent of believers, is numerically the second most important religion in Russia. Ethnic minorities, including Roma and persons from the Caucasus, Central Asia, Asia, and Africa faced widespread governmental and societal discrimination, and, increasingly, racially motivated attacks. Trafficking in persons, particularly women and girls, remained a serious problem despite progress in combating it. There were some reports of forced labour and child labour.

Open Society Data

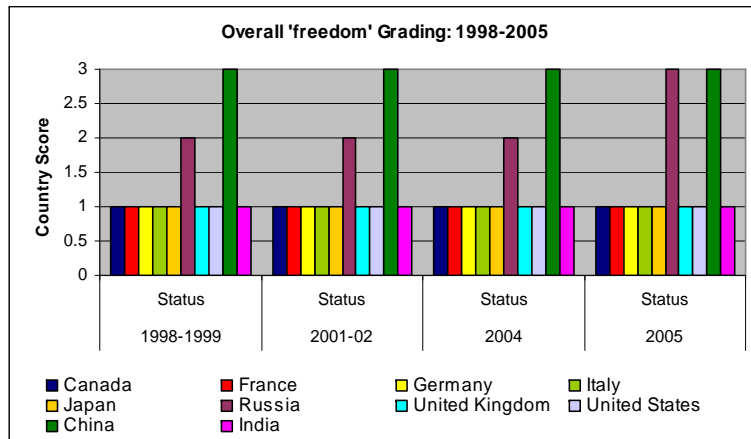
Figure 3



Source: Freedom House

Figure 3 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.

Figure 4



Source: Freedom House

Figure 4 shows an overall 'freedom' rating on a one-to-three scale. One represents 'free', two 'partly free' and three 'not free'. China and Russia score worse.

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. Authorities exert direct influence on state-owned broadcasters, where journalists receive 'guidelines' on editorial content prepared by the government. Of the national television stations, the government owns two and controls the third, NTV, whose

independence has dwindled lately with reports and critical shows taken off the air.

In this context, the G8 presidency in 2006 merely serves to underline how far Russia now stands from normal democratic procedures. President Putin is formally in favour of political freedoms and an open society, and the other seven nations should try to nudge him in that direction during the run-up to the St Petersburg summit in July. However, it is clear that Russia's *siloviki* feel they are essentially on their own, a Eurasian special case rather than a partner of the West. They want to modernise their country, but they are determined to do it their own way, not according to some Western formula of 'openness'.

In short, Russia's 15-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 current backsliding and once again orients itself towards an open society and pluralistic politics.

Open Society Score

Indicator	Score
Open Society	Sporadic compliance with G8 norms

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.

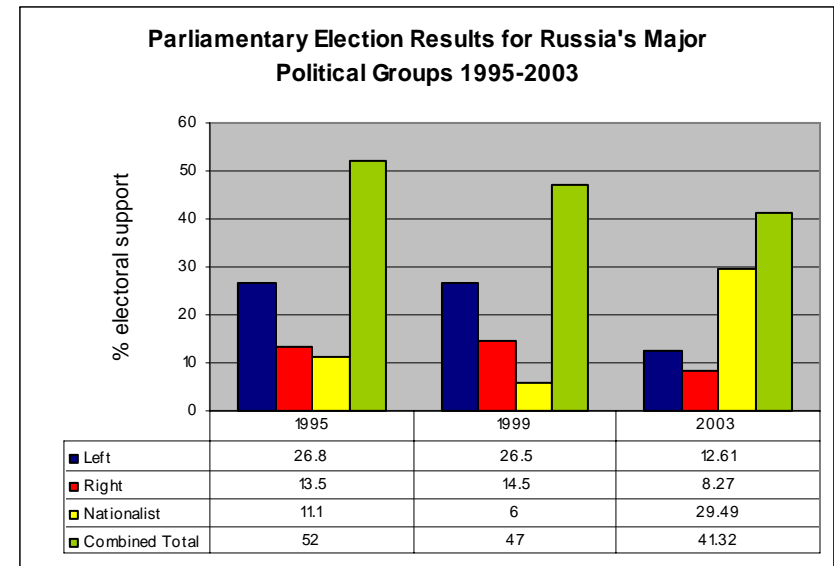
President Vladimir Putin was re-elected the following spring in an election process that the OSCE determined did not meet international standards in a number of respects, particularly in equal access to the media by all candidates and secrecy of the ballot. However, the outcome was generally understood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

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.

Elections Data

Figure 5



Source: Oleg Panfilov, *Putin and the Press: the Revival of Soviet-style Propaganda*

Figure 5 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.

Elections Analysis

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.

Elections Score

Indicator	Score
Elections	Lack of compliance with G8 norms

Rule of Law

Law enforcement corruption and political pressure on the judiciary has raised concerns about the erosion of Russia's leaders' accountability to the people. The executive branch appeared to drive judicial decisions in high profile or Kremlin directed cases. Although also impaired by corruption, the judiciary continued to show greater independence in non-politicised cases, and the criminal justice system was slowly undergoing reforms.

The Constitution provides that individuals may be arrested, taken into custody, or detained more than 24 hours, only upon a judicial decision. However, arbitrary arrest and detention remain problems. The national police force, which falls under the MVD, is organised on the federal, regional, and local levels. Although regulations and national laws prohibit corrupt activities, they were widespread and there were few crackdowns on illegal police activity. There were reports that the Government addressed only a fraction of the crimes that federal forces committed against civilians in Chechnya.

The Constitution provides for the right to a fair trial; however, this right was restricted in practice. Assessments of the effects of the 2002

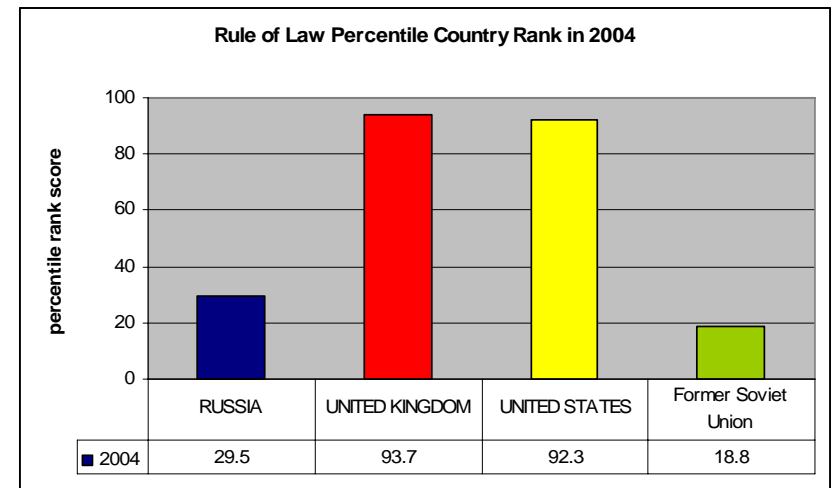
Criminal Procedure Code on this process remained mixed. Abuses of the right to a fair trial declined; however, numerous critics argued that the country remained far from having a truly adversarial criminal procedure.

Significant reforms occurred in law enforcement and judicial procedures; however, the imprisonment of former YUKOS chief Mikhail Khodorkovsky raised a number of concerns over the arbitrary use of the judicial system.

The 2002 Criminal Procedure Code provides for the nationwide use of jury trials. By 1 January, all regions except Chechnya had implemented the code, although juries heard only one per cent of cases. In 2003, oblast courts conducted 496 jury trials involving approximately 1,000 defendants. In contrast to trials conducted by a judge, 0.8 per cent of which ended in acquittal in 2003, 15 per cent of cases tried by juries ended in acquittals (although one quarter of these verdicts were reversed on appeal).

Rule of Law Data

Figure 6



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

Figure 6 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.


Rule of Law Analysis

The rule of law is a cornerstone of democracy and essential to a well-functioning market economy that protects individual human rights. Yet it is ironic that in the six years since a pledge to uphold democracy in Russia as a 'dictatorship of the law', President 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 trial of Mikhail Khodorkovsky was widely perceived as politically motivated, and 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. Politically-motivated cases, such as the YUKOS affair, will have several long-range consequences: drying up domestic and foreign investment, undermining the rule of law, increasing the power of unelected bureaucrats from secret police and law enforcement, desiccating sources of funding to democratic parties and charities, and weakening civil society.

It is therefore a matter of urgency that Russia be made to respect judicial independence and to abide by the principles of the European Convention on Human Rights and other international agreements such as the Partnership and Co-operation Agreement between the European Union and Russia, a legal framework based on respect for democratic and judicial principles and human rights.

Rule of Law Score

Indicator	Score	
Economic growth and stability	Sporadic compliance with G8 norms	

Social Capital

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.

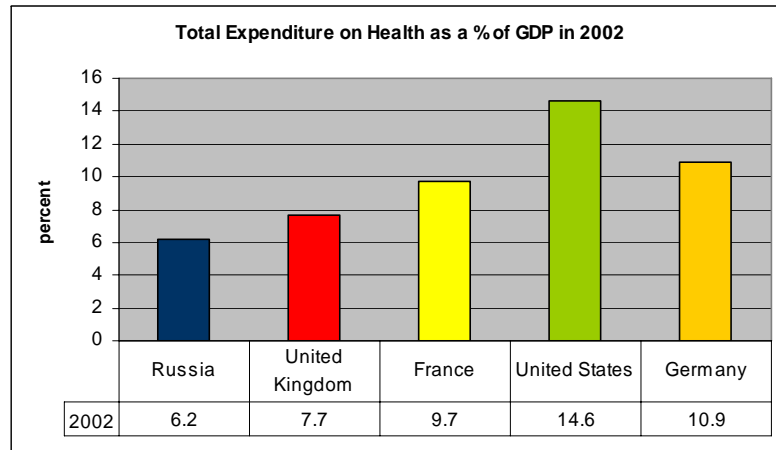
The result of the Kremlin crackdown has been to discourage foreign support for activists. The US Agency for International Development, one of the biggest donors, has provisionally agreed to pull out of Russia by 2007. In 2004, the Peace Corps and the Organisation for Security and Co-operation in Europe's 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. An American-Russian lobby group, the Transatlantic Partnership Against AIDS, is beginning to make political and business leaders aware how disastrous the disease could become.

But this sort of 'civil society' is a co-opted one. It allows the authorities to ignore the real issues and anything that is painful to the state. After a decade of conflict in Chechnya and a series of terrorist attacks in Russian cities, Russians have no sympathy for Chechen rebels. Racism runs deep, and the media subtly encourage it.

Social Capital Data

Figure 7



Source: World Health Organisation

Figure 7 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.

Social Capital Analysis

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.

Social Capital Score

Indicator	Score
Elections	Lack of compliance with G8 norms

Stable and Growing Economy Indicators

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 2005, slightly less than in 2004, 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. Industrial production grew by four per cent, and real income went up by five per cent, but official records also show that approximately 20 per cent of the population continue to live below the monthly subsistence level of \$82. Furthermore, because of tax avoidance, a great deal of private-sector activity does not show up on the record. Goskomstat (the State Statistics Committee) estimates that 25 per cent of production is 'informal', and adjusts GDP figures upwards on this basis; some calculations put informal production at 40 per cent of GDP or more. Corruption continued to be a negative factor in the development of the economy and commercial relations.

Economic Growth and Stability Data

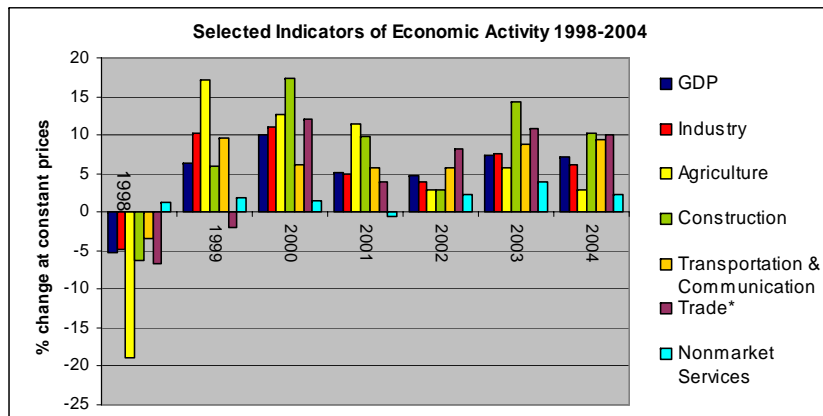
Figure 8



Source: IMF Statistical Appendix

Figure 8 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 9



Source: IMF Russian Federation Statistical Appendix, October 2005, using the Federal State Statistics Service

Figure 9 shows the annual percentage change, at constant prices, for selected indicators of economic activity, including GDP, in Russia between 1998 and 2004. Trade refers to wholesale, retail, public catering and procurement.

Economic Growth and Stability Data Analysis

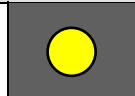
A quick glance at Russia's economic data yields ground for optimism, but a closer inspection reveals an undue dependency on oil and gas revenue. Indeed the World Bank calculates that had oil prices not been rising, the 7.2 per cent annual growth rate in the first half of 2005, GDP would have been 4.2 per cent.

But Russia's reliance on energy is worrying in other ways too. The World Bank estimates that the oil and gas sector, which employs less than one per cent of the workforce, accounts not for nine per cent of GDP, as the official figures state, but for nearer 25 per cent. The official statistics are distorted by tolling schemes, a tax dodge whereby oil firms sell cheaply to shell companies which then find buyers at market prices. This has cost the federal government billions of dollars in potential revenues.

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.

Economic Growth and Stability Data Score

Indicator	Score
Economic growth and stability	Sporadic compliance with G8 norms



Low Inflation

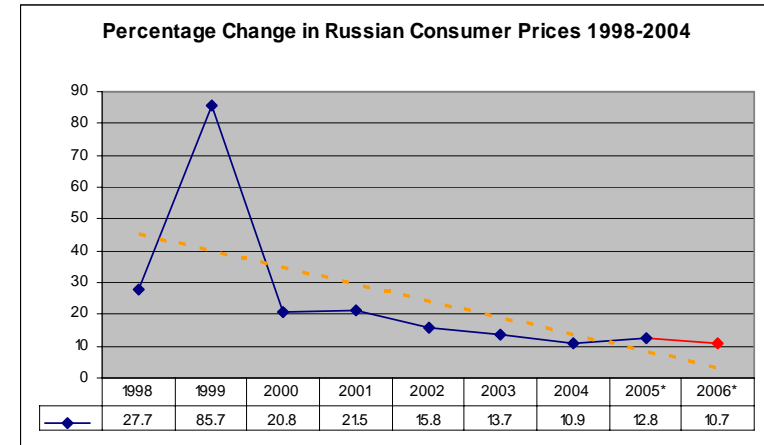
Annual inflation in Russia for 2005 stood at 10.9 per cent, according to official figures published by the Economic Development and Trade ministry, despite earlier forecasts that the figure was likely to exceed twelve per cent. Petrol prices grew by 15.8 per cent in 2005, compared with a 31 per cent 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. As oil prices grow, so do the potential pressures for inflation and nominal currency appreciation. The Stabilisation Fund, which reached 832 billion roubles (or four per cent of GDP), continues to be far and away the most important instrument for limiting these pressures. The very high marginal taxation of oil revenues into the Stabilisation Fund is certainly the reason why inflationary pressures in 2005 did not exceed those of the previous year.

At the same time, the continuing surge of foreign exchange earnings is putting further upward pressure on the rouble and on domestic prices, particularly given the central bank's dual focus on the exchange rate and inflation. It is also helping to fuel domestic demand, which in turn is generating rapidly growing imports.

The Russian government also launched an initiative to reduce the VAT rate from 18 per cent to 13 per cent, a move viewed as an attempt to channel part of the surplus to the private sector and business. In general, making use of surplus resources through lower taxes appears to be a promising direction for Russia, as a lower average tax burden could enhance competitiveness and compensate somewhat for the stronger rouble. Yet this particular initiative is very controversial, as the VAT represents the only major source of revenue for the federal government that is not highly sensitive to oil and gas price fluctuations.

Low Inflation Data

Figure 10



Source: IMF Statistical Appendix

Figure 10 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.


Low Inflation Analysis

The analysis of the inflation rate in Russia suggests that the rise in core inflation appears relatively modest compared with the rapid pace of money growth. Slowing rouble depreciation contributed significantly to the disinflation of the 1990s, but in the wake of the 1998 crash, the authorities announced a unilateral moratorium on debt payments and widened the trading band of the rouble, implying a de facto devaluation. Since 1999, the government has pursued a relatively unambitious disinflation path, reducing inflation by two to three per cent per year. A favourable external environment, in particular a recovery of oil and metals prices and ensuing current account surpluses, as well as resumed capital inflows from 2001 onwards, allowed the Central Bank to accumulate reserves.

The Scorecard result should be interpreted with some caution, since it depends crucially on the accuracy of the data and the appropriateness of the econometric approach. Nevertheless the last six years have shown that the reasons for Russian inflation are not of monetary, but rather structural, nature: monopolisation of key economic sectors; substantial hikes in natural monopoly tariffs; a sharp rise in crude prices on the domestic market; considerable growth in social spending against the backdrop of a lack of mechanisms for using personal income as long-term investments.

The government plans to completely deregulate electricity tariffs and impose 100 per cent payment for communal housing services, which would trigger a new sharp increase in prices. It is clear that sustainable inflation reduction requires not only 'cosmetic' (monetary) measures, but also a deeper (institutional) commitment on the part of the government.

Low Inflation Score

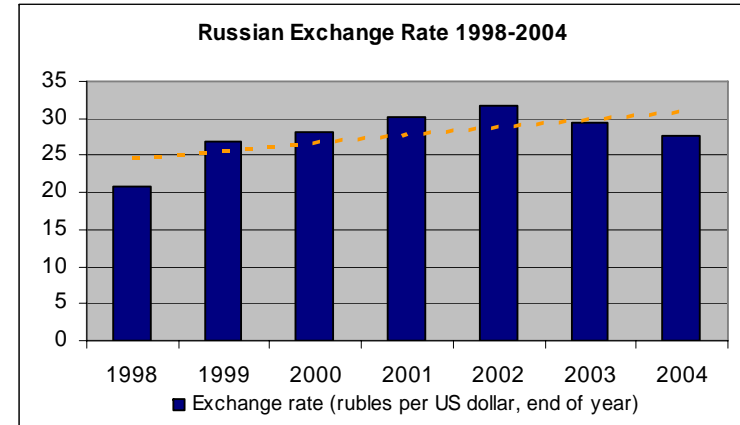
Indicator	Score
Low Inflation	Sporadic compliance with G8 norms 

Stable Exchange Rate and Market Conditions

Again, 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. Banks are trying to lend as much as they can, so there might be a small wave of defaults in two or three years. But the banking system is too shallow to absorb all the cash washing around. Top officials have started flagging up the risk of an asset-price bubble.

Stable Exchange Rate and Market Conditions Data

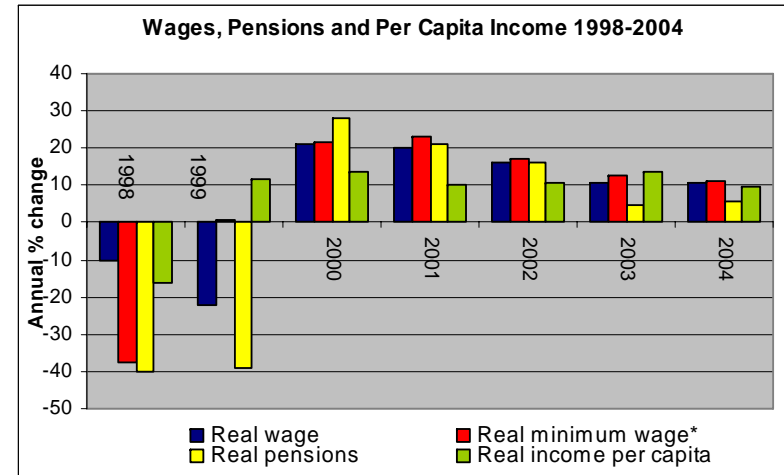
Figure 11



Source: IMF Russian Federation Statistical Appendix, October 2005

Figure 11 shows the Russian exchange rate, in rubles per US dollar, between 1998 and 2004.

Figure 12




Source: IMF Russian Federation Statistical Appendix, October 2005

Figure 12 shows the annual percentage variance in Russia's real wage, real minimum wage (data at end of year), real pensions and real income per capita over the period 1998-2004.

Stable Exchange Rate and Market Conditions Analysis

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. The growth spurt since 1998 has frequently been linked to the rise of oil and gas prices, making it purely a product of exogenous factors. However, hydrocarbon prices only started rising in the fall of 1999, and growth had already begun during the last months of 1998. A much more conclusive factor seems to have been the shift in the real exchange rate. The 1998 crash induced a strong devaluation that came after years of obvious rouble overvaluation mdde by mistaken macroeconomic policies, but inflationary pressures have seen the rouble return to pre-crash levels.

Stable Exchange Rate and Market Conditions Score

Indicator	Score
Stable exchange rate and market conditions	Sporadic compliance with G8 norms 

Unemployment Levels

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. There are a number of reasons for the discrepancy but the most obvious one is that, unlike in the West, someone unemployed has the right to receive the unemployment allowance for no longer than a year.

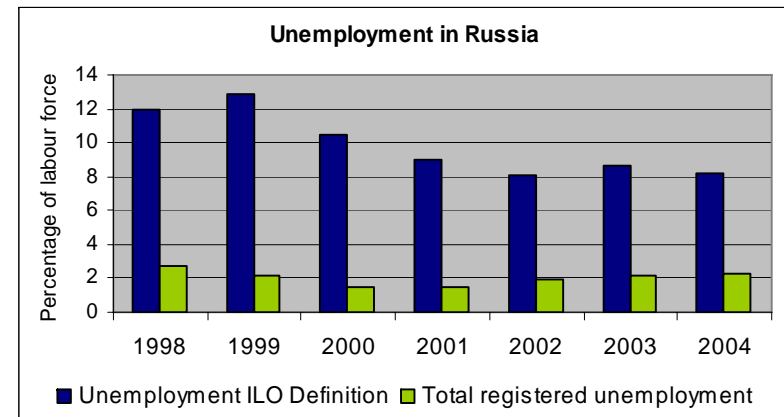
Russia's rate of unemployment also varies greatly from region to region. It is the highest in regions where economic recession is partly a result of political conflict. In the North Caucasus republic of Ingushetia, for example, the figure stands at 34.9 per cent. In large cities and economically developed regions the unemployment rate is considerably lower. For instance, in Moscow it totals 0.6 per cent of the population – against 3.5 per cent in large Western cities. Such a considerable disparity in the unemployment rate in large cities and on the periphery is another difference between Russia and the West.

Even so, the last year has witnessed an ominous rise in the number of people out of work. In October 2005, unemployment in Russia as a whole grew by more than ten per cent to 1.8 million, according to the federal state statistics service. The economically active part of the population thus amounted to 74.7 million, or 51 per cent of Russians, including an employed 69.9 million and 4.8 million seeking work.

Russia's unemployment rate has been hard to measure accurately because many firms unofficially furlough workers but leave them on company rolls. This practice is a vestige of the paternalistic Soviet era, when the presence of workers in an enterprise often had no relation to that enterprise's actual production. Many of these furloughed workers find gainful employment in the private sector, where wages often go unreported. Such a system results in a haphazard, inefficient allocation of the labour force.

Unemployment Levels Data

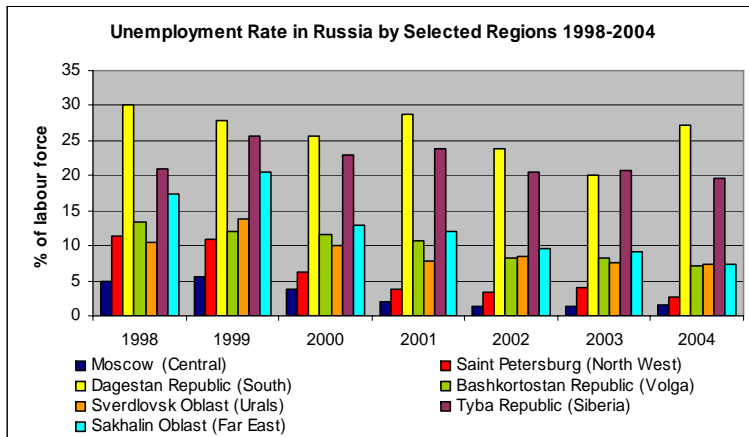
Figure 13



Source: IMF Russian Federation Statistical Appendix, October 2005 and Federal State Statistics Service & Ministry of Labour & Social Development

Figure 13 shows the variance between registered unemployment and ILO defined unemployment over the period 1998-2004.

Figure 14



Source: IMF Russian Federation Statistical Appendix, October 2005 and Federal State Statistics Service

Figure 14 shows the regional variance in unemployment which exists in Russia and its percentage of the overall labour force.

Unemployment Levels Analysis

One of the great mysteries of economic transition in Russia has been the lack of an unemployment rise commensurate with the severity of output falls. Given that labour hoarding was generally agreed to be a cause of the very low unemployment rates in the late Soviet era, it might have been expected that the swift price deregulation would lead to a large one-off shedding of workers. This did not happen. However, measured by international standards, Russia does have a significant problem with unemployment and with under-employment. Moreover even government officials project a continuing rise in unemployment over the next few years as reforms in the power, railway and metallurgy industries lead to job-cutting. It goes without saying that no

government programme, let alone small businesses or the shadow economy, will be able to make up the slack.

Unemployment in Russia also varies considerably according to region, highlighting the economic penalties of excessive centralisation. Moscow’s unemployment rate is the lowest in Russia, but the extreme levels of unemployment in Ingushetia, say – no reliable figures are available for war-torn Chechnya – is a major cause for concern. Recent figures show that women now constitute 62 per cent of Russia’s unemployed, which is an index of hidden unemployment among the male population. It is also worrying that almost two fifths of Russia’s unemployed are below the age of thirty.

Unemployment Levels Score

Indicator	Score
Stable exchange rate and market conditions	Sporadic compliance with G8 norms

Global Governance

Trade Volume

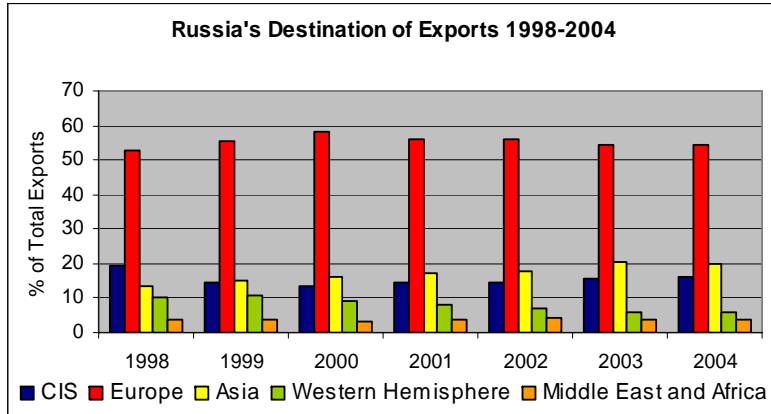
The task of integrating Russia’s economy with the rest of the world through commerce and expanded foreign investment remains the high priority of the government’s economic reform. Towards that end, Russia has joined the IMF and the World Bank and hopes to become a member of the WTO in the course of its G8 presidency.

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, as figure 15 shows below.

Figure 15

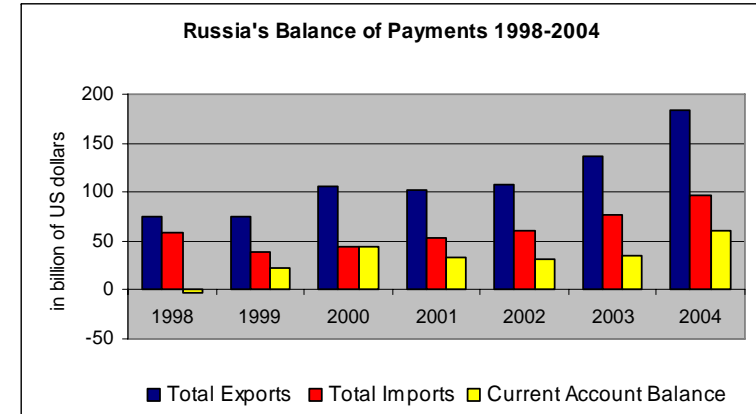


Source: IMF Russian Federation Statistical Appendix, October 2005

Raw materials, especially oil, natural gas, metals, and minerals, have dominated Russia's exports, accounting for 100 billion, or 56 per cent, of exports in 2004 (see figure 17). Exports as a whole are heavily concentrated in a few product categories – which is to say, ten commodities, all of which are raw materials, accounted for 70 per cent of Russian exports. By contrast, for the United States the top ten export commodities account for only 37 per cent of its exports.

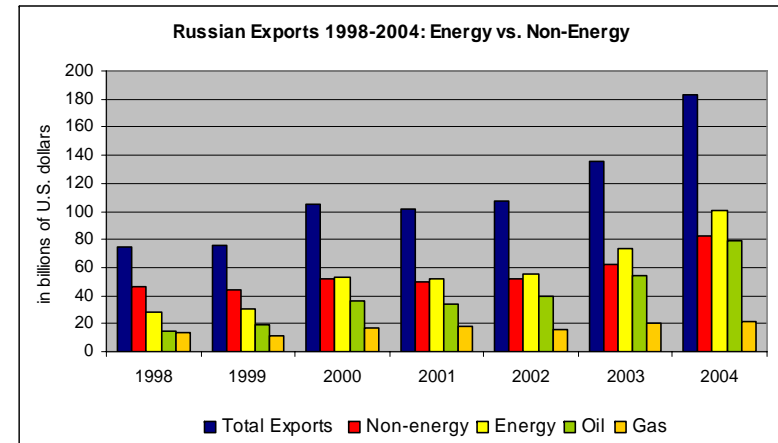
Trade Volume Data

Figure 16



Source: IMF Russian Federation Statistical Appendix, October 2005

Figure 17



Source: IMF Russian Federation Statistical Appendix, October 2005

Figure 16 shows the dominance of Russian exports and Russia's overall current account balance between 1998 and 2004. **Figure 17** examines the variance between non-energy and energy exports, namely oil and gas, as constituents of total exports.


Trade Volume Analysis

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.

The last few years has seen Russia benefiting from the increase in energy prices, but a reversal in the medium term is not improbable, and such price fluctuations, which are typical of raw materials markets, does make Russia's export revenue vulnerable to unforeseen change.

In the 1990s, Russia still maintained hybrid trade regimes with the other former Soviet states, reflecting the web of economic interdependence that had dominated commercial relations within the Soviet Union. The dispute with Ukraine over the New Year revealed that many of the non-Russian republics remain dependent on Russian oil and natural gas, timber, and other raw materials, for which they continued to pay subsidised prices. As Russia raises fuel prices closer to world market levels, the other republics are finding it increasingly difficult to pay for Russian oil and natural gas, and as a result Russian trade with the so-called 'near abroad' – the other former Soviet states – is likely to deteriorate.

Trade Volume Score

Indicator	Score
Trade volume	Between a lack of compliance with G8 norms and sporadic compliance 

Trade Restrictions

The Russian government finally eliminated quotas on oil exports in 1995 and export taxes on oil in 1996, but continued to use licensing and quotas to restrict the export of other key commodities in order to ease the effect of price differentials between controlled domestic prices and world market prices. Without such restrictions, Russian policy makers have argued, the domestic market would experience shortages of critical materials. In addition to customs restrictions, the government

imposes other costs on exporters. It charges a 20 per cent VAT on most cash-transaction exports and a 30 per cent VAT on barter transactions. It applies additional tariffs on the exports of industrial raw materials.


At the same time Russia also established a two-column tariff regime in harmony with the United States and other members the WTO, differentiating between those trade partners that receive most-favored-nation trade treatment and, therefore, relatively low tariffs, and those that do not.

Though Russia has eliminated many non-tariff import barriers in the course of its bid to join the WTO, it still maintains high tariffs and other duties on imports of goods to raise revenue and protect domestic producers. All imports are subject to a three per cent special tax in addition to import tariffs that vary with the category of goods. Some of the high tariffs include those of 40 to 50 per cent on cars and aircraft and 100 per cent on alcoholic beverages. Excise taxes ranging between 35 and 250 per cent are applied to certain luxury goods that include automobiles, jewelry, alcohol, and cigarettes.

Trade Restrictions Analysis

Russia needs to join the WTO because a third of its GDP depends on foreign markets, so it is interested in working out market rules. WTO membership is also a key driver for wider domestic reforms in Russia. Moscow emphasises the importance of increasing the role of foreign trade in its economy. It exempts members of the Commonwealth of Independent States from custom duties and taxes imports from countries with most-favoured-nation status, including the European Union, at base import-tariff levels. Russia's WTO accession bid has, since 1 January 2001, simplified Russia's system of import duties. But in the final stage of accession talks, in 2005, Russian negotiators at the same time signalled that the government would continue to use agricultural subsidies to boost competitiveness. Russia insists on supporting the national agricultural sector at a level of 9.5 billion dollars, with export subsidies at 0.7 billion dollars.

Trade Restrictions Score

Indicator	Score
Trade restrictions, especially in agriculture	Lack of compliance with G8 norms 

Energy Market Conditions and Policies

Russia, the largest country in the world, is destined by virtue of its wealth of natural resources to become a pivotal player on the global energy chessboard in the coming decades. 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.

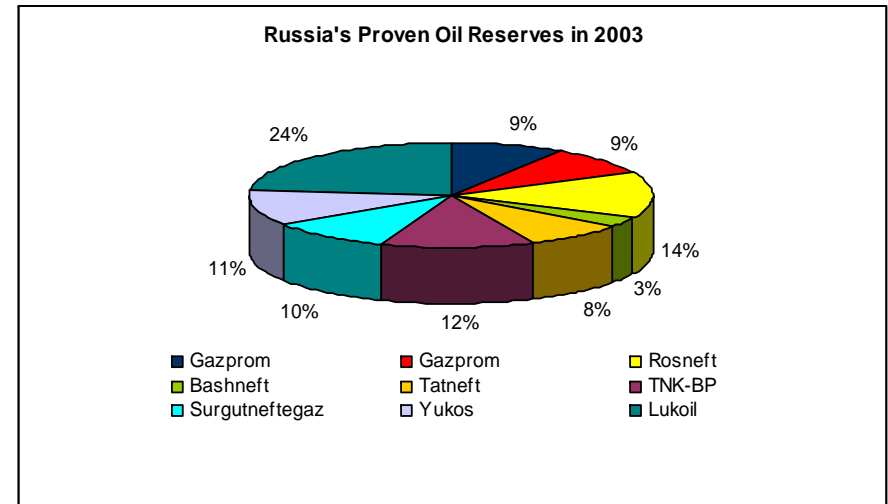
The Kremlin's deployment of energy for foreign-policy influence is primarily exercised within the civilized bounds of normal state-to-state power politics. At the same time, President Putin declares openly that Russia will reassert its rightful place on the world stage with wealth and influence built 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.

In the last quarter of the year, the government significantly increased its control of the oil industry in Russia to 30 per cent as a result of Gazprom's thirteen-billion-dollar purchase of Roman Abramovich's Sibneft in October.

Meanwhile the state-owned company Rosneft bought YUKOS's core production asset Yuganskneftegaz for a meagre sum of \$9.4 billion. (Rosneft was supposed to merge with Gazprom - but failed to do so, because conflicting factions within Putin's administration were unable to agree on merger terms.) Nevertheless, in the past twelve months, the Russian government has effectively carried out a partial re-nationalisation of the oil industry.

Energy Market Conditions and Policies Data

Figure 18 ²



Source: Energy Information Administration (EIA), John Grace

Figure 18 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.

Energy Market Conditions and Policies Analysis


Kremlin policy makers betray a disturbing inclination to bolster the state's influence in the energy sector, not to reduce it. Taxes on oil exports have been raised significantly and private oil companies complain that the higher export taxes are hindering efficient allocation of profits into exploration and development. State-owned export facilities have grown at breakneck speed, while private projects have grown more slowly or have been met with roadblocks by state-owned companies Gazprom and Transneft. The way the state-owned company Rosneft obtained the YUKOS unit Yuganskneftegaz is a

² Gazprom includes acquisition of Sibneft (4.6 billion bbl). Yukos does not include Yugansksk.

matter of concern, as is the fact that leading industry figures have come under criminal investigation by Russia's Procuracy General.

The government hopes that the removal of the 'ring-fence', which limits foreign share ownership of Gazprom, will finally allow the company to raise much-needed capital. But the consequences of a flawed reform package are serious. Gazprom provides subsidised gas to UES, Russia's electricity monopoly, meaning that price increase as part of a deregulation programme could make gas unaffordable for the Russian people, one fifth of whom are below the poverty line. The government also receives 25 per cent of its tax revenue from Gazprom, and breaking the company up could lead to similar problems of revenue collection as we have seen in the oil industry.

Energy Market Conditions and Policies Score

Indicator	Score
Energy market conditions and policies	Lack of compliance with G8 norms 

Discernable stance on key international issues

One of the reasons the other G8 leaders agreed, in 2002, to Russia's chairing of the group four years later was the hope that the Kremlin would learn how to build consensus and set the international agenda with its democratic partners. Without question Putin wants to use the G8 presidency to reclaim Russia's status as a world power. After the Gleneagles Summit in 2005, he announced that Russia would focus the debate on 'energy security', a concept that Russia and its partners may define in contrasting ways. Russia is a signatory to the Kyoto treaty, but is less interested in climate change than in 'securing' oil pipelines from the Caspian.

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 New Year dispute with Ukraine has 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.

Discernable stance on key international issues analysis

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 represents 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 marks 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 marked by deference to the United States and Europe's major countries. This arose both 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 is unlikely to cause controversy within the G8, but it is disconcerting that for the St Petersburg summit it is not following 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 is also blocking 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 Transdniestria, 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.

Nowhere is this more visible than in Central Asia and the Caucasus, where instability is spreading. If Dagestan, for instance, explodes it will make the war in neighbouring Chechnya seem like a minor security problem – which is, ironically, how the Kremlin always seeks to present it. Six years ago, Putin, as prime minister, launched a brutal military crackdown against Muslim separatists in Chechnya. The war won him the presidency, but it has also left tens of thousands of people dead, with no other discernible results. As Russian president, he cares very much about the country's status as one of the global system's great powers. So, in spite of a disastrous start, Russia's G8 presidency could be transformed into an opportunity to draw Russia irreversibly into global networks, on the G8's terms.

Discernable stance on key international issues score

Indicator	Score
Discernable stance on key international issues score	Lack of compliance with G8 norms 

Section III: Conclusion

When it was announced at the Kananaskis summit four years ago, Russia's G8 presidency was heralded as welcome proof of its fully-fledged membership of the global economic community. Yet, since 2002, Russia's domestic and foreign policies have thrown into question both the legitimacy of its G8 membership and the future shape of the organisation itself. The YUKOS affair focused international attention on Russia and unsettled international investor confidence whilst in the foreign policy sphere Russia has proved heavy-handed in Ukraine, an ambiguous Western ally of global pariahs like Iran and Syria and increasingly assertive in its Central Asian sphere of influence.

The key findings of the G8 Scorecard are 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, it is important to note the Kremlin view that Russia has as much democracy as it can have at this stage of its development, according to the pro-Putin analyst Sergei Markov. In the 1990s, the argument goes, 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 the defence and energy sectors, and to counterbalance 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?

Russia, of course, has every right to pursue and defend its national interests but the gas dispute with Ukraine has 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.

The G8 presidency in 2006 encapsulates a paradox: a Russia poised for integration and global leadership, but posing fundamental questions about its reliability and responsibility as a great power.

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RUSSIA'S IDENTITY CRISIS IN FOREIGN POLICY

Andrei Piontkovsky

£9.95

The fall of the Soviet Union sparked an identity crisis in Russia and its effects continue to influence foreign policy under President Vladimir Putin. Over the past decade and a half, Russia may have ceased to be an active enemy of the West. But it has still not become part of the West, nor has it entirely lost the anti-western instincts instilled by seventy years of communist rule.

Andrei Piontkovsky argues that Russia should vacillating between East and West, and that only by facing westwards can it achieve key foreign policy goals and secure a European identity for the twenty-first century.

PUTIN AND THE PRESS

THE REVIVAL OF SOVIET-STYLE PROPAGANDA

Oleg Panfilov

Translated by Maria Blake

June 2005

£4.95

The re-emergence of the traditions of Soviet propaganda since 2000 represents a new era for the Russian media and domestic policy. This development has been facilitated by the dominance of Soviet-era journalists: up to 70 per cent of those currently working in the mass media in Russia were Soviet educated or employed by the Soviet media, where propaganda and counter-propaganda were considered an important part of state ideology.

The widespread presence in government posts of Putin's former KGB and FSB colleagues has also fostered this revival of Soviet-style propaganda. Their actions and decrees are evidence of a belief that it remains essential for Russian society to be dependent on regular dosages of manipulated information for Russia, and the reign of President Putin, to endure.

PUTIN'S 'PARTY OF POWER' AND THE DECLINING POWER OF PARTIES IN RUSSIA

Andrei Kunov, Mikhail Myagkov, Alexei Sitnikov and Dmitry Shakin
April 2005
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After almost a year since the last State Duma election and Vladimir Putin's re-election, few people remember how many voters supported the part of power – United Russia – or the large gap between Putin and the runner-up, communist Nikolai Kharitonov. Opposition calls for a recount of the Duma election went nowhere, and many questions that came up as a result of the last electoral cycle remain unanswered.

Yet, many of these questions are crucial for understanding the present and future of the Russian electoral landscape, and hence the future of the country's democratic development. The Russian electorate is now far less predictable in its political preferences than in the first decade of modern Russian political history. Under such conditions, the prospects for the formation and development of an effective multi-party system appear quite bleak.

LOSING GROUND? RUSSIA'S EUROPEAN COMMITMENTS TO HUMAN RIGHTS

Jennifer Moll and Richard Gowan
March 2005
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Europe has long desired a Russia that is both stable and governed by a democratic rule of law. This pamphlet analyses recent trends in three areas of human rights observance in Russia: the right to free and fair elections, freedom of expression, and the right to due legal process and a fair trial. In each case, it identifies significant departures from Russia's international obligations in the Council of Europe and OSCE. The pamphlet also discusses Russia's troubled relationships with the OSCE and Council of Europe in order both to give policy recommendations for improving them and for advancing the protection of human rights in Russia.

KREMLIN ECHO: THREE VIEWS ON PRESIDENTIAL POWER, LAW AND THE ECONOMY

January 2005

£4.95

As the title 'Kremlin Echo' suggests, there are various interpretations of the effects of Vladimir Putin's policy on the rule of law in Russia, not only from abroad, but within the Kremlin walls as well. Andrei Illarionov, an Economic Advisor to President Putin, gave several scathing criticisms of Putin's reforms before he stepped down as Putin's personal representative to the 'Group of Eight' on 4 January 2005. His interview on 30 December 2004 on Ekho Moskvyy Radio has been translated by the Federal News Service and has been reprinted by permission of the Federal News Service and Ekho Moskvyy Radio.

In the preface, Andrew Jack explores President Putin's contest with Yukos as he tries to reassert his power over a broken system. Konstantin Sonin, in his piece entitled 'Putin's Rule of Law is Mere Rhetoric' analyses Putin's recent political reforms, and its repercussions on the Russian economy and Constitution.

ENERGY EMPIRE: OIL, GAS AND RUSSIA'S REVIVAL

Fiona Hill
September 2004
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On the back of windfall revenues from oil and gas exports, Fiona Hill argues that Russia has transformed itself from a defunct military superpower into a new energy superpower. Instead of the Red Army, the penetrating forces of Moscow's power in Ukraine, the Caucasus, and Central Asia are now its exports of natural gas, electricity, cultural products and consumer goods.

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April 2005

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About the Future of Russia Project

The 'Future of Russia' project is built around seminars, lectures, publications, media contributions and larger conferences on the future of liberal and pluralist democracy in Russia. The project takes recent Russian developments and Russian perspectives as its departure point, but grounds these in the broad principles of democracy and the commitments of Russia under its adherence both to the Council of Europe and OSCE founding documents. The main purposes of the Future of Russia Project are to expose to wider media scrutiny the reversal of hard won freedoms in Russia and to address the foreign policy dilemma faced by European leaders in relations with Russia as a result. That dilemma is how to protect and promote democratic principles in practice in the face of the visible retrenchment of basic freedoms in Russia, at the same time as advancing more traditional economic, security or geopolitical interests. The work of the Future of Russia Project is directed to making sound policy recommendations for action, followed up with appropriate public dissemination, especially through seminars and media coverage.

The Future of Russia Project features prominent figures from Russian progressive politics, as well as leading specialists and policy advisers from around the world. The project concentrates on the mechanisms by which Western governments, especially the UK, can revitalise the question of Russian democratic governance as one of the central issues of European politics today.

In late June 2005, the Foreign Policy Centre (FPC) hosted a series of briefings in London on political change in Russia as it affects three key policy areas: law and the abuse of power, tax and the economy, and politics and pluralism. The aim was to use the visit to Britain of President Putin for the G-8 summit in early July as a way of focusing more attention among key decision-makers in Britain on negative political trends in Russia. This pamphlet brings leading Russian and British scholars together in outlining a set of policy options for the Putin administration to consolidate progressive democratic and economic reforms.