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Reforms Loom in Russia 3.0

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Russia has entered a new political era by leaving behind both the 2000s and the 1990s. Vladimir Putin's return to power is not likely to be accompanied by a strengthened domination of one party and a new spread of corruption within the ruling class. Short of major international disturbances, the system is more likely to function as a gradual, state-controlled liberalization.

During the 1990s, Russia 1.0 transformed its institutions by eliminating what was left of the Soviet era and laying out foundations of a new system. Among them were privatization, macroeconomic stabilization, the new Constitution, continued elections and the leader's voluntary departure from power. However, Russia's first president, Boris Yeltsin, left a contradictory legacy and is still remembered by many Russians as a destroyer rather than a state-builder.

During the 2000s the political pendulum swung back. As the leader of Russia 2.0, Putin wanted to prevent state disintegration while preserving existing foundations for economic development. By integrating prominent members of the security elites within the ruling

structure, he helped to unify the previously divided political class. Putin also sought to gain people's loyalty by establishing political stability, new economic opportunities and social services. From 2000 to 2005, the average Russian saw a 26 percent annual growth in his income. Even during the global financial crisis, almost 80 percent of Russians remained satisfied with their living standards. The middle class now constitutes about 25 percent of the population, relative to 5 percent in the 1990s.

Yet the same middle class that Putin sought to develop has challenged his system. In addition, some within the ruling structure grew comfortable with Dmitry Medvedev as president and disliked Putin's decision to return to power. Still, few of those opposing Putin want to go back to the 1990s. Rather, they favor a more open political system, eradication of corruption and clear rules for business.

There are three main drivers of Russia's political change — the more politically active middle class, corruption and a new economic dependence on the West. Taken together, these three will pressure the Kremlin to reform the country's political and economic institutions.

Still, a radical break with the past is unlikely. Putin is here to stay as an integral part of Russia's political system. His indispensable role remains that of a broker between competing groups within the ruling elite. Following the country's political tradition, the decision maker rarely has the overwhelming power — Josef Stalin was the exception — and must perform the governing duties by cultivating his reputation of independence.

Under Russia 3.0, the middle class may enjoy more political openness, but the system of managed democracy is likely to be reformed rather than dismantled. New members of liberal and nationalist opposition, such as Mikhail Prokhorov and Dmitry Rogozin, are already partly integrated into the system — and largely on Putin's terms. Others will remain marginalized for the foreseeable future.

The elites with powerful business interests may have to submit to a tougher scrutiny as Putin is increasingly backing anti-corruption initiatives. Corruption is blocking development by discouraging investment. The establishment of a viable, administratively strong state capable of formulating and implementing long-term programs of social development is now critical for Putin to preserve power. One can therefore expect more crackdowns on federal and regional officials who view the state as a prey for their interests.

Finally, without major investments Russia can no longer rely on exports of raw materials in its modernization strategy. The new reality is that Russia is more dependent on Western investments and technologies than during the 2000s. WTO membership and new business deals, such as the one with ExxonMobil on drilling in the Arctic, are likely to create a more competitive, business-friendly environment for the Russian economy.

Although these drivers point to a controlled liberalization, there are important risks that may undermine the scenario. Such risks include a new wave of the global financial crisis, exacerbated tensions over the U.S. missile defense system in Europe and a further destabilization in the Middle East. Each of these risks has a potential to derail Russia's controlled modernization. In the Russian context, instability tends to strengthen the security hawks within the ruling elite. Because Putin remains a balancer, rather than a totalitarian ruler, he will be hard-pressed not to respond to their demands.

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