

Russian Federation Objectives for the 2002 Kananaskis G8 Summit

Background Information

- **Area:** 17,075,400 km²
- **Population:** 143,954,500 (as of January 1,2002)
- **Density of population:** 8.4 person per 1 km²

For its territory, the Russian Federation occupies the first place in the world, and for its population- the sixth place.

Government

- **State System of the Russian Federation:** The Russian Federation is a democratic legally based federal state with a republican form of government.
- **Capital:** Moscow
- **Administrative Divisions:** 89, including Republics 21, Territories 6, Regions 49, Autonomous areas 10, Autonomous region 1 and Federal cities 2.
- **Independence from Soviet Union:** 24 August 1991
- **New Constitution:** adopted on 12 December 1993
- **Major Political Fractions in the State Duma:** 442 deputies (as of January 28, 2002)

<u>Name</u>	<u>Deputies</u>	<u>% of Vote Received</u>
Communist Party of the Russian Federation (KPRF)	84	18.67%
Unity	81	18 %
People's Deputy	57	12.67%
Fatherland- All Russia	49	10.98%
Russian Regions- Unity of Independent Deputies	47	10.44%
Agrarian-Industrial	43	9.56%
Union of Right Forces	31	6.89%
Deputies Outside Factions	21	4.67%
Yabloko	17	3.78%
Liberal Democratic Party of Russia (LDPR)	12	2.67 %

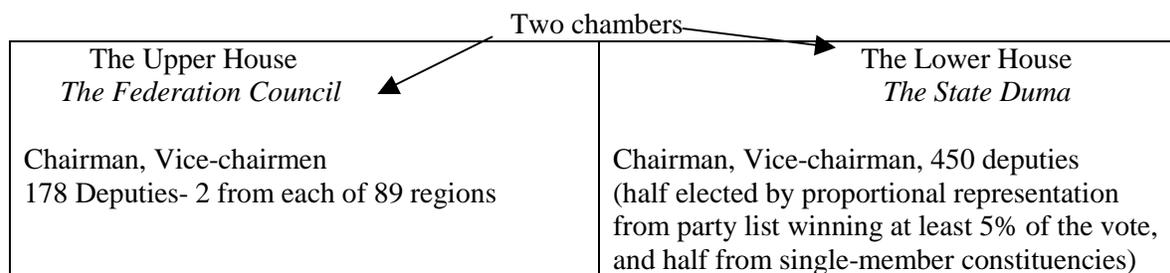
A party must clear the 5% threshold (of votes) to win a proportional share of the 225 party seats in State Duma.

Russian Political Institutions:

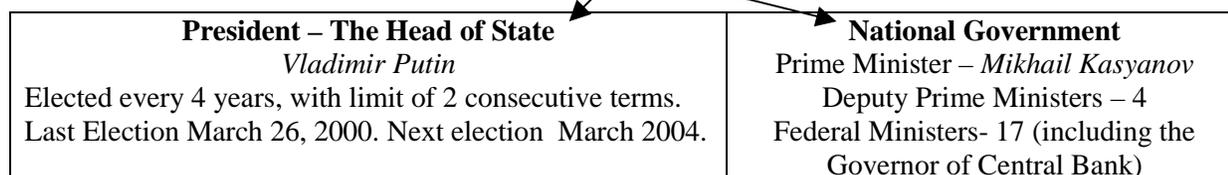
Legislature

Federal Assembly-Parliament

Elected every 4 years. Last election December 19, 1999. Next election December 2003.



Executive



Judiciary

Judges for all courts are appointed for life



Electorate

Citizens of the Russian Federation over the age of 18

Economic Data

Key Economic Data

- Some indexes are expressed both in Russian Ruble (Rb) and the in US\$ amounts, based on the average annual exchange rate.
- Economic figures for 2002 is expressed in projected values.

Indicator	2000	2001	2002(E)
Exchange Rate, year average	Rb 28.13: USD \$1	Rb 29.17: USD \$1	Rb 31.0: USD \$1
GDP	7,302.2 (bln Rb) \$259.6 (bln USD)	9,040.8 (bln Rb) \$309.9 (bln USD)	10,950.0 (bln Rb) \$353.2 (bln USD)
GDP per capita	50.2 (thou Rb)	62.3 (thou Rb)	\$2,446 (USD)

	\$1,785 (USD)	\$2,138 (USD)	
Inflation	20.6 %	18.6%	12.0%
Revenue	2,097.7 (bln Rb) \$74.6 (bln USD) 28.7% of GDP	2,674.0 (bln Rb) \$91.7 (bln USD) 29.6% of GDP	2,125.7 (bln Rb) \$68.6 (bln USD)
Expenditure	1,960.1 (bln Rb) \$69.7 (bln USD) 26.8% of GDP	2,407.5 (bln Rb) \$82.5 (bln USD) 26.7% of GDP	1,947.4 (bln Rb) \$62.8 (bln USD)
Exports	\$103.1 (bln USD)	\$100.7 (bln USD)	\$101.8 (bln USD)
Imports	\$33.8 (bln USD)	\$41.2 (bln USD)	\$59.9 (bln USD)
Current Account Balance	\$46.4 (bln USD)	\$35.1 (bln USD)	\$7.6 (bln USD) for first quarter
Capital & Financial Balance	- \$21.0 (bln USD)	- \$17.8 (bln USD)	- \$5.0 (bln USD) for first quarter
External Debt	\$143.4 (bln USD)	\$130.1 (bln USD)	\$131.818 (bln USD) as of May 2002
Unemployment	12%	9.2%	9.1%
Average per capita, monthly income	2,192.9 (Rb) \$77.96 (USD)	2,877.3 (Rb) \$98.6 (USD)	
Minimum subsistence level per month	1,210.0 (Rb) \$43.0 (USD)	1,500.0 (Rb) \$51.4 (USD)	
Population with money income below minimum subsistence level	42.3 mil people 29.1% of population	39.9 mil people 27.6% of population	

The Year since Genoa

Since the G8 Summit in Genoa, Russia has succeeded (due in large to international circumstances) in strengthening its global reputation for amiability and reliability, although most of the country's underlying domestic problems remain unresolved.

Foreign Policy

The end of 2001 and the first half of 2002 are particularly notable for the changes in Russian foreign policy. Encouragement of closer political and economic cooperation with the West is

central to President Putin's agenda. Realizing that self-estrangement will not help Russia restore its might and credibility, Mr. Putin keenly explores opportunities for greater Russian integration with the West.

The building of the international **counter-terrorism** coalition in response to the terrorist acts of 11 September 2002 acted as the catalyst for Mr. Putin to engage Russia in the concert of developed and democratic states. Immediately after the attacks, the President condemned terrorism and unequivocally offered Russian assistance to combat terrorism. Since then Russia has been involved in active domestic, bilateral and multilateral counter-terrorism processes and has received international praise for undertaking a multifaceted approach, which encompasses political, diplomatic, military, legal, intelligence, financial and humanitarian measures. If Russian government continues to institutionalize comprehensive anti-terrorist measures and contribute extensively to eradicating the threat of global terrorism, Mr. Putin will succeed in establishing Russia as a reliable partner in maintenance of international peace and security.

Another significant event, and indeed the milestone in Russian foreign policy, is the establishment on May 28, 2002 of the **North Atlantic Treaty Organization (NATO)-Russia Council**. Five decades ago on 4 April 1949, the North Atlantic Treaty was ratified providing for collective defense mechanisms against the Soviet aggression. Although after the fall of the Soviet Union the Cold War sentiments were considerably suppressed, the creation of the new NATO-Russia Council will once and for all close the chapter of post-Second World War East-West confrontation. Although Russian will not be granted full membership in the Alliance and will not take part in the military planning, it will nevertheless benefit from becoming a full partner for joint discussions on anti-terrorist activity, non-proliferation, civil emergency planning and other issues. This is a strategic change in the direction of Russian foreign policy that presents Russia with long-term opportunities to enhance the country's international credibility.

Given the direct correlation between politics and economics, Russia can become more attractive as economic partner if the government continues to enhance its political reputation. Ultimately, positive political initiatives will establish Russia as a more predictable place to do business and bring the government a step forward in Russia's quest to join the **World Trade Organization (WTO)**. However, to achieve complete Russian integration into the international systems, the Russian government has to implement decisive domestic reforms.

Domestic Conditions

The record of the Russian government in the realm of domestic policy is less impressive than in foreign policy. The pendulum of Russian domestic conditions swings wide and fast, sending mixed signals of success and failure.

Based on the above **economic figures** one can observe that Russia is experiencing slow but encouraging growth. In fact, in three years after the 1998 financial crisis, the GDP has grown by more than 20% and the volume of industrial production has increased by more than 30%. However, most of this strong economic performance is attributable to high oil prices and the effects of the 75% devaluation of the Rouble in 1998. Russia continues to carry a large burden of debt, about \$131 billion USD, and interest paid on it. At least 40 million of Russians still live in poverty, various regions suffer from crumbling infrastructure, access to high quality education and health care is restricted and there is a growing risk of an HIV epidemic. Unless these and other underlying economic problems are resolved, Russia will not achieve incremental and sustainable growth. Discussing economic reform in Russia will be President Putin's main focus during the G8 Summit in Kananaskis.

The **corrupt and inefficient bureaucracy** presents further complications domestically and internationally. According to the latest research by the INDEM Moscow Center for Applied Political Studies, Russians spend an estimated \$37 billion on bribes annually. This figure is comparable with the half of annual government revenue. Corruption is a feature of many activities in Russia and includes small bribes paid by drivers to traffic policeman, larger amounts of bribes paid to obtain appropriate health care and desired education services, and the biggest sums paid by companies to avoid taxes or obtain lucrative state contracts. Hence, corruption has become a characteristic of social relations that not only impedes the institutionalization of legal mechanisms to govern domestic activities but also makes Russia a less attractive country for foreign direct investment (FDI). In many fora President Putin has stated his commitment to enhance his government's anti-corruption policies and spare the bureaucracy of those that turn public service into business enterprise. Corruption is expected to be an important issue of discussion at the Kananaskis Summit.

Another area requiring immediate improvement is **domestic crime**. On May 31, 2001, during the Kremlin conference, President Putin stated that the situation with crime remains extremely aggravated. According to the Minister of Internal Affairs, Boris Glyzlov, there are 3 million crimes registered annually in Russia. Furthermore, there is neither enough money to maintain correctional facilities nor provide social rehabilitation programs to former inmates. This means that upon the expected amnesty crime is likely to grow. The public is denied a sense of personal security and has no confidence in the performance of law enforcement authorities. Consequently, crime has a direct impact on the social, economic and political processes, and if left unchecked will prevail as a destabilizing force for Russia. Implementing measures to fight criminal activities will be another topic of Putin's discussions at this year's G8 Summit.

Summit Objectives for Russia

During June 26-27 G8 Summit in Kananaskis, President Putin can be expected to make the following three issues the focus of his economic agenda:

1. Sustainability of Economic Growth

Given that economic integration of Russia into global economic systems is the central priority of Mr. Putin's agenda, it can be expected that much time will be dedicated to question of sustaining long-term economic growth. The discussion will presumably evolve around the following four themes:

(A) Improved Institutional Capacity to Govern Business Processes

The most fundamental requirement in the achievement of sustained economic growth is the bureaucratic reform. Corruption must be minimized and gradually eliminated as it presents a real obstacle to healthy economic environment. New businesses must be established and perform according to institutionalized business norms, principles and regulations, and not by means of paying bribes to attain protection on the market. Enhancement of accountability mechanisms will not only improve domestic economic activity, but also foster foreign investment into Russia.

(B) Enhanced Competition and Diversity of Business Sector

The Russian economy remains dominated by large enterprises that are predominantly dialing in natural resource sectors, known in Russian jargon as "pipeline industries". They enjoy their monopolistic market positions and thrive on the incredibly high profits. However, economic growth depends to a large extent on the competitive processes between large, medium and small-sized enterprises. In his joint Statement with President Bush on Developments in the US-Russian Economic Relationship, President Putin welcomed the establishment of supportive tax and regulatory environment for the development of small business in Russia. Expansion of business

sector will offer foreign firms to exercise greater competition on the Russian market and possibly maximize their profits.

(C) Implementation of Social Reforms

This particular objective will require the Russian government to employ a multifaceted approach addressing the issues of crime control, poverty reduction, enhancement of health and education systems, creation of better infrastructure and improvement of environmental management. These initiatives will help maintain viable conditions for political, social and economic activities both for Russians and for foreigners.

(D) Attraction of Foreign Capital

Assuming that the Russian government meets all of the above three basic conditions, the country may be able to see substantial injection of foreign capital. In 2001 foreign investment in the Russian economy amounted to \$14258 million USD, with the top three investing states being Cyprus \$2331 million USD, USA \$1604 million USD and UK \$1553 million USD. Furthermore, the United States has already assisted Russia in its quest to acquire international economic prestige when on June 7, 2002 Washington recognized Russia as a market economy. This is a powerful encouragement to the global business community signaling that they should begin expanding their activities in Russia. However, whether or not Russia is able to substantiate this by improved economic conditions is yet to be seen.

2. Fighting Terrorism

For a detailed record of Russia's counter-terrorism efforts, please refer to the Compliance Report available at www.g7.utoronto.ca

Russia is one of the key partners in the anti-terrorist coalition. Thus far the country has contributed significantly to fighting terrorism. At the domestic level, the government implemented new and amended existing anti-terrorism legislation, thus expanding the mandate of the authorities and providing for a more progressive institutionalized counter-terrorism approach. At the international level, Russia has been intensely engaged in multilateral fora, and, in concert with other governments, has contributed extensively to confronting the global challenge of terrorism. The Russian government is committed to persevere in strengthening existing and devising innovative instruments capable of uprooting terrorism. During the June 26-27 G8 Summit in Kananaskis, President Putin can be expected to discuss the following issues with respect to counter-terrorism regime:

- a. Prevention of domestic terrorism in Chechnya
- b. Provision of explanations to the international allegations against Russian forces for the violation of international human rights and humanitarian law in Chechnya.
- c. Enhancement of international measures to suppress the financing of terrorism
- d. Establishment of bilateral and multilateral treaties with respect to extradition and denial of protection under the political offense clause
- e. Development of early warning mechanisms based on reciprocal exchange of relevant intelligence information
- f. Implementation of effective measures to deter terrorism in Central Asia and Middle East
- g. Addressing pathology of terrorism, by depriving it of its social, political, economic, religious and cultural underpinnings.

3. Non-proliferation & Arms Control

Non-proliferation has always been a topic of Russia's discussion at the G7/8 forum. This year will not be an exception from the general rule. Central to Russia's enhancement of the non-proliferation regime is the signing on May 24, 2002 of the Treaty with the United States on

Strategic Offensive Reduction. According to the terms, both states should remove from deployment two-thirds of each nation's nuclear weapons over the next 10 years. This landmark agreement will help to further strengthen the nonproliferation programs by providing greater transparency related to nuclear missile inventories. However, there are more issues for Russia to discuss with respect to mechanisms of nuclear and arms control, which are likely to be discussed by Mr. Putin in Kananaskis:

- a. Encourage international community to provide financial assistance similar to the Nunn-Lugar fund, by means of which the US spends \$1 billion each year to help Russia improve security of its nuclear warehouses. According to Joseph Cirincione, a nuclear expert with the Carnegie Endowment for International Peace, the "greatest danger now isn't that Russia is going to attack the U.S. with nuclear missiles, but that some [radical] group is going to get its hands on the growing number of nuclear warheads stored in less-than secured conditions in Russia".
- b. Prevent rouge states from acquiring or developing nuclear arsenals
- c. Prevent potential nuclear disaster as a result of an escalated conflict between India-Pakistan.
- d. Explanation of Russia's cooperation with Iran. The West is concerned about Russia helping Iran build nuclear power plant, claiming that the latter can possibly use it to strike at the US. Thus, President Putin will have a job of convincing the G8 leaders that Russia's assistance to Iran is of economic nature and will not undermine non-proliferation regime.

Following an assessment of Russia's domestic and international policies for the period since the G8 Genoa Summit, and defining the focus of President Putin's agenda for the upcoming Summit in Kananaskis, it is possible to summarize 'what Russia wants to achieve' by citing the passage from *The Economist* dated May 18th 2002.

"The future [that] Mr. Putin is sketching out [includes]
an
economically capable Russia; not the superpower it once was, but a power among others, respected for the contribution it can make, not feared and quarantined for the damages it can do"

Sources

Asia-Pacific Economic Cooperation. *Economy Report- Russia*.
<http://www.apecsec.org.sg/loadall.ntm?http://www.apecsec.org.sg/member/memberecreport/russia.html>

Central Intelligence Agency. *The World Fact Book- Russia*.
<http://www.odci.gov/cia/publications/factbook/index.html>

CNN. *Analyst: N-deal Won't Protect World, 24 May 2002*.
<http://europe.cnn.com/2002/WORLD/europe/05/24/nuclear.deal.analysis/index.html>

CNN. *Bush, Putin Sign Arms Deal, 24 May 2002*.
<http://europe.cnn.com/2002/WORLD/europe/05/24/bush.europe/index.html>

CNN. *Iran Contract Overshadows N-deal, 24 May 2002*.
<http://www.cnn.com/2002/WORLD/europe/05/24/putin.bush/index.html>

Economic Expert Group. *Key Economic Indicators*. <http://www.eeg.ru/keyind.html>

Eduardov, Sergey. Russia's Business Remains to be a 'pipeline', 16 April 2002. *UTRO*.
<http://www.utro.ru/articles/2002041600531572876.shtml>

Izvertia-The National Newspaper. *Putin encourages to 'clean-up' law enforcement forces*. 31 May 2002. <http://izvestia.ru/politic/article18920>

Ministry of Finance of the Russian Federation. *External Debt of the Russian Federation, May 2002*. <http://www.minfin.ru/debt/may2002.htm>

Ministry of Finance. *Federal Budget, 2002*. http://www.minfin.ru/budget/05_2002.htm

Ministry of Finance of the Russian Federation. *The Structure of External Debt*.
<http://www.minfin.ru/debt/debt.htm>

Ministry of Foreign Affairs of the Russian Federation. *President Bush, President Putin Confident with Economic Cooperation*, 24 May 2002.
<http://www.in.mid.ru/website/bl.nsf/900b2c3ac91734634325698f002d9dcf/4f2dec60aab29bd343256bc30051e91e?OpenDocument>

Olding-Smee, John and Thomsen, Piul. *Putin at Mid-Term: Where Should Economic Reforms Go from Here?* 15 April 2002. *International Monetary Fund*.
<http://www.imf.org/external/np/vc/2002/041502.htm>

Radio Free Europe, Radio Liberty. *Russia: Corruption Continue to Thrive, Say Researchers*.
<http://www.rferl.org/nca/features/2002/06/04062002153833.asp>

Radio Free Europe, Radio Liberty. *Russia: Market Economy Recognized by U.S.*, 7 June 2002.
<http://rferl.org/nca/features/2002/06/07062002171521.asp>

Ross-Business-Consulting. *Minister of Economic Development & Finance, German Gref Provided Andrei Illarionov, President's Economic Adviser, on Prospective of Growth*, 21 May 2002.
http://top.rbc.ru/index.shtml?/news/daythemes/2002/05/21/21174805_bod.shtml

State Committee of the Russian Federation on Statistics. *Handbook 'Russia 2002'*.
<http://www.gks.ru/scripts/eng/1c.exe?XXXX09R.1>

The Central Bank of the Russian Federation. *Balance of Payments of the Russian Federation for the First Quarter of 2002(estimate)*. http://www.cbr.ru/eng/statistics/credit_statistics/

The Economist. *Anti-proliferation Wrangles*, 30 May 2002.
http://www.economist.com/displaystory.cfm?story_id=1154262

The Economist. *Russia's Economy*, 14 February 2002.
http://economist.com/displaystory.cfm?story_id=988911

The Economist. *Forecast*, 5 June 2002.
http://economist.com/countries/Russia/profile.cfm?folder=Profile_Forecast

The Economist. *Political Structure*, 19 March 2002.
<http://www.economist.com/countries/Russia/profile.cfm?folder=Profile%2Dpolitical%20Structute>

The President of the Russian Federation. Speech by the President of the Russian Federation V.V. Putin on fighting crime. 31 May 2002, Moscow. <http://www.president.kremlin.ru/events/559.html>

The State Duma of the Federal Assembly of the Russian Federation. *Deputies of the State Duma.* <http://www.duma.ru/deputats/fraction.htm>

To Russia for Love. The Economist. May 18th 2002: 11.

Trickey, Mike. *Cold War 'kaput' as NATO Brings Russia into Fold.* The National Post (Wednesday, May 15, 2002), A10.

Vasilik, M.A. *Political Science.* Moscow: Gardariki Publisher, 2001.

Vladimir Putin's Long, Hard Haul. The Economist. May 18th 2002: 24-26.

Vostok-Nafta Investment Limited. *The Russian Economy 2001.* <http://www.vostoknafta.com/swe/rapporter/redovisningar/vn00-01e.pdf>

World Bank. *World Bank Discusses Assistance Strategy.* <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20049293~menuPK:34463~pagePK:34370~piPK:34424,00.html>

Prepared by Yana Faynberg
University of Toronto G8 Research Group
June 2002