

The Contemporary Russian Economy

Marek Dabrowski
Editor

The Contemporary Russian Economy

A Comprehensive Analysis

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PREFACE

We offer an international textbook on the contemporary Russian economy for undergraduate and graduate students of various universities and faculties that teach Russian studies, the Russian economy, Russian politics, the economics of transition and emerging markets, international relations, and other relevant topics. Some chapters may also be helpful for post-graduate courses, academics, analysts, and practitioners in their daily work.

The textbook contains broad characteristics of the economic geography of Russia, its natural and human resources, the contemporary Russian economic history, institutions and governance, major sectors, a regional dimension, Russia's role in the global economy, and economic and social policy challenges. It consists of 19 chapters grouped into seven thematic parts.

Part I analyses the geographic conditions and natural and human resources that determine Russia's economic and social development. It consists of two chapters. Chapter 1, authored by Leonid Limonov and Denis Kadochnikov, contains the major geographic characteristics of Russia, its climate, natural resources, and transport infrastructure. Chapter 2, written by Irina Denisova and Marina Kartseva, deals with demographic trends, health, and education.

Part II is about the historical roots of the contemporary Russian economy. It also contains two chapters, both authored by Carol Scott Leonard. Chapter 3 presents the period of capitalist industrialisation and modernisation until WWI. Chapter 4 describes the period of communist industrialisation between the October Revolution in 1917 and the collapse of the Soviet Union in 1991.

Part III provides an overview of the institutional settings which determine the functioning of the Russian economy since the beginning of the 1990s. It contains three chapters. Chapter 5, written by Christopher Hartwell, discusses the constitutional foundations of the economic system and the role of government in economic activity. Chapter 6 of Marek Dabrowski analyses the factors that determine Russia's business and investment climate and

governance system. Chapter 7, authored by Alexander Radygin and Alexander Abramov, presents the evolution of the ownership structure of the Russian economy, corporate governance, and stock market.

Part IV is about the Russian economy's key sectors and Russia's regional diversity. It is composed of four chapters. Chapter 8, written by Svetlana Avdasheva, provides an overview of the structural changes in the Russian economy since 1992. Chapter 9 of Przemyslaw Kowalski is devoted to the energy sector, its evolution, and future challenges. Chapter 10 of Evgeniya Serova presents changes in the agriculture sector since 1992. Chapter 11, authored by Leonid Limonov, Olga Rusetskaya, and Nikolai Zhunda, deals with regional diversity.

Part V is devoted to Russia's role in the global economy, trade and investment relations with leading partners, and membership in international and regional economic and financial organisations. It also presents the negative impact of geopolitical choices and sanctions since 2014. It consists of three chapters. In Chapter 12, Arne Melchior analyses changes in trade flows and trade systems. Chapter 13 of Kalman Kalotay discusses foreign direct and portfolio investment, both incoming and outgoing. In Chapter 14, Marek Dabrowski and Svetlana Avdasheva analyse the subsequent sanctions against Russia since 2014, including an unprecedented package of sanctions that followed Russia's invasion of Ukraine in February 2022 and Russia's policy responses to these sanctions.

Part VI analyses the economic and social policy challenges faced by the Russian economy, such as the declining growth rate, sources of macroeconomic and financial vulnerability, inflation and monetary policy, fiscal policy and the tax system, labour market conditions, poverty and income inequality, the role of social policy and the public pension system, and others. It consists of four chapters. Chapter 15 of Ilya Voskoboynikov analyses the factors of economic growth in post-Soviet Russia. In Chapter 16, Marek Dabrowski discusses sources of macroeconomic vulnerability and the evolution of monetary and fiscal policies, including the tax system. Chapter 17 of Vladimir Gimpelson deals with the specific features of the labour market in Russia. In Chapter 18, Irina Denisova and Marina Kartseva analyse trends in living standards, poverty, and inequality in Russia and a broad spectrum of social policy measures and institutions, including a public pension system.

Finally, Part VII (Chapter 19), prepared by Marek Dabrowski and having a summary character for the entire volume, provides an overview of the changes in economic policy and the economic and governance system since the early 1990s. It also signals some development challenges the Russian economy may face in the forthcoming years.

One of the motivations for undertaking this project was to offer students worldwide and a broader academic and analytical community an updated picture of a contemporary Russian economy in the situation when similar publications were produced at least a decade earlier. When we started working on this project in 2020, we could not predict the dramatic and unexpected developments that shocked the entire world in February 2022, the war in

Ukraine. Instead, we were preoccupied with the potential impact of the COVID-19 pandemic.

Most chapters were written between September 2021 and January 2022, before the invasion of Ukraine and accompanying sanctions and counter-sanctions. Chapters 14 and 19 that deal extensively with this issue were written later—in May and June 2022. Some other chapters include last-minute updates that try at least signal potential consequences of the war and sanctions for the Russian economy. However, given the conflict’s far-going political and economic implications, the high degree of uncertainty and unpredictability concerning future developments, and lack of data, we know that the picture presented in some chapters may change substantially in the coming months and years. Nevertheless, we believe we provide a professional, honest, and correct analysis of how the Russian economy and Russian economic system looked and worked in the early 2020s.

An international team of 18 authors has prepared the textbook (see the ‘Contributors’ section for their bio notes), representing the highest expertise in the respective topics and having long experience analysing the Russian economy.

This textbook idea was born in the Higher School of Economics (HSE) in Moscow and its Faculty of Economic Sciences. Professors Evgenii Yasin and Yaroslav Kuzminov, Academic Supervisors of the HSE, were among those who inspired me to undertake this difficult task. The final thematic plan benefited from the comments of anonymous referees invited by the publisher.

At the stage of project implementation, Kristen Hartwell provided extensive assistance in language editing and editorial harmonisation of all chapters. My granddaughter Joanna Dabrowska, a fresh graduate of the University of Strathclyde in Glasgow, helped with their technical formatting.

This work also would not have been possible without the generous contribution of the Atlas Foundation, who provided a grant (number G-0486-22Q2-1) under their illiberalism programme, to allow for the English language editing of the final volume. Thanks are also due to the ZHAW School of Management and Law’s International Management Institute, based in Winterthur, Switzerland, which oversaw the administration of this grant on behalf of the Editor and the contributors.

The views and opinions presented in this volume are those of the respective authors only. They do not necessarily reflect the position of the institutions with which they have been associated and other contributors to this publication. Authors take sole responsibility for the content and scientific quality of the respective chapters. As the scientific coordinator and editor of this volume, I am responsible for its conceptualisation, thematic composition, choice of the authors, and overall editorial coherence.

Brussels, Belgium
June 2022

Marek Dabrowski

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ABBREVIATIONS

| | |
|--------------|---|
| AIDS | Acquired Immunodeficiency Syndrome |
| AO | <i>Avtonomnyi Okrug</i> (Autonomous District) |
| AZLK | <i>Avtomobil'nyi zavod Leninskogo Komsomola</i> (Lenin Komsomol Automobile Factory) |
| BMIE | Balance of Monetary Incomes and Expenditures |
| BRIC | Brazil, Russia, India, and China |
| BTI | Bertelsmann Stiftung's Transformation Index |
| CAATSA | Countering America's Adversaries Through Sanctions Act |
| CBAM | Carbon Border Adjustment Mechanism |
| CBRF | Central Bank of the Russian Federation |
| CEO | Chief Executive Officer |
| CET | Carbon Emission Trading |
| CIS | Commonwealth of Independent States |
| CIT | Corporate Income Tax |
| CMEA/COMECON | Council for Mutual Economic Assistance |
| CO2 | Carbon Dioxide |
| COP26 | (UN) Climate Change Conference |
| COVID-19 | Coronavirus Disease 2019 |
| CPRF | Communist Party of the Russian Federation |
| CPSU | Communist Party of the Soviet Union |
| CSO | Civil Society Organisation |
| EAEU | Eurasian Economic Union |
| EBRD | European Bank for Reconstruction and Development |
| EIUDI | Economist Intelligence Unit Democracy Index |
| EU | European Union |
| EUR | Euro |
| FAO | Food and Agriculture Organization |
| FAS | Federal Antimonopoly Service |
| FCL | Federal Constitutional Law |
| FCTC | Framework Convention on Tobacco Control |
| FDI | Foreign Direct Investment |
| FEHL | Far-Eastern Hectare Law |

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| FFMMI | Federal Fund for Mandatory Medical Insurance |
| FGC | Federal Grid Company |
| FHFIW | Freedom House's Freedom in the World |
| FHNIT | Freedom House's Nations in Transit |
| FLW | Food Loss and Waste |
| FPI | Foreign Portfolio Investment |
| FSB | <i>Federal'naya sluzhba bezopasnosti</i> (Federal Security Service) |
| FSU | Former Soviet Union |
| FTA | Free Trade Agreement |
| G20 | Group of Twenty |
| G7 | Group of Seven |
| G8 | Group of Eight |
| GATS | General Agreement on Trade in Services |
| GATT | General Agreement on Tariffs and Trade |
| GDP | Gross Domestic Product |
| GFC | Global Financial Crisis |
| GFSI | Global Food Security Index |
| GG | General Government |
| GNI | Gross National Income |
| GNP | Gross National Product |
| GOSPLAN | <i>Gosudarstvennyi planovyi komitet</i> (State Planning Committee) |
| GRP | Gross Regional Product |
| HBS | Household Budget Survey |
| HDI | Human Development Index |
| HFIEF | Heritage Foundation Index of Economic Freedom |
| HIV | Human Immunodeficiency Virus |
| HQ | Headquarter |
| ICLS | International Conference of Labour Statisticians |
| ICRG | International Country Risk Guide |
| ICT | Information and Telecommunication Technologies |
| IEA | International Energy Agency |
| IFS | International Financial Statistics |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPO | Initial Public Offering |
| IPR | Intellectual Property Rights |
| ISCO | International Standard Classification of Occupations |
| IT | Information Technologies |
| KBC | Knowledge-Based Capital |
| LNG | Liquefied Natural Gas |
| M&A | Mergers and Acquisitions |
| MET | Mineral Extraction Tax |
| MFN | Most Favoured Nation |
| MICEX | Moscow Interbank Currency Exchange |
| MNE | Multi-National Enterprise |
| NATO | North Atlantic Treaty Organization |
| NEP | New Economic Policy |
| NGO | Non-Governmental Organisation |
| NLMK | New Lipetsk Metallurgy Company |

| | |
|-------------|--|
| NWF | National Wealth Fund |
| OECD | Organisation for Economic Co-operation and Development |
| OJSC | Open Joint Stock Company |
| P/BV | Price-To-Book Value |
| PCA | Partnership and Cooperation Agreement (with the EU) |
| PISA | Programme for International Student Assessment |
| PIT | Personal Income Tax |
| pp | Percentage Point |
| PPP | Purchasing Power Parity |
| PSE | Producer Support Estimate |
| PSEDA | Priority Social and Economic Development Area |
| R&D | Research and Development |
| RAO EES/UES | Russian Joint-Stock Company ‘United Energy Systems’ |
| RCA | Revealed Comparative Advantage |
| RF | Russian Federation |
| RLMS-HSE | Russia Longitudinal Monitoring Survey of the Higher School of Economics |
| ROE | Return on Equity |
| Rosstat | Federal State Statistics Service |
| ROW | Rest of the World |
| RSFSR | Russian Soviet Federative Socialist Republic |
| RTS | Russian Trading System |
| RUB | Rouble |
| SAR | Special Administrative Region |
| SDGs | Sustainable Development Goals |
| SEZ | Special Economic Zone |
| SMEs | Small- and Medium-Sized Enterprises |
| SNA | System of National Accounts |
| SOE | State-Owned Enterprise |
| SPIMEX | Saint-Petersburg International Mercantile Exchange |
| SSIPSP | Statistical Survey of Income and Participation in Social Programmes |
| STRI | Services Trade Restrictiveness Index (of OECD) |
| SUE | State Unitary Enterprise |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| TFP | Total Factor Productivity |
| TFR | Total Fertility Rate |
| TICPI | Transparency International Corruption Perception Index |
| TNK-BP | <i>Tyumenskaya neftyanaya kompaniya</i> (Tyumen Oil Company)—British Petroleum |
| TRIPS | Trade-Related Intellectual Property Rights |
| UGSS | Unified Gas Supply System |
| UK | United Kingdom (of Great Britain and Northern Ireland) |
| UMMC | Ural Mining Metallurgical Company |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Programme |
| US | United States |

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|--------|---|
| USD | United States dollar |
| USE | United State Examination |
| USSR | Union of the Soviet Socialist Republics |
| VAT | Value Added Tax |
| VEB | <i>Vnesheconombank</i> (Foreign Economic Affair Bank) |
| WBDB | World Bank Doing Business |
| WBWDI | World Bank's World Development Indicators |
| WBWGI | World Bank's World Governance Indicators |
| WEFGCR | World Economic Forum's Global Competitiveness Report |
| WEO | World Economic Outlook |
| WHO | World Health Organization |
| WTO | World Trade Organization |
| WWI | World War I |
| WWII | World War II |

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