

# CRCE Briefing Paper

## **State Corporatism in Russia: An Outline of Main Features and Problems**

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**January 2013**

**Price: £10.00**

**ISBN: 978-0-948027-67-3**

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The CRCE would like to thank Annie Beadle and Kathryn Larin for their help in editing this paper.

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First published January 2013

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## **State Corporatism in Russia: an outline of main features and problems**

### ***The Nature of corporatism in Russia***

How successful has state corporatism been – or could still be – in Russia? In *Post-Soviet Affairs* (PSA 2012), I discuss the features that – in my opinion – characterise the Russian political regime as a corporatist state. The fundamental basis for corporatism lies in the way the three major economic parties – labour organisations, businesses and the state – through its structures – ensure the stability of the political arrangements together with economic and social development. Businesses of any scale are allowed to carry out their projects as long as they do not conflict with government's plans; but often they are also asked to support the latter. Hanson and Teague define Russian entrepreneurs as *doverennyi*; i.e. tacitly and respectfully conforming to government wishes (Hanson and Teague, 2008). The trade unions – an organization whose Soviet features reveal to be extraordinarily persistent – have never managed to become really independent. There are practically no tables/schedules for discussion of workers' claims and no open controversies. Strikes are uncommon. Powerful branch unions like that of metallurgists in Germany or machine building workers in Italy are unknown. The government has a major role in settling any dispute at factory level. The premier and/or the president are often called to large (system-forming, as they are often defined) factory plants to discuss specific problems. The way to settle them is, firstly, to pinpoint the “guilty” officials and, secondly, instruct line ministers and departments to intervene with measures ad hoc. President and premier are never deemed personally responsible – a situation that may be changing (see below) – in their role of benevolent “patronage”. There is practically no instance to my knowledge in which either one in their respective capacity/role was politically challenged by the workforce, as is often the case in our countries when loud and visible industrial action causes serious political concern. The way such relations work in Russia is through corporatist *do ut des* arrangements between managers, workers and their patrons worked out informally from above. Such agreements are, in part, a legacy from a planned economy and, in part an alternative to functional market-based institutions where agreements would be reached between concerned parties at the level of the organization – be that, as in Douglass North (1990), a financial or industrial group, a corporation, a party or a government agency. The alternative is ingenious in so far as the referee role played by the rulers makes them look indispensable.

These arrangements have worked well during the first two presidential mandates of Putin (2000-2008) and that of Medvedev (2008-2012) despite the obvious social challenges spurred by the 2008-10) financial crisis and the dramatic output fall in 2009 (-7.8% GDP y-o-y). Stability has been easily maintained during the years of strong growth, i.e. from 2000 until mid-2008, and thereafter, thanks to fiscal stimulus and populist policies – including rises in minimum wages and pension – in spite of ballooning federal budget deficits. These policies have allowed for the re-election of Putin to President of the Russian Federation (RF) in May 2012 (Putin III) pulled by strong social consensus that such policies, and their “operator”, were able to garner.

The question this paper raises is a) whether this power structure will be able to survive long enough – the time of Putin III’s mandate at least – to deliver on its promises and b) whether the formidable glue, stemming from a mix of hope and apprehension in society that keeps corporatist actors mutually supportive, will hold and foster corporatist/holistic arrangements or fragment into incompatible segments and demands. Corporatism lasted long in Italy and was interrupted, but not fully overcome, by WWII. It lasted longer in Spain and Portugal just to mention some European countries where the demise of the illiberal state structure occurred rather smoothly – certainly more smoothly than in the former USSR and Yugoslavia. The case for the dissolution of corporatist relations and their replacement by horizontal interactions among crucial players based on equal rules of the game, when independent interests mature with growth and become able to form their own organisations, is strong if interference from the state/government abates but not inevitable. Survival of corporatist relations based on political patronage for a certain, a priori undetermined, period is not impossible either.

Speculations about possible strengthening or demise of corporatism in Russia need to take into account a number of factors: structure of economy and trade, type of linkages between power and society, development strategies and goals, and last but not least ideology or ethos.

One need to note that, contrary to traditional corporatist states, Russia is an open economy. Corporatism in general benefited from a high degree of autarchy and state control of both the domestic economy and its international exposure. This is not the case of Russia that – taking into account all possible caveats – is an open market economy and, as manifested by the financial crisis, largely exposed to the world economy and price shocks. This is an obvious weakness from a corporatist point of view. After accession to the World Trade Organisation (WTO, on 22 August 2012) open market transactions and competition are likely to increase albeit along an altogether comfortable transition schedule (Connolly and Hanson, 2012). That has already provoked the formation of anti/WTO lobbies and protectionist pressures on the part of producers – not only from the laggard agricultural sector but also from well-established and influential branches and companies, be these state or privately owned. After accession to the WTO Russia should become a member of the Organisation for Economic Cooperation and Development (OECD), an organisation that despite having no conditionality attached to membership requirements (apart from a couple of conventions to be signed by future members) exerts moral influence. Evidence of this is that “name and shame” on mutually agreed best practices have become the rule and the ranking attached to any member country is increasingly exploited by economic analysts, as well as by peer countries and their business organisations. Putin’s promise to bring Russia’s shameful 120<sup>th</sup> ranking on “doing business” down to 20<sup>th</sup> during his mandate is an example of such “soft” pressures.

Interestingly, the issue as to whether the OECD may exert pressures for changes of the political construct that would be conducive to more democratic practice has also been raised. Though the Secretary General of the OECD reminded member countries that Spain and Portugal had been invited to join the organization – and became members – while still under

(more) authoritarian regimes, it is not to be ruled out that the approach may change vis-à-vis Russia and other countries in the future.

The first point this paper wants to raise is that corporatist arrangements, unlike authoritarian or totalitarian systems, need large and stable political consensus that the leader in charge cannot command unless supported by parties or movements that act as mediators with different groups and organisations. Corporatist systems have no greed for violence. They need legitimation through as large as possible consensus. Such systems can survive only if they can deliver on populist promises. This entails a high degree of state control on resources and their distribution that is not without cost. Mediation is also costly in so far as assuring loyalty to policy-makers has a price. In relation to Russia, the paper examines the nature and extent of support to Putin III's leadership provided by the Edinaia Rossia party and the All Russian National Front movement.

The second point I wish to raise is that corporatist arrangements – and support from below – need an ethos, a sentiment of identity and pride that is difficult to emerge unless society is urged to achieve far-reaching national goals or frightened by exogenous threats. In this regard, the paper examines the developments surrounding the concept of a Eurasian Customs Union (already in place) and a Eurasian Union (still *in fieri*) that unfolded rapidly (from the initial concept of a Single Economic Space-SES) precisely when Russia was coming close to WTO membership. While the Eurasian Union for the time being is rather an issue for discussion than a deed, other structures have been put in place that were largely unexpected to prepare for this development, such as the tripartite customs union of the RF with Belarus and Kazakhstan and the establishment of a supranational court in charge of trade disputes. More are on the way. Whether such developments point to Russia's effort to re-build the Former Soviet Union (FSU), or are part of a corporatist drive, as maintained in this paper is briefly discussed below.

The fundamental aim of this paper is to highlight among the current developments in both areas –internal and foreign policy – those hinting to efforts on the part of Putin III and its *doverennyi* elite to reinforce internal stability while also trying to control outward-looking pressures. The paper also discusses whether such developments have a defensive or aggressive nature. In other words actions are taken to try to withstand accelerated liberalisation in all areas including the political system stemming from a higher degree of international integration and interaction required not only by the WTO and the OECD, but also by independent businesses' exchanges; or aimed at boosting the role of Russia in the region and beyond.

During the years of the crisis, 2008-09 a modest but visible drive towards liberalisation, competition and innovation was stimulated by the failure of the Russian model of growth to resist its worst effects. This drive may continue to make its way through the intricate network of old and newly established institutions, organisations, innovation and privatisation programmers put together by Medvedev together with the intellectual debate it helped stimulate (Malle 2012). If so, corporatist structures may be endangered.

But it is also possible that efforts to fight foreign political and economic pressure, more than a rather weak internal opposition, in trying to amend fissures in the structure of power will increase paving the way for a nationalist turnaround. In trying to understand these developments the paper focuses on the changing nature of the political organisations designed to gather/maintain social consensus rather than on personalities and their respective individual allies.

The paper concentrates, firstly, on developments regarding the Edinaia Rossia party, the All Russian National Front and the creation of expert councils under the new open government approach by the government and presidential administration. Concerning the Eurasian project that is gradually unfolding, the paper discusses only those developments and goals that better help understand which strategy underscores the roadmap to the Eurasian Union pursued under Putin III.

***Edinaia Rossiia (ER): the party of power is losing power***

This party, created by Putin during his first mandate, grew fast over the years: in some ten years ER managed to open its own branches in all the regions (Malle 2012) and gained a considerable majority in the parliament. Putin never became a member of the Party although he is its indisputable leader. ER remains the majority party after the December 4 2011 elections with 49.3% of the votes representing 32,348,000 voters. The second and third parties in those elections were the Communist Party and Just Russia, respectively with 19.2% (12.5 million) and 13.2% (8.7 million) of the votes. The number of voters fell three percentage points compared to 2007 elections, but remained 5% higher than in 2003 when ER first emerged as the party of power. The threshold for representation remained at 7% of total voting established in 2003.

**Table 1.** Results of December 2011 elections. Number of voters: 60.2 percent of total having right

|  |      |
|--|------|
| Edinaia Rossia                         | 49.3 |
| KPRF (Communist Party)                 | 19.2 |
| Just Russia                            | 13.2 |
| LDPR (Zhrinovskii's Liberal-Democrats) | 11,7 |
| Iabloko                                | 3.4  |
| Patrioti Rossii                        | 1.0  |
| Pravoe Delo                            | 0.6  |

Source: RIANOVOSTI, 2001.

ER lost millions of supporter in 2011 compared with 2007 when it received 64% of the votes. Ironically, ER was even hoping to achieve a qualified majority at the 2011 election. That outcome is perhaps more revealing than the concomitant claim of electoral frauds whose

impact could have been important in a few cases/localities, but overall numerically insignificant. After a well-gearred campaign of alleged wrongdoing and theft against its members by part of the opposition, ER – from a Putin asset in earlier elections – evolved into a burden even if Putin was able to maintain a high rating despite the effects of the crisis on the economy and social welfare. In May 2012 Putin was elected with 64% of the votes. There have been a number of critical comments on the way the selection of candidates for the Presidency and both Duma and Presidential elections had been run. This paper does not wish to comment.

What matters politically is that the elections revealed that social support for Putin is much higher than support for ER: not only his charisma did not suffer from his diminished role as premier during 2009-2012 but possibly increased vis-à-vis the obviously weaker personality of Medvedev.

**Table 2.** Survey: Do you approve the slogan “Russia without Putin”, “Putin must go”

|                       | Dec.11 | Jan.12 | April.12 | June12 | Sept.12 |
|-----------------------|--------|--------|----------|--------|---------|
| Definitely approve    | 6      | 6      | 5        | 7      | 5       |
| Rather approve        | 15     | 15     | 14       | 15     | 14      |
| Rather disapprove     | 26     | 29     | 35       | 30     | 30      |
| Definitely disapprove | 35     | 32     | 31       | 32     | 31      |
| Difficult to answer   | 19     | 17     | 16       | 16     | 19      |

Levada Centre 8 October 2012 from <http://www.levada.ru/08-10-2012/protestnye-nastroeniya-rossiyan>

Putin III’s charisma, much alike that of former leaders of corporatist states in Europe last century, is crucial to the stability of the legally weak political arrangements that support corporatist structures. A corporatist state is unlikely to survive its “recognised and/or respected” leader. In other words, deprived of a charismatic leader the whole system is likely to collapse. This is probably the principal reason an agreement was quietly reached in September 2011 to propose Putin for President rather than Medvedev. Sergei Elkin’s cartoons<sup>1</sup> are probably more telling than any profound analysis about how society perceives the two personalities. An additional observation is that the collapse of corporatism does not entail *per se* sweeping democracy and – especially in Russia today – may even lead to much worse political developments.

The analysis of ER’s evolving fate may give some clues about the chances Russian corporatism has to develop peacefully into a more democratic system. The fact that Medvedev was pushed to assume the leadership of ER before the 2011 Duma elections and

<sup>1</sup> See Elkin daily cartoons in [www.polit.ru](http://www.polit.ru)

decided thereafter – contrary to Putin becoming a member – should not go unnoticed. It could be interpreted as a democratic development along the lines of western politics: therefore a fissure in the corporate construct of power. Being a member of a party implies taking responsibility for its achievements and errors. Medvedev made this clear accepting membership. More time is needed to see whether de facto this will occur and help streamline the party along a more liberal vision or whether Medvedev and/or ER will distance one from the other.

Recent developments suggest that the party is not at ease with Medvedev's leadership and personality. Preparing for regional elections and propaganda Sergei Neverov, the Secretary of the General Council of the ER and deputy speaker of the Duma, hesitated on whether to display posters featuring Medvedev in some regions (such as defence-related Krasnoyarsk). In the end it was decided not to feature the party's leader anywhere. On the other hand, Medvedev himself has tried more than once to distance himself from the party's poor image primarily in major urban areas.

Finally, a major development is the post-electoral clear lack of purpose/vision among ER members. Curiously ER has spent a long time undergoing a soul-searching exercise in which its members have been exchanging views on whether the party should move left or right without even reaching a preliminary conclusion on the eve of regional elections (Malle, forthcoming 2013). While ER seems incapable of giving a clear message to its electorate, according to a recent survey<sup>2</sup> for the first time up to 45% of Russians express their belief that the ER is corrupt and unreliable.

All in all, ER is losing power, self-esteem and political impact at both the federal and regional level. It could even break into factions. Does this mean that the Russian corporatist state is about to collapse? Looking at concomitant developments (discussed below) - at least until the end of Putin III's mandate, this is not likely to happen. Political stability until at least 2018 is very likely owing to a number of factors. Firstly, Putin remains the crucial anchor of the existing, and by and large accepted, Russian political construct; secondly, nobody in the political scene has offered a credible alternative and, thirdly, this order is necessary to carry out nation-binding and enhancing projects. A nationalist drive seems to be developing that practically nobody in Russia dares to challenge. Finally, Putin from mid-2011 has been strengthening the corporate pillars and alliances, in terms of state-businesses cozy relations he managed to build over his quasi-four presidential terms.

The possible fortunes of the parliamentary and extra-parliamentary opposition are minimal. Andrew Monaghan (2012) concludes that post-electoral developments rather show the end of the opposition era. It is worth noting that the best possible challengers to the existing order, billionaire Mikhail Prokhorov, on the one hand, and respected former Minister of Finance Alexei Kudrin, on the other, both ruled out to be part of the "opposition". For Prokhorov, the (liberal) opposition shamed itself over the years; for Kudrin, the problem is to work out

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<sup>2</sup> Levada Centre 27 August 2012 from <http://www.levada.ru/issledovaniya>



meaningful alternatives and frame them into a convincing political programme. Both have doubts about forming and running alternative parties (Malle forthcoming 2013).

***The All Russian National Front (ARNF): a suitable pillar for Russian corporatism?***

While ER is losing grounds, the ARNF, another of Putin's creature, is on the rise. The ARNF can be compared – with due caveats – to the Gran Consiglio del Fascismo (GCF- Great Council of Fascism) created by Mussolini in the early 1920s and increasingly used thereafter to bend and constrain the fascist party's power after several instances of wrongdoing and harassment of citizens by its bullies. Mussolini's resentment against the party came to the fore when the ebullient Farinacci became the Secretary of the Party in 1925 and was unable, or unwilling, to prevent local episodes of violence against Mussolini's will and instructions. In fascism's political order, the Party Secretary was second only to the supreme authority, that of the Duce (*Dux in Latin = Leader*), i.e. Mussolini. The GCF was finally turned into a constitutional body on December 9, 1928 and endowed with extraordinary powers such as to report to the Duce (and premier of the government) alone. Before continuing with some insightful parallels between fascism and Russian corporatism – one needs to highlight a major institutional difference. In Italy the Monarchy continued until the end of WWII, though *de facto* the king was more a nuisance than an obstacle to the plans of fascism. In Russia, developments after the 2008-2012 Medvedev's interregnum, weak leadership and subsequent changing roles provide a clear perspective on where the effective levers of power were consistently located from 2000 onwards.

Some similarities between the Italian and Russian corporatism could be telling about future developments in Russia. Notably, Mussolini chose to be the Duce, a leader above the party rather than its official head. Putin also refused identification with ER despite being seen as its leader. This is not accidental. It is, on the contrary, necessary to ensure the stability of the constitutional order regardless of who is the party secretary. In corporatism, to preserve legitimacy, the leader must be beyond any suspicion- while allowing for, or even directly exposing, party officials to public anger/disrespect. *De facto* such leaders are quasi-monarchs: they command respect as such.

As mentioned above, however, they remain political leaders that must deliver on their political promise. This is something monarchs by lineage would not be expected to do. Mussolini's corporatist state helped minimise the pains of the economic crisis in the 1930s. State intervention was large and hardly efficient, but (discriminatory) useful labour laws helped to curb rising unemployment. Corruption and criminal gangs were fought with some success in certain regions. As major scholars on fascism, such as Renzo De Felice (1966 and 1968) and Emilio Gentile (2005) have shown, populist policies and nationalism mattered a lot for public support to the Duce in the 1930s.<sup>3</sup>

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<sup>3</sup>In English see authoritative Renzo De Felice, [\*Fascism: An Informal Introduction to Its Theory and Practice\*](#) (ISBN 0878551905 (0-87855-190-5), Transaction Pub 1976

Interestingly, in this context one may wonder whether Russia, now on the edge of a new crisis, will be capable of delivering on Putin's populist agenda. Many in the Ministry of Finance are worried. It is worth noting that, at last, Putin's personal responsibility as a policy-maker is being questioned, if not challenged. For the first time in mid-2012 more than 50% of the population was found to consider that Putin bears responsibility for the problems of the country.<sup>4</sup> This is an interesting development that makes us wonder what the response from above might be.

Another parallel with Italy of the 1920s can be found between the GCF and the ARNF. Much like Mussolini's personal interest in creating and later empowering the GCF, Putin formed the ARNF in May 2011 to capture social consensus despite the crisis' follow-up in the expectation that Duma elections six months later could turn against ER in favour of even more populist parties, such as the communists and Zhirinovskiy's so-called Liberal-Democrats. It was Putin, in fact, that ordered ER to open its list to independent candidates, some of whom were selected under his personal instructions, and make room for those elected to sit in the Duma as de facto ARNF representatives.

With Putin III and in expectation of regional elections in 2012, the ARNF, under the direction of Vyacheslav Lysakov, tried to form its own branches in the regions – ideally separate from ER's own cells – in a search for autonomy and showing disdain for ER: a development that is still causing strains between the two organisations and ER in particular which is trying to achieve 50-50% of the vote versus 49% a year earlier.<sup>5</sup> The issue of granting the ARNF legal political status came to the fore in mid-2012 together with the empowerment of its (political) monitoring structures through the establishment of special bodies. Interestingly, while Putin refrained from taking political responsibility for ER – i.e. official leadership - he was tempted to take over the leadership of the ARNF but finally drew back while keeping strict control of its developments, much like Mussolini's policy vis-à-vis the GCF. It is too early to see whether the ARNF will manage to achieve a legal/constitutional status as the GCF did in Italy. It took five years for this body finally to be approved as a constitutional organ. It may take less time for the ARNF to attain legal status in Russia. Putin is clearly unhappy about the situation and needs to compromise, as demonstrated in Riazan where the ARNF's better placed candidate had to withdraw in favour of the ER's former governor on Putin III's instruction.

Putin may have more difficulty than Mussolini in his own time to master a rather loose and heterogeneous coalition of industrial and other groupings while also having to fight the rising chances of parliamentary and other opposition after the thresholds for party registration and representation were both lowered (Malle 2012). The disparate founders of the ARNF and ISEPI – a recently revived foundation of the Institute of Socioeconomic and Political Studies – are the Union of Transport Workers, the Russian Women's Union, the Freedom of Choice Union of Russian Drivers, the Union of Veterans of the Armed Forces, the AKKOR

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<sup>4</sup> Levada Centre, 27 August 2012 <http://www.levada.ru/issledovaniya>

<sup>5</sup> *Vedomosti*, 9 September 2012

association of private farms and agricultural cooperatives, the Russian Pensioners Union, Business Russia and FITUR (Federation of Independent Trade Unions of Russia).

Contrary to the Russian framework where Soviet-type associations are mixed with professional societies, the Italian corporations (*corporazioni*) had a definite professional character and a major claim: that to limit access to each profession. Market segmentation turned to be costly to consumers but, all in all, profitable to producers: an acceptable outcome perhaps in time of depression, but unfortunately a long-lasting one that even democratic or technocratic governments have been unable to fight.

The disparate Russian landscape of the ARNF and the often incompatible goals of each member association may be the reason why Putin – almost in parallel with Medvedev’s Open Government Initiative – set up a number of commissions, councils and bodies at the Presidential level aimed to interpret current developments and offer ad hoc solutions based on a broader country vision. Just to mention a few, on 16 July 2012 Putin set up a Commission to monitor economic socio-developments in the country, an Economic Council of experts on 20 July 2012 inviting eminent people to join and appointing respected MIT Ph.D. Xenia Yudaeva as a Secretary (and his current sherpa), as well as an ombudsman for businesses appointing to the job reform-minded Boris Titov of *Delovaia Rossiia*.<sup>6</sup> Many among the liberal-minded Russian intelligentsia have not rejected Putin’s offer to provide own advice on reforms. Through ARNF’s pulled aggregation from below and co-optation from above corporatist structures should consolidate in principle. What is still missing is a supra-nationalist ideology as evoked, for example, by the group formed around the Izborskii Club: an ethos capable of welding different groups around a cause rather than a personality.<sup>7</sup>

While some in the opposition are understandably critical of co-optation, others are diffident of the opposition’s nihilism and, in some cases, opportunism (Belkovskii, Milov, Ryzhkov, Kudrin, etc.). Co-optation, one of the most powerful pillars of corporatism, succeeded in attracting support to Mussolini from some eminent liberals including the philosopher Benedetto Croce. But the Duce did not have to struggle against the left-wing that had been politically crushed from the start of the Italy’s corporatist regime.

Putin III has a double task: to fight growing populism from the left – be that represented or not in the parliament, and to drive the country to modernisation within the narrow rails of an evolutionary model of development that is easier to proclaim than implement. Nationalism anchored to a state emboldened by far-reaching national strategies rather than ethnicity would better suit Putin III’s goal. Recently, in an interview Putin pointed to the *korennoi rossiiskii* (instead of *ruskii*)<sup>8</sup> *narod* as his base for consensus.<sup>9</sup> Interestingly, according to a Levada

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<sup>6</sup>See <http://news.kremlin.ru/news/15996/> and <http://en.rian.ru/business/20120621/174168935.html>

<sup>7</sup> On this Club and expectations/proposals from its members, see <http://www.zavtra.ru/content/view/izborskij-klub-2/> accessed on 8 October 2012

<sup>8</sup> See the different meaning – with *ruskii* being related to ethnicity and *rossiiskii* to state symbols -, in [http://www.gramota.ru/spravka/trudnosti/36\\_186](http://www.gramota.ru/spravka/trudnosti/36_186)

<sup>9</sup> See Aleksandra Samarina, “Novoe bol’shinstvo Vldimira Putina, 9 October 2012 from <http://www.ng.ru/printed/274195>

Survey, about 44% of Russian citizens would spontaneously take arms to defend their country if under threat.<sup>10</sup> The threat could be either immediate or highly probable. In either case the survey signals that the nation would move to fend off or prevent aggression.

### *A Eurasian vision to provide a nationalist ethos for corporatism*

Clear prospects on potential enmity coming from either aggressive economic competition or other threats of different nature (illegal immigration, drug trafficking, terrorism, perceived hostility on the part of other powers) provide good grounds for lasting corporatism. In this context, the paper draws attention to the Eurasian Union project enunciated by Putin as a priority soon after his candidacy to President was announced,<sup>11</sup> and reiterated after taking office for the Third Presidential Mandate. Lip service to the reconstruction of a Eurasian space was spent far back in the mid-90s after which nothing relevant happened. Some action was taken by Putin starting his presidential mandate in 2000. Under his first two mandates, a series of steps led to the concept, first, and creation later of the tri-partite Customs Union (CU: Russia, Belarus and Kazakhstan). The Duma ratified the agreements on the CU on 12 December 2010. The mastermind of this project had been Sergei Glaziev – a visionary technocrat and Secretary of the CU until V. Khristenko took over in 2011. To be noted, Glaziev is currently a member of Putin's Economic Council and his advisor on Eurasia.

The life of the CU has been punctuated by a number of disagreements, conflicts and lengthy/often inconclusive negotiations as well by many carrot and stick attempts on the part of Russia to convince Ukraine to join. There were also disagreements among the Russian authorities. Whilst Putin did not hesitate in threatening the G8 to withdraw from WTO time-consuming negotiations and resort to post-soviet free trade area agreements, not everyone in Russia agreed. Ex-post, Medvedev recognised that he had not given more than a 10% chance to the creation/viability of the tri-partite CU that, to his surprise – as he also admitted - helped increase intra-union trade by 36% in one year (125bnUSD: almost twice the trade with China). According to Khristenko, intra-CU trade increased more rapidly than trade with other foreign countries having also a positive impact on the structure of trade.<sup>12</sup> While compared to trade with Europe the intra-CU trade is just a fraction, it would be wrong to neglect the strategy underlying such developments.

The vision of a Russia-controlled post-soviet free trade area has strengthened over time. Whether this was in part due to excessive requirements imposed on Russia for the entry into WTO, as she claimed, or that belongs to Russia's post-imperial anxieties and revanchist sentiments is a matter for discussion. One point is clear. Eurasian economic institutions are gradually being put in place. A law on ratification of agreements to form a free trade area (FTA) within the CIS countries was signed by Yanukovich on 9 August 2012 despite

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<sup>10</sup> Survey published on 22 June 2012, see <http://www.levada.ru/22-06-2012/44-rossiyan-poshli-na-front-v-sluhae-voennoi-ugrozy-strane>

<sup>11</sup> See *Izvestiia*, 3 October 2011

<sup>12</sup> See <http://news.kremlin.ru/news/16050/>

Ukraine's resistance to join the existing tripartite CU.<sup>13</sup> Such agreements have been signed by almost all CIS countries. On their own those agreements in some countries could simply be a smokescreen to please big brother Russia, but a situation is developing where pro-CU feelings, as reported in Ukraine, may be increasing in tandem with the deterioration of economic prospects in Europe and intra-EU on-going squabbling.

On 1<sup>st</sup> July 2012 the Eurasian Economic Commission officially came into force with the aim to help, not only developing a free trade area that would compete with the European Union, but also working out a common economic policy.<sup>14</sup> Its council is composed of the deputy premier of each CU country. The Commission has the status of supra-national government concerning the CU and the single economic space in so far as it will have the power to appoint its own representatives within the union and abroad and sign international agreements when the Higher Eurasian Economic Council will start working. This structure - still in fieri - has been modelled largely on the EU. The Eurasian Union, as such, is expected to come in force in 2015.

Problems on the road to further Eurasian integration are already evidenced by the multifarious conflicts on import duties and true origin of intra-union tradables. Foreign countries are ready to exploit the loopholes of the existing CU to penetrate the larger Russian market. China in particular can more easily benefit by transporting its products to Russia and the West through Kazakhstan, thus depriving Russia of transit fees.

There are important questions regarding these developments this paper does not discuss, but wish only to address. How consistent is the Eurasian Economic Union project with Russian foreign policy as such? Is it a manifestation of antagonism against less than good relations with the West (reset, ABM strategy or other) or, on the contrary, a possible vehicle to improve foreign relations with some East-situated but West-orientated OECD countries? Is the Eurasian project an alternative to further integration with the European Union? Are long-term benefits of building a market-friendly Eurasian space high enough for Russia to be ready to bear the short-term costs of such a far-reaching project? Do the other two CU countries have the same interests as Russia regarding the Eurasian project? Could the Eurasian Project help provide a new vision of nationalism centre no longer only on Russia, but definitely on a broader all-embracing concept of Eurasia's uniqueness?

To answer these questions one would need strong evidence in support of either alternative. Unfortunately, there is more speculation than evidence so far although a number of issues are openly debated in Russia. Interestingly a large number of experts appear to be convinced that the Eurasian project will materialise. But it is not clear which priorities will be tackled first. Prospects of integration in the Pacific Region may be of more interest for OECD and EMEs in the region than what we believed years ago. As declared by Putin III in Vladivostok at the 2012 APEC meeting (Russia joined APEC in 1998 and has been a regular participant

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<sup>13</sup> See <http://en.rian.ru/world/20120809/175100605.html>

<sup>14</sup> *Rossiskaya Gazeta*, 2 December 2012

member), New Zealand and Vietnam have shown interest possibly to become associate members of the CIS' FTA.<sup>15</sup>

Russian experts and government agencies are actively engaging in trying to assess/simulate costs and benefits under different constraints where foreign policy and possible alliances as such play a major role. One such study has been worked out for Ukraine. According to one simulation (Development Centre on request from the Ministry of Economic Development) Ukraine would more easily get rid of current problems by joining the CU and improving trade with Russia than turning for help to the EU. The Higher School of Economics is currently working on a project on the Eurasian economic space together with scientific institutions situated in Hong Kong and Mainland China.

Russian experts have different views on the pros and cons of the Eurasian Project, but all in all seem to be favourable, though for diverse reasons and from different perspectives regarding the world order. In trying to build consensus for her Eurasian project Russia cannot – and does not – ignore security issues although there seems to be confusion on potential enmity. The most challenging points that have been raised by Russian experts on the Eurasian Project and its implications are discussed in (Malle, forthcoming 2013). They regard security issues, economic benefits and costs, investment in transport and infrastructure, prioritizing development in some regions, finding workable arrangements with less developed CIS countries and watching implementation, setting up special institutional frameworks for the development of Russian regions more exposed to competition from abroad.

Concerns for the North-Eastern borders with expansionary China are expressed by (Ivashentsov 2012; Inozemtsev 2012). On a similar vein, there are security concerns for the porous borders between some CIS countries and their neighbouring problematic states that Russia can hardly handle on her own (Ivashov L. July 2012). Focus on the accelerated development of Siberia and the Far East is the main concern of both presidential administration and government. There is no alternative for Russia for the accelerated development of better transport infrastructure in Siberia and the Far East: Russia is paying too much for imports from the Pacific region through longer routes (Baltic ports for instance) and waiving transit fees on exports from the East to European countries that could be raised if they were carried through her own territory.<sup>16</sup> Such development will need a special institutional framework, economic incentives and state investment, but also better relations with the more industrialised and advanced countries of the Pacific compared to China (Inozemtsev 2012; Ivashentsov 2012). They may also need the establishment of another capital – or at least special government agencies – in the East to facilitate businesses, but also a sense of drive in the long neglected region (Karaganov and Barabanov 2012). Counter-arguments based on perverse demographic trends, waste of money and diversion from more urgent problems and hopeless nostalgia for the past are also put forward (Lukyanov 2012, Aslund 2012).

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<sup>15</sup> See <http://news.kremlin.ru/news/16410/print>

<sup>16</sup> See Igor Shuvalov, "Russia's trade with APEC to exceed that of Europe in 5-10 years" (7 September 2012) from <http://www.kazinform.kz/eng/article/2492660>.

The debate is ongoing and no doubt other important issues, pros and cons will continue to emerge. One will need closely to follow these developments that may also impinge on the relations between Russian and the West. These relations may improve if the modernisation drive carries on together with openness to foreign investment and trade, but they could also worsen if Russian strategies are perceived as hostile and backward looking. In the first case, corporatism may evolve smoothly towards a more liberal order; in the other case it may consolidate with the help of nationalist sentiments artificially provoked or spontaneously originated in society.

### *A quasi-conclusion*

The viability of corporatism in Russia will depend on the capacity of the leadership to garner and keep social consensus and its ability to propose goals that would help rise and maintain a strong nationalist ethos. Corporatism needs a vision and more solid pillars than ER – or the opposition - offered so far. The ARNF may develop into a more solid organization in support of government projects in the region but needs time. A Eurasian Union focused on the development of the Asian part of Russia may offer new prospects and vision to people and businesses so far neglected by the government. A Eurasian Economic Space in the sense of co-ordination of economic/trade policy is a feasible – though time-consuming project, as the European Union (EU) shows. Compared to the EU member countries, a common language and to a certain extent heritage/mindsets should facilitate both negotiation processes and the reading between the lines that those entail. The accelerated development of Siberia and the Far East is to be seen as a historical, but not unique, break-through that will need time to deliver. Similar policies have been put in place in the past by western countries through the institution of “concessions” where private companies were assigned “state” powers in certain regions or the ruling authorities were offered privileges consistent with the maintenance of a favourable status-quo. Maddison (2007) provides examples of the pros and cons of those ventures in colonised countries. Perhaps that model is outdated today, but its main pillars – a different legal framework than in the more advanced countries- may still teach something. A flexible institutional framework for business in the central-eastern regions of Russia in preparing for further integration should not be ruled out. Contrary to colonisation practices, a special framework for development in Russia’s Far East could adapt to – take advantage of - local informal institutions along Steve Pejovich’s theory and insights on pathfinders (Pejovich 2008).

Since in no way could the Russian federal budget in the short term finance the infrastructure that is necessary for the take-off of the Eurasia Union project, public-private partnership projects will need to be pursued if necessary with sufficient state guarantees. Choosing the right partners – possibly large multinationals that cannot be bullied by the locals- would help to save time and boost efficiency. Western countries should not take sides against this project as a matter of principle. The EU that has little to offer nowadays should quietly monitor such developments while trying to take advantage from them. Western companies should decide what is good for them and bear responsibility. Let Russians learn from business ventures

rather than from bureaucracies. The Eurasian project should not be seen as the project of a single Presidential mandate, but as a generational visionary turning point aimed at pulling together capital and human resources to fight backwardness and spur growth. Much will depend on the ethos of mobilisation strategies. Whether this occurs along the vision of Russia helping to bridge West and East or, more likely, under pressure to withstand aggressive competition from the East and prepare to stem possible conflicts in the region may not matter to the average Russian. It may however change the vision of motherland among many: a point that relates to a nationalist approach that seems to be already developing in some government circles. Like cholesterol, nationalism can be either bad or good. It will be up to the leadership to be wise and choose what is good.

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