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# ECONOMIC MODERNIZATION OF RUSSIA: INTERNAL AND EXTERNAL FACTORS

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## *Abstract*

This article aims at indicating major internal and external factors which (could) potentially stimulate or impede economic modernization in Russia. The analysis of internal factors is based on the idea of two power centers (Vladimir Putin and Dmitry Medvedev), their unequal systemic capacities and capabilities, and Russia's specific ruling system. The analysis of external factors is performed according to the three-dimensional research strategy orientated towards critical analysis of Western modernization theories and exclusion of the ideological core of Western modernization, which is then compared with Russia's perception of economic modernization and its historical modernization traditions. Finally, the compliance of the EU and Russia's modernization concepts in 'Partnership for Modernization' and its perspectives are assessed, and suggestions for potential external incentives for Russia to modernize economically are given. The main argument of the article is that, in light of Russia's historical traditions of modernization and postulated importance of the country's sovereignty, the main driving force of modernization in Russia can be constituted exclusively by the ruling elite (i.e., modernization is internal and originates only „from above“).

## **Introduction**

Most of Western politicians and political analysts believed that the economic/financial crisis of 2008 will bring turmoil to Russian society. It was expected that the recession would put an end to 'tandem sovereign democracy' because, according to Seymour M. Lipset, the government could not manage to reconcile enduring societal cleavages, consequently, political legitimacy would be lost. However, the situation in Russia is quite stable and the

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country is showing fairly rapid economic growth<sup>1</sup>. The imminent critical economic conditions in Russia, it was thought, could be used by the European Union (EU): economic difficulties would compel Russia to start economic modernization in return for some stimulus from the EU, and, as a result, this would finally bring political liberalization (the essential premise of modernization theories). At first glance, it seemed that the EU finally started seeing Russia in the long-term perspective and not only in the light of profitable oil and gas contracts. Still, does economic development necessarily cause political liberalization? This question is relevant in both the theoretical and the practical senses. Theoretically, it would help sorting out the validity of economic modernization as a premise of democratization in the context of globalization. Practically, it would help to assess the following: 1) (Dis)similarity of attitudes of the EU (West) and Russia towards (economic) modernization; 2) Concepts/scenarios of economic modernization that exist in Russia, their relationship with political reforms and the impact of the politico-economic system; 3) Potentially rational external factors on the part of the EU in the context of theoretical logic of modernization processes. Therefore, the main *research object* is internal and external factors, which (could) impede/stimulate the process of economic modernization in Russia. The main *research problem* is formulated as follows: although both Russia and the EU understand and agree on the necessity of economic modernization in Russia, there are only few manifestations of real internal and external modernization incentives. Here, the wide spectrum of existing opinions towards the feasibility of Russian economic modernization should be mentioned while naming at least a few of them: 1) The idea of economic modernization in Russia is mere rhetoric used by the Russian elite in order to attract more investment, expand business with strategic economic sectors being closed from foreign influences; 2) There is no sense to talk about diverging modernization agendas of Vladimir Putin and Dmitry Medvedev, because the latter is not an independent power centre; 3) Modernization is not possible without liberalization of Russian energy sector, which maintains the political vertical and is the backbone of the economy; 4) Economic modernization is

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<sup>1</sup> Marketnews.lt, "Didžiausias ekonomikos augimas šiemet prognozuojamas Rusijai", [‘The Highest Economic Growth is Forecasted for Russia This Year’], delfi.lt, 2010 04 09, <<http://www.delfi.lt/news/economy/business/didziausias-ekonomikos-augimas-siemet-prognozuojama-rusijai.d?id=30886453>>, 10 04 2010.

extremely necessary for raising Russia's global economic competitiveness; therefore, the ruling elite is looking for the best developing scenario in order to keep the country's sovereignty and the politico-economic *status quo*; etc. Whereas modernization is a complex of processes influenced by many internal and external factors, one cannot confirm or deny any of these opinions *a priori*. Respectively, the *research goal* is twofold: according to Russia's political and economic structure, concepts of economic modernization and a critical assessment of the Western concept of modernization in comparison with the Russian one, this article aims at determining the main internal and external factors, affecting (impeding/stimulating) economic modernization in Russia. This goal rests upon the *hypothesis* that a certain complex of internal and external factors prevents economic modernization in Russia, whereby *internal factors* are these: 1) Different modernization agendas of two power centers (Putin and Medvedev); 2) Asymmetric systemic capacities of those two power centers to implement their modernization agendas; 3) Peculiarities of governmental system (uncontrolled bureaucracy). The *external factors* are as follows: 1) The discrepancy of the EU's and Russia's modernization concepts; 2) These non-complying concepts generate divergent objectives of modernization and measures to achieve them.

While presenting *research methods*, it must be noticed that the complexity, novelty and exploration of the aforementioned research problem encouraged author of this article to construct her *own research strategy*. Critical analysis of modernization theories in Part 1 of the paper is carried out according to three dimensions, highlighting the most important premises of the classical and the modern modernization theories. Such an analysis is necessary for the determination of major changes in theorizing about modernization, relevance of these theories today, the logic of modernization processes and the ideological core of Western modernization, which is later compared with the existing conceptions of modernization in Russia. Part 2 is devoted to an analysis of existing conceptions and scenarios of modernization in Russia while examining official governmental documents, speeches and the content of discourse of Russian academic elite according to four criteria. The conclusions of Part 1 and Part 2 respectively become the take-off point for the analysis of Parts 3 and 4, which explore the internal and the external factors of Russia's economic modernization.

## 1. The Western Perceptions of Modernization

### 1.1. Three analytical dimensions and their validity

It is quite a challenging task to analyze the interaction and peculiarities of Russia's political and economic systems through the prism of modernization theories because there are plenty of them, they have been heavily criticized and accused of ideological and imperialistic biases, etc. At least a minimum review is required if one wants to: 1) Understand the logic of modernization processes in general; 2) Assess the ideas of modernization, their appropriateness and legitimacy in shaping the EU's policy towards Russia; 3) See essential differences between the existing European and Russian perceptions of modernization; 4) Find out whether economic modernization of the European manner is possible in Russia and why. After studying some of the greatest works on modernization theories and their criticism, the theoretical review is accomplished in three dimensions:

- 1) *A brief overview of classical modernization theory, its evolution, core ideas and basic critical aspects.* This is important in order to understand the origin of the concept of modernization, its content, changes over time and relevance for an analysis of the contemporary economic modernization ideas in Russia.
- 2) *A brief overview of latest theoretical debates within the framework of modernization and globalization theories between convergence and cultural relativism theories; the importance of distinguishing concepts 'modernization' and 'Westernization'; search for the ideological core of Western modernization.* This is important in order to understand what lies behind the Western perception of modernization, whether this process is universal in its nature and compatible with Russian ideas of economic modernization.
- 3) *A brief overview of the logic of modernization processes, in particular, emphasizing the relationship between economic development and democratization.* This will help to reveal the underlying logic of 'Partnership for Modernization' initiative and to evaluate its validity.

### 1.2. The classical concept of modernization and its critique

The classical modernization theory reached its zenith during the period of decolonization. Since then the major concern for its key theoreticians and

practitioners has become the quest for differences between the 'traditional' and the 'modern' society as well as 'systemic' features that help solving problems of modernization and adaptation to changes. The essential starting point for this scientific quest was an assumption that, even though people are not equal, they all adapt to universal economic laws, which lead them through a unilinear historical trajectory towards a uniform modern state<sup>2</sup>. Later, researches began to take interest in the process of modernization *per se*, namely, investigating what preconditions are needed to become a 'modern society', which lead to the confusion of the concept 'modern society' with its evolutionary assumptions<sup>3</sup>. The classical perception of 'traditional' *vs.* 'modern' attracted much criticism in the ideological, the empirical, and the methodological senses. It is necessary to mention at least some of the most common critical aspects<sup>4</sup>: 1) The European modernization scenario is not the only one possible (given historical conditions are important); 2) Modernization is not a consistent evolutionary process (modernization may be full, partial, or 'stuck in a transitional phase'); 3) Specific characteristics of each society have different effects on the modernization process. Hence, the argument of the ultimate

<sup>2</sup> Cullather N., "Development Doctrine and Modernization Theory", *Encyclopaedia of American Foreign Policy*, 2002, <[http://findarticles.com/p/articles/mi\\_gx5215/is\\_2002/ai\\_n19132390/](http://findarticles.com/p/articles/mi_gx5215/is_2002/ai_n19132390/)>, 02 10 2010, p. 1. Jiafeng W., "Some Reflections on Modernization Theory and Globalization Theory. Commemorating the Twentieth Anniversary of Luo Rongqu's Thesis "One Direction with Multiple Paths in History", *Chinese Studies in History*, vol. 43, no. 1, fall 2009, p. 72–98, p. 78.

<sup>3</sup> Eisenstadt S. N., "Studies of Modernization and Sociological Theory", *History and Theory*, Vol. 13, No. 3, October 1974, p. 225-252, p. 227-228.

<sup>4</sup> Tipps D. C., "Modernization Theory and the Comparative Study of Societies: A Critical Perspective", *Comparative Studies in Society and History*, Vol. 15, No. 2 (Mar., 1973), p. 199-226. Eisenstadt, (note 3) p. 238-250. Rukavishnikov V. "Sociological Aspects of the Modernization of Russia and Other Post communist Societies", *Russian Social Science Review*, Volume 37, Number 2, March-April 1996, p. 37-57. Kreuzmann H., "From modernization theory towards the 'clash of civilizations': directions and paradigm shifts in Samuel Huntington's analysis and prognosis of global development", *GeoJournal* 46, 1998, p. 255–265. Blaney D. L., Inayatullah N., "Neo-Modernization? IR and the Inner Life of Modernization Theory", *European Journal of International Relations*, 2002, Vol. 8(1), p. 103–137. Cullather, (note 2) p. 2. Acharya A., Buzan B., "Why is there no non-Western international relations theory? An introduction", *International Relations of the Asia-Pacific*, Volume 7 (2007), p. 287–312. Jiafeng, (note 2). Inglehart R., Welzel C., "How Development Leads to Democracy", *Foreign Affairs*, 00157120, Mar/Apr2009, Vol. 88, Issue 2. Inglehart R., Welzel C., "Which Way Is History Marching? Debating the Authoritarian Revival", *Foreign Affairs*, 00157120, 2009 07 01, Vol. 88, Issue 4. Granin Y. D., "Modernizing Russia", *Herald of the Russian Academy of Sciences*, 2010, Vol. 80, No. 6, p. 534–539, p. 534-536.

institutional convergence of all developing societies is difficult to justify because of the existing different cultural and historical conditions, phases of developmental disruptions, etc.

As it has already been mentioned, modernization studies became the primary focus of attention of Western scholars during the period of decolonization. Scholars were looking for ways to improve the situation and reduce marginalization of newly emerged states relative to the developed Western world. This led to the assumption that impetus in one societal sector should lead to changes in others. In order to create that impetus, foreign aid or investment could be used. In this context, one of the most popular models, which could create that initial push and start modernization, was the five-stage development model proposed by Walt W. Rostow<sup>5</sup>. Eventually, developing countries began to realize their own development processes not through the prism of development but *underdevelopment* (the so-called dependency theories). This means that as the basic unit of analysis, the state was shifted to the global world order and its impact on the development of individual states. Global system models of this kind put special emphasis on the global economic hierarchy as a key principle determining local conditions of a state, its (under)development, and whether it had a leading or peripheral status on the global scale<sup>6</sup>. One of the most cited authors in this context is Immanuel Wallerstein, who has identified two already historically manifested world systems: world empires and world economies<sup>7</sup>. Wallerstein posited capitalism as a key economic principle, whose vitality over the past five hundred years has been assured by a variety of political forms and their absorbing capacities. The spread of technology and geographic division of labor determine to which of the three zones of the world economy state will belong: core, semi-periphery or periphery. Wallerstein's essential goal is a clear separation from mod-

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<sup>5</sup> Rostow W.W., *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge: Cambridge University Press, 1960, p. 4-16. Kreutzmann, (note 4) p. 256. Rostow's model received much criticism because of its ideological justification of imperialist ambitions, excessive simplification of social reality, and impracticability.

<sup>6</sup> Cullather, (note 2) p. 14. Granin, (note 4) p. 534. Jiafeng (note 2). Kreutzmann, (note 4) p. 257-258. Inglehart, Welzel (note 4) 2009 03/04. Inglehart, Welzel (note 4) 2009 07 01.

<sup>7</sup> Wallerstein I., *The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century*, New York: Academic Press, 1976, p. 229-233.

ernization theories and a proposition of a new way to see and analyze capitalism, industrialism, processes of emergence of nation states and their development<sup>8</sup>. Here it is important to note the overlap of the modernization and the globalization theories – they both help analyze development trends of the modern world. In general, the concept of modernization now is comparable to, perhaps even interchangeable with, the concept of globalization<sup>9</sup>.

A brief presentation of origins, content and changes over time of the classical modernization concept should help us in specifying how and why this concept is still relevant in the analysis of contemporary Russian economic modernization ideas. In particular, nowadays differences between the ‘traditional’ and the ‘modern’ societies, ‘systemic’ features, that help solving problems of modernization and adapting to changes, and preconditions of the ‘modern’ society are being actualized *only when* analyzing the state’s ability to adapt to the globalization processes, i.e. to find a suitable niche in the global world, whose functioning is based primarily on economic principles. This suggests that contemporary processes of modernization in any country can no longer be analyzed in isolation of the globalization impact on them. It is assumed that economic modernization in Russia has become especially necessary after the 2008 economic/financial crisis, which exposed the very ‘traditional’ Russian economic structure, i.e. heavy dependence on exports of primary natural resources without adding any value. Regardless of the degree of state intervention in the economy and due to globalization, no country is able to prevent similar crises of happening from within, because, in order to participate in the global economy, national companies must internationalize and start working on the transnational level. This is why states look for their niche in globalization processes and meet not only advantages of such a performance, but

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<sup>8</sup> Skocpol T., “Wallerstein’s World Capitalist System: A Theoretical and Historical Critique“, *American Journal of Sociology*, 1977, Vol. 82. No.5. p. 1075-1090, p. 1075.

<sup>9</sup> Rukavishnikov, (note 4) p. 55. Thompson H., “Culture and Economic Development: Modernisation to Globalisation“, *Theory & Science*, 2001, <<http://theoryandscience.icaap.org/content/vol002.002/thompson.html>>, 13 12 2010. Such an argument is based on the idea of ever growing global consensus on the legitimacy of liberal democracy and liberal peace: modernization theories cover liberalism and globalization theories cover neo-liberalism, the essence of which is the limitation of government’s regulatory functions and the free movement of capital. More information in Fukuyama F., “Capitalism & Democracy: The Missing Link“, *Journal of Democracy*, Volume 3, Number 3, July 1992, p. 100-110, p. 100; Blaney, Inayatullah, (note 4) p. 103; Jiafeng, (note 2) p. 79.

also serious problems. Such problems become very urgent, especially for those countries, which perceive the globalization phenomenon as relatively new for they have not participated in it previously. This renders the country incapable of taking part in the process of global cooperation rulemaking (which actually means only absorption of the already established rules). Since globalization is primarily based on economic relations with all other cooperation areas being built on it, it is unclear how much economically (and consequently culturally and politically) the country should open itself to the influences of globalization (or to what extent it is worth to adapt to and to adopt global economic rules and institutions). It is a very relevant issue for Russia, since the beginning of modernization, in comparison with Western countries, was late enough and there were huge developmental interruptions. Hence, what could/should be done if the country had found itself in a situation like this one? In fact, the Russian ruling elites are aware of the incompatibility of the globalization process and the idea of 'national sovereignty', even though they often try to hide it under the rhetoric of their 'own path of development'. The elites also understand that the most convenient and easiest way to influence global processes to resort to *iron laws of economics*. However, this requires certain economic capabilities, shortage of which is most starkly revealed by wars, natural disasters or economic crises. The simplest way out of this kind of the situation, already acknowledged by the ruling elite as well, is economic modernization.

To sum up, the analysis of modernization processes in any country can no longer explicitly rely on the assumptions of the classical modernization theory, because modernization is *not* a process taking place in all countries by the same Western scenario, moving by the same linear historical trajectory and culminating in overall institutional assimilation. It is more important to emphasize the merger of the modernization and the globalization concepts and processes and their mutual impact on each other. In this context, the analysis of Russia's modernization ideas becomes more efficient and rational if the debates between convergence and cultural relativism theories are taken into account. It allows us to see the difference between 'modernization' and 'Westernization' concepts and to identify the ideological core of Western modernization. The latter, then, is compared with the prevalent ideas of economic modernization in Russia.

### **1.3. The debate between theories of convergence and cultural relativism: modernization, 'Westernization', or both?**

The permanent high-tech development and democratization processes have encouraged active studies of modernization in the non-Western world. The main question of contemporary modernization studies can be formulated as follows: will developing non-Western countries modernize in a similar manner and achieve similar results as Western countries, or will they use entirely different modernization strategies? In summary, two main participants/schools are clearly visible in this debate –convergence theories and theories of cultural differences<sup>10</sup>.

The most notable proponent of the convergence theories is Francis Fukuyama. According to him, modernization is a linear process with a certain direction that culminates at the stage of political democratization in the form of liberal democracy. The most important factors here, Fukuyama argues, are science, public education and 'struggle for recognition'; hence, it is not sufficient to explain the link between economic growth and democracy only in economic terms<sup>11</sup>. Eventually, natural sciences homogenize all societies; therefore, history and cultural heritage is no longer so important. In addition, all countries affected by economic modernization undergo similar stages: they unite on the national basis and become a centralized state; they urbanize; they replace traditional forms of life (e.g. tribe, sect, family) with economically rational, efficient ones; they provide people with education opportunities<sup>12</sup>. States (states are the main actors in international relations, not civilizations), acting in the global economy, get similar to each other because of the culture of mass consumption, and those trying to resist such forces of history are about to lose not only considerable technological, economic, military and

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<sup>10</sup> Florig D., *Democratization in the Pacific Research*, Chapter 2: Modernization, Westernization, and Democratization, 2000, <<http://www.dflorig.com/CHAP2.html>>, 01 03 2011. Blokker P., "Post-Communist Modernization, Transition Studies, and Diversity in Europe", Presentation at the CEU-EUI Annual Conferences on *Intercultural Dialogue in History: Europe through Culture*, Budapest June 2-3, 2005, p. 2-4. Rukavishnikov, (note 4) p. 53-55. Tsygankov A. P., Tsygankov P. A., "National ideology and IR theory: Three incarnations of the 'Russian idea'", *European Journal of International Relations*, 2010, 16(4), p. 663-686, p. 665.

<sup>11</sup> Fukuyama, (note 9) p. 106. Fukuyama F., *The End of History and the Last Man*. New York: Penguin, 1992. Fukuyama F., "Confucianism and Democracy", *Journal of Democracy*, 6.2 (1995), p. 20-33, p. 21-22.

<sup>12</sup> Fukuyama, (note 11), *The End of History and the Last Man*) p. xiv-xv.

political advantages, but will eventually stay in the shadow of the more progressive counterparts<sup>13</sup>. However, while analyzing Fukuyama's ideas, it is very important to emphasize not so much their uniqueness, but rather the straightforward statement and declaration of superiority of the Western way of thinking about modernization and democratization: it is argued that modernization, 'Westernization' and democratization are the components of one linear process, leading to the assimilation of Western and other cultures<sup>14</sup>.

The major opponents of convergence theories in modernization debate are theories of cultural differences, and one of the most prominent of their representatives is Samuel P. Huntington<sup>15</sup>. According to him, although the processes of modernization in different countries may have some similarities, cultures are able to maintain their unique characteristics. In other words, the claim that modernization is equal to 'Westernization' is attacked. For Huntington, Western civilization is just one of seven/eight civilizations. The civilization is perceived as more than just a culture (at the same time, it is a way of thinking and life, philosophical heritage, etc.). Differences between civilizations remain very important even if modernization processes, such as industrialization, urbanization, rising literacy, education, welfare, social mobilization, various and complex structures of labor division, technically rational ways of thinking, economic structures for high-tech production, socio-political institutions for the public participation in global economy and modern technological development, are undergone<sup>16</sup>. Although these features of modernization may unify societies to a certain extent, this does not mean that they will be completely homogenized. This argument is based on the rationale that West-

<sup>13</sup> Fukuyama F., "Westernization vs. Modernization", *New Perspectives Quarterly*, Volume 26, Issue 2, 24 April 2009, <<http://onlinelibrary.wiley.com/doi/10.1111/j.1540-5842.2009.01080.x/pdf>>, 01 03 2011, p. 88. Fukuyama approach is supported by Gat A., Deudney D., Ikenberry G. J., Inglehart R., Welzel C., "Which Way Is History Marching? Debating the Authoritarian Revival", *Foreign Affairs*, July/August 2009, Volume 88, Number 4, <<http://www.foreignaffairs.com/articles/65162/azar-gat-daniel-deudney-and-g-john-ikenberry-and-ronald-inglehar/which-way-is-history-marching>>, 01 03 2011.

<sup>14</sup> Florig (note 10). Kreutzmann, (note 4) p. 256-257. Blaney, Inayatullah, (note 4) p. 105-107.

<sup>15</sup> Huntington S. P., "The clash of civilizations?", *Foreign Affairs*, Summer 1993, Volume 72, Number 3. The review of Huntington's ideas and works is submitted in Fukuyama (note 13). Other representatives of this approach – Blokker, (note 10) p. 5; Kreutzmann, (note 4) p. 260; Blaney, Inayatullah, (note 4) p. 105.

<sup>16</sup> Huntington S. P., "The West: Unique, Not Universal", *Foreign Affairs*, November/December 1996, Volume 75, Number 6.

ern civilization is characterized by a unique set of cultural properties<sup>17</sup>, accumulated over many centuries before (and after) Western modernization in the 18<sup>th</sup> century. This unique cultural heritage gave rise to certain Western social and political values, not to be found anywhere else in the world: individualism, freedom, human rights, equality, free market, separation of state and religion, representation, idea of universal civilization, rule of law, democracy<sup>18</sup>. Huntington argues that even though civilizations may have some similar modernizing trends, Western combination of values, highlighting ones at the expense of others and their interaction, is unique and typical to the West only<sup>19</sup>. Thus, their universality is strongly questionable<sup>20</sup>.

The answer in the debate between Fukuyama and Huntington probably lies somewhere in between. The existence of modern economic corporations and other structures, as well as global communication, does not guarantee convergence in the economic sphere; hence, the transfer of democracy does not guarantee that it will be Western-type with similar characteristics either. Although there is a certain imperative to modernize in order to adapt in the globalization process, one cannot implicitly equate modernization with ‘West-

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<sup>17</sup> One of the examples of such value sets: is as follows: Greek philosophy, rationalism, Roman law, natural right, the Latin language, Christianity, social pluralism, individual autonomy, etc.

<sup>18</sup> Florig (note 10).

<sup>19</sup> Kreuzmann, (note 4) p. 260-261.

<sup>20</sup> Essential critique arguments are as follows: 1) Modernization projects were more successful when ‘Westernization’ had been rejected; 2) Modernization is more prevalent when only necessary and useful Western attributes are ‘borrowed’; 3) Western values are often used against the West (e.g. self-determination and state sovereignty principles); 4) Frequently Western values do not comply with the actual Western practices in international relations (the problem of ‘double standards’); 5) Western domination of the world was created primarily because of imperialism, colonialism, militarization, etc., and at least one serious attempt to transform Western cultural standards into global cultural standards would require similar aggressive measures that are in principle incompatible with Western values. Concluded from: Singh J., “Modernisation vs. Westernisation: The Business Standard”, March 10, 1997, <<http://www.hvk.org/articles/0397/0078.html>>, 13 12 2010. Florig (note 10). Thompson (note 9). Xia G., “Review Essay: Globalization at Odds with Americanization”, *Current Sociology*, November 2003, Vol. 51(6), p. 709–718, p. 715. Arnason J. P., “Entangled Communisms: Imperial Revolutions in Russia and China”, *European Journal of Social Theory*, 2003, 6(3), p. 307–325, p. 308. Gamble A., “The Western Ideology”, *Government and Opposition*, Vol. 44, No. 1, 2009, p. 1–19, p. 8. Gat, Deudney et al., (note 13) p. 6. Granin, (note 4) p. 534-536. Jiafeng, (note 2) p. 83-84. Targowski A., “The Civilization Index”, *Dialogue and Universalism*, No. 10-12/2004, p. 71-86, p. 81. Ajenjo E. D., “Is there any clash of civilizations?: A critics’ compilation”, *Global Affairs*, Issue 2/April-May 2007, <<http://www.globalaffairs.es/en/is-there-any-clash-of-civilizationsa-critics-compilation/>>, 13 12 2010.

ernization'; and even if 'Westernization' is necessary, one can choose its scale and content<sup>21</sup>. Why is modernization so often confused with 'Westernization'? There are at least three important reasons: 1) The West was first to modernize; 2) The West determines the nature of modern international organizations; 3) Ethnocentric perception of Western superiority is prevailing<sup>22</sup>. It is obvious that the West was actually the first to modernize; therefore, the spill-over of general processes of modernization and Western experience is possible; however, especially starting from the second half of the 20<sup>th</sup> century, many non-Western countries have also modernized. Thus, there should be enough motivation to finally separate these concepts. In principle, it is the Western institutional and ideological power that has helped to create the illusion that participation in global processes requires inevitable 'Westernization'<sup>23</sup>.

Finally, it is necessary to define what exactly constitutes the ideological core of Western modernization and what 'Westernization' is. In this light two ideas are most important – capitalism and democracy, while 'Westernization' is a process by which they are transferred/taken over. Western identity has always been understood only in relation to other, mainly the East. It is generally agreed that an integral part of Western modernity is Christianity and three revolutions – political economy, knowledge and politics, the merger of which gave rise to capitalism, modern science and democracy<sup>24</sup>. It is usually indicated that different centers disseminating Western ideas are united by liberalism, e.g. the importance of economy to politics and policy, negative liberty (protection of privacy and non-interference), private ownership, distinction of 'public' and 'private', recognition of the private exchange sphere as a basis for modern society<sup>25</sup>. Understanding of politics and policy in the terms of

<sup>21</sup> Przeworski A., "The Neoliberal Fallacy", *Journal of Democracy*, Volume 3, Number 3, July 1992, p. 45-59, p. 55-56. Gat, Deudney et al., (note 13) p. 6. Jiafeng (note 2). Pieterse J. N., "Neoliberal Empire", *Theory, Culture & Society*, 2004, Vol. 21(3), p. 119-140, p. 119. Inglehart, Welzel (note 4) 2009 03/04. Inglehart, Welzel (note 4) 2009 07 01. Targowski, (note 20) p. 81. Ajenjo (note 20).

<sup>22</sup> Florig (note 10). Bunce V., "The Political Economy of Post socialism", *Slavic Review*, Vol. 58, No. 4, Special Issue: Ten Years after 1989: What Have We Learned?, winter 1999, p. 756-793, p. 757. Acharya, Buzan, (note 4) p. 300. Jiafeng, (note 2) p. 77. Inglehart, Welzel (note 4) 2009 03/04. Inglehart, Welzel (note 4) 2009 07 01.

<sup>23</sup> Przeworski, (note 21) p. 55-56. Florig (note 10). Gamble, (note 20) p. 3-4. Kreutzmann, (note 4) p. 256-257.

<sup>24</sup> Gamble, (note 20) p. 5-7, 10. Granin, (note 4) p. 534-536.

<sup>25</sup> Gamble, (note 20) p. 11-12. Granin, (note 4) p. 534-535. Kreutzmann, (note 4) p. 256-257.

political economy, in general, is one of the most prominent features of Western ideology. Other authors go even further and, as the common denominator of Western civilization, acknowledge Roman law, the essence of which consists of a separation of public and private interests (the state has a 'resting' duty to protect private property), which later developed into *the rule of law*<sup>26</sup>. Thus, *only* capitalist market system is appreciated for its fair (i.e., based on the rule of law) institutional capacity and anonymous public institutions rather than personal relationships and protectionism<sup>27</sup>. Impartiality must be guaranteed by the state. This was a major historical assumption for the evolutionary emergence of the Western world, and the idea of *evolutionary development* is essential, showing that the rule of law and Western institutions cannot be installed in other cultural spaces 'overnight'. If the principle of the rule of law is acknowledged as the main ideological line of the West, then culture can develop into something concrete, i.e., if countries having similar cultural background will all comply with the rule of law, harmonization of rules and integration processes might become a purely technical matter<sup>28</sup>. Here it is important to note how the imported formal rules affect the already existing/real ones, i.e. whether they are compatible or contradictory. It is this (in)compatibility that determines the actual reliance on the newly imported formal rules. How do these imported formal rules affect non-Western countries, where the major principle is not the principle of 'the rule of law' but that of 'the evasion of law'? How should one deal with similar conflicts of modernization forms? One should try to distinguish which properties of Western ideology are universal and can be accepted as a common basis within other societies, and which are purely European/American historical experience<sup>29</sup>.

In summary, the main aim of the analysis of convergence and cultural relativism debates was to show that neither on the theoretical, nor on the

<sup>26</sup> Hedlund S., "Professor Gerschenkron goes to Brussels. Russian catch-up economics and the common European space", *The European Journal of Comparative Economics*, Vol. 3, No. 1, 2006, p. 51-74, p. 56.

<sup>27</sup> *Ibid.*, p. 57.

<sup>28</sup> *Ibid.*, p. 57.

<sup>29</sup> A few examples of possible separation are proposed by Florig (note 10); Lal D., "Does Modernization Require Westernization?", *The Independent Review*, Vol.V, No.1, Summer 2000, p. 5-24; Karoui H., "Dispassionating the debate about Modernization and Westernization", *Middle East Studies Online Journal*, 2003, <<http://www.middle-east-studies.net/?p=2463>>, 13 12 2010.

practical level of international relations is there a consensus on a single modernization strategy for all countries. Global participation, of course, encourages actors to look for common cooperation rules, but this process is quite amorphous. The succession of economic rules does not guarantee that there will be any real changes in a political sphere either. As a result, it is useful to make a clear distinction between concepts of modernization and 'Westernization', since their confusion only complicates practical cooperation. This is particularly important when examining the EU's and Russia's 'Partnership for Modernization' project and when trying to reveal the compliance of the core ideas on which the two concerned parties base their interests.

It is quite a challenging task to unambiguously capture a specific conceptual ideological core of Western modernization, transferred through the 'Westernization' process to non-Western societies, because there is no consensus on this issue. However, the ideological core of Western modernization is perceived here as an *evolutionary developed principle of 'the rule of law'*, which ensures *anonymous functioning of state institutions*. But how can one deal with countries, such as Russia, where the *principle of 'the rule evasion'* prevails? In this case, it is necessary to examine the correspondence between the intended formal rules and those that already exist in the country. While taking into account the interest of the Russian ruling elite to economically modernize, the EU acknowledges the importance of the promotion of the free market (the Western form of capitalism), based on the rule of law. This kind of economic modernization, the EU expects, will eventually lead to political liberalization in Russia. This assumption is made on the basis of modernization logic, i.e. economic development invokes inevitable democratization. The next section examines exactly what relationship holds between economic development and democratization. The aim is to understand the EU's logic under the 'Partnership for Modernization' project, its theoretical and practical justification, acceptability to Russia in relation to Russian internal economic and political *status quo*.

#### **1.4. The link between economic modernization and democratization – is it justifiable?**

Modernization *per se* can be understood as an economic (mainly through industrialization), political and social (mostly through secularization) transformation of the society. Different authors offer alternative approaches to

modernization processes – differentiation and specialization, urbanization, secularization, individualization, etc., but the intersection point of all these approaches is the assumption that economic development eventually leads to democratization<sup>30</sup>. In this respect, one of the most important modernization theorists was Seymour Lipset, who posited *democratic preconditions* – economic development (industrialization, wealth, urbanization, education) and political legitimacy as a clue for reconciliation of societal cleavages<sup>31</sup>. One of the key attributes of modern society, in Lipset's view, is the middle class, which is best able to cope with pressures in a society, created by various intersecting identities. The (non-)existence of the middle class can be determined by income *per capita*. Lipset's ideas were practically verified by Adam Przeworski and Fernando P. Limongi. Submitting the results, they introduced two new explanations of the link between economic development and democracy – *endogenous* and *exogenous*, - although this difference had already been observed by Dankwart A. Rustow<sup>32</sup>. Thus, the endogenous explanation (corresponds to Lipset's hypothesis) stresses that economic development leads to democracy, while the exogenous explanation shows that democracy is more likely to survive in a country undergoing economic progress<sup>33</sup>. Although the endogenous explanation coincides with the basic assumption of modernization theory, the empirical research carried out by Limongi and Przeworski has not

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<sup>30</sup> Lervik Ø. E., "A New French Revolution? An integrative approach in the analysis of the Romanian transition". Chapter 2. A thesis submitted in partial fulfilment of the requirements for the degree of Cand. Polit., Department of Comparative Politics, University of Bergen, Norway, February 2001, <<http://www.ub.uib.no/elpub/2001/h/707001/>>, 13 12 2010. O'Neill D., Black R., "A Modernization Theory: Economic Growth, Income Equality and Democratization", *All Academic Research*, Washington University in Saint Louis, April 6, 2007, p. 1, <[http://www.allacademic.com/meta/p\\_mla\\_apa\\_research\\_citation/1/9/6/9/9/pages196991/p196991-1.php](http://www.allacademic.com/meta/p_mla_apa_research_citation/1/9/6/9/9/pages196991/p196991-1.php)>, 13 12 2010.

<sup>31</sup> Lipset S. M. "Some Social Requisites of Democracy: Economic Development and Political Legitimacy", *The American Political Science Review*, Vol. 53, No.1, Mar. 1959, p. 69-105. Lipset S. M., *Political Man*. Garden City, New York: Doubleday, 1960, p. 31-51.

<sup>32</sup> Rustow D. A. "Transitions to Democracy: Toward a Dynamic Model", *Comparative Politics*, Vol. 2, No. 3, Apr., 1970, p. 337-363.

<sup>33</sup> Przeworski A., Limongi F., "Modernization: Theories and Facts", *World Politics*, Vol. 49, No. 2 (Jan., 1997), p. 155-183. Przeworski A., Alvarez M., Cheibub J. A., Limongi F., "What Makes Democracies Endure?", *Journal of Democracy*, 7.1 (1996) p. 39-55. Kennedy R., "Re-Conceptualizing the Social Requisites of Democracy: A Conditional Probability Analysis of Modernization Theory", Presentation at the *annual meeting of the ISA-Midwest in St. Louis, MO* on 11/7/03, <<http://isa-m.missouri.edu/Awards/Kennedy.pdf>>, 13 12 2010.

fully approved it (not a law, but only an unclear correlation), while the exogenous explanation has been practically confirmed.

Lipset's claims received very substantial critique of Huntington for several reasons: 1) Ethnocentrism; 2) Perception of modernization as only a positive process; 3) Overlooking a very important element – the (non-)compliance of economic development and the degree of social mobilization, which essentially determines the (in)efficiency of governments and (in)stability of political systems<sup>34</sup>. The empirical analysis of Lipset's theory by Przeworski and Limongi also generated considerable interest in terms of supplements and criticisms<sup>35</sup>. In summary, the reviewed literature discloses a clear consen-

<sup>34</sup> Huntington S. P., *Political Order in Changing Societies*, New Haven: Yale University Press, 1968. Huntington S. P., "The Change to Change: Modernization, Development, and Politics", *Comparative Politics*, Vol. 3, No. 3, Apr. 1971, p. 283-322. Huntington S. P., "Will More Countries Become Democratic?", *Political Science Quarterly*, Vol. 99, No. 2, Summer, 1984, p. 193-218. Reviews on this issue, raised by Huntington in: Salamon L. M., "Comparative History and the Theory of Modernization", *World Politics*, Vol. 23, No. 1, Oct. 1970, p. 83-103, p. 92-96; Kreuzmann, (note 4) p. 257-258; Kofmel E., "Fighting capitalism and democracy (summarily)", Sussex Centre for the Individual and Society (SCIS), 15 April 2009, <<http://www.erichkofmel.com/2009/04/fighting-capitalism-and-democracy.html>>, 13 12 2010; Siegel L., "Samuel Huntington and the Positivity of Power Thinking", *The New York Times*, Week in Review, January 3, 2009, <[http://www.nytimes.com/2009/01/04/weekinreview/04siegel.html?pagewanted=1&\\_r=1](http://www.nytimes.com/2009/01/04/weekinreview/04siegel.html?pagewanted=1&_r=1)>, 13 12 2010; Fukuyama even identifies Huntington's *Political Order in Changing Societies* as the one, which finally killed modernization theory (Project Muse, "Samuel P. Huntington (1927–2008)", *Journal of Democracy*, Volume 20, Number 3, July 2009, p. 186-190, p. 188-189); Fukuyama, (note 13) p. 86-87; Horowitz from Project Muse, (note 34) p. 190; Siegle J. T., Weinstein M. M., Halperin M. H., "Why Democracies Excel", *Foreign Affairs*, Volume 83, No. 5, September/October 2004, p. 57-71, p. 58-64.

<sup>35</sup> For example, R. W. Jackman ("On the Relation of Economic Development to Democratic Performance", *American Journal of Political Science*, Vol. 17, No. 3, Aug. 1973, p. 611-621) was trying to explore whether democratic development is a linear phenomenon (Lipset hypothesis), or has a specific 'threshold' of the necessary economic development; Kennedy (note 33) introduced the concept/interpretation of 'conditional modernization feasibility' – economic development increases the likelihood of democratization in the beginning of regime transformation (this also means that democratization is not guaranteed in all cases); O'Neill, Black (note 30) in their study included countries, heavily depending on exports of natural resources; C. Boix and S. Stokes ("Endogenous Democratization", *World Politics*, 55, 2003, p. 517-549), while checking the endogenous explanation of democratization, expanded time ranges of investigated cases; R. Inglehart and C. Welzel (*Modernization, Cultural Change and Democracy: The Human Development Sequence*, Cambridge: Cambridge University Press, 2005; Inglehart, Welzel (note 4) 2009 03/04; Inglehart, Welzel (note 4) 2009 07 01; Gat, Deudney et al., (note 13) p. 9, Inglehart R., Baker W. E., "Modernization, Cultural Change, and the Persistence of Traditional Values", *American Sociological Review*, 2000, Vol. 65, No. 1, p. 19-51) analyzed the interaction between income and value orientations; A. Hadenius and J. Teorell ("Cultural and Economic Prerequisites of Democracy: Reassessing Recent Evidence", *Studies in Comparative International Development*, Winter 2005, Vol. 39, No. 4,

sus that statistical information reveals the feasibility of both the endogenous and the exogenous explanations of democratization. The reliability of obtained results and subsequent interpretations are handicapped because there is not a single unanimously accepted theoretical mechanism which could convincingly explain the link between socio-economic development and democratization, in other words, why and how particular socio-economic development leads to democracy and helps it to survive<sup>36</sup>. In addition, quite urgent is the question of sequence: which should take place the first: economic development or democracy<sup>37</sup>?

Basically, economic development operates under the principles of capitalism or socialism. Peter L. Berger claims that there is no intervening third option<sup>38</sup>. Only variations of these two variants can be met in practice, and they are called 'mixed economies', characterized by different combinations of market forces and state intervention<sup>39</sup>. In today's world, global entrenchment of capitalist economic principles is practically unquestionable, regardless of national types of political systems. This suggests that the relationship between capitalism and democracy is asymmetric because capitalism can exist without democracy, but not *vice versa* (capitalism is a necessary, but not sufficient condition for democracy). Eventually, any form of capitalism leads to some

p. 87-106) criticized Przeworski and Limongi because they collated two interpretations of *the degree of democracy* (i.e., whether democracy is an absolute category (in other words, whether democracy exists or does not exist), or is characterized by continuous growth in quality and efficiency), and Inglehart and Welzel on the grounds that they confused democratization in general sense with qualitatively 'deeper' features of democracy; Epstein D., Bates R., Goldstone J., Kristensen I., O'Halloran S., "Democratic Transitions", *American Journal of Political Science*, 50, 2006, p. 551-569; Kofmel (note 34).

<sup>36</sup> Some proposals of theoretical mechanisms are presented in: Berger P. L., "The Uncertain Triumph of Democratic Capitalism", *Journal of Democracy*, Volume 3, Number 3, July 1992, p. 7-16, p. 9-11; Fukuyama (note 9); Huber E., Rueschemeyer D., Stephens J. D., "The Impact of Economic Development on Democracy", *Journal of Economic Perspectives*, Volume 7, Number 3, Summer 1993, p. 71-85; Siegle et al., (note 34) p. 58-64; Wucherpfennig J., Deutsch F., "Modernization and Democracy: Theories and Evidence Revisited", *Living Reviews in Democracy*, Vol. 1, 2009, Centre for Comparative and International Studies, Zurich, <<http://democracy.livingreviews.org/index.php/lrd/article/viewArticle/lrd-2009-4/13>>, 13 12 2010; Kofmel (note 34); R. Inglehart and C. Welzel in Gat, Deudney et al., (note 13) p. 4.

<sup>37</sup> Siegle et al., (note 34) p. 57-66. Fukuyama, (note 9) p. 104-106.

<sup>38</sup> Berger, (note 36) p. 13.

<sup>39</sup> Cf., for example, Miliband R., "The Socialist Alternative", *Journal of Democracy*, Volume 3, Number 3, July 1992, p. 118-124; Xia, (note 20) p. 717; Wolnicki M., "The day after neoliberal triumphalism", *International Journal of Social Economics*, Vol. 37 No. 7, 2010, p. 476-487, p. 486.

form of democracy<sup>40</sup>. In this case, definitions pose a very important problem, since most inaccuracies arise precisely because of the lack of consensus on how to define and measure (i.e., operationalize) the concepts of capitalism and democracy<sup>41</sup>. The only unquestionable thing is that democracy will not persist long without capitalism (which is the exogenous explanation of democratization, according to Przeworski and Limongi).

To sum up this section, a strong correlation between economic development and democracy, however, shows that economic development (capitalism) is conducive to democracy because it creates a large educated middle class and transforms people's values and motivations<sup>42</sup>. The position of the EU towards Russia's economic modernization is based exactly on these assumptions. This shows that liberal internationalism has a great global influence. However, one can not ignore the fact that, with the spread of democracy as a peace guarantee, economic development and global interdependence is just an assumption, not law. Therefore, big countries such as China or Russia, entering into a liberal world system, have almost the same chances to adapt to the existing system and its rules as to adapt the system itself according to their needs<sup>43</sup>. Theoretically, the basic assumption of the modernization theory that economic development necessarily leads to democracy is highly questionable, thus, its practical applicability is complicated. It is also important to emphasize that any policy based on these assumptions must be consistent and focused on the long term perspective, because it in essence refers to changes encompassing several generations.

To summarize all these sections, the following conclusions could be made. *Firstly*, although nowadays most of the attributes of the classical modernization

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<sup>40</sup> Kofmel (note 34). 2009; Berger, (note 36) p. 9-13; Fukuyama, (note 9) p. 108; Bunce, (note 22) p. 781-784.

<sup>41</sup> Problem is discussed in: Jackman (note 35); Hadenius, Teorell, (note 35) p. 87-88; Siegle et al., (note 34) p. 58-64; Oleinik A., "The More Things Change, the More They Stay the Same: Institutional Transfers Seen Through the Lens of Reforms in Russia", *Journal of Economic Issues*, Vol. XL No. 4 December 2006, p. 919-940, p. 930-931; Inglehart, Welzel (note 4) 2009 03/04; Inglehart, Welzel (note 4) 2009 07 01; Collier D., Levitsky S., "Democracy with Adjectives: Conceptual Innovation in Comparative Research", *World Politics*, 49.3, 1997, p. 430-451.

<sup>42</sup> Inglehart, Welzel (note 4) 2009 03/04. Inglehart, Welzel (note 4) 2009 07 01.

<sup>43</sup> Gat, Deudney et al., (note 13) p. 5, 8.

theory are no longer valid, it is necessary to draw attention to the modifications of the theory, i.e. *contemporary processes of modernization can no longer be analyzed in isolation from globalization processes*, which actually means that the two concepts overlap. Russia's ruling elite understands that the country's economic modernization has become extremely necessary after the economic/financial crisis of 2008, which clearly exposed the uncompetitive and highly 'traditional' economic structure. Therefore, *secondly*, modernization becomes a very important measure to influence the increasing globalization. Recently, this need has been especially relevant in the debate of the theories of convergence and cultural relativism, which shows that there is *no consensus on a single possible modernization strategy* either on the theoretical or the practical level of international relations. *Thirdly*, *global convergence of economic rules does not guarantee* that there will be any real *changes in the political sphere*. In addition, the succession of economic rules becomes highly questionable altogether should a country discern a threat behind them to its own well-established political and economic *status quo*. This is particularly important when examining the EU-Russia relations in general and the 'Partnership for Modernization' project in particular. *Fourthly*, very significant in this context is not only a formal perception of differences between 'modernization' and 'Westernization', but the real *distinction* of these two concepts, allowing to give at least a preliminary assessment of the success of any EU-Russia project. *Fifthly*, the distinction between 'modernization' and 'Westernization', among other things, is complicated by the *lack of consensus on what particularly constitutes the ideological core of Western modernization*. This article is based on the assumption that the ideological core of Western modernization is an evolutionarily developed principle of the rule of law, the functioning of which should be guaranteed by anonymous state institutions. *Sixthly*, taking into account interests of the Russian political elite in economic modernization, *the EU highlights the importance of the promotion of free market* (Western capitalism) based on the rule of law. The EU anticipates that this kind of economic modernization will eventually lead to political liberalization. However, this is not that simple, because, although there is *some correlation between economic development and democracy*, it is *not an 'iron law'*. Despite this fact, it is agreed almost unanimously that even though this relationship is not fully understood and explained, it does exist, and in this case, consistency and long-term orientation becomes a necessity.

## **2. The Perception of Economic Modernization in Russia**

### **2.1. Research strategy**

This part deals with the concept(s) of economic modernization in Russia and its implementation measures. The analysis is carried out at two levels, taking into account the approaches Russia's federal government and the academia to economic modernization. The study primarily focuses on the ideas of modernization of the ruling elite, hypothesizing that current conditions are most suitable to reforms 'from above'. The government's position is not homogeneous: the distinction between the government and president's milieu is proposed. As for the 'United Russia' party, which holds ruling majority of votes in the State Duma and which is loyal exclusively to Prime Minister Vladimir Putin, the Parliament's position on economic modernization is not analyzed. The analysis of each of these levels (the government, president's milieu, the academia) is performed on the basis of four criteria, which are as follows: 1) Identification of the biggest problems in Russia; 2) Major objectives/agenda of the modernization; 3) Proposed modernization measures (in relation to the desirable economic model); 4) Major political and economic forces that stimulate modernization. The results of the analysis are presented in Table 1.

### **2.2. The government's position**

Headed by Putin, the Russian government prescribes moderate (only return to the economic level before the crisis) 'top-down' modernization with an agenda agreed upon by all major political powers. Since Russian oppositional parties and other movements are weak, those major political powers, in principle, represent two clans ('siloviki' [i.e., force structures] and 'liberals-technocrats'), thus, the political agreement is needed only between the Government and the president's milieu, where they manifest themselves the most. At first sight, the moderate/conservative modernization strategy is not in line with major modernization principles and measures provided by the Government, which, if fully implemented, would radically alter the country's current economic structure. This conclusion is supported by some assumptions: 1) The Russian government, especially Putin, 'admires' Russia's economic structure; 2) Any economic policy change initiatives from non-

state sources are virtually eliminated – the preservation of the political and economic sovereignty is a national interest, hence, changes can take place only from within and only with the government's approval (in this case, internal opposition and Western pressure are being inhibited or adapted); 3) Whereas the main role of the modernizer is assumed by the government (modernization 'from above'), the model of modernization should take a form of state development. However, Putin himself has assured that the government does not plan to switch to state capitalism<sup>44</sup>. Such statements cause considerable confusion and controversy. However, the fact that the government does not perceive state-owned corporations as obstacles to the development of private business and, on the contrary, publicly acknowledges that the former create a pure market economy environment to the latter<sup>45</sup>, yet without assigning a clear role to them in the modernization process, shows that the sharp change of the relationship between the state and the market is unlikely, because the situation has remained practically unchanged from the one since before the crisis. The only addition is new vocabulary of 'economic modernization' used.

### **2.3. The president's position**

President Dmitry Medvedev was the first to state the need to modernize Russia in his article 'Go, Russia!' in September of 2009. Unlike Putin, Medvedev offers an all-encompassing modernization plan that includes not only economic, but also political and social modernization of the country. His main desired innovation is installation of *market economy institutes*. They are important for three reasons: 1) Globalization is competition of institutes, the quality of which is fundamental to national competitiveness in the future; 2) The current economic structure is not comprised of only industrial sectors – these sectors are now powerful institutes of market economy, capable of generating stimuli and motivations for 'game players', so that they can adapt to new challenges; 3) Institutes that are useful and able to generate added value transform into a kind of a security/insurance system against economic policy errors

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<sup>44</sup> For more information on the features of state capitalism, see Wolnicki, (note 39).

<sup>45</sup> Norton G., "The Flight of the Russian Phoenix", *Euromoney*, 2008 January, Vol. 38, Is. 465.

and the facilitation of their consequences<sup>46</sup>. In essence, the president and INSOR<sup>47</sup> clearly argue for a concept of Western market economy. Moreover, it is impossible to modernize all the economy at once, thus, a clear modernization strategy is necessary. For this reason, Medvedev has identified the ‘break-through’/priority sectors and areas (*Table 1*).

In summary, the success of modernization, according to Russia’s president and his milieu, depends on whether the Russian government will be able to handle two different functions – the ‘strategist-reformer’ function (setting goals, establishing priorities, mobilizing resources, protecting against external threats, controlling internal disproportions) and the ‘arbiter’ function (controlling political and economic conflicts of interests).<sup>48</sup> It is also emphasized that in the modernization process, the primary role will be performed by the government and the president, i.e. ‘from above’. Equally important will be the ability to reach a compromise between these two power centers.

#### 2.4. Russian academic discourse

To summarize positions of the Russian academic elite on modernization issue is difficult enough as they mainly depend on represented economic ideology, approaches to the specifics of economic structure, perception of major problems in Russia and different levels of analysis. However, almost everyone unanimously finds Russian economy to be of a mixed type; thus, the state will surely maintain its role in economy during any modernization process. Different are only the opinions about the anticipatory scale of state intervention: liberal observers emphasize the expansion of market mechanisms even in strictly public sectors; others, in regard to the country’s governance practices, see the government as a major developer, implementer and controller of modernization projects. Practically everyone recognizes the need to focus on the Western experience of modernization, i.e. transition to a market economy model, which is more effective than state regulation. They also agree that the

<sup>46</sup> Gontmakher, Grigoryev, Maleva (note 45). INSOR, (note 45) p. 70-75. Yurgens (note 45, “Forget politics. What Russia and the EU need is a shared economic space”).

<sup>47</sup> INSOR – Institute of Contemporary Development, [Институт современного развития, ИИНСОР], established in 2008. President and some of his advisers belong to Institute’s Board of Trustees. Director of the Institute – I. Yurgens.

<sup>48</sup> INSOR, (note 45) p. 70-75. Clover (note 45).

main stimuli for modernization will arise from the government because the society is either unable to encourage such processes, or is forced out of active political and economic life. Any external impulses for modernization are unlikely to be accepted because of postulated sovereignty and the principle of non-interference in domestic affairs. Available is only voluntary takeover of Western standards by the government. In addition, various combinations of modernizers are possible. Finally, the content, scale and spheres of modernization are always open to any changes.

To sum up, there are practically no doubts about the need for economic modernization in Russia. Major differences in opinion are likely to be encountered while deciding on the way of implementation, i.e., how to modernize and preserve the country's sovereignty and most resources. From a historical perspective, Russia is characterized by forced modernization (e.g., the era of J. Stalin), when the main modernization impulses were given 'from above' with an abnormal attention to industrial and military sectors. This is a fundamental distinction from the Western type of modernization, because in the former type, development becomes unbalanced and dysfunctional<sup>49</sup>.

The analysis of positions of the government and the president on economic modernization discloses significant differences, which basically depend on problems that are considered most urgent. This, in turn, determines different measures of response. Putin's milieu is more inclined to modernize Russia according to its historical traditions, i.e., not to harm the well-established *status quo*. Meanwhile, Medvedev's milieu highlights the need for all-encompassing modernization; however, it is equally important to maintain social and political stability. Different perceptions of the economic situation and economic problems signal the potential for conflicts between the two ruling clans:

1. 'Siloviki' (Putin's milieu). Head of the Presidential Administration Vladislav Surkov emphasizes the need for 'conservative modernization', because 'spontaneous modernization' is hardly controllable and belongs only to market forces. He also frequently puts forward the argument that even during the modernization process of Western countries, their governments played a key role. 'Siloviki' support the transfer of technologies from the West, but they want to install them primarily in the military sector, which is suitable for

<sup>49</sup> Cullather, (note 2) p. 8. The Economist (note 46).

their rapid absorption; only then is the dissemination of technologies in private and semi-public sectors possible, which, sooner or later, will nevertheless happen, because Western companies are interested in new markets and constant development<sup>50</sup>. The most needed factor for Western companies is stability, which is much better guaranteed by an authoritarian regime rather than democratic chaos. Thus, the main feature of authoritarian development is technological understanding of modernization. In addition, modernization should be slow and no great leaps are desirable, because there due to the great number of potential modernization victims in Russia. Finally, everything is further complicated by the fact that Russia is rich in natural resources which have long provided a steady income. This basically means that there is no need to rush with modernization experiments.

2. 'Liberal-technocrats' Medvedev's milieu). They are in favor of deep modernization, but at the same time political democratization of the European manner is hardly imaginable. However, there are some signs of taking steps towards a similar model. In recent years, some modernization initiatives have not worked because of the lack of competition and limitations (most of the projects were aimed at only few sectors of the economy). Medvedev's milieu also argue that it is necessary to improve business environment for attracting investors, courts must become politically independent, and security structures should stop interfering in commercial affairs<sup>51</sup>. In order to achieve these goals, the power diversification and the delegation principles are required<sup>52</sup>.

The analysis of Russian academic elite's perceptions of modernization (though not completely exhaustive, because it covers a relatively small number of authors) extends general modernization discourse from reliance exclusively on the signals emanating from the two ruling clans, and enables us to see the variety of possible modernization strategies, their ideological direction, overlapping, competition and even some unexpected changes due to their mutual interactions.

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<sup>50</sup> Transitions Online, "Railway to the Future", *Transitions Online*, 12141615, 3/1/2010. Laqueur (note 46). The Economist (note 46). The Economist, "Be critical, not hypocritical", *The Economist*, 00130613, 12/11/2010, Vol. 397, Issue 8712.

<sup>51</sup> Laqueur (note 46). Wolnicki, (note 39) p. 484.

<sup>52</sup> Oleinik (note 46). Oleinik, (note 41) p. 919.

Table 1. **The Perception of Economic Modernization in Russia**<sup>53</sup> (compiled by the author)

	Government of Russia	President of Russia and his milieu	Academic community/ independent observers
Biggest problems of Russia	<ul style="list-style-type: none"> <li>• Non-diversified economy and exports.</li> <li>• Uncompetitive economy.</li> <li>• Work productivity problems.</li> <li>• Energy consumption inefficiency.</li> <li>• Demographic problems.</li> <li>• Corruption.</li> </ul> <p>Paternalistic attitude towards state.</p>	<ul style="list-style-type: none"> <li>• Non-diversified economy and exports.</li> <li>• Low competitiveness of Russian products.</li> <li>• Work productivity problems.</li> <li>• Energy consumption inefficiency.</li> <li>• Demographic problems.</li> <li>• Corruption.</li> <li>• Paternalistic attitude towards state.</li> </ul> <p><u>Additional problems (not prescribed by the government):</u></p> <ul style="list-style-type: none"> <li>• Stock market volatility.</li> <li>• Too weak influence of Russian history on globalization processes.</li> <li>• Although stable, imperfect democratic institutions.</li> <li>• Weak civil society.</li> <li>• 'Manual' control of the country may protract the economic crisis – installation of universal (i.e. market) economic institutes is necessary.</li> <li>• Unstable Caucasus.</li> </ul>	<ul style="list-style-type: none"> <li>• De-industrialization and loss of productivity.</li> <li>• No consensus on the need of modernization.</li> <li>• Lack of 'normal' understanding of what is needed for modernization.</li> <li>• The belief that mass production phase of economic development can be skipped – possibility of jump straight to the post-industrial future.</li> <li>• The government is not able to implement modernization only by state-owned companies.</li> <li>• Very strong pressure not to modernize from traditional state-owned companies.</li> <li>• Russia's monopolistic economic structure also allows producers to raise prices of production, thus, industrial production and investing in Russia becomes very expensive.</li> <li>• Public distrust of the justice system.</li> <li>• Lack of effective and politically motivated bureaucracy.</li> <li>• Rejection of 'managerial' principles.</li> <li>• State erosion: nihilism, corruption, political impotence.</li> </ul> <p>There is no functional distinction/differentiation between subsystems (the economy and society, politics and economy, politics and science, economy and science).</p>

<sup>53</sup> Sources for analysis of Government, President and academic positions on modernization, presented in Table 1, are indicated accordingly in Annexes 1, 2, 3.

	Government of Russia	President of Russia and his milieu	Academic community/ independent observers
Modernization Agenda/objectives	<ul style="list-style-type: none"> <li>• The need to combine anti-crisis policy measures with an <u>exclusively economic modernization</u> agenda.</li> <li>• Nostalgia for the Soviet era must not interfere.</li> <li>• Multilateralism.</li> <li>• <u>Rejection of radical modernization scenarios of other political forces.</u></li> </ul>	<ul style="list-style-type: none"> <li>• The need to combine anti-crisis policy measures with a <u>comprehensive modernization</u> agenda.</li> <li>• Multilateralism.</li> <li>• <u>The president has identified the following priority sectors:</u> the promotion of efficiency in manufacturing, transportation and energy consumption; the development of nuclear energy, IT and space technologies; modernization of medical equipment.</li> </ul> <p><u>New (not prescribed by the Government):</u></p> <ul style="list-style-type: none"> <li>• Modernization of political system.</li> <li>• Economic modernization is a necessary condition for political modernization (and <i>vice versa</i>).</li> <li>• More open political system.</li> <li>• Political parties have to change each other periodically and to choose the executive branch (not <i>vice versa</i>). Parties will unify the country. Cross-party consensus is required on strategic issues.</li> <li>• Slow reform process, without repeating of 'mistakes of the past'.</li> <li>• Russian democracy and political culture will not follow foreign models.</li> </ul> <p>Civil society as an effective system of justice can not be bought by foreign aid.</p>	<p><u>Virtually all indicate a greater or lesser role of the state in the economy:</u></p> <ul style="list-style-type: none"> <li>• Classic state-led re-industrialization of economy.</li> <li>• Succession of EU standards and practices.</li> <li>• The transition to post-industrialism, which involves active governmental industrial policy.</li> <li>• All-inclusive modernization (touches all vital spheres of public sphere functioning).</li> <li>• Modernization of inefficient traditional sectors, while encouraging and privileging agreed innovation incentives.</li> <li>• Socio-cultural modernization (completely new system of values and motivations).</li> <li>• Own path of development into a modern state, which is adapted to the characteristics of the post-Soviet space.</li> </ul>

	Government of Russia	President of Russia and his milieu	Academic community/ independent observers
Modernization measures	<ul style="list-style-type: none"> <li>• Diversification of economy and exports.</li> <li>• Promotion of domestic demand for Russian goods.</li> <li>• Economic innovation initiatives.</li> <li>• Priority to high-tech sectors and infrastructure development sectors in the economy.</li> <li>• Improvement of efficiency of traditional sectors.</li> <li>• Long-term loans.</li> <li>• Modernization of financial system and macroeconomic principles.</li> <li>• Development of human resources.</li> <li>• Promotion of labor productivity and efficiency of energy consumption.</li> <li>• The reform of the state/public sector and budget: promotion of privatization and reforms of budget-financed organizations.</li> <li>• Fight against corruption.</li> </ul> <p><u>Putin is satisfied with the economic structure, which only needs more innovation.</u></p>	<p><u>In addition to the government's measures, the president highlights:</u></p> <ul style="list-style-type: none"> <li>• Effective management of companies and company financing.</li> <li>• Effective regional development policy.</li> <li>• Restructuring of social service sector.</li> <li>• <u>Development and promotion of competitive middle-class.</u></li> <li>• Strengthening the judiciary.</li> </ul> <p><u>The desirable model of the economy – market economy.</u></p>	<ul style="list-style-type: none"> <li>• Selection of priority sectors of the economy.</li> <li>• Deflection of investment into priority sectors.</li> <li>• Setting of the real value of the ruble in order to promote imports of technology and raw materials.</li> <li>• Import substitution strategy according to respective tariff rates.</li> <li>• Active cooperation between public and private sectors.</li> <li>• Agreement on the necessity of modernization and its agenda.</li> </ul> <p><u>A variant of mixed economy with active participation of the government.</u></p>
Internal subjects of modernization	<ul style="list-style-type: none"> <li>• The government.</li> <li>• The 'United Russia' party.</li> <li>• Internal managerial-technological partner – state corporations.</li> </ul>	<ul style="list-style-type: none"> <li>• <u>The Russian Government</u> if it is able to create an effective dialogue between state and society, and to listen to competent expert opinions.</li> <li>• <u>Vertical modernization</u> ('from above') – very difficult; better – <u>horizontal modernization</u> (private initiative). Both can be combined.</li> <li>• Harmonization of 'strategist-reformer' and 'arbiter' functions.</li> </ul>	<ul style="list-style-type: none"> <li>• Public pressure from below.</li> <li>• Liberal bloc of government alone is unable to implement its modernization agenda.</li> <li>• The current well-balanced management system and the ruling elite ('siloviki' and 'liberal-technocrats') are quite handy. However, they need to reconcile the functions of the 'strategist-reformer' and the 'arbiter'.</li> <li>• Conservatism of the 'United Russia' party (fear of making changes).</li> </ul> <p>The government will use financial-economic vertically integrated industrial groups.</p>

	Government of Russia	President of Russia and his milieu	Academic community/ independent observers
External subjects of modernization	‘Partnership for Modernization’ between the EU and Russia, involving all interested EU members.	<ul style="list-style-type: none"> <li>• Bilateral and multilateral co-operation with Europe, America and Asia.</li> <li>• Regional cooperation within EurAsEc, CSTO, CIS, SCO, BRIC.</li> <li>• Russia’s Accession to the WTO.</li> </ul>	<ul style="list-style-type: none"> <li>• Common Economic Space with the EU for socio-economic transformation of Russia (the same as was done by EU with Central and Eastern European countries).</li> <li>• Russia’s membership in international organizations, functioning according to Western standards and principles.</li> </ul>
Modernization type	<p><u>Economic modernization only ‘from above’.</u></p> <p><u>Credo:</u> Do not lose either political or economic sovereignty!</p>	<p><u>Comprehensive – economic, political, social – modernization ‘from above’</u> by the ‘tandem’ of Government and President.</p> <p><u>Credo:</u> ‘Modern’ society is always seeking renewal <u>but</u> will not risk in social stability and security of its citizens.</p>	<p><u>Modernization is possible both ‘from above’ and ‘from below’</u> and ranges from only industrial to all-encompassing modernization.</p> <p><u>Credo:</u> Depends on the attitude towards the state and market relations as well as prescribed problems.</p>

### 3. Two Power Centers in Russia: Different Aims, Measures and Systemic Capacities of Modernization

Many Western and Russian analysts identify the following as the essential problems of interaction between political and economic spheres in Russia: corruption, lack of state autonomy (symbiosis of politics and business), non-efficiency of governmental institutions (low quality of institutional services and performance), bypassing laws (i.e. informal rules) *vs.* the rule of law, bureaucratization, and state’s non-participation in international organizations<sup>54</sup>. It is

<sup>54</sup> Libman A., “Russia’s Integration into the World Economy. An Interjurisdictional Competition View“, 2006, p. 333-348, in the book of Broadman H. G., Paas T., Welfens P. J. J. (Eds.), *Economic Liberalization and Integration Policy: Options for Eastern Europe and Russia*, Heidelberg: Springer Berlin. Essays of Brenton (p. 16-17), Barysch (p. 29-30) from EU-Russia Centre (note 45). Trenin D., “Russia Reborn“, *Foreign Affairs*, 00157120, Nov/Dec 2009, Vol. 88, Issue 6. Hanson, P. “The Russian economic puzzle:

these problems that create a modernization imperative for Russia and determine possible modernization strategies. Lately, in a wide range of literature it has become fashionable to distinguish generally four potential development scenarios for Russia: *inertia*, *rent*, *mobilization* and *modernization*<sup>55</sup>. Due to the problems identified above, the desirable economic structure, objectives, measures, and initial subjects/sources, *Modernization* strategy is most distinctly characterized by Medvedev's milieu. Meanwhile the other three strategies – *inertia*, *rent* and *mobilization* – are possible if Putin and milieu are to be considered the main power center. This, again, confirms the *need to distinguish* at least *two power centers* in Russia (unequal, of course), and to closely monitor their propagated ideas and nuances of everyday policy, even though other analysts do not make this distinction<sup>56</sup>. This article follows the aforementioned assumption that there are two power centers in Russia, which spread quite distinct modernization ideas, and which, of course, would pre-program two different types of the political regime that can both prevent and promote economic modernization<sup>57</sup>.

Putin's model of market authoritarianism is based on two widespread myths: 1) It is his model of market authoritarianism that has stabilized Russia and guarantees a key public good – security; 2) It is his autocratic management methods that have been a reason of impressive economic growth in Russia<sup>58</sup>.

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going forwards, backwards or sideways?" *International Affairs*, 83:5, 2007, p. 869–889. Ledeneva A., "From Russia with Blat: Can Informal Networks Help Modernize Russia?" *Social Research*, Vol. 76, No. 1, Spring 2009, p. 257-288.

<sup>55</sup> E.g. Gontmakher, Maleva, (note 45) p. 10-17; Plaksin S., Zhulin A., "Modernizing the State: Apparatus Administrative and State Civil Service Reform", *Problems of Economic Transition*, vol. 51, no. 11, March 2009, p. 79–91, p. 86-91; Shastitko A., Afontsev S., Plaksin S., "Structural Alternatives for Russia's Socioeconomic Development", *Problems of Economic Transition*, vol. 51, no. 11, March 2009, p. 3–22; Trenin (note 56).

<sup>56</sup> In comparison: D. Trenin from Liu C., "Russia's Conservative Modernization A Mission Impossible?", *SAIS Review*, Volume 30, Number 1, Winter-Spring 2010, p. 147-148, <<http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/bre2009/342%203-2009.pdf>>, 10 02 2010; Shevtsova L., *Putin's Russia*, Washington, D.C.: Carnegie Endowment for International Peace, 2003, p. 16; The Economist (note 46); Delfi.lt, "I. Sečinas pasitraukė iš „Rosneft“ direktorių tarybos", [I. Sechin Withdrew from the 'Rosneft' Board of Directors], delfi.lt, 2011 04 12, <<http://verslas.delfi.lt/energetics/isecinas-pasitrauke-is-rosneft-direktoriu-tarybos.d?id=44305669>>, 13 04 2011.

<sup>57</sup> Granin, (note 4) p. 538-539. Arnason, (note 20) p. 308-310.

<sup>58</sup> McFaul m, Stoner-Weiss k., "The Myth of the Authoritarian Model", *Foreign Affairs*, 00157120, Jan/ Feb 2008, Vol. 87, Issue 1. Stoner-Weiss K., "Russia and the Global Financial Crisis: The End of "Putinism"?", *Brown Journal of World Affairs*, Spring/Summer 2009, Volume XV, Issue II, p. 103-115, p. 105-106.

According to Michael McFaul and Kathryn Stoner-Weiss, Putin's centralization of power actually had a negative impact on both management and economic growth, because: 1) Putin has actively promoted the 'national champions' program not only in the mineral resource extraction sector, but also in the space, the automobile and the heavy industries sectors; 2) Records of the World Bank and the European Bank for Reconstruction and Development show extensive spread of corruption and deterioration of property rights protection; 3) Once flourished, the private energy sector is most affected by the interference of the government, which actually decreases domestic and foreign investment and suspends growth of production added value; 4) Rapid economic growth and huge circulation of revenues have not contributed to the improvement of fundamental public goods provision to population in comparison to the difficult economic situation during the era of Boris Yeltsin<sup>59</sup>. In summary, the rise of oil prices and the transition from a planned to a market economy are no compliment to Putin. Statistics and economic indicators do not show that Putin's autocratic methods of governing are helping to cope with developmental problems, thus, Russian economy is functioning well *not because*, but *in spite of* autocracy. In a long-term perspective, however, autocracy will hinder economic growth due to poor management and corruption. Economic power *per se* is inherently pluralistic and spread across society, so the prime minister and his milieu favors property control of few oligarchs, but not of all middle-class. Therefore, the symbiotic relationship between the autocratic state and the oligarchy is not a choice, but a necessity for state/political capitalism.

Although the tone of Medvedev's modernization agenda has inspired some real hope, the content, at first glance, is not very different from the pledges of previous Russian leaders. Nevertheless, the situation in the Russian economy is slightly changing: the president's milieu has started relatively aggressive supervision and control of inefficient state companies, regardless of the fact that they are managed by people from power structures ('siloviki'); the president is actively looking for ways to decentralize the economy, which is directly contrary to Putin's centralization idea<sup>60</sup>. In June 2010, Medvedev signed

<sup>59</sup> *Ibid.*

<sup>60</sup> Romaniuk S. N., Wasylciw J. K., "Russia's Authoritarianism in Strategic Perspective", *European Journal of Social Sciences*, Volume 10, Number 4 (2009), p. 614-627 (p. 621). Zemlianichenko A., "Russia: Moscow's Way Forward", *Stratfor: Global Intelligence*, 11/16/2009, <[http://www.stratfor.com/memberships/148745/analysis/20091112\\_russia\\_moscows\\_way\\_forward](http://www.stratfor.com/memberships/148745/analysis/20091112_russia_moscows_way_forward)>, 01 03 2011.

a decree criticizing the list of strategic companies adopted in 2004 – i.e., companies, where the state holds less than 51% share, were removed from the list except for a few companies, where the state has the largest share of total shareholders' equity<sup>61</sup>. Although criticized for its lack of transparency, this decree reveals the president's interest in improving the business climate in order to attract more foreign investment. On the 2 April 2011, the president announced his decision on the removal of deputy prime ministers and other federal ministers from the boards of directors of 17 state-owned companies<sup>62</sup>. The name of current Deputy Prime Minister Igor Sechin was also on this list, and he resigned from the chairman post of *Rosneft* oil company board of directors on 11 April<sup>63</sup>. In addition, further measures to improve the business environment are also foreseen, i.e. expansion of small shareholders' rights, improvement of the corruption handling mechanism, quality amplification of public services, and improvement of the efficiency of public expenditure<sup>64</sup>. In general, focusing on modern economy (independent from extraction and exports of natural resource in particular) as a feature of a strong state is something new in Russian history. Similarly important is the fact that the president is interested in not only economic, but also legal and political decentralization. In July 2008, Medvedev expressed his concern over the appointment of judges through the 'blat'<sup>65</sup> and bribes. He proposed the establishment of a database of national public servants and introduction of the presidential appointment quota<sup>66</sup>. In November 2008, the president appealed to the Constitutional Court of the Russian Federation with a request to re-interpret the constitutional norm 'unified system of executive power', which actually is the basis of

<sup>61</sup> According to Larionova, Nagornov (EU-Russia Center, (note 45) p. 46), in practice, this means that foreign investors, who already hold shares in certain companies and purchase additional shares of those companies through their new release, will not need any additional contracts or permits, if it does not change shareholders' equity ratio.

<sup>62</sup> BNS, "Medvedevas nori pamokyti Putiną", ['Medvedev Wants to Teach Putin'], delfi.lt, 2011 04 01, <<http://www.delfi.lt/news/daily/world/dmedvedevas-nori-pamokyti-vputina.d?id=43899413>>, 01 04 2011.

<sup>63</sup> Delfi.lt (note 58).

<sup>64</sup> *Ibid.*

<sup>65</sup> For more information, see Ledeneva, (note 56) p. 257-264.

<sup>66</sup> Viktorova L., "7 millionov evro – i ty gubernator", ['Seven million euro and you are a governor'], *Komsomolskaia pravda*, July 26, 2008, 2, <<http://dlib.eastview.com/sources/article.jsp?id=18669811>>, 13 12 2010.

‘power vertical’. In essence, the request was for the re-interpretation of the president’s right to nominate local governors and the right to dissolve regional parliaments and executive bodies in the case of disapproval of his nominated candidates twice in a row. The ambiguity of this constitutional norm is based on two arguments: 1) Direct presidential appointment of regional governors is incompatible with the principles of federalism and deprives Russian citizens of the right to elect their local government, or to be elected themselves; 2) Everything that is not ranked as the prerogative of the federal or joint basis, solely belongs to the competence of regional governments. Thus, with its earlier interpretations of questioned constitutional norm, the Constitutional court, in essence, has reduced the independent branch of state government (i.e. regional government) into one section of federal structures<sup>67</sup>. There are at least two opinions on the expedience of the president’s re-appeal: 1) Although the president has returned the question of ‘power vertical’ constitutionality to the political debate, this maneuver is likely to mean the desire to strengthen the subordination of regional governments to central authorities (i.e., to strengthen legitimacy of indirect elections), and to establish the ‘United Russia’ party positions through the proposal to choose governors only from parties holding the majority of the seats in regional parliaments<sup>68</sup>; 2) Medvedev attempts to strengthen *his own* positions as opposed to Putin. As can be seen purely from the legal side, the re-interpretation of the Constitutional Court, in essence, has legitimized Putin’s centralization policies, suggesting that the constitutional provision of a ‘unified system of executive power’ surmounts such constitutional provisions as ‘separation of powers’ or ‘regional autonomy’ (both included in Medvedev’s modernization agenda).

Focusing on the importance of political liberalization, Medvedev’s modernization strategy, however, meets a number of systemic constraints – despite the assumption that there exist at least two power centers in Russia, they do not necessarily have similar objectives and implementation capacities. In order to implement the presidential modernization initiative, the establishment of an efficient and stable coalition of groups sharing common or similar goals,

<sup>67</sup> Pomeranez W. E., “President Medvedev and the Contested Constitutional Underpinnings of Russia’s Power Vertical”, *Demokratizatsiya* (The Journal of Post-Soviet Democratization), spring 2009, p. 179-192 (p. 184-185).

<sup>68</sup> Pomeranez, (note 69) p. 186-188.

a significant share of resources and bargaining power to represent their interests is necessary. Groups with long-term strategic interests may be interested in modernization, but in order to expand the spectrum of players, it is important to attract groups with short and medium-term interests, indicating medium-term rewards of what they could aspire to<sup>69</sup>. The traditional interest representation through the party system is weak and inefficient in Russia; thus, various civil initiatives, such as autonomous organizations, forums, independent groups of experts, etc., could become major mechanisms for the formation of new political coalitions. It is clear, however, that the rise of such a transformative mechanism is prevented by the system rules *de facto*, since they are created, controlled and supported by Putin and his milieu. A. Oleinik notes that the success of reforms depends on the affinity of reforms and institutions and processes which are subjected to those reforms ('elective affinity' – similarity/match of formal and informal institutions)<sup>70</sup>. In this case, it is *power relations* (as opposed to other factors) that have a decisive impact on the implementation of reforms – reforms will be implemented *only if* they maintain/reinforce the dominant power relations model and ensure its reproduction. This is the way Putin's management system functions, and it basically limits the implementation capacities and capabilities of Medvedev's modernization agenda, in many cases non-compliant with the already existing systemic principles. Another important property of Putin's management system is that the bureaucrats deliberately maintain public participation and involvement in the reform policy formulation and implementation at a low level (practically since 1990.) Therefore, rather than restrain their own power, bureaucrats put constraints on the spectrum of possible reforms, because there is nothing, or nobody to actually limit their power<sup>71</sup>. An opportunistic or quickly adapting character will always strive to avoid any constraints on his power and to maximize his benefits to the detriment of others. It should be noticed in this respect that public officials are concurrently forced to look for a compromise between the desire to improve the relative global position of their country and

<sup>69</sup> Auzan A., Zolotov A., „Coalitions for Modernization: Prospects for Their Formation“, *Problems of Economic Transition*, vol. 51, no. 11, March 2009, p. 62–78, p. 76-77.

<sup>70</sup> Oleinik (note 46). Oleinik, (note 41) p. 921.

<sup>71</sup> Oleinik, (note 41) p. 928. Oleinik arguments may be complemented with the research conclusions of administration reforms results in Russia by Plaksin and Zhulin (note 57, p. 81-84).

to preserve their own power. In such a situation, they will implement modernization reforms and import institutes as long as they do not restrain their discretion<sup>72</sup>. This results in a 'vicious circle', because the success of reforms (whatever they may be) essentially depends on the good faith of power-holders, while other internal individuals or collective actors are too weak to control them, or are even non-existent. When there are no actual sources and mechanisms of internal control, the only alternative is international control, which, again, is not always effective because the West depends on imports of natural resources<sup>73</sup>. Possible external forces of control will be discussed in the last part of the article, where the latest EU-Russia cooperation project – 'Partnership for Modernization' – is analyzed. Meanwhile, as far as internal control issues are concerned, how could one develop internal control capacities and capabilities of modernizing actors? Oleinik offers the following options: the promotion and empowerment of civil society which independent from the government; free elections; diversification of power and its sources; reduction of government power; establishment of the rule of law<sup>74</sup> (similarly to Medvedev's vision). Here lies the paradox: it is the Government that has the power to set its own restrictions for the future. However, it is naive to expect that from opportunistic actors. Their total elimination is not a realistic prospect either. Even if new systemic constraints emerge, informal practices can be successfully re-configured, and this does not necessarily mean the reduction of their importance. Closed reproduction of this kind of the Russian system is based on non-transparency: the internal actors of the system are associated by unwritten rules; the recruitment of new members is based on loyalty; rewards and punishments are dealt without reference to any legal criteria; appointments to office are informal and are only covered by formal competition<sup>75</sup>. In general, non-transparency covers *the unseparated public and private sphere*, which becomes an obstacle to the consolidation of the rule of law and creates a form of rationality that is incompatible with modernity. However, while analyzing the Russian ruling system and the existing informal rules, it is worth noting that these relations of pow-

<sup>72</sup> Oleinik, (note 41) p. 928-929. Libman (note 56). Laqueur (note 46). The Economist (note 46).

<sup>73</sup> Oleinik, (note 41) p. 934. Romaniuk, Wasylciv, (note 62) p. 621. Laqueur (note 46).

<sup>74</sup> Oleinik, (note 41) p. 935-938.

<sup>75</sup> Practical examples are given in: Viktorova (note 68); Ledeneva, (note 56) p. 269-278.

er can operate in a positive way as well. A study by Alena Ledeneva shows that informal practices, particularly those between the public sector, business and banks, are required for the functioning of formal and informal economies and compensation for the defects of the impersonal trust system<sup>76</sup>.

In summary, the key idea of this section is the assumption that there are two power centers in Russia (constituted by the prime minister and the president), which automatically pre-program certain politico-economic regimes. Thus Prime Minister Putin tends to maintain the current *status quo* based on authoritarianism/state capitalism, while President Medvedev calls for a comprehensive economic and political modernization and liberalization of the regime, of course, provided that social stability is maintained. One can always argue about whether it makes sense to call Medvedev and his 'liberal technocrats' a separate power center. That is precisely why emphasis here is put on the idea of different capacities and capabilities of two power centers of implementing their own modernization agendas, which are expanded or limited by the existing ruling system in Russia, and which clearly favors its architect Putin. Thus, elite's power relations and their changes can be identified as the substantial success indicators of any modernization reforms: it is the government that becomes both the source and the target of country's modernization (the paradox). That is why internal and external control mechanisms are absolutely necessary. The lack of internal control mechanisms and their development conditions have already been discussed. Now it is important to assess the capabilities of external forces to encourage and monitor the process of modernization in Russia.

#### **4. The EU and Russia 'Partnership for Modernization': In Search for External Modernization Incentives**

In Parts 2 and 3 of the article, the essential features of Russia's economic modernization were emphasized. These comprise: 1) Commanding role of the government; 2) Modernization only 'from above' (although Medvedev calls

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<sup>76</sup> Ledeneva, (note 56) p.278-279. More examples in Davydova M., "Vzyatki i otkaty", ['Bribes and Kickbacks'], *Kompaniia*, 2006 01 30, <<http://comproamat.ru/main/top50/vzyatki.htm>>, 13 12 2010.

for the 'horizontal', i.e., private sector-driven, modernization); 3) Because of the existing ruling system and the assumption of two power centers, the situation clearly favours implementation of the more technological and conservative modernization agenda pursued by Putin. This means that, although Medvedev's agenda (thereby referring not only to economic, but also political and social modernization) is more favorable to the EU, according to the existing politico-economic setting in Russia<sup>77</sup>, so far the perception of ideas of presidential modernization as the most realistic and preferential ones is hardly imaginable. Nevertheless, they are not impossible. Basically, the core keys of Russia's economic modernization should be constituted by a number of important principles – the rule of law, separation of the private and the public spheres, active society, and internal and external control mechanisms of the government. These are also the key ideas of Western modernity, already discussed in Part 1 of this article. It is evident that such fundamental principles cannot arise in the short or medium term. Russian and Western analysts very often refer to the energy sector as a key to country's modernization, its foreign policy formation and relations with neighbors and other partners. The author of this article, in principle, accepts this opinion, but, in order to get out of the analytical deadlock resulting from a narrow sectoral analysis, takes a more general perspective and examines the existing modernization ideas, sources and their capabilities to influence modernization processes considering the fact that they all bear globalization impact. The author makes an assumption that, because of its importance and profitability, the energy sector is likely to become the last sector in Russia which will be exposed to any market economy reforms and will not experience the reduction of government intervention any time soon. One may put forward an idea that perhaps Medvedev will realize his own inability to overcome Putin's vision of modernization (but has not done so yet); thus, he looks for less politicized sectors of the economy to start modernization (he announced five priority sectors), which would eventually lead to social and political liberalization (the logic of modernization is expressed in the statement that economic development leads to democratization). Given this situation, how could the EU

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<sup>77</sup> For more information about the diverging development of economic and political rules of the game in Russia, see Hanson (note 56).

infuse the presidential modernization agenda, taking into account its own lack of internal sectoral integration, flexibility, solidarity and the principle of conditionality in external relations?

In essence, the form of modernity, spread out by the EU, can be called Europeanization. It is based on the transfer of domestic policy (internal principles and procedures) externally: economic liberalization takes place through a succession of the neo-liberal economic model and constitutional norms, such as human rights, the rule of law, democracy and sustainable development. Thus, in sum, Europeanization is characterized by regionalism, transnational markets and democratic constitutionalism<sup>78</sup>. In a global perspective, if one remembers the need to distinguish between the concepts of ‘modernization’ and ‘Westernization’, the idea of *regional economic integration* could then be considered universal. The same cannot be said about the idea of liberal democracy which falling into the range of norms which acceptance primarily depends on the free will. Some may disagree with this approach and propose a counter-argument that democratic reforms are necessary in principle if a country seeks to become a partner to the EU (not even a full-fledged member of the organization), and to receive financial or technological support for its internal reforms. Such incentives have not always had any real impact on smaller countries-partners of the EU; therefore, they are certainly not sufficient for Russia. Basically, if any convergence of Russia with the EU in the short and mid-term perspective is at all possible, it can only be achieved on the formal institutional level<sup>79</sup>. In this context, it is important to note that the EU itself does not spread a single form of modernity to its partner countries. It promotes various forms of modernity, because there are individual different-sized agreements with each country-partner. In this respect, then, the EU’s extraordinary attention paid to Russia, and Russia’s behavior with the EU does not come as a surprise at all.

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<sup>78</sup> Schimmelfennig F., Sedelmeier U., „Governance by conditionality: EU rule transfer to the candidate countries of Central and Eastern Europe“, *Journal of European Public Policy*, 11:4, August 2004, p. 669–687, p. 9. Blokker, (note 10) p. 11.

<sup>79</sup> According to Blokker (note 10, p. 11), complete Europeanization is impossible in principle, because a lot depends on the internal political, economic and social order of the country, which complicates the process of convergence, because in Russia, as elsewhere in Central and Eastern Europe, Western modernity is competing with the inherited communist modernity. Nevertheless, communist rhetoric has been recently being changed into the country’s sovereignty discourse.

After the expiry of 'Partnership and Cooperation Agreement' between the EU and Russia at the end of 2007, the base of cooperation remained to embrace four common spaces, adopted during St. Petersburg's Summit in May 2003: economy; freedom, security and justice; external security; education and science. The latest expression of the search for mutual cooperation was given the shape of the 'Partnership for Modernization', which appeared on the political agenda after the Summit in Rostov-on-Don in May-June 2010<sup>80</sup>. Although the 'Partnership for Modernization' would undoubtedly benefit both Russia and the EU, practically it is hardly achievable for several reasons:

- 1) Both sides have a different perception of modernization<sup>81</sup>. The EU must take this into account and reformulate the existing objectives, select suitable strategies and operation measures.
- 2) The EU does not provide enough incentives for Russia to modernize if the price of oil is higher than 70 dollars per barrel<sup>82</sup>. As a result, the EU must provide a certain reward for each Russia's commitment.
- 3) Inaccuracy on the part of the EU – lessons from the German-Russian modernization partnership launched in 2008 should be learnt in setting clear priorities and appropriate implementation measures; otherwise, this initiative will not obtain any real acceleration<sup>83</sup>. It is necessary to start with least politically charged issues and select appropriate measures to deal with them.

The fundamental Russian historical tradition allows for modernization to take place *only* 'from above' because the reform-oriented middle class and civil society has never developed. With respect to the latter circumstance, what kind of 'low policy' incentives would make gradual economic modernization in Russia inevitable? In search of the most favorable areas for cooperation with

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<sup>80</sup> A sufficiently detailed description of its contents is introduced in the document of the Council of European Union, "Joint Statement on the Partnership for Modernisation EU-Russia Summit 31 May-1 June 2010", Rostov-on-Don, 1 June 2010, 10546/10, PRESSE 154.

<sup>81</sup> E.g.: Barysch (p. 29-32) from EU-Russia Centre (note 45); The Economist, "Europe's bear problem", The Economist, 25/02/2010, from printed edition, <[http://www.economist.com/node/15578042?story\\_id=15578042](http://www.economist.com/node/15578042?story_id=15578042)>, 25 04 2011; The Economist (note 53); Chizhov V., "Partnership for Modernization' as a Key Element of Russia-EU Cooperation". *International Affairs: A Russian Journal of World Politics, Diplomacy & International Relations*, 2010, Vol. 56 Issue 5, p. 45-49.

<sup>82</sup> Laqueur (note 46).

<sup>83</sup> Barysch (p. 29-32) from EU-Russia Centre (note 45).

Russia, the EU could invoke some changes according to the following logic. If one views modernization as a necessary condition for adaptation in the globalization process, it is the *openness of the economy* that is postulated as the most important factor for the success of economic modernization. The EU has long been hoping to hear it from Russia, while in Russia, economic openness is perceived both as a threat to sovereignty and self-sufficiency, and as an inevitable necessity, because the financial/economic crisis has clearly showed the limited adaptability of the Russian economic model. Proponents of autocracy in Russia and China qualify their states as alternatives to the Western political model combined of democracy and capitalism – they claim that it is precisely because of globalization that there is no connection between economic development and political liberalization, the latter being associated with liberal democracy<sup>84</sup>. However, in Part 1 of this article it has been shown that, although this relationship is not a law (only some correlation), but it *does exist*. In addition, motivation to make profits can either stimulate or impede democratization. In democracies, vested interests of businessmen contribute to the development of the democratic system of ‘checks and balances’. In autocracies, such a system is only a formality, or does not exist at all. In general, the *competing* capital groups and the middle class are primarily concerned about pluralism and democracy in the conditions of an open economy, because democratic (as opposed to the strict governmental control) conditions provide more opportunities for profit. Why? Here is the likely scenario/mechanism: 1) Economic development creates a large *middle class*, stimulates its sense of independence, needs of political participation and accountability; 2) There eventually arises a demand to ensure *the rule of law*, since commercial affairs cannot be effectively dealt with in a political vacuum – it is necessary to limit the arbitrariness of state institutions; 3) Promoted by capitalism, economic development creates different interests, activities and work specialization; thus, their *political representation*, which cannot rely solely on informal contacts and corruption, becomes an imperative; 4) Although the excessive risk is an integral part of capitalism, it cannot tolerate long-term *corruption* in the public sector (one of the largest shortcomings of state capitalism); 5) The stability of autocratic state capitalism is denied by the history of capitalism – class

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<sup>84</sup> Wolnicki, (note 39) p. 484.

division and economic inequality have always been important political reasons for changes, leading up to the establishment of parties and movements representing various interests; 6) Autocratic hierarchy is always marked by declining political and economic efficiency because of the weak accountability and lack of information, which often causes errors in politics and the economy<sup>85</sup>. This logic/way of thinking can be accused of excessive optimism and impracticability. However, in addition to energy sector reforms, there are at least two measures that could bring positive results in the long-term perspective. Firstly, it is promoting economic and in the course of time, other forms of modernization: 1) Visa-free regime between the EU and Russia; 2) Financial, technological, etc. support from the EU for Russia's economic modernization. Both measures have been already introduced into the agenda of the EU; however, they are seen quite narrowly, focusing basically on short-term threats to the EU with virtually no regard to their impact on bilateral relations between the EU and Russia in the long-term perspective. Providing such incentives to Russia, in exchange, the EU should demand the take-over of 'low politics' (i.e., least politically sensitive, where the EU has a real competence and superiority) rules from Russia, thereby gradually spreading European practices and standards (equalizing conditions). The investment could ensure the EU's right at least to monitor internal modernization processes. Both measures are practically the only and most important external factors (in addition to the liberalization of the energy sector both in the EU and Russia in the short-term perspective) for the promotion of economic modernization in Russia in the mid-term perspective, and through it, for the formation of the middle class and civil society in the long-term perspective.

### Conclusions

While concluding on *internal factors*, the analysis of Russian concepts of economic modernization showed that the need for modernization is clearly acknowledged by Putin, Medvedev and the Russian academic elite, but divergent perceptions of structural economic problems determine the different nature of modernization agendas, sources, goals and measures to achieve them. Asymmetric systemic capacities of two power centers and a specific ruling system

<sup>85</sup> Wolnicki, (note 39) p. 485-486.

create a situation, which favours Putin's modernization agenda. Even if Medvedev's modernization agenda is closer to the EU's, his systemic capacities and capabilities for the implementation of his own agenda are still insufficient. Despite this fact, some Medvedev's attempts to change power relations between the president and the prime minister have been noticed. *In summary, all three internal factors stated in the hypothesis impede Russia's economic modernization.*

While concluding on *external factors*, critical analysis of Western theoretical and empirical ideas of modernization has revealed an apparent divergence of Western and Russian modernization concepts. It automatically determines different goals and expectations of both Russia and EU in the 'Partnership for Modernization' initiative. *In summary, external factors stated in the hypothesis also limit the adequacy and effectiveness of modernization incentives originating outside of Russia.*

Finally, in light of Russia's historical modernization traditions and postulated importance of the country's sovereignty, internal factors can be treated as more important. This, in essence, means that the *main driving force* of modernization in Russia can be constituted *only by the ruling elite (modernization is only internal and originates only „from above“)*.

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