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Medvedev's Innovations

by Alexander Rahr and Stefan Meister

In the first few months of his term in office, Russia's new president Dmitri Medvedev will be dealing intensively with the socioeconomic situation in the country. He wants to reduce Russia's economic dependency on exports of oil and gas. He plans to gear the economy towards the expansion of innovative industries and to make Russia more competitive internationally by introducing reforms in the areas of research, education and modern technologies. The focal point of his strategy is the attempt to make Russia one of the Top five largest national economies by 2020. Since energy prices will presumably continue to rise in the coming years, Russia will be able to have the financial capital required for the innovation push. At his inauguration on May 7, 2008, Medvedev also promised to deal with the development of the middle class and a functioning civil society. This policy will be implemented by the new Prime Minister Vladimir Putin.

Two days before the changeover of power in the Kremlin, the head of the newly created analytical center of the Russian government, Andrei Zverev, attempted to throw light on the future economic policy of the tandem Medvedev-Putin at a "Russia Breakfast" in Berlin.

Zverev emphasized that after the crises in the 1990s the regeneration of the Russian economy finally is complete. Now the value creation phase is beginning. He presented a government plan of five points, which is going to be run by Putin in the future. According to this plan the economic modernization would be accomplished by 2020 ("concept for socioeconomic development by 2020"). Zverev said that the main challenges for the national strategy for 2020 were the diversification of the economy, the creation of a modern logistics and telecommunications infrastructure, and investments in human resources.

For its economic development Russia will continue to rely on a mixed form of state regulation and private industry, however. Investors' rights are going to be strengthened, but the newly elected Duma recently decreed that foreign investments must not exceed 25

percent in 42 specific "strategic" branches of industry. This means that foreign companies are not allowed to have majority shares in branches such as energy or in the larger media. The core part of industrialization will remain state-controlled holding companies, even though, in Medvedev's own words, "state capitalism in the 21st century cannot guarantee efficient management." The Russian leadership does not see the holding companies as inconsistent with the promotion of medium-sized companies. The development bank Vneshekonombank, for example, which is also a holding company, is thus going to support the Russian medium-sized business.

Five-point plan

The planned transition from a raw material economy to a high-tech state will depend on the improvement of the education system, which has to be adapted in order to get into line with the demands of a modern economy. Russia has lacked skilled personnel for years, especially in technical areas. In the 1990s there were almost exclusively lawyers and business economists formed. Now the country urgently needs good

engineers. So-called techno parks will function as an important innovator in the future. They will provide the impetus for research in the interface between universities and the scientific community. In the regions it is even more urgent to establish modern educational establishments, and so-called federal university complexes will do this.

Second, Russia has to become more competitive in the international economic system. Joining the WTO may have a stimulating effect, especially in the areas of finance and banking, and, third, the creation of modern finance in Russia would be connected with this. Fourth, Russia has to radically reform its state bureaucracy and change to a policy of good governance. Only by doing this will it be able to fight the corruption in the country. There are hopes that the “legal nihilism” denounced by Medvedev several times will be attacked more intensively by the new president. Zverev raised concerns, however, that the lack of belief in the rule of law is a mental problem among the Russian population as a whole. Finally the Russian government wants to introduce the second stage of tax reform and give greater production incentives to domestic and foreign investors by cutting taxes.

Foreign investors, looking at Medvedev's presidency positively in terms of politico-economic interests, would fast become elated about tax reform. They hope for the promised tax privileges in connection with innovation projects. According to Zverev, the key problem of the economy lies in low productivity and a lack of innovation. Tax concessions, technology parks and large national projects will link the economy and research to a greater extent. Only with improved production facilities and educational establishments will Russia become a more powerful participant in the global economy. The innovation potential, which exists today in the Russian economy, amounts to only 10 percent compared with 50 percent in Germany. At the moment Russian companies spend a high proportion – 55 percent – of their turnover on technological equipment with only 0.5 percent for training and only 0.3 percent for marketing.

Today there is more corruption in Russia than there was in the 1990s. Russia's infrastructure is 20-30 years out of date, and the industrial plants originate from the Brezhnev period. In the last 20 years Russia has been a country of traders and raw materials suppliers. Money which has been earned much too quickly has left the entrepreneurial spirit stagnating. Will the new government manage to make a true and accurate diagnosis of its own economic problems? Continued growth will have to come from innovations, not from state-directed economic policy. Zverev stressed that his analytical centre is developing ideas for the diversification of the Russian economy. The government's



Andrey Svirev (to the right) and Dr. Klaus Mangold during the Russia Breakfast about Innovation in Russia

programs contain relevant appraisals, which list the problems. It is the implementation phase, which will be decisive.

The new government

The composition of the new Putin government is from high interest. With the “right” people in key positions in the cabinet, observers will quickly be able to discover the direction Russia is heading in under the tandem. With the new first Vice-minister Igor Shu-

valov the so-called “reform wing” was strengthened. Subordinated to Shuvalov are the reform vice-premiers Aleksei Kudrin and Alexander Zhukov. This part of the new government team will probably continue the modernization of the country. The other strong government block, however, the one of the secret service officers (Igor Setshin, Sergei Ivanov), which will work under the new first Vice-premier Viktor Subkov, will countervail the reformist part. Putin will move both “levers” himself, either to strengthen the reforms or to integrate them in his regulatory policy.

Innovative foreign policy

There will be no radical return to a policy of Western integration like in the 1990s. Western observers assume, however, that there could be some positive change in the style and atmosphere of Russia's relations to the West.

The new president's itinerary is revealing: Medvedev's first trip abroad is to Kazakhstan, and from here he will be traveling to China. It is known that Russia has been planning a global alliance with these two countries as part of the “Shanghai Organization for Cooperation” for some time already. Medvedev wants to show the West that Russia, unlike in the 1990s, in Asia has an alternative for development. Only after this trip Medvedev will to France and Germany – the two most Russia-friendly countries in the European Union.

The visits to Paris and Berlin may be overshadowed by the current Russian-Georgian conflict concerning the renegade Georgian republic Abkhazia. New military skirmishes in the Southern Caucasus cannot be excluded. It is unlikely, though, that the new president Medvedev will want to waste the opportunity to establish a wide-reaching modernization partnership with the West by acting too harshly in this local conflict.