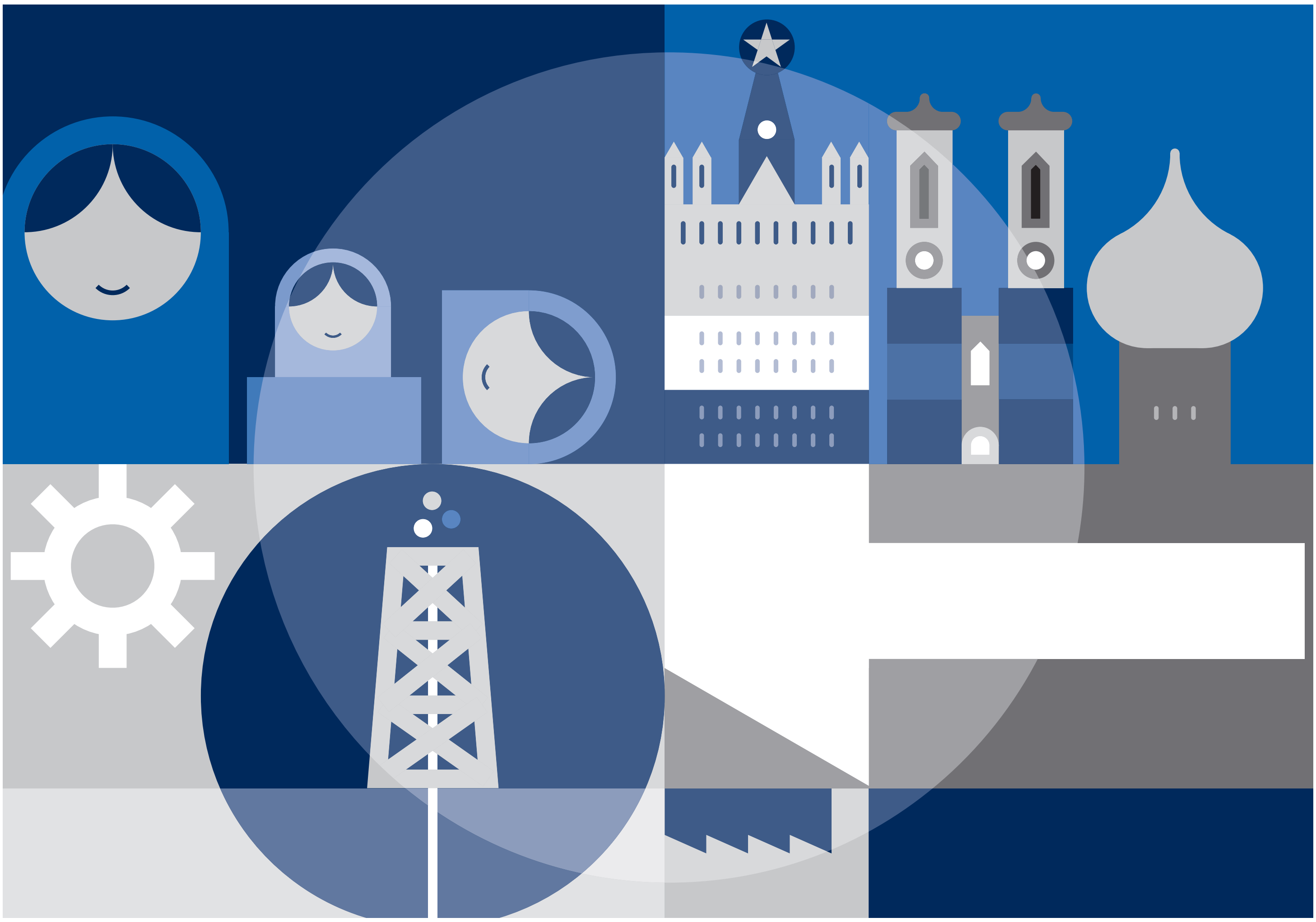
WORLD ECONOMIC FORUM

COMMITTED TO IMPROVING THE STATE OF THE WORLD

World Scenario Series

Scenarios for the Russian Federation

January 2013



REF 090113

Contents

Preface

Klaus Schwab
Founder and Executive Chairman
World Economic Forum

The Scenarios for the Russian Federation process started in early 2012 amid significant uncertainties about the future of the Russian economy. As the sixth largest economy in the world (measured in purchasing power parity), a member of the G8, G20 and UN Security Council, Russia is justly confident in its development ambitions. The impact of the global financial crisis, however, highlighted the vulnerabilities in the economy's strong reliance on energy exports, while presidential elections in 2012 raised important discussions about the country's future economic policies.

Applauding the remarkable economic progress Russia has made in the past decade, the ultimate goal of this scenario process is to stimulate this development. The World Economic Forum provided a neutral platform and a powerful process for engaging public and private sector leaders in a strategic dialogue. The Forum's Strategic Foresight scenario process prompted constructive and stimulating discussion, opening new perspectives on Russia's future economic development. It also benefited from the Forum's Global Competitiveness research which served as a benchmark throughout the project.

More than 350 experts and decision-makers have been involved in this year's scenario process, exploring global, regional and domestic developments that may fundamentally affect the Russian economy in the coming decades. The outcomes of this process are summarized in this publication and aim to provide starting points for stakeholders to assess opportunities and challenges for policy and strategy options. Beyond this report, the World Economic Forum will continue to work with its Russian partners to further support this strategic dialogue.

Key events in 2012 included workshops at the St Petersburg International Economic Forum; the World Economic Forum Moscow Meeting; and the Annual Meeting of the Valdai Discussion Club in St Petersburg. At all times, the views of young people, represented in particular through the strong engagement of the Forum's Global Shapers Community, were keenly sought and integrated.

We hope these insights prove informative and thought-provoking, and that this process has laid the groundwork for more productive conversations between all stakeholders in the Russian economy. Unquestionably, the world wants to see a strong partner in Russia, and this aim is truly in line with the mission of the World Economic Forum, that we are committed to improving the state of the world.

Foreword

Herman Gref
Chairman of the Board and Chief Executive Officer
Sberbank

The Scenarios for the Russian Federation have been developed by the World Economic Forum in close cooperation with a host of Russian and foreign experts, and with support from Sberbank.

Assessing future developments is generally an ungracious task. Therefore, these Scenarios should not be interpreted as direct forecasts for Russia's economy or public life based on any pre-set parameters. Rather, they are an attempt at taking a structural view of the key uncertainties, risks, challenges and development opportunities for the Russian Federation in the near future.

I hope that the conclusions reached in the course of work and presented in this report will help to nourish thought and discussion, not only among academicians and investors but also the Russian authorities in the broad sense of the word. This paper is intended to stimulate all decision-makers, both in government and in business, to wider use of strategic planning, giving more chances to positive scenarios as opposed to negative.

This report will most likely spur debate about the future of Russia. If we choose to follow a harder road, we may discover in several years that things such as world oil prices or the size of capital flight are of much less concern for us. Instead, we will be able to focus on other issues, such as which domestic high-tech sectors are more appealing to Russian private investors.

Eventually, every one of us can make a contribution to turning Russia's economic and political challenges into a growth potential. Based on expert opinions, these Scenarios show that this is truly possible.

Executive Summary

The Russian economy is at a crossroads. Shifts in the global economy are affecting Russia due to its strong reliance on oil and gas exports. Revitalizing its economy requires significant changes in its domestic institutional environment. Such changes may be supported but also complicated by domestic dynamics of social cohesion.

Meanwhile, just as Russia takes on the presidency of the G20, significant uncertainties remain in the global economy that could fundamentally affect Russia's economy in the years to come. Russia can help shape these global developments but this will require a strong appreciation of the complex interactions between global trends and developments in its domestic economy.

Based on a series of strategic conversations among more than 350 industry, public policy and academic leaders, and several surveys, the process focused on three drivers that might significantly shape Russia's future economic development in different directions:

– evolutions in the global energy landscape
– the quality of Russia's institutional environment
– the dynamics of domestic social cohesion.

Participants considered the possible outcomes and interactions of these key drivers when exploring three challenging scenarios that aimed to inform policy and strategy discussions.

These scenarios are presented not as the most likely or the only possible outcomes worth analysing. They highlight three possible pathways into the future and provide a tool to foster strategic thinking on Russia's future economic landscape, stretching the boundaries of what stakeholders perceive as possible. The scenarios also explore the opportunities and challenges that global and domestic economic shifts might present, and highlight the implications and reflection points for Russia's future economic development.

The three scenarios are:

Regional Rebalancing

Pockets of leadership driving institutional reform at a sub-federal level significantly change the business environment in some well-governed regions, in spite of stagnation in central institutions. A context of global resource scarcity allows some of these regions to grow quickly on the back of high investments in the agricultural sector and a range of associated value-chain products. This growth is also helped by new cross-border infrastructure links and lowered trade barriers with Russia's eastern neighbours.

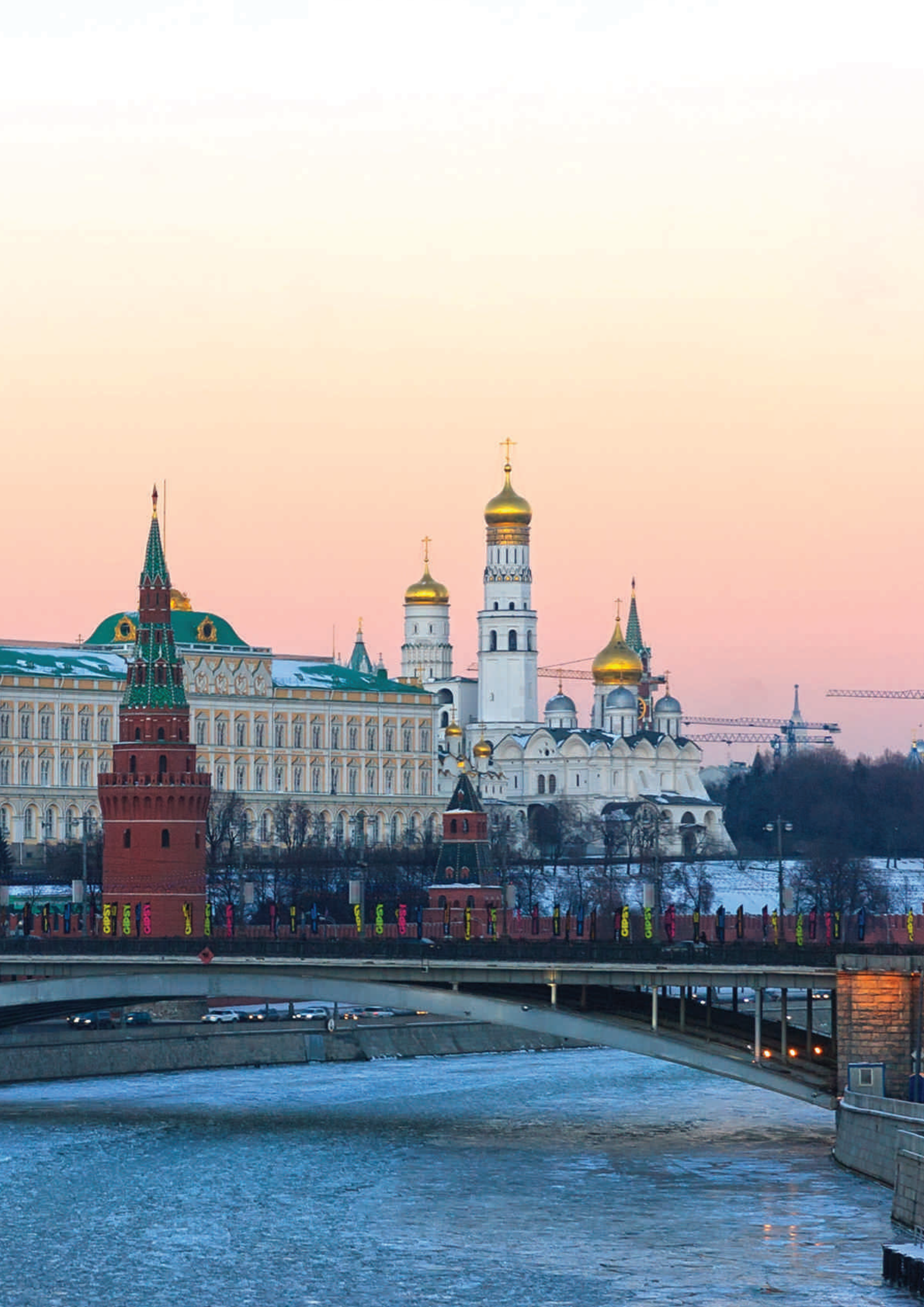
Precarious Stability

A sudden and sustained drop in oil prices creates a crisis in Russia's economic foundations that threatens the country's social stability. Paralysed by the threat of popular resistance to cutbacks in entitlements and social spending, the government is compelled to strengthen its hold on the economy, using state companies as vectors of social spending. While compromising its fiscal position, Russia preserves at least the illusion of economic stability for most of its population. Eventually the sustainability of these measures comes into question, opening a range of uncertainties about the country's long-term economic future.

Beyond Complacency

Continuously high oil and gas prices lead to complacency about institutional reform, aside from specific measures to spur investments in the energy sector. While the success of this sector brings higher incomes to large parts of Russian society, discontent increases with inefficient public services and an unceasingly growing but inefficient state bureaucracy. A split among the elites eventually leads to a wave of institutional reforms.

Introduction



An Uncertain Economic Outlook for Russia

Russia is at a critical turning point in its economic, social and political development. After 10 years of unprecedented economic growth and rising living standards, the economy was hit hard by the global financial crisis of 2008. Although its rebound was prompt, aided by resurging global energy prices, this drop highlighted underlying uncertainties about the sustainability of Russia's economic model. A strong reliance on the export of natural resources, combined with centralized political and economic powers, have served the country well over the past decade but with international and domestic environments changing rapidly, participants in this scenario process have highlighted the need for the country's economy to be revitalized urgently.

The spectacular rise of oil prices from 2000 to 2008 and economic reforms of the early 2000s led Russia to record growth rates and to a dramatic rise in living standards for much of its urban population. In 2008–09, however, the Russian economy was hit hard by the global economic crisis, shrinking by almost 8% within one year. The economy picked up quickly in the aftermath of the crisis, growing at 4.2% in 2011, but the crisis has demonstrated that Russia's future economic development is inextricably linked to the future of the global economy and to global evolutions beyond its borders. Significant challenges remain, particularly in reducing the country's strong reliance on its oil and gas exports and in revitalizing the economy. The World Economic Forum's *Global Competitiveness Report 2012–2013* highlights several key challenges for the country's long-term economic development.

Russia's competitiveness in 2012

The Russian Federation ranks 67th in *The Global Competitiveness Report 2012–2013*. A strong macroeconomic environment (22nd) owing to low government debt and a government budget that has moved into surplus is not enough to compensate for the country's weak and deteriorating public institutions (133rd) and its struggling innovation capacity (85th). The country also suffers from inefficiencies in the goods (134th), labour (84th) and financial (130th) markets, where the situation has deteriorated in recent years.

Weak market competition (136th), caused by inefficient antimonopoly policies (124th), restrictions on trade and foreign ownership and a lack of trust in the financial system (134th), contribute to Russia's vast resources being inefficiently allocated, hampering economic productivity. As the country's economic development advances, its lack of business sophistication (119th) and low rates of technological adoption (137th) will present challenges for its sustained progress, although the high level of education enrolment, especially at the tertiary level, and a large domestic market (7th) can be exploited to improve Russia's competitiveness.

Figure 1: Russia has a similar competitiveness profile to its BICS* peers

*BICS: Brazil, India, China and South Africa
Source: World Economic Forum Global Competitiveness Report 2012-13

Russia's sustainable competitiveness will likely be affected by environmental and social factors, in addition to productivity, which is captured by the global competitiveness index. The country ranks particularly poorly in environmental sustainability, with some of the poorest ratings globally for three indicators: the strength of environmental regulations; the number of international environmental treaties ratified by the country; and the quality of the natural environment. Russia's social sustainability performance lags behind Organisation for Economic Co-operation and Development (OECD) economies and is lower than in China and Brazil, although Russia outperforms India. In this regard and contrary to most other competitiveness measures, Russia's profile differs from its BICS peers (Brazil, India, China and South Africa) (see Figure 1).

Uncertainties for the road ahead

Against this background, the World Economic Forum and its partners embarked on a process of strategic dialogues throughout 2012, engaging more than 350 business leaders, decision-makers and academic experts (for further details on the process, see Appendix 2). The purpose of this process was to explore possible scenarios for the future of Russia's economy along with its underlying political, economic and institutional drivers. In this process, participants reviewed a range of global forces and domestic drivers (see Boxes 1 and 2). Out of these drivers, the working group selected three critical uncertainties for Russia's future economic development, being both highly influential forces shaping the future of Russia's economic development and highly uncertain in how they may develop over time. They provided the basis for the scenario exploration that is summarized in this report.

These three critical uncertainities are:

The global energy landscape

Evolutions in the global energy landscape guide the dynamics of oil and gas prices, which currently determine to a large degree Russia's gross domestic product (GDP) and fiscal revenue. High oil prices currently support a strong macroeconomic position. This, however, also creates deep uncertainties about the country's future should energy prices drop.

The institutional environment

A range of competitiveness pillars are directly and indirectly attributable to the quality of domestic institutions. High levels of corruption, deficiencies in the rule of law and lack of market competition, to name a few, limit the potential of the Russian economy. Yet even small changes in these institutional factors could also be important enablers of economic growth in the future.

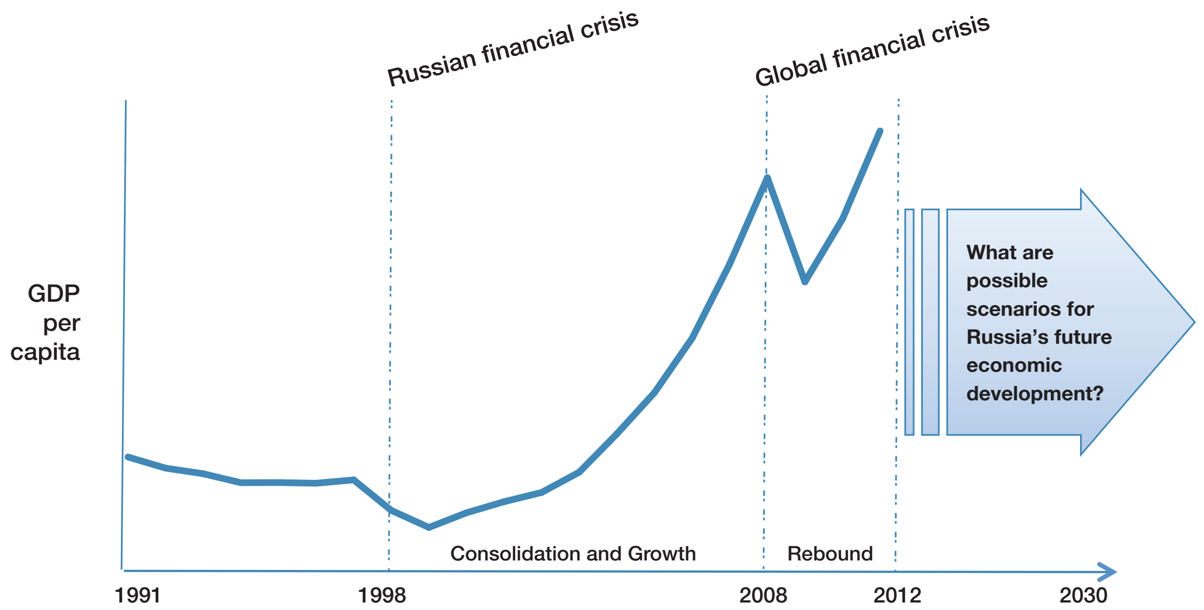
Social cohesion

How social dynamics will play out in the future and impact on Russia's competitiveness is highly uncertain. Popular discontent may emerge from different parts of society (middle class, young generations, regions, etc.) and directly affect the stability of the economy. Uncertainty about the direction of social cohesion is accentuated by its complex interactions with the two above-mentioned critical uncertainties.

The next section of this report explores each of these critical uncertainties in further detail, before introducing the framework for the three scenarios developed over the course of these strategic dialogues.

Figure 2: Russia has improved its economic situation through marked phases of development

Source: World Economic Forum and World Bank



Box 1: Global Forces

Russia finds itself at the centre of a wide range of global trends and uncertainties that may affect the direction of its economic development. These trends are important contextual elements in the three scenarios presented in this report. The most important dynamics for this scenario process include the following:

- Political and economic implications of resource availability: The dynamics of supply and demand for major natural resources, including water, food, energy and land, are changing drastically. While water availability is increasingly scarce, food production increasingly volatile and fossil fuel exploration increasingly plentiful, the winners and losers of the natural resources landscape are changing rapidly. In each of these areas, Russia has the potential to benefit from a changing resources picture given the country's vast reserves of land, water, food and energy. At the same time, a fast-changing energy market could mean difficult adjustments for Russia, just as the country's agricultural potential could mean new economic opportunities alongside unprecedented levels of political responsibility given increasing occurrences of food crises.

- Climate change adaptation: Russia, like the rest of the world, is likely to be affected by climate change. Extreme weather events, droughts and other climate-related phenomena, such as damage to infrastructure through melting permafrost, may pose significant challenges for Russia. At the same time, the country could benefit from changing global weather patterns; for example, warmer conditions could enable more extensive agricultural land use, while Arctic ice melts could open new trading routes and enable next-generation oil and gas exploration.

- Demographic shifts and talent mobility: While global population levels are surging, there is an increasing demand, often unmet, for highly skilled and specialized professionals across the world. This global search for talent is becoming even more intense as such talent is increasingly mobile and chooses work locations according to various preferences, the quality of life on offer chief among them. This poses a significant challenge for any country that depends on human capital for its economic development; a country's attractiveness to international talent becomes a key factor for its success.

- Social media and vulnerability of elites: A newfound vulnerability is undermining political and economic elites across advanced economies, emerging markets, democracies and authoritarian states alike. As the Forum's Global Agenda Council on Geopolitical Risk has pointed out, the end of "peaceful coexistence with social inequality" is putting increasing pressure on elites to avoid acts of moral and financial corruption. When they fail, new media technologies are giving people the tools to expose elites and hold them accountable. This global trend has not spared Russia, where demand for accountability and transparency has increased substantially in recent years. How the country's elites react to this newfound dynamic will be critical for the future.

- Capital flows and global economic governance: In a difficult global economic environment, global capital flows and varying national and international policy responses to them are affecting economies worldwide. The trade-offs between flight to safety and maximizing returns in emerging and frontier markets, as well as the increasing speed with which capital can be moved across borders, are creating challenges for national and international economic policy-making. Given its experience of capital flight, Russia is particularly affected by these trends.

Box 2: Domestic Drivers

As part of the scenario process, stakeholders highlighted and discussed a number of important domestic drivers:

– Investor perceptions of risk: The image of Russia as a destination for investment given the country's risk profile

– Adequacy of physical infrastructure: The availability, quality and distribution of physical infrastructure

– Level of market competition: The level of competition in the economy, based on regulatory structures and the behaviour of market players

– Efficiency of bureaucratic apparatus: The ability of the bureaucratic apparatus to implement political decisions and offer efficient services

– Financial architecture: The existence of domestic investment opportunities, well-functioning capital markets and financial regulation

– Quality of corporate governance: The transparency and accountability of corporate decision-making and the quality of decisions

– Transparency of legal frameworks: The transparency, consistency and independence of legal rules and rulings

– Leadership of regional actors: The extent to which regional leaders take initiatives to implement independent policies

– Elite cohesion: The level of agreement and interaction between varying interest groups within economic and political elites

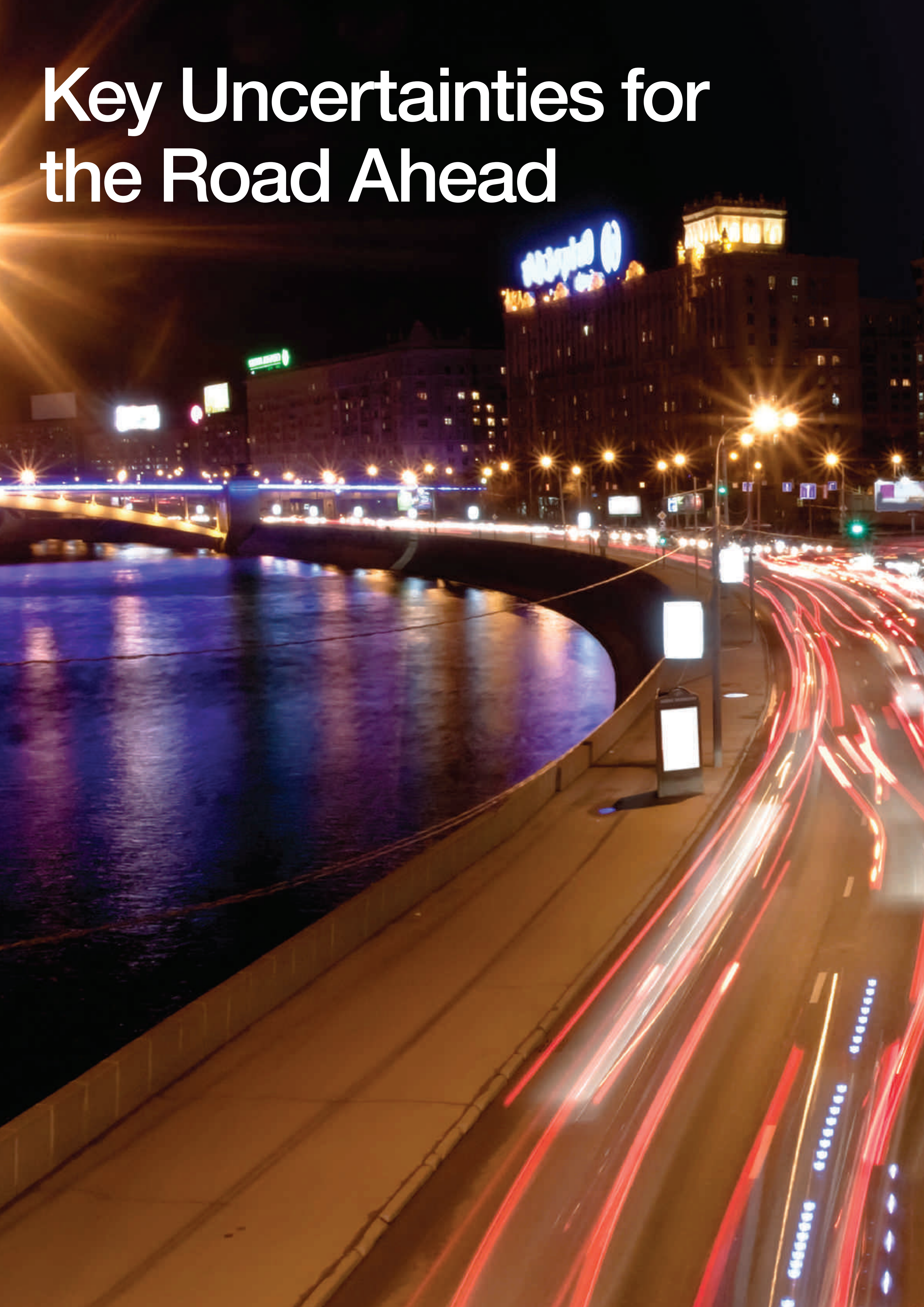
– Human capital: The availability of a workforce with the requisite health, skills and motivation to respond to the country's labour needs

– Level of popular discontent: Satisfaction with economic and political conditions, and the population's attitudes to expressing it

– Rent seeking: The degree to which individuals at all levels of the population seek economic rents to the detriment of value creation for society

Out of these important drivers, the working group selected three critical uncertainties for Russia's future economic development as a basis for the scenario process. These are discussed in further detail in the following section.

Key Uncertainties for the Road Ahead



The Global Energy Landscape

Russia's economy relies heavily on its energy sector for economic growth, with an extremely tight correlation between oil prices and the country's GDP. The price of oil and gas on global and regional markets, and developments in the global energy landscape more generally, are critical to Russia's future economic development. For the most part, Russia is a price-taker and cannot mould the global energy environment in which it operates nor the energy prices that ensue. Yet a thorough analysis of the dynamics within the global energy landscape is important for Russia to maximize benefits while this external context is favourable and prepare for less auspicious times in the future.

Impacts

Supporting strong GDP growth

Over the past 10 years, dynamics in the global energy landscape were extremely favourable to Russia and enabled the country to benefit from exceptionally high oil prices. A series of forces and events supported this trend, including most importantly persistent growth in Asian energy demand but also supply constraints stemming from Venezuela's political instability (2002–03), the Second Gulf War (2003–11), and Hurricane Katrina and Hurricane Rita (2005). Together, these evolutions allowed Russia to benefit considerably from its large oil and gas resources, contributing to substantial GDP growth and to an unprecedented expansion of the country's middle class. This created wide-ranging opportunities as Russia embarked on a consumption boom offering opportunities in various sectors, including retail, information technologies and services.

Drawbacks for non-resource sectors

The relative ease with which this hydrocarbon wealth can be exploited, however, may divert productive capacities from non-resource sectors. Policy initiatives to create incentives to invest in other sectors may be lacking, while vested interests in the resource sector make it difficult for the government to change economic policies and reform institutions, solidifying the unbalanced nature of the economy. Such an imbalance could prove perilous as any institutional shortcomings may prevent Russia from further investing in its energy infrastructure and fully benefiting from high energy prices.

Fiscal fragility

With a strong fiscal dependence on energy revenues, state expenditures including pensions, social security and public investments, are subject to significant volatility. Russia's macroeconomic situation compares favourably with its overall ranking in the Forum's Global Competitiveness Report 2012–2013, placing it 22nd out of 144 countries, as opposed to 67th in its overall competitiveness position. But this strong position is largely supported by high global energy prices. While Russia has grown fast, it has also grown fragile. Its prospects are uncertain in the event of downward dynamics in energy prices, given that fiscal spending has become adjusted to surging energy revenues. From 2007 to 2012, Russia's budget break-even point has climbed from US$ 34 to US$ 117 per barrel of oil. In light of this, and despite recently debated rules on budgetary constraints, it remains the case that while upward adjustments are swift and easy, downward adjustments in the budget are extremely difficult to implement, especially in an unfavourable economic environment.

Its tight interdependence with developments in the global energy landscape has benefited Russia while energy prices were on an upward trend. Such interdependence, however, also raises important questions about the sustainability of the country's economic model. These questions will become more critical as fundamental changes continue to occur in the energy environment within and beyond Russia's borders.

Trends and Uncertainties

In the coming decades, Russia will face at least three challenges emanating from a changing global energy landscape. The first will be increased supplies of oil from sources ranging from the United States to Iraq. The second challenge for Russia will be turning the threat of unconventional gas resources into an opportunity, given the potential of shale to undermine Russia's hold on its traditional and prospective gas importers. The third shift Russia will need to master is in response to a changing demand landscape where, according to all major projections, non-OECD economies will account for the largest share of future fossil fuel demand. Finally, it remains to be seen whether Russia can lead a changing global market structure or whether it merely trails along. While the country could be at the helm of an OPEC-style organization to regulate gas supplies and prices, for example, it could also lose out to strong competition in the liquefied natural gas (LNG) sector and elsewhere.

Beyond scarcity

Future levels of global oil and gas supplies represent a key uncertainty for Russia. On one side stand those who argue that a climax in global oil reserves known as "peak oil" has or will soon be reached and that "cheap oil" is gone forever. According to this view, oil prices will remain high and volatile as the world has no other choice but to move towards new sources of energy. This paradigm of scarcity, however, is increasingly challenged by an opposite view of energy abundance, according to which we are entering an era of new heights in oil and gas supplies.

The case for global oil and gas abundance is strengthened by new discoveries and renewed investments in countries ranging from Brazil to Iraq. Radical improvements in extraction technologies may unlock new resources in regions as diverse as the Mediterranean, East Africa and the South China Sea. According to the latest forecasts from the International Energy Agency (IEA), by 2020 the United States is set to overtake Saudi Arabia and Russia as the world's largest oil producer. Though this prospect has been debated, it points to substantial and undeniable changes in global energy patterns. If these evolutions play out to their full extent, one can expect a substantial, if progressive, decline in oil and gas prices globally.

While Russia would be affected by such global evolutions, changes in its regional energy environment may have an even greater impact on its future. Russia has only limited maritime access, is not a major LNG exporter, although it has plans for expansion, and is uniquely placed at the intersection of European and Asian markets. This makes the country an inherently regional player, highly sensitive to developments that could affect its access to surrounding markets. Such developments might include the completion of future Nabucco-like pipelines to bypass Russian supply routes to Europe, a rise in alternative Mediterranean sources of energy or an increase in European LNG infrastructure. One wildcard stands out in this regard: as a participant pointed out, a successful conclusion of nuclear talks with Iran may also "open a new gas market for Europe, whose current high reliance on Russian gas exports could hence be cut short".

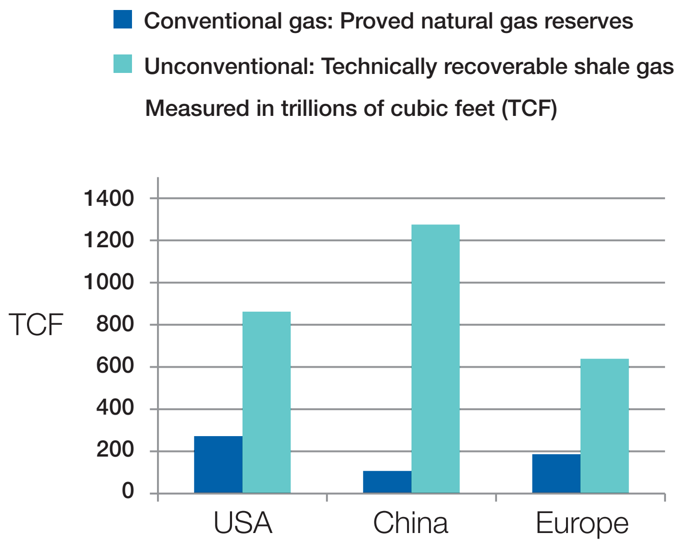
The prospect of shale

One force already revolutionizing the global energy landscape, and Russia's place in it, is shale gas exploitation. Thanks to recent advances, the United States is already competing with Russia in natural gas production, and its production prices are comparatively lower. Natural gas in the United States is about 60% cheaper than in Europe, and there are prospects for the United States to become a major LNG exporter in the years to come, possibly changing the global gas landscape in a fundamental way.

Should the United States experience be replicated, the development of shale gas in Europe and China could have a radical impact on Russia's export prospects. There is reason to be cautious about the prospects for shale gas. Environmental concerns and high population density could limit its widespread extraction in Europe and, while China has shown strong interest in exploiting its own reserves, it will need to import vital technology and could face severe water shortages given the large water requirements involved in hydraulic fracturing. Nevertheless, "it is surprising how little Russia seems to take into account the threat shale gas represents to its core energy edge", as one analyst put it. Europe and China hold shale gas reserves much larger than their conventional gas production potential (see Figure 3). In coming years they could also benefit from changes in their regional environment (such as Algerian shale exploitation) or technological evolutions (including dry fracking). These changes may enable Europe to reduce its dependence on Russia as an external energy supplier and encourage China to pursue even tougher negotiations over prospective agreements with the country. This prospect is particularly unsettling for Russia as it tempers the notion that China could be an alternative market to Europe should energy demand be affected by sluggish growth or political considerations in the latter. In both cases, Russia could consider lowering the prices of its exports but this would eventually be at odds with its fiscal needs.

Figure 3: China and Europe could follow the US lead and become major shale gas producers

Source: U.S. Energy Information Administration (EIA) (April 2011)



A shifting demand mix

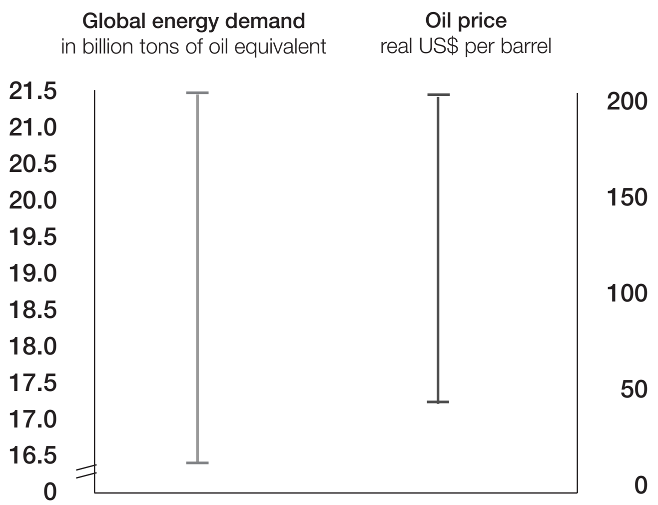
Future demand for Russia's oil and gas will be determined not merely by competing supplies, but also by the prospects of global energy demand. Uncertainty about demand levels stems from a volatile global economic outlook as well as a necessary transition towards low-carbon economies worldwide. In addition to adjustments in advanced economies, continued global growth will require difficult transitions in many emerging economies towards greater domestic consumption. Simultaneously, these economies will need to leapfrog towards more sustainable low-carbon economies, which may pose significant difficulties.

Though fossil fuels are likely to remain a dominant source of global energy consumption, several non-oil and gas supplies could at least partially meet global energy needs. Coal, for example, has often been shunned for its high CO2 emissions but remains a popular energy source in China and in a range of emerging and advanced economies. The advent of carbon capture and storage (CCS) could make coal increasingly attractive. Nuclear power generation could be another alternative, although large producers such as Germany have started to phase it out of their domestic energy mix. Finally, while renewable energies may no longer benefit from the favourable policies that encouraged their rise in advanced economies over the past decade, their future could be sustained by emerging economies with more upfront capital to invest. In addition, while there has been only incremental progress in battery technologies and changing modes of urban mobility to date, a sudden breakthrough cannot be entirely discounted.

Given these different and highly uncertain trends, it is not surprising that leading energy demand and oil price projections differ widely (see Figure 4).

Figure 4: Energy projections differ widely

Sources: OPEC, EIA, IEA, BP, Shell, World Economic Forum



In many ways, these dynamics are detrimental to Russia and highlight the unsustainability of its dependence on oil and gas export revenues. While Russia could make further use of its coal, nuclear and hydropower resources, its economy remains dependent on a highly energy-intensive and fossil fuel-driven growth model which is clearly in transition. For long-term sustainability, Russia needs to explore ways in which it can benefit from a global transition towards low-carbon growth.

Market structures in flux

The outlook for oil and gas, while typically assumed to depend on little more than a combination of supply and demand, could be critically influenced by evolutions in global energy market structures, with specific consequences for Russia. A range of critical questions on tomorrow's energy market may need to be addressed. Will the Organization of the Petroleum Exporting Countries (OPEC) remain cohesive and capable of maintaining oil prices regardless of supply and demand levels? If so, could Russia benefit? Will OPEC countries retain price-making authority or be overtaken in that role by competitors? If the latter occurs, the quality of Russia's relations with those countries will be critical. According to some estimates, gas will be the fastest-growing fossil fuel globally to 2030, with non-OECD countries accounting for 80% of the global rise in gas consumption against a backdrop of limited European demand. This may put pressure on Russia to redefine its distribution networks and adjust its infrastructure investments to continue benefiting from strong global demand. Similarly, there is increasing evidence of a potential globalization of regional gas markets around the growth of LNG. Whether Russia is at the forefront of such developments (through such initiatives as a "Gas Troika" or Gas Exporting Countries Forum) or merely follows them will be key for its future position in the global energy landscape. Finally, the International Energy Agency recently reiterated the significance of energy efficiency measures to ensuring energy security, saying such measures could help reduce global needs by a factor larger than the level of Russia's energy production. Whether such measures are implemented will be critical to Russia's energy future.

Outlook

Russia cannot control global and regional market evolutions but this does not mean the country cannot shape its own energy future.

Investing in critical needs

- To maintain levels of output, investments are critical, both in existing legacy production capacities and to develop next generation "greenfield" production.
- A number of obstacles obscure these prospects, including the risk of environmental consequences and foreign investors' caution when investing in such large-scale projects. "The development of greenfield projects, particularly in the country's Arctic regions, is limited by a lack of adequately skilled domestic labour" and uncertainties surrounding the treatment of foreign investment in this field, laments an executive. Yet Russia cannot develop its locked potential without the support of foreign technologies and increased investment.
- Greater investments may require adaptations in the country's market structures, from market concentration to state involvement in the sector; a perceived lack of openness and good governance may scare much-needed investors away.
- Domestically, institutional reforms would also benefit small and medium-sized enterprises, which could play a larger, albeit niche role in Russia's future production. Similarly, greater access to transit infrastructure and export opportunities for independent producers would be a big step forward.

Using existing strengths

- Domestic energy efficiency is one important area that could release more resources for export. Subsidies, along with infrastructure deficiencies, are a source of inefficient energy use in the domestic market.
- Further developing the country's LNG potential on its eastern border to become a niche producer for Asian consumers may be another strategy for the future (particularly if tensions in the South China Sea increase and threaten Japanese and South Korean energy supplies), though cost competitiveness will be important.
- Moving the country's hydrocarbons sector further into downstream activities, including chemicals and other refined products, could be another strategy.
- Finally, penetrating markets beyond the country's borders through acquisitions by Russian domestic energy giants may be a way to maintain the country's energy edge.

Reducing energy dependence

- Russia, like many energy exporters, suffers from its own version of energy dependence. Reducing the significance of Russia's energy sector in its overall economy may require using funds from its energy revenues to finance diversification efforts, and enabling a bottom-up offspring of non-oil and gas businesses throughout the economy.
- To do this, Russia needs to address limitations in the nature and quality of its institutional environment, which is the subject of the next chapter.

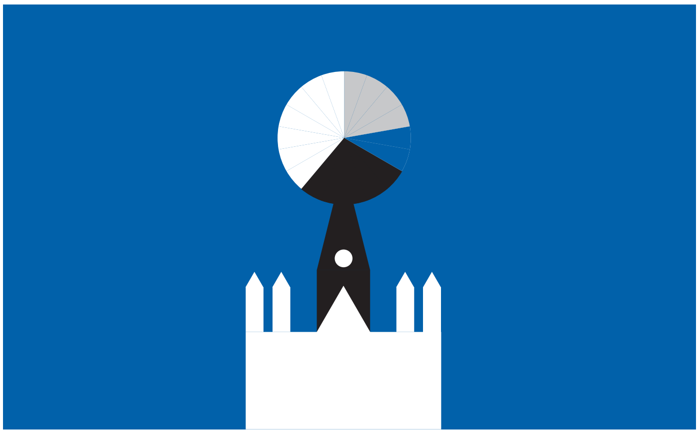
Figure 5: Most energy headlines carry downsides for Russia

Source: World Economic Forum

↑ Indicates a potentially positive influence on Russian energy revenues

↓ Indicates a potentially negative influence on Russian energy revenues

The Institutional Environment



An efficient and well-functioning system of institutions that regulates the interactions of different actors within the economy is a crucial driver of economic growth. Several long-term enablers for economic growth, from education and healthcare to infrastructure, are also indirectly affected by the quality of institutions. With Russia's institutional environment ranking 133 out of 144 countries in the World Economic Forum's Global Competitiveness Index (GCI) 2012–13, the development of the country's institutions represents one of the key challenges but also a significant source of opportunities for Russia's economic future.

Impacts

Costs on business operations

Deficiencies in the country's institutional environment result in direct costs to economic transactions. The administrative burden caused by inefficient or unclear bureaucratic processes increases transaction costs within the economy, from opening a business to customs procedures or accessing utilities. Uncertainty about how regulations are applied and enforced and how property rights are protected has an equally paralysing effect on economic transactions. Corruption and undue influence are among the biggest problems for doing business in Russia, according to World Economic Forum surveys. Most international assessments rank Russia one of the most corrupt major economies in the world. According to Transparency International, public officials and civil servants, including the police, are seen as belonging to the most corrupt institutions in Russia, followed by the education system and parliament. While these costs are particularly harmful to small and medium-sized enterprises, they have also been shown to undermine the profit margins of even the country's largest corporations.

Enabling environment for growth

The quality of institutions also affects the potential for growth in the economy. Infrastructure, for example, requires long-term investments and reliable mechanisms to maximize public and private funding. Despite an increasing resource wealth, Russia's infrastructure stagnated at a low level over the past decade. In 2012, the overall quality of Russia's infrastructure ranked 101 out of 144 in the Global Competitiveness Index. "Everyone knows small changes could make big differences but we are not seeing enough of them," one business executive said.

Education is another critical enabler that is affected by the quality of institutions. Russia boasts one of the best-educated populations in the world, ahead of other BRICS countries. Its labour force has one of the highest shares of tertiary education worldwide, not far behind the United States and ahead of many European Union countries, including France. The quality of the country's education is on a downward trend, however, according to numerous assessments. A similar picture is apparent in the public health domain. Russia's public health system is inefficient from a cost perspective and health outcomes are poor. "Improved skills depend on improved health services among other things," one demographer said. Life expectancy, particularly for males, is extremely low compared with countries with similar levels of GDP per capita. "There seems to be a disconnect between Russia's growth and advances in quality of life, on the one hand, and its health and demographic picture, on the other hand," another executive said. This represents both a short-term cost and long-term liability for the economy. Poor levels of infrastructure, coupled with a mismatched and unhealthy workforce, represent a drag on productivity.

Attractiveness for investment

In an open economy, deficiencies in the institutional environment adversely affect the availability of capital. They are a key factor in determining the investment decisions of domestic and foreign investors. With the country's uncertain political and institutional environment, much of the capital that flows into the economy as energy revenues is not retained and put to productive use. Capital flight has been a continuous problem for Russia in recent years.

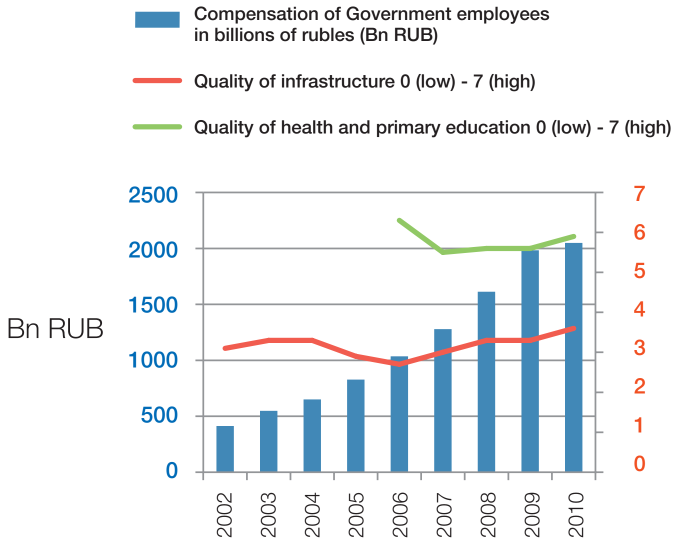
Trends and Uncertainties

Growing state, limited delivery

Expenditures for Russia's public service increased five-fold from 2002 to 2010, according to World Bank figures. The overall number of civil servants increased by 44%, while the number of federal civil servants increased by 68% between 2000 and 2009. This indicates a clear trend towards centralization of administrative power. This increase was enabled by a supportive macroeconomic environment that brought massive inflows of energy revenues. Yet, according to many institutional indicators measured in the World Economic Forum's Global Competitiveness Index, the output of the country's bureaucratic apparatus has simultaneously remained low (see Figure 6).

Figure 6: The quality of Russia's health, education and infrastructure has stagnated despite increased government spending

Source: World Bank; World Economic Forum *Global Competitiveness Index*



Although centralizing political and administrative power may have had a clear purpose in the late 1990s and early 2000s, these measures seem to increasingly limit the development of the economy. As one business executive said, "the tipping point in how much centralization is good for stability and the functioning of the economy may have been reached". Some argue that this bureaucratic expansion is driven by a fundamental lack of trust within the political system. For example, it has been observed that "as policy-makers lose faith in the agencies under their purview, new ones are created to replace or control their predecessors", which has led to "a perpetual cycle of distrust". This creates pressures "not only on Russia's socio-political fibre and business environment, but on its budgetary health as well", a leading economist said in this project.

This overall assessment, however, masks a significant divergence between regions. Despite an appearance of homogeneity, Russia exhibits substantial inter-regional disparities. "Most of the country's red tape is currently at the federal level rather than at the local one. Local governments are by and large more encouraging of business ventures," said one executive. Several regional governments have developed more efficient institutions and are more investor-friendly than Moscow or St Petersburg. According to World Bank assessments, Moscow ranks worst of 30 Russian cities for ease of doing business while St Petersburg ranks 22nd. "To some extent, local governments are building a parallel rule of law infrastructure just the same way as businesses are building parallel transport, energy or education infrastructure where the state is failing to deliver," said another business leader. Competition for investments may further increase those regional divergences in the future, particularly if federal funding for the regions declines. As one investment advisor put it: "Part of the reason Russia's regions are improving their respective business environments is that they know they are now in competition with one another. Foreign investors generally visit several regions before making a choice on the location of their investment."

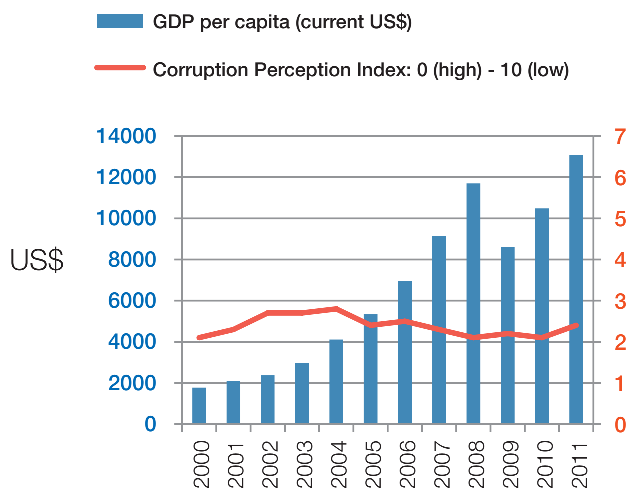
Increasing wealth, sustained corruption

Many of the inefficiencies in the government apparatus can be attributed to high levels of corruption. Russia is characterized by much higher levels of corruption than other countries with similar levels of development. While Russia is the sixth largest economy worldwide in GDP, corruption levels are higher than in countries such as Togo or Uganda, according to Transparency International data. As seen in Figure 7, and defying global trends, corruption remained constantly high over the past decade, notwithstanding significant GDP growth (opposite a globally negative correlation between the two: corruption decreasing as GDP grows).

While centralization of power was initially pursued as an effort to reduce corruption, it may have accentuated the very problem it was aimed to address. Some argue that corruption has become engrained in the country's system of wealth creation and distribution. In this perspective, corruption may be seen by some as a necessary evil to maintain stability and control over productive processes in the economy.

Figure 7: Corruption has not declined despite substantial increases in GDP per capita

Source: World Bank; Transparency International Corruption Perception Index



Regional and international integration

After a long period of negotiations, Russia finalized its accession to the World Trade Organization (WTO) in 2012. This step is expected to require a number of regulatory changes and enhance competition in the country's domestic market by increasing opportunities for foreign investments in a wide range of sectors (including banking, insurance, business services, telecommunications and distribution). It remains unclear, however, to what extent it will fundamentally affect the institutional environment in Russia. Some have therefore come to rely on the argument that steps towards OECD accession may create a further catalyst for institutional reform.

Alongside these steps towards increasing integration into international institutions, Russia has also launched important regional integration initiatives. The Customs Union between Russia, Belarus and Kazakhstan is an example for regional integration in the CIS region. This may be further supported by plans to create a more encompassing Eurasian Union in the region. Finally, looking at a long-term horizon, it remains a question to what extent and in which way formal relations between the European Union and Russia could evolve and affect the country's institutional environment and investment climate.

Outlook

Looking forward, one might ask: what are some of the evolutions that may effect change in Russia's institutional environment?

Economic pressure

– Falling energy prices are seen as a catalyst for institutional reforms, as healthy energy revenues reduce the urgency for change and the energy sector is less affected by deficiencies in the institutional environment.

– It is, however, not so much the evolution of oil prices but the expectations of their evolution that matters most. Even if oil prices drop, expectations of a quick rebound (as witnessed in the aftermath of the 2008 crisis) may undermine the political will for substantial reform.

– Simultaneously, by making the consequences of difficult trade-offs ever more acute, times of economic crisis may lead to paralysis in decision-making and in the government's ability to implement reforms.

Popular discontent

– There are at least two dynamics at play in the relationship between social discontent and institutional reform (which is further explored in the next section). Sustained popular discontent could build the momentum for institutional change; but reform could lead to popular discontent, particularly if privileges or services for powerful social groups are withdrawn.

Strategic planning

– What unites all of these catalysts is the need for long-term policy planning. Each of the above factors may trigger an opportunity for reform but for long-term change to be implemented in short time frames characterized by multiple pressures and constraints, preparation is needed.

– This is why initiatives that reflect both the country's global context and domestic needs are critical. They have proven to be successful support structures for policy-making in the past and should be further nurtured. Looking ahead is critical to moving forward.

Social Cohesion

Social cohesion relates to the overall welfare within a society, taking into account measures of inequality as well as social polarization. While diversity can create stresses in any society, a cohesive society features effective ways of coping with them and avoids excesses that could undermine productivity and stability in the long term. Trust within society and towards institutions and decision-makers is a key indicator of a society's ability to fully develop its productive potential. On all of these fronts, there are signs that Russia faces significant uncertainties.

Impacts

Ability to reform

Social cohesion influences the ability of a society to implement reforms. Unless citizens trust the government to ensure short-term losses will be offset by longer-term gains, a government is likely to face popular resistance to change. Effective institutions such as laws, regulations and enforcement mechanisms can support social cohesion and make such inter-temporal trade-offs easier to achieve. The absence of social cohesion, however, may undermine the functioning of institutions as actors challenge the legitimacy of political and institutional outcomes. Applying and enforcing rules and regulations may also be negatively affected by deficiencies in social cohesion, as trust plays an important role in ensuring citizens comply with and obey a government's decisions.

Inequality may also threaten political stability as it makes consensus among different societal groups harder to achieve. Excessive inequality may drive the interests of social groups so far apart that common political ground becomes difficult to reach (such as on distributing wealth and delivering public services). Social protests or resistance from groups with vested interests may severely hinder a government's ability to reform and encourage political stagnation. This is likely to increase investor perceptions of risk and undermine development potential.

Need to reform

Conversely, social unrest and strong deficiencies in social cohesion may become drivers of political and economic reforms. Popular discontent often expresses an underlying need for reform and may accelerate the associated political processes. It may also provide the requisite political backing to actors who seek reforms within the government.

As evidenced in many transition countries, however, such dynamics of change are often accompanied by long periods of uncertainty and instability. While their long-term effects may be positive, they carry significant risks in the short term, not least because of investor perceptions and productivity losses in the case of disruptions to public order and escalating social tensions. In many ways, the absence of reforms shifts the risks from the short term (when popular resistance or disruptions in social cohesion may be faced) to the long term (when more difficult choices and transitions may become unavoidable).

The intricate connections between these impacts and their complex interaction with the other two uncertainties discussed in this report (availability of energy revenues and quality of institutions) make social cohesion a key challenge for the future of the Russian economy.

Trends and Uncertainties

Rising wealth, changing expectations

Russia's middle class has grown significantly over the past decade (see Figure 8). Surging energy revenues and a range of economic reforms allowed GDP per capita to grow by more than 5% annually throughout the 2000s, although wealth inequality also increased significantly throughout this time frame. According to the 2012 *Credit Suisse Global Wealth Report*, 100 billionaires own 30% of all personal assets in Russia, whereas on a global scale billionaires collectively account for less than 2% of total household wealth.

This rise in wealth has been accompanied in recent years by a rise in diverse forms of popular discontent, including frustrations with the delivery of public services, perceived impediments to pursuing professional aspirations and restraints on political freedoms.

A common view holds that Russia's middle class holds more inherently political concerns than the country's lower-income groups, who are more focused on basic economic well-being. While there is evidence to show that urban middle classes tend to be more reformist than their rural counterparts, this distinction may be distracting and overlook more significant changes in the country's socio-political landscape. As one analyst said: "Despite a tendency with some observers to equate Russia's middle class to a group of young and creative entrepreneurs, many of those who compose it are actually part of the regime's bureaucratic establishment" with a stake in the status quo.

One of the most striking changes in Russia's social and political landscape in recent years may be that Russians are increasingly interested and involved in their country's political affairs, regardless of the views they may hold about them. A paradigm shift has occurred insofar as elements of reform formerly discussed only by the country's elites behind closed doors are now being aired openly. Russians are asking themselves profound questions about their relationship to the state, though they appear surprisingly critical of both their country's establishment and its alternative forces. "There are three potential agents of change in Russia's society today: highly educated middle managers blocked in their career development by an older cadre, a very heterogeneous middle class (including low-level bureaucrats, small and medium enterprise (SME) workers, intellectuals) that survives but bears the brunt of daily challenges, and youth that is deeply divided for and against the status quo," said one participant.

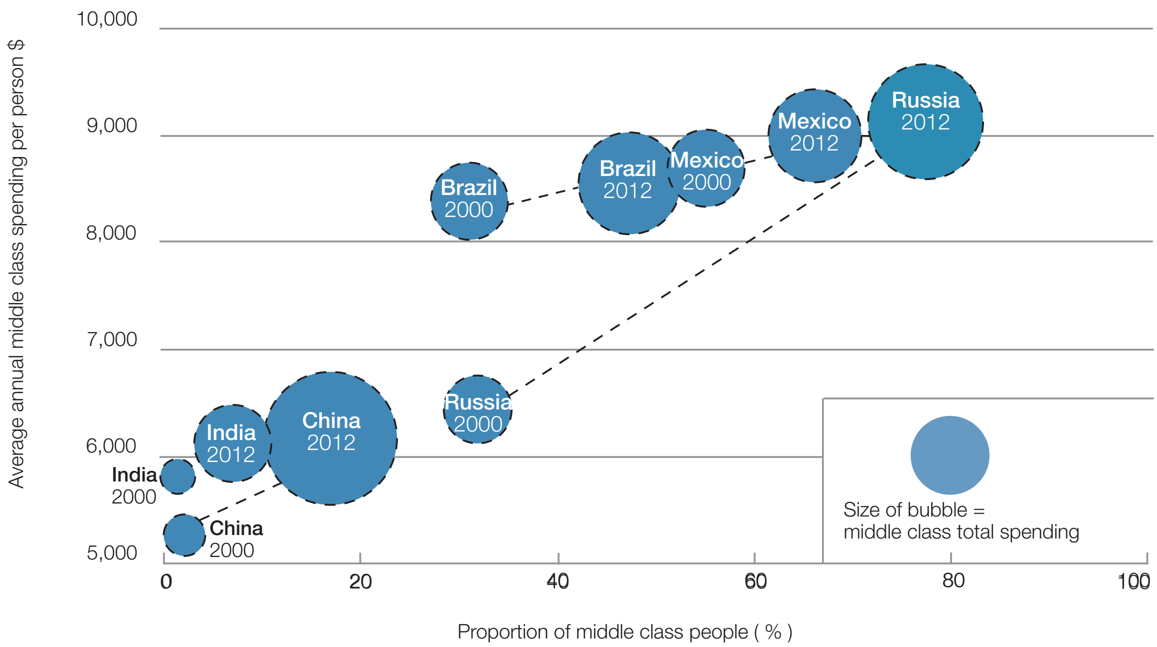
Political priorities have shifted substantially, even beyond the dichotomy that often pits reformists against traditionalists. The value attached to the notion of 'stability', for one, has plummeted in favour of other concerns as the memories of the country's insecure post-Soviet years progressively fade. Instead, the impact of the crisis of 2008 seems to have sharpened Russians' awareness and discomfort with corruption and other barriers to the sustainable development of their country.

The real uncertainty surrounds how Russians will press forward with these concerns. On the one hand, the country increasingly displays indicators that might announce liberal pressure for reform. Middle-class Russians are increasingly free of worries about their basic human needs, they are cast to be overwhelmingly urban and their use of social media is significantly above the global average at the same levels of GDP. Russia boasts impressive Internet penetration growth rates and is among the leading European countries in user numbers.

While social media remain neutral communication channels that can be used for different political purposes, there is growing evidence they have created a rigorous medium for holding political leaders accountable. As the World Economic Forum's Global Agenda Council on Geopolitical Risk has highlighted, the benefit of the doubt afforded political representatives has narrowed substantially in recent years. No matter where and when they occur, acts of moral and financial corruption make it into the open faster than ever and with uncontrollable ripple effects. Hiding is no longer an option.

Figure 8: The full consequences of Russia's significant middle-class growth remain uncertain

Source: Financial Times



Human capital and demographic challenges

Skilled professionals increasingly have the freedom to seek opportunities abroad if the conditions for their professional development are not met within their home country. Talent requires an enabling environment and incentive systems that reward individuals. If such requirements are not met, talent will either be lured into less productive roles (as high levels of state employment would indicate) or move abroad. According to the Levada Center, the Russian nongovernmental polling and sociological research organization, the number of professionals seeking to leave Russia exceeds 50% in certain segments. This not only reduces the creative potential to support economic development in the country, but accentuates capital flight and reduces domestic consumption. The same conditions also affect the country's ability to attract foreign talent, which could play an additional role in the next stage of developing the Russian economy. The situation has grown so acute that some participants in this project expressed despair at the fact that Russia has, alongside its better-known role as energy exporter, become a full-blown exporter of financial and human capital.

Further, Russia's ageing population may also affect the dynamics of social cohesion within the country. As a result of low fertility rates, its old-age dependency ratio (the ratio of the population 65 and older to the working-age population) is expected to increase significantly in the coming decade. This will put stress on social security and entitlement systems that will be increasingly difficult to finance, particularly in the event of falling energy revenues, while large numbers of pensioners and other beneficiaries of state services represent constituencies that may resist reforms to entitlement systems. "Pensioners are not preoccupied with the country's investment climate for foreign investors," one workshop participant said.

Under-appreciated concerns

Looking at existing concerns may not be sufficient, however, to understand the dynamics of social cohesion in Russia. It is important to analyse other, under-appreciated sources of discontent as they may lead to a convergence among different social groups. Recent socio-political protests suggest an inverse correlation has emerged over several years between Russians' material well-being and their level of satisfaction with their fate. The reasons for this apparent paradox must be understood and addressed because they are likely to grow as new sources of discontent appear.

Specifically, Russia's environmental outlook may be a critically under-examined driver of social cohesion in the country. "Climate change may reveal itself to be a particularly disrupting wildcard [for Russia's future] not least because of the low level of attention the country devotes to the matter," one participant said. While environmental protection is not a priority in Russian society, this may change as the country becomes more acutely affected by instability stemming from environmental degradation. Recent reactions to the public management of floods and wildfires, and historical precedents in a range of countries, indicate that environmental decline may fundamentally affect social cohesion.

Russia's future social cohesion may also be shaped by religion. As one analyst put it: "The Russian Orthodox Church has the potential to serve as a bridge between the Russian public and its government, thereby heralding a new era in the country's political climate." Religious diversity, however, may also bring new tensions. As another participant argued: "The potential for domestic tensions around religion is probably larger than often assessed in Russia."

Outlook

The dynamics of social cohesion are fundamentally uncertain and warrant a closer investigation. Potential sources of discontent are innumerable and reach beyond the factors discussed above. They do, however, have at least one common characteristic: they will most effectively be managed when supported by an open, fair and constructive institutional environment.

The following scenarios aim to illustrate thought-provoking and challenging combinations of outcomes that may result from these developments.

Box 3: Views from the Young Generation

The World Economic Forum's Global Shapers Community is a network of city-based hubs developed by young leaders aged 20–30, who undertake local projects to improve their communities. Members of these hubs from Moscow, St Petersburg, Novosibirsk and Kaliningrad have been heavily engaged in the scenario process over the past year, making key contributions on behalf of Russia's young people to discussions on the economic development of the country. As one participant put it: "I believe in the ability of young Russians to take part in the important process of building a new country where the main wealth will be its people."

Scenarios for Russia's Future Economic Development

Central Questions

Global energy landscape

Will evolutions in the global energy landscape result in high or low energy price dynamics?

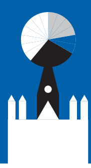
- New sources of supply
- New technologies; energy efficiency
- Demand slump; global economic downturn

- Population growth
- Energy-intensive, consumerist emerging markets
- Low supply or supply shocks (geopolitics)

Institutional environment

To what extent will the domestic institutional environment support the full development of the economy?

- High levels of corruption
- Growth of public sector, state companies
- Inconsistent application of regulations



- Efficient delivery of public services; transparency
- Protection of property rights
- Consistent application and enforcement of regulations

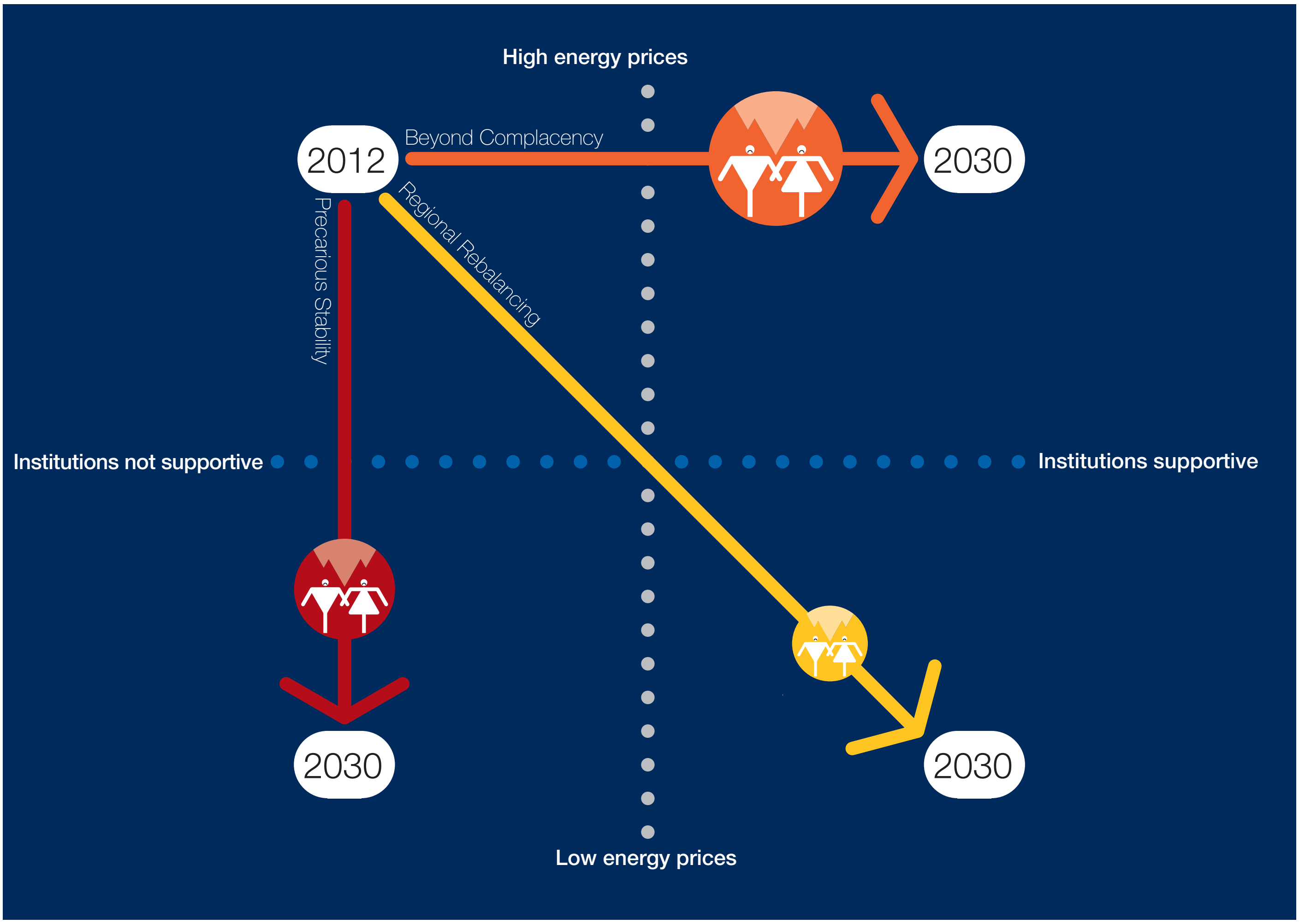
Social cohesion

How will the dynamics of social cohesion affect political and institutional developments in the country?

- Income disparity
- Loss of entitlements (pensions, social security)
- Lack of political voice

- Income growth and increase in material wellbeing
- Urbanization and improvement in infrastructure
- National pride

Scenario Framework



Regional Rebalancing

- Gradual decline in energy prices
- Pockets of institutional change at the regional level
- Opportunities created by strong investments in agricultural and related sectors

Precarious Stability

- Sudden and sustained drop in energy prices
- No institutional reforms
- Strengthened hold of the state on the economy

Beyond Complacency

- Consistently high energy prices
- Complacency about institutional reforms, aside from the firewalled energy sector
- Increasing popular discontent with inefficient public service delivery eventually drives a wave of institutional reforms

1. Regional Rebalancing

> A great wind is blowing, and that gives you either imagination or a headache.

Catherine the Great

Pockets of leadership driving institutional reform at a sub-federal level significantly change the business environment in some well-governed regions, in spite of stagnation in central institutions. A context of global resource scarcity enables some of these regions to grow quickly on the back of high investments in the agricultural sector and a range of associated value-chain products. This growth is also helped by new cross-border infrastructure links and lowered trade barriers with Russia's eastern neighbours.

The Pathway

The story behind Regional Rebalancing is one of ownership by some of Russia's regional and private actors of their destinies as they decide to move ahead in spite of stagnation in the federal system. A context of strong global economic growth has nurtured a misplaced sense of confidence among Russia's federal authorities, fostering complacency about the need for meaningful institutional reforms. So long as global growth is high, they assume energy revenues will follow suit, resulting in limited incentives to expedite a necessarily painful makeover of the country's federal institutions.

Certain regional actors do not see the same picture. In their view, they have already suffered most from Russia's lacklustre institutional environment, which has failed to understand their local needs. They see their situation taking a turn for the worse as early signs of fiscal consolidation appear on the horizon and threaten to cut the federal lifeline upon which most of them still depend. In fact, a few of the country's regions risk bankruptcy altogether. This sense of urgency compels a select few regional players to set themselves apart from the ominous federal Brand Russia and create their own label, one of reliability and quality in the eyes of foreign investors. Russia's second-tier cities become the country's new powerhouses.

While not uniform across the country, several major steps are taken in this direction at a pace that surprises all, from foreign observers to Russians themselves. So-called lean bureaucracy programmes gradually uproot deep-seated corruption schemes in a number of regions. Tax regimes are overhauled (at the short-term cost of regional fiscal cushions) and incentives established to attract the country's top talent. Perhaps the most significant push, however, is in the infrastructure sector, where local businessmen begin to work closely with their regional political peers and inspired federal partners, who themselves have grown exasperated by their country's leadership, in niche departments ranging from telecoms to railways. After years of political sclerosis, radical change is under way in parts of the country, albeit not in its traditional centres of power.

Resource scarcity as an opportunity

The opportunity that presents itself to Russia's regions is that of a changing global landscape for natural resources. Despite sustained global economic growth, it appears oil and gas prices are slowly but steadily declining. This partly explains the decision by Russia's federal authorities to reduce their cash contributions to the country's regional budgets. While demand for fossil fuels remains high, new sources of oil supply in particular put downward pressure on global prices. These arrivals are no surprise to those who have been watching changes in the global energy market. They range from new reserve discoveries to upgrades in recovery techniques and a large move in emerging markets away from oil and towards natural gas. Perhaps most importantly, they are the result of a wide range of investments made over several years in building new capacity, the benefits of which are now being observed as prices progressively wind down from US$ 120 to a more modest US$ 70–80 a barrel in real terms.

However, the upgrade that was managed in the energy sector to respond to a growing appetite from emerging markets fuelled by unbridled domestic consumption does not seem to have been successful in other natural resources. Food, water and land are all in high demand, with global prices shooting up. Russia has some of the largest freshwater reserves in the world, its arable land is vast and of good quality and its agricultural production under-resourced. The country's geographical location puts it in close proximity to the world's most food-hungry consumers. Sovereign funds from China and the Gulf offer significant investments to some of these reforming regions but the most rewarding aspect of this turn of events for Russia's regions is not the boost in agricultural production; it is the flurry of related value-chain investments being made alongside it, from timber to machinery, to infrastructure and biotechnologies.

Finding the right balance between the regions

Key regional actors create an alternative brand for themselves, working around the constraints of the federal system to make significant economic progress in sometimes remote regions. Industries are revamped, new services introduced. In doing so, however, they perpetuate a certain distrust between centre and periphery, and create another, more subtle problem of jealousy between more and less successful regions. Despite a great spirit of reform across the country, two types of regions have failed to improve their situation: those lacking the resources to back their efforts (particularly in the realm of human capital) and those where the pull to maintain the status quo turned out to be stronger than the winds of change. A sense of drag emerges from these two-speed Russias, creating a moment of truth for the country's federal authorities, who must choose between shutting down the regions' success stories and embracing them for the whole country. Their choice will determine whether the country becomes one of multiple and different Russias or whether it is united around a new and improved Brand Russia.

Implications and Reflection Points

Takeaways:

- Political and economic change in Russia needs not necessarily come from the country's centre. Peripheral regions can be drivers in their own right.
- Collaboration and understanding between Russia's centre and periphery are crucial to maximizing the potential of each.
- There is untapped potential in Russia's resources beyond oil and gas, including its food, water and land as well as financial and human resources.
- Russia needs to be aware of global trends as these may bring not only challenges (e.g. declining oil price) but also opportunities (e.g. external resource scarcity and domestic agriculture).

Reflection points:

- What is the most productive way to tap the leadership potential of Russia's periphery without threatening the country's harmony?
- How can Russia make use of its domestic resources in a way that goes beyond a mere focus on extraction?

Signposts (early indicators of this future)

"Three or four years ago it would never occur to anyone that a mayoral election somewhere in Russia's regions could attract the whole country's attention."

Radio Free Europe/Radio Liberty (19 April 2012)

"The regionalisation of politics in Russia is not just a sign of grass-roots activism, [...] but a symptom of people's lack of trust in politicians and parties at the federal level. People are looking not for politicians boasting promises and programmes, but for local administrators capable of solving local problems."

The Economist (7 April 2012)

"Across a great arc of the Eurasian steppe from Ukraine through Russia to Kazakhstan lies enough arable land to feed the world for years to come, with spare for biofuels to help plug the energy gap. [...] The Moscow investment bank Troika Dialog says that just 43% of the arable land in Russia is cultivated. Crop yields in the trio of leading ex-Soviet states remain at pre-modern levels."

The Telegraph (20 June 2008)

2. Precarious Stability

"It is as if I had been going downhill while I imagined I was going up. And that is really what it was. I was going up in public opinion, but to the same extent life was ebbing away from me."

Leo Tolstoy

A sudden and sustained drop in oil prices creates a crisis in Russia's economic foundations that threatens the country's social stability. Paralysed by the threat of popular resistance to cutbacks in entitlements and social spending, the government is compelled to strengthen its hold on the economy, using state companies as vectors of social spending. While compromising its fiscal position, Russia preserves at least the illusion of economic stability for most of its population. Eventually the sustainability of these measures comes into question and opens a range of uncertainties about the country's long-term economic future.

The Pathway

The main cleavage in the world economy between ailing advanced economies that remain stuck in a cycle of low growth and political stagnation and the more dynamic emerging market economies plays out in a difficult way. In Europe, the United States and Japan, the growth outlook remains bleak amid the long-term pressures created by continuously high debt levels. While emerging economies are increasingly adjusting to decouple from this stagnating trend, a sharp decline in global trade leads to a significant drop in oil prices to a low of about US$ 60 a barrel in real terms.

Limited leeway for the state

The global economic environment is extremely challenging for Russia. Government expenditures have been on an upward trend for nearly two decades and included a flurry of social spending programmes. Reversing course at this time of crisis would significantly threaten pensions, public-sector wages, critical infrastructure investments and handouts to some of the country's most sensitive regions. Employment must be maintained; allowing its levels to falter would directly threaten social stability. While the government realizes the overall pie is shrinking and introduces limited spending cuts, including in the military budget, its main goal is to maintain existing mechanisms of rent distribution to avoid fuelling popular discontent in the lower classes. Contentious mechanisms of flexible wage dispensation are reminiscent of the country's painful experience of the 1990s, though they stop just short of provoking a dangerous outrage.

Rather than spurring institutional reforms, these pressures create a climate of paralysis. The state strengthens its role in the economy as loss-making companies are propped up to maintain employment. The derelict energy sector is radically concentrated around a single, nationalized company that not only oversees the country's oil and gas assets but also serves as the central vector of the government's social redistribution plans.

While Russia's macroeconomic stability is already compromised by the oil price shock, it is further compromised by populist measures to support these steps. Fiscal reserves that could have been used to support reforms are compromised and progressive rate taxes are introduced to seize some of the country's private wealth. Finally, controls on outgoing capital are imposed to enforce these new taxes on the rich, as the country's fiscal position becomes increasingly fragile.

Unsustainable stability

After just a few years, Russia's foreign exchange reserves are non-existent, the country's credit rating has nosedived, its wealthiest businessmen are antagonized and what is left of its middle class is suffering the consequences of a harsh fiscal burden. On a more positive note, however, large parts of the population benefit in the short term, relying on governmental support for their livelihood. Pensions are maintained at a stable level and the large part of society employed by the state or state companies benefits from government handouts and subsidies. Some fear the government will soon have to take on the additional burden of the country's debt-ridden private sector, while others point out that the country's private and public balance sheets have become so intertwined this has likely already happened.

The rapid pace at which the country's new energy giant in particular is losing reliability – its pumping capacity has plummeted and site accidents have proliferated – highlights the vulnerabilities created by the country's haphazard policies. Some worry that the pitiful state of the country's energy sector has become Russia's longest-term weakness as it will prevent the country from maximizing its oil and gas revenues were the prices to rise back up. Eventually, if nothing is done, the facades on this Potemkin village will collapse.

Implications and Reflection Points

Takeaways:

- If Russia does not reform its institutions and finances in times of growth, doing so will be near impossible at a time of crisis.
- Linking political stability too closely with economic policy-making creates long-term challenges by limiting much-needed freedom to reform.

Reflection points:

- How can Russia modify its fiscal structure to make it more resilient in times of temporary crises or downturn, or in a fundamentally changing global economic landscape?
- How can society as a whole achieve greater understanding of the trade-offs that characterize Russia's economic policy-making?

Signposts (early indicators of this future)

> **Vladimir Putin is facing a dilemma: how can Russia's president fulfil his campaign promises to increase social spending, especially when they were directed toward his political base, while also ensuring that the country's deficit does not become unsustainable?**

The Economist (6 October 2012)

> **Russia on Wednesday scrapped a bond auction for the first time since May as investors pulled in their horns following the recent weakening in oil prices and bad economic data from Germany and the eurozone.**

Financial Times (24 October 2012)

> **The Rosneft deal is especially important, as it turns an important page in Russian economic history. For many years, economists have been arguing that private property and competition are good for productivity and investment, relying upon a comparison between the natural gas and oil sectors. Unlike the gas industry, which has been dominated by Gazprom, the oil sector was privatized, creating a field with several key players.**

Moscow Times (29 October 2012)

3. Beyond Complacency

> There's more wealth, but there's less strength; the binding idea doesn't exist anymore; everything has turned soft, everything is rotten.

Fyodor Dostoyevsky

Continuously high oil and gas prices lead to complacency about institutional reform, aside from specific measures to spur investments in the energy sector. While the success of the energy sector brings higher incomes to large parts of Russian society, discontent increases with inefficient public services and an unceasingly growing but inefficient state bureaucracy. A split in the elites eventually leads to a radical wave of institutional reforms.

The Pathway

This scenario is the story of an opportunity missed. For years, despite the prophecies of energy analysts worldwide, oil prices keep rising. Global growth is steady. Geopolitical tensions keep pushing prices to new heights. The West's qualms with Iran have finally eased, though the country's lacklustre infrastructure means it will take years before it can again be a productive player in the global energy market. More problematic, however, are the tensions again bubbling up in the South China Sea. Conflicts are worse than ever, for the region is no longer merely a key transit area for global trade; it is also on the eve of becoming one of the world's major oil producing areas, or at least that is what it could be if it were not for the near state of war afflicting its rival neighbours.

This context offers several advantages for Russia. The country profits immensely from high oil prices, while tensions in the South China Sea enable Russia to benefit from its geographic location. Uncertainties surrounding exploitation of critical energy reserves in the region make China more open to purchasing increased volumes of its gas from Russia and it caves into the latter's pricing demands after long negotiations. Korea and Japan are also affected by uncertain supply routes connecting them to their traditional suppliers. This enables Russia to become a critical niche supplier of liquid natural gas to these countries, despite intense competition from Australia. While gas prices may be lower than that for oil, long-term import commitments provide welcome strategic security. of about US$ 60 a barrel in real terms.

Isolating the energy sector

To benefit from high oil prices and a unique position within the increasingly competitive global gas market, Russia's energy sector is revamped. Because the country can no longer rely solely on its legacy production, it must do everything in its power to make itself appealing to foreign investors and energy partners that possess critical technology needed to exploit Russia's next-generation oil and gas potential. Special tax regimes and legal treatments are granted to these companies, who must feel they are operating in a wholly different country to the Russia they had previously approached with caution. The energy sector, Russia's golden goose, is firewalled, exempting it from the institutional shortcomings plaguing the rest of the country.

Thanks to this development, Russia embarks on a second wave of economic take-off that follows the first period of enrichment it enjoyed in the 2000s. Russia's already large middle class continues to expand and enjoy higher living standards but despite this positive development, citizens are increasingly drained by a range of obstacles to fully develop their personal and professional potentials in the country.

Mounting discontent

Despite this rapidly expanding personal wealth, Russians are not increasingly happy. There are growing levels of discontent in many social groups. Income disparity is accelerating. Public services have not improved and are riddled with inefficiencies and corruption, particularly in the healthcare sector. This also affects the middle class, seeking to institutionalize their well-being through property ownership and other changing, post-material demands. Russians may have been focused for many years on accumulating newly available wealth but they are now deeply concerned about their country's political decision-making. Finally, it is increasingly apparent that disregard for environmental issues, exemplified by the country's unbridled exploitation of fossil fuels, is starting to backfire. An inept response to an oil spill in the Arctic sparks outrage abroad at Russia's environmental mismanagement but it also spurs increasing environmental activism at home, accentuated by the swelling occurrences of droughts and floods that have affected communities across the country.

This context sets the stage for loud clamour from the country's elites, which begin to split between proponents of vested interests in the energy sector and frustrated advocates of a more diversified economic base. The latter camp may not be primarily interested in economic diversification; after all, Russia, and they with it, has grown rich from its firewalled energy sector. Rather, they are increasingly frustrated with the institutional inefficiencies that have undermined new business ventures seeking to cater to the country's burgeoning middle class. They realize that it is precisely the riches enabled by reforms in the energy sector that have prevented any form of institutional improvements throughout the rest of the economy.

This elite's ability to take over from its derelict peers is enabled by a series of quid pro quos. Russians may not agree on why they are dissatisfied, and their newfound champions within the elite may not be driven by the same concerns as the Russians they now claim to represent, yet all of them agree on one thing: Russia's institutions must be remade so that no sector needs to be firewalled to attract investors.

Implications and Reflection Points

Takeaways:

- Failing to reform Russia's energy sector incentives may prevent the country from benefiting even from its great oil and gas potential.
- While limited institutional reform in Russia's energy sector may postpone more difficult changes, only holistic institutional change can create long-term growth and stability.
- Contrary to the perception that high energy revenues are likely to enable sustained growth in the economy, they may also stimulate complacency about necessary institutional reforms beyond this sector.

Reflection points:

- What are the most urgent reforms needed to fully exploit Russia's energy potential?
- How can Russia's energy sector serve rather than hamper the country's broader economic development?
- Looking beyond the short-term horizon, what potential popular demands could shape Russia's socio-political landscape?

Signposts (early indicators of this future)

"

A working group of government officials and heads of companies developing Russia's offshore fields will have three months to draft a set of economic measures to increase investment in exploration projects, as Russia lags behind its foreign peers in the race for developing underwater reserves in the Arctic.

"

Moscow Times (3 August 2012)

"

Russia's average temperature is rising particularly fast – almost twice as fast as the global average and nearly three times as fast in parts of Siberia, according to the Federal Service for Hydrometeorology and Environmental Monitoring. This presents Russia with greater weather unpredictability and shorter time horizons in which to adapt.

"

Carnegie Endowment (August 2012)

"

Since 2000, the percentage of respondents who said that a political opposition is necessary in Russia has risen from 47% to 72%. […] This shift in public opinion tracks with Russia's recent economic modernization. In the decade before the global financial crisis, real household incomes rose by 140%.

"

Foreign Affairs (September/October 2012)

Conclusion

Perspectives for Further Discussions

The analysis presented in this report builds on strategic conversations with industry, public policy and academic leaders. These discussions highlighted the extent to which Russia's economy is affected by developments in the rest of the world as well as the internal challenges the country faces in putting its economy on a sustainable pathway for the future and to maximize the potential of its society.

In global terms, Russia has been one of the world's growth drivers. The massive expansion of its consumer market, thanks to almost continuously high energy revenues over the past decade, has fuelled opportunities for domestic and international businesses, just as the country's energy exports have fuelled production worldwide. Despite this strong growth, however, Russia has also grown fragile.

This fragility is linked to two related dynamics. First, due to its strong reliance on energy exports, Russia is more affected than other leading economies by fluctuations in the global economy. Any slowdown in global demand or change in the global energy landscape directly affects Russia's economy. Second, the complex interactions between the inflow of energy revenues, the quality of its domestic institutions and the dynamics of social cohesion have created barriers in the quest to fully develop the country's physical and human resources. This interaction could be a key impediment to Russia's future economic development given that these resources are the country's most important assets.

The scenarios presented in this report and discussed during strategic dialogues fostered by the World Economic Forum over the course of 2012 have detailed several courses the Russian economy could potentially take in the future. They also highlight important policy decisions that will need to be taken, decisions that will affect the ability of the country to fully benefit from these developments.

Russia needs to be aware of global trends that may bring both challenges and opportunities for future growth. While the country relies on a resource-intensive global growth model, the country's water, land and other mineral resources could also put it at the core of a future global transition towards low-carbon economies. To unlock this potential, collaboration between Russia's centre and periphery is crucial; such cooperation could become an important vector for reforms and innovation.

On policy choices, institutional reform has become imperative to prepare the country for a sustainable economic future. If Russia does not reform its institutions and finances in times of growth, doing so will be near impossible at a time of crisis. It will also make it difficult to exploit the country's vast potential in physical and human resources. Circumscribed institutional adjustments in Russia's energy sector may postpone more difficult changes but only holistic institutional reform can create long-term growth and stability.

The success of such policy initiatives is likely to affect Russia's ability to shape and influence global developments; during its presidency of the G20 in 2013, for example.

The World Economic Forum seeks to support discussions about such opportunities and challenges by further bringing together key stakeholders for constructive and open strategic dialogue.

Appendix 1:
How can scenarios be used?

Scenario thinking is a powerful strategic management tool that can be used in the private, public and non-profit sectors as well as in a multistakeholder context. While scenarios are often used to provide decision-makers with tools to anticipate potential hazards, they have also proven a powerful tool for creating opportunities, in the form of new policies, new strategies and forging new connections, by freeing thought from past constraints.

Scenarios can enrich learning and decision-making at the country and company level. In particular, they provide leaders with the ability to:

- Enhance a policy's or strategy's robustness by identifying and challenging underlying assumptions and established wisdom
- Make better strategic decisions by discovering and framing uncertainties, leading to a more informed understanding of the challenges involved in making substantial and irreversible commitments, and contributing to strong and pre-emptive governmental or organizational positioning
- Improve awareness of change by shedding light on the complex interplay of underlying drivers and critical uncertainties, and enhancing sensitivity to weak and early signals of significant changes ahead
- Increase preparedness and agility for coping with the unexpected by equipping them to visualize possible futures and mentally rehearse responses
- Foster mutual understanding and collaborative action by providing different stakeholders with common languages and concepts in a non-threatening context, thereby opening space to create robust, effective and innovative multistakeholder strategic options.

.

Appendix 2:
Process and Stakeholder Engagement

The World Economic Forum initiated the Scenarios for the Russian Federation project during its Annual Meeting in Davos-Klosters, Switzerland, in January 2012 to support constructive dialogue among a range of stakeholders in the Russian economy. The project built on the Forum's previous work on Russian competitiveness and sought to explore possible scenarios for Russia's future economic development based on an analysis of underlying social, economic, political and institutional drivers.

This process followed three phases. The first was aimed at surveying the varying views held by stakeholders in the Russian economy. This first stocktaking exercise led to a series of workshops at and around the St Petersburg International Economic Forum (SPIEF) in June 2012 to further explore possible evolutions of these drivers and to prioritize them.

Based on this exploration, the working group developed a set of challenging yet plausible scenarios for the Russian economy. This stakeholder-driven interactive scenario-building process was the second phase of this project and led to the World Economic Forum's Moscow Roundtable in October 2012, during which these scenarios were the basis for robust discussions among Russia's leading public- and private-sector stakeholders.

With this milestone, the project entered its third and final phase: refining the scenarios and mapping out opportunities and challenges. These discussions culminate at the World Economic Forum Annual Meeting in Davos-Klosters in January 2013.

Step 1 (Feb – June 2012)	Step 2 (June – Oct 2012)	Step 3 (Oct 2012 – Jan 2013)
Exploration and analysis of: - Stakeholder **visions** - **Opportunities** and **challenges** - **Drivers** and key **uncertainties**	**Comprehensive analysis** exploring the forces influencing the evolution of the Russian economy A **series of scenarios** that illustrate opportunities and challenges	Deepen **implications** for stakeholders **Synthesize** major insights
St Petersburg International Economic Forum, St Petersburg, Russian Federation, 21-23 June 2012	**World Economic Forum Moscow Roundtable**, Moscow, Russian Federation, 14 October 2012	**World Economic Forum Annual Meeting 2013**, Davos-Klosters, 23-27 January 2013

Support further dialogues on policy options

References and Further Reading

- Belanovsky, S., Dmitriev, M. *Political Crisis in Russia and How it May Develop*. Moscow: Center for Strategic Research Foundation, 2011.
- Credit Suisse, *Global Wealth Report* (Zurich, 2012).
- Dmitriev, M., Treisman, D. "The Other Russia. Discontent Grows in the Hinterlands". In *Foreign Affairs*, Sept.-Oct. 2012.
- Dobbs, R. et al. *Urban World: Mapping the Economic Power of Cities*. New York: McKinsey Global Institute, 2011.
- International Energy Agency, *Golden Rules for a Golden Age of Gas, World Energy Outlook Special Report on Unconventional Gas* (Paris, 2012).
- International Energy Agency, *World Energy Outlook* (Paris, 2012).
- International Monetary Fund, *Oil and the World Economy: Some Possible Futures* (Washington DC, 2012).
- International Monetary Fund, *World Economic Outlook* (Washington DC, 2012).
- Mitchell, J., Marcel, V., Mitchell, B. *What Next for the Oil and Gas Industry?* London: Chatham House, October 2012.
- Organization of the Petroleum Exporting Countries (OPEC), *World Oil Outlook* (Vienna, 2012).
- Stevens, P. "The 'Shale Gas Revolution': Developments and Changes". London: Chatham House, August 2012.
- Stevens, P. "The 'Shale Gas Revolution': Hype and Reality". London: Chatham House, September 2010.
- Transparency International 2012, *Corruption Perceptions Index* (Berlin, 2012).
- U.S. Energy Information Administration, *International Energy Outlook* (Washington DC, 2011).
- U.S. Energy Information Administration, "World Shale Gas Resources: An Initial Assessment of 14 Regions Outside the United States" (Washington DC, 2011).
- World Bank, *Russian Economic Report – Moderating Risks, Bolstering Growth* (Washington DC, 2012).
- World Economic Forum, *The Global Competitiveness Report* (Geneva, 2012).
- World Economic Forum, *The Russia Competitiveness Report – Laying the Foundation for Sustainable Prosperity* (Geneva, 2011).

Acknowledgements

The Scenarios for the Russian Federation project was supported by Sberbank.

This publication synthesizes the ideas and contributions of many individuals whom the project team would like to thank for contributing so generously their time, energy and insights. In particular, we would like to thank the following individuals for their support and initiative in defining and shaping the scope of the project (in alphabetical order):

- Arkady Dvorkovich, Deputy Prime Minister, Office of the Prime Minister of the Russian Federation
- Herman Gref, Chairman of the Board and Chief Executive Officer, Sberbank
- Sergei Guriev, Rector, New Economic School (NES)
- Victor Halberstadt, Professor of Economics, Leiden University
- Alexey Kudrin, Professor; Dean, Faculty of Liberal Arts and Sciences, Saint Petersburg State University
- Igor Shuvalov, First Deputy Prime Minister, Office of the Prime Minister of the Russian Federation
- Aleh Tsyvinski, Professor of Economics, Yale University
- Ksenia Yudaeva, Head, Economics Expert Department, G20 Sherpa Office of the President of the Russian Federation

We would also like to thank members of the World Economic Forum's Global Agenda Councils on Russia, on Energy Security and on Geopolitical Risk, members of the Valdai Discussion Club, as well as other experts who helped to shape the content of the report by sharing their insights through interviews, discussions and workshop participation. In particular, we would like to thank:

- Pami Aalto, Professor and Director, Jean Monnet Centre of Excellence on European Politics and European-Russian Relations, University of Tampere, Finland
- Taisuke Abiru, Research Fellow, The Tokyo Foundation
- Josef Ackermann, Vice-Chairman of the Foundation Board, World Economic Forum
- Sergey Afontsev, Director, Economic Theory Department, Institute for World Economy and International Relations
- Sergey Aleksashenko, Director of Macroeconomic Research, National Research University – Higher School of Economics
- Ruslan Alikhanov, Principal, McKinsey & Company
- Duncan Allan, Foreign & Commonwealth Office
- Robert Amsterdam, Founding Partner, Amsterdam & Peroff
- Oksana Antonenko, Senior Political Counsellor, European Bank for Reconstruction and Development
- Daria Arkhincheeva, General Director, LIBI-IR
- Deana Arsenian, Vice President, International Programme and Programme Director, Russia and Eurasia, Carnegie Corporation
- Anders Aslund, Senior Fellow, The Peterson Institute for International Economics

- Svetlana Babaeva, Deputy Editor-in-Chief, Moskovskiye Novosti Publishing House
- Oleg Babinov, Head of Russia, Eastern Europe and Eurasia Practice, The Risk Advisory Group
- Huseyin Bagci, Deputy Director, Foreign Policy Institute, Ankara
- Igor Baranov, Associate Professor, Graduate School of Management, St. Petersburg University
- Elena Barmakova, Founder, Fontvieille Capital Inc.
- Thomas Barnett, Senior Managing Director, Enterra Solutions
- Alexander Belkin, Deputy Executive Director, Council of Foreign and Defense Policy
- Anna Belova, Professor, Deputy Dean, National Research University – Higher School of Economics
- Elisabeta Belugina, Analyst, FBS Markets Inc.
- Vadim Belyaev, Chief Executive Officer, Otkritie Financial Corporation JSC
- Sergey Belyakov, Deputy Minister of Economic Development, Ministry of Economic Development of the Russian Federation
- Erik Berglöf, Chief Economist, European Bank for Reconstruction and Development
- Melkulangara Bhadrakumar, Retired Ambassador, Republic of India
- Fatih Birol, Chief Economist, International Energy Agency
- Kingsmill Bond, Chief Strategist, Citigroup Russia
- Marie Bonnenfant, Political Analyst, European Bank for Reconstruction and Development
- Timofei Bordachev, Deputy Dean for Strategic Planning, Faculty of World Economy and International Affairs, National Research University-Higher School of Economics
- Vladislav Boutenko, Partner and Managing Director, The Boston Consulting Group Ltd
- Georgy Bovt, Editor-in-Chief, Profile
- Peter Brabeck-Letmathe, Chairman of the Board, Nestlé SA
- Michael Bradshaw, Professor of Human Geography, University of Leicester
- Ilya Breyman, Government and Non-Profit Practice Leader, Ward Howell International
- Sergey Brilev, Anchor and Deputy Director Rossiya TV Channel
- Andrew Brown, Upstream International Director, Royal Dutch Shell plc
- Laurence Broyd, Senior Principal Research Analyst, Foreign & Commonwealth Office
- Bernd Brunke, Member of the Global Executive Committee, Roland Berger Strategy Consultants
- Neil Buckley, Bureau Chief, Financial Times
- Alexander Burgansky, Managing Director and Head of Research, Otkritie Financial Corporation JSC
- Alisher Burkhanovich Usmanov, Founder and Major Shareholder, Gallagher Holding Ltd
- Dmitry Butrin, Head, Economic Policy Department, Kommersant Daily Newspaper
- Olivier Campenon, Vice-President, EMEA, BT Group
- Jan Carnogursky, Prime Minister (1991-1992), Slovak Republic
- Christian Charnaux, Vice President, Strategy & Innovation, Hilton Worldwide
- Alexandra Chernova, Director, Foreign Affairs and Marketing, Saint Petersburg International Economic Forum
- Hannes Chopra, Senior Adviser, DaVinci Capital
- Roman Chukov, President, J8 Club Russia
- Jean-Francois Cirelli, Vice Chairman and President, GDF Suez
- David Clark, Chairman, The Russia FoundationAriel Cohen, Senior Research Fellow, Russian and Eurasian Studies and International Energy Security, Heritage Foundation
- Carroll Colley, Director, Eurasia Group
- Timothy Colton, Chairman, Department of Government, Harvard University
- Julian Cooper, Professor of Russian Economic Studies, University of Birmingham
- Eckhard Cordes, President, Committee on Eastern European Economic Relations
- Yuri Danilov, Scientific Supervisor and Strategy Development Leader, Centre for Capital Market Development
- Mary Dejevsky, Chief Editorial Writer and Columnist, The Independent
- Alain Délétroz, Vice President, Europe, International Crisis Group
- Mikhail Delyagin, Founder and Director, Institute of Globalization Problems
- Irina Demchenko, Bureau Chief, RIA Novosti
- Olga Dergunova, Head, Federal Agency for State Property Management
- Mikhail Dmitriev, President, Centre for Strategic Research
- Kirill Dmitriev, Chief Executive Officer, RDIF Management Company LLC
- Nick Dobrovolskiy, Vice-President, Desktop Virtualization, Parallels Inc.
- Chris Dobson, Managing Director, Strategic and Emerging Markets, Europe, Middle East and Africa, Edelman
- Edwin Dolan, Contributor, EconoMonitor
- Alexey Dolinsky, Head, International Projects, Summa Group, Summa Capital
- Natalia Dolzhenkova, Country Manager, Adecco Group Russia
- Andrey Donets, President, Global Packaging and Litho, Alcoa Russia Inc.
- Sergey Drobyshevsky, Head of Center for Macroeconomics and Finance, Gaidar Institute of Economic Policy
- Sergei Dubinin, Chairman (1995-1998), Bank of Russia
- Piotr Dutkiewicz, Professor of Political Science, Director of the Centre for Governance and Public Management, Carleton University
- Sissel Dyrhaug, Statoil
- Esther Dyson, Chairman, EDventure Holdings Inc.
- Alexander Dyukov, Chairman and Chief Executive Officer, JSC Gazprom Neft
- Nicholas Eberstadt, Henry Wendt Chair in Political Economy, The American Enterprise Institute for Public Policy Research
- Andrei Elinson, Deputy Chief Executive Officer, Basic Element
- Christopher Emerson, Senior Vice-President, Future Programmes and Market Strategy, Airbus SAS
- Augie Fabela II, Chairman and Co-Founder, VimpelCom Ltd

- Fadi Farra, Adviser to the Prime Minister of Kazakhstan, Office of the Prime Minister of Kazakhstan
- Stephen Fidler, Brussels Editor, The Wall Street Journal
- Marco Fiorese, Co-Founder, The Monaco-Asia Society
- Aldo Flores-Quiroga, Secretary-General, International Energy Forum
- John Flynn, Political Advisor, Chevron
- Tina Fordham, Senior Global Political Analyst, Citi Global Markets
- Lev Freinkman, Senior Economist, BP
- Philipp Freise, Director, Kohlberg Kravis Roberts & Co. Ltd
- Toby Gati, Senior International Advisor, Akin Gump Strauss Hauer & Feld LLP
- Evgeny Gavrilenkov, Chief Economist, Sberbank
- Nadezhda Gavrilova, Assistant to the Deputy Director, Institute of Philosophy, Alliance Consulting Investment Group
- Sergei Glaziev, Member, State Duma of the Russian Federation
- Katia Glod, Robert Bosch Fellow, Chatham House
- Thomas Gomart, Director of the Russia/NIS Centre, French Institute of International Relations
- Evgeny Gontmakher, Deputy Director, Institute of World Economy and International Relations
- Charles Grant, Director, Centre for European Reform
- Natalia Gurushina, Director of Emerging Markets Strategy, Roubini Global Economics
- Evsei Gurvich, Head, Economic Expert Group
- Thane Gustafson, Senior Director, Russian and Caspian Energy, IHS Cambridge Energy Research Associates
- Ana Teresa Gutiérrez Del Cid, Professor, Department of Culture and Politics, Metropolitan Autonomous University, Xochimilco Campus, Mexico
- Nikolas Gvosdev, Associate Professor, Naval War College
- Philip Hanson, Associate Fellow, Russia and Eurasia Programme, Chatham House
- Josef Hargrave, Foresight and Innovation Consultant, Arup Consulting
- David Hearst, Chief Foreign Leader Writer, The Guardian
- Park Seung Ho, Executive Director and Chair Professor of Strategy, The SKOLKOVO Business School – Ernst & Young Institute for Emerging Market Studies
- Yuri Hohlov, Chair of the Board of Directors, Institute of the Information Society
- Yu Hongjun, Vice Minister, International Department, CPC Central Committee
- David Iakobachvili, Founder and Chairman of the Board of Directors, BioEnCo. Bioenergy Corporation
- Igor Ignatiev, Deputy Country Chair, Shell Russia
- Victor Ivanter, Director, Russian Academy of Sciences
- Alexander Ivlev, Country Managing Partner, Russia, Ernst & Young
- Minna Jarvenpaa, International Advocacy Director, Open Society Foundation
- Stephen Jennings, Chief Executive Officer, Renaissance Group
- Joseph Jimenez, Chief Executive Officer, Novartis AG
- Robert Johnston, Director, Global Energy and Natural Resources, Eurasia Group
- Arjan de Jongste, Chief Executive Officer, Russia and Central Asia, Philips Russia
- Nicholas Jordan, Chief Executive Officer, Russia, UBS AG
- Anatoly Karachinsky, President and Chief Executive Officer, IBS Group
- Alexey Karakhan, Deputy Chief Executive Officer, Otkritie Financial Corporation JSC
- Per-Ola Karlsson, Senior Vice-President, Booz & Company
- Alan Kartashkin, Partner, Debevoise & Plimpton
- Laza Kekic, Regional Director, Central and Eastern Europe, The Economist Intelligence Unit
- Natalia Khanjenkova, Managing Director, Russia, European Bank for Reconstruction and Development
- Shiv Khemka, Vice-Chairman, SUN Group
- Cho Khong, Chief Political Analyst SXE, Shell International Limited
- Andrey Klepach, Deputy Minister of Economic Development, Ministry of Economic Development and Trade of the Russian Federation
- Jana Kobzova, Wider Europe Programme Coordinator and Policy Fellow, European Council on Foreign Relations
- Dmitry Kolobov, Director, Corporate Strategy, Sibur LLC
- Dmitry Konov, Chief Executive Officer, Sibur LLC
- Andrei Kortunov, President, New Eurasia Foundation (FNE)
- Valentina Kostyleva, Policy Analyst, Corporate Governance, OECD
- Ilya Kosykh, Deputy Head, Corporate Treasury, Interros Company
- Boris Krasnyansky, Chief Executive Officer, Group DF
- Andrew Kuchins, Director and Senior Fellow, Russia & Eurasia Programme, Center for Strategic & International Studies
- Anton Kudryashov, General Director, OJSC VimpelCom
- Clifford Kupchan, Director, Europe and Eurasia, Eurasia Group
- Elena Kvochko, Information and Communication Technology Consultant, World Bank
- David Lane, Emeritus Fellow, Emmanuel College, University of Cambridge
- Marina Larionova, Head, International Organizations Research Institute, National Research University – Higher School of Economics
- Christopher Le Fevre, Le Fevre Consulting Ltd
- Steve LeVine, Adjunct Professor, Security Studies Programme, Georgetown University
- Macha Levinson, Director, Russia and Central Europe (1991-2006), World Economic Forum
- Dan'l Lewin, Corporate Vice President for Strategic and Emerging Business Development, Microsoft Corporation
- Yaroslav Lissovolik, Chief Economist, Deutsche Bank AG
- Jim Litman, Partners for Change
- Sergey Litvintsev, Deputy Director, Pi Council Think Tank
- Bobo Lo, Independent Scholar and Consultant Vadim Lobov, Member of the Board, BioEnCo. Bioenergy Corporation LLC

- Igor Lojevsky, Director, Global Corporate Finance, Deutsche Bank AG
- Fyodor Lukyanov, Editor–in–Chief, Russia in Global Affairs
- Orysia Lutsevych, Robert Bosch Fellow, Chatham House
- Vijay Mahadevan, Chief Executive Officer, ArcelorMittal Temirtau
- Valentin Makarov, President, RUSSOFT Association
- Thierry Malleret, Co-Founder, Monthly Barometer
- Ekaterina Malofeeva, Director, Analytical Center Forum
- Jeffrey Mankoff, Deputy Director and Fellow, Russia & Eurasia Programme, Center for Strategic & International Studies
- Nonna Materkova, Founder, Calvert 22 Foundation
- Andrew McChesney, Editor-in-Chief, The Moscow Times
- Mark McCrory, International Government Relations Advisor, Royal Dutch Shell plc
- Amy McPherson, President and Managing Director, Europe, Marriott International
- Alexei Mekhonoshin, Senior Vice-President, Russia Integration, PepsiCo Holdings LLC
- Aleksandr Melula, Research scientist, Humanistica Joint Stock Company
- Pavel Metelev, Economist, St. Petersburg State University of Economics and Finance
- Andrew Michael, Global Chairman, KPMG International Cooperative
- Andranik Migranyan, Director, Institute for Democracy and Cooperation
- Leonid Mikhelson, Chairman of the Executive Board and General Director, OAO Novatek
- Evgeny Minchenko, President, Minchenko Consulting Communication Group
- Boris Mints, Chairman of the Board of Directors, Otkritie Financial Corporation JSC
- Dietrich Möller, Chief Executive Officer, Siemens Russia
- Denis Morozov, Board Member and Executive Director, European Bank for Reconstruction and Development
- Orietta Moscatelli, Journalist, Telecom Media News SpA
- Alexei Mukhin, President, Center for Political Information
- Natalia Narochnitskaya, Director, Institute for Democracy and Cooperation
- Roland Nash, Senior Partner and Chief Investment Strategist, Verno Capital
- Abdulla Nasser Lootah, Secretary-General, Emirates Competitiveness Council
- Sergei Nedoroslev, President, RAPIDA (KASKOL Group)
- Jacob Nell, Executive Director, Morgan Stanley Smith Barney LLC
- Nikolay Nikiforov, Minister of Communications and Mass Media, Ministry of Communications of the Russian Federation
- Józef Oleksy, Prime Minister (1995-1996), Republic of Poland
- Craig Oliphant, Senior Adviser, Europe and Central Asia, Saferworld
- Jim O'Neill, Chairman, Goldman Sachs Asset Management, Goldman Sachs
- Nienke Oomes, Lead Economist, Russia, European Bank for Reconstruction and Development
- Lilia Ovcharova, Director, Independent Institute for Social Policy
- Elena Panfilova, General Director, Transparency International
- Holly Pattenden, Senior Analyst, Global Strategy and Business Development, Statoil
- John Peet, European Section Editor, The Economist
- Nicolai Petro, Professor of Comparative Politics, University of Rhode Island
- Viktor Polterovich, Head of Laboratory, Central Economics and Mathematics Institute, Russian Academy of Sciences
- Vladimir Popov, Interregional Adviser, United Nations Department of Economic and Social Affairs
- Alena Popova, Founder and Managing Partner, Open Projects Foundation
- Boris Porfiryev, Deputy Director, Institute of Economic Forecasting, Russian Academy of Sciences
- Alexey Prazdnichnykh, Partner, LLC Strategy Partners Group
- Alexander Prokhanov, Editor-in-Chief, Zavtra Newspaper
- Alexey Pushkov, Chairman of the Committee on International Affairs, State Duma of the Russian Federation
- Slavo Radosevic, Professor of Industry and Innovation Studies, UCL School of Slavonic and East European Studies
- Tatiana Raguzina, Executive Vice President, American Chamber of Commerce in the Russian Federation
- Alexander Rahr, Programme Director Körber-Unit, German Council on Foreign Relations
- Jørgen Rasmussen, Chief Executive Officer, Carlsberg A/S
- Kaspar Richter, Lead Economist for Russia, World Bank
- Jean-Francois Rischard, Vice-President for Europe (1998-2005), World Bank
- Kirill Rogov, Leading research fellow, Gaidar Institute of Economic Policy
- Matthew Rojansky, Deputy Director Russia and Eurasia Programme, Carnegie Endowment for International Peace
- Volker Rühe, Federal Minister of Defence (1992-1998), Federal Republic of Germany
- Michal Rutkowski, Country Director and Resident Representative for the Russian Federation, The World Bank
- Richard Sakwa, Professor of Russian and European Politics, University of Kent
- Visar Sala, Partner, Bain & Company Russia LLC
- Mehdi Sanaei, Director, Russia Studies Group, Faculty of World Studies, University of Tehran
- Giulio Sapelli, Professor of Economic History, University of Milan
- Jacques Sapir, Director of Studies, Paris School for Advanced Studies in the Social Sciences
- Robert Sasson, Head of Office, European Bank for Reconstruction and Development
- Dmitriy Saveliev, Member, State Duma of the Russian Federation
- Jackson Schneider, Executive Vice-President, People, Institutional Relations and Sustainability, EMBRAER SA
- Julian Schuster, Provost and Senior Vice President, Webster University
- Partha Sen, Professor of Economics, South Asia University
- Feng Shaolei, Dean, School of Advanced International and Area Studies, East China Normal University

- Boris Shcherbakov, General Manager and Vice-President, Russia, Dell
- Yevgeny Shestakov, Editor, International Politics Desk, Rossiyskaya Gazeta
- Sheng Shilian, Research Fellow, Xinhua Center for World Affairs Studies
- Nobuo Shimotomai, Professor, Hosei University, Tokyo
- Toshihiko Shiobara, Professor, Kochi University
- Mark Shmulevich, Deputy Minister of Communications and Mass Communication, Ministry of Communications of the Russian Federation
- Sergey Sirotenko, Leader, Sports Centre of Excellence, PricewaterhouseCoopers International
- Pal Erik Sjatil, Managing Partner, CIS and Eastern Europe, McKinsey & Company
- Murad Sofizade, Co-Founder and Chief Operating Officer, TravelTipz
- Andrew Somers, President and Chief Executive Officer, American Chamber of Commerce in the Russian Federation
- Konstantin Sonin, Vice-Rector and Professor of Economics, New Economic School
- Yury Spektorov, Partner, Bain & Company Russia LLC
- Carsten Sprenger, Associate Professor, International College of Economics and Finance, National Research University – Higher School of Economics
- Angela Stent, Professor of Government and Foreign Service, and Director, Center for Eurasian, Russian and East European Studies, Georgetown University
- Nikolay Stepanov, Member of the Board, RU-COM
- Gábor Stier, Foreign Policy Analyst, Foreign Affairs Desk, Magyar Nemzet
- Michael Stott, Global News Editor, Thomson Reuters
- Emily Stromquist, Associate, Eurasia Group
- Nobua Tanaka, Executive Director (2007-11), International Energy Agency
- Hratch Tchilingirian, Associate Faculty Member, The Oriental Institute, University of Oxford
- Elizabeth Teague, Foreign & Commonwealth Office
- Boris Titov, President, Express Capital
- Vasily Titov, First Deputy Chairman, JSC VTB Bank
- Elena Topoleva-Soldunova, Chair of the Commission on Social Policy, Labor Relations and Quality of Life of Citizens, Civic Chamber of the Russian Federation
- Daniel Treisman, Professor, Department of Political Science, University of California Los Angeles
- Vitaly Tretiakov, Dean, Higher School of Television, Lomonosov Moscow State University
- Sergey Tsyplyaev, Director, The Royal Bank of Scotland
- James Turley, Chairman and Chief Executive Officer, Ernst & Young
- Jenia Ustinova, Analyst, Eurasia Group
- Michelle van der Burg, Global External Affairs Manager, Unilever
- Ruben Vardanian, Co-head of the Corporate Investment Unit and Head of Wealth Management, Sberbank
- Dmitry Vasilkov, Board Member, OilTech Group
- Victor Vekselberg, Chairman, Renova Group
- Olga Viniar, Journalist, Calcalist (Yedioth Ahronoth)
- Vadim Vlasov, President, Novartis Group Russia, Novartis AG
- Maxim Volkov, Chief Executive Officer, PhosAgro
- Artem Volynets, Chief Executive Officer, EN+Group
- Regina Von Flemming, Chief Executive Officer, Axel Springer Publishing Russia
- Stanislav Voskresenskiy, Deputy Presidential Plenipotentiary, Kaliningrad Region Administration
- Richard Weitz, Senior Fellow and Director of the Center for Political-Military Analysis, Hudson Institute
- Jochen Wermuth, Managing Partner, Wermuth Asset Management GmbH
- Dieter Wermuth, Managing Partner, Wermuth Asset Management GmbH
- Kirsten Westphal, Senior Associate, Research Division-Global Issues, German Institute for International and Security Affairs
- Brian Whitmore, Senior Correspondent, Radio Free Europe
- Thomas Willms, Vice-President and Regional Director, East and Central Europe, Starwood Hotels & Resorts
- Ngaire Woods, Dean, Blavatnik School of Government, University of Oxford
- Li Xin, Chief Research Fellow and Director, Center for Russia and Central Asia Studies, Shanghai Institute for International Studies at the Government of Shanghai
- Andrey Yakovlev, Director of the Institute for Industrial and Market Studies, State University Higher School of Economics
- Yan Yanovskiy, Founder and Managing Partner, First Nation Société Bancaire
- Anton Yaremchuk, Deputy Chief Executive Officer, Moscow Investment Agency
- Shamil Yenikeyeff, Research Fellow, Oxford Institute for Energy Studies
- Igor Yurgens, Chairman of the Management Board, Institute of Contemporary Development
- Dmitri Yusov, Head, Strategy and Change Group, Troika Dialog
- Dmitri Zaitsev, Partner, Roland Berger Russia
- Yulia Zazulina, Development Director, The Fund for the Support of Contemporary Art
- Igor Zevelev, Director, Moscow Office, MacArthur Foundation
- Nikolai Zlobin, Senior Fellow and Director of Russian and Asian Programmes, World Security Institute, USA
- Andrei Zolotov, Deputy Director, International Service, RIA Novosti
- Natalya Zubarevich, Professor, Moscow State University
- Andrei Zur, Country Head, Rio Tinto

In addition, the World Economic Forum would like to thank the following experts at Sberbank:

– Nadezhda Ivanova, Acting Director, Centre for Macroeconomic Research, Sberbank
– Roman Terentiev, Adviser to Chief Executive Officer, Sberbank

We would also like to thank the Valdai Discussion Club represented by:

– Pavel Andreev, Executive Director, International, RIA Novosti
– Leonid Grigoriev, Head of the World Economy Faculty, World Economy and International Affairs Department, National Research University–Higher School of Economics
– Sergei Karaganov, Chairman, Valdai International Discussion Club
– Svetlana Mironyuk, Editor-in-Chief, RIA Novosti

Finally, the project team expresses its gratitude to the following colleagues from the World Economic Forum for their advice and support throughout the project (in alphabetical order):

– Tatiana Babakina
– Jennifer Blanke
– Roberto Bocca
– Børge Brende
– Oliver Cann
– Piers Cumberlege
– Céline Devouassoux
– Margareta Drzeniek
– Tatiana Kalashnikova
– Anastasia Kalinina
– Danil Kerimi
– Nikolai Khlystov
– Pawel Konzal
– Darko Lovric
– Liana Melchenko
– Adrian Monck
– Martin Nägele
– Melih Nurluel
– Kaitlyn Powles
– Elena Smirnova
– Nina Vugman

Project Team

The Scenarios for the Russian Federation project team includes the following individuals at the World Economic Forum (in alphabetical order):

Project Team:

Anastassia Aubakirova, Director, Head of Russia / CIS

Andrew Bishop, Project Manager, Strategic Foresight

Kristel Van der Elst, Director, Head of Strategic Foresight

Alexander Jaax, Intern, Strategic Foresight

Trudi Lang, Associate Director, Strategic Foresight

Firdaus Mahmood, Intern, Strategic Foresight

Stephan Mergenthaler, Associate Director, Deputy Head of Strategic Foresight

Olivier Woeffray, Intern, Strategic Foresight

Editing: Michael Reid and Fabienne Stassen

Creative Design: David Bustamante, Senior Content Producer

Illustration: Peter Grundy

Website: http://www.weforum.org/issues/strategic-foresight

Twitter: http://twitter.com/WEForesight

COMMITTED TO
IMPROVING THE STATE
OF THE WORLD

The World Economic Forum is an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas.

Incorporated as a not-for-profit foundation in 1971 and headquartered in Geneva, Switzerland, the Forum is tied to no political, partisan or national interests.

World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org