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THE ANNUAL REPORT THIS YEAR FEATURES TWO ARTICLES WHICH EXAMINE CHANGES IN THE POLITICAL STRUCTURES IN CHINA AND RUSSIA.

In the early 1990s the standing observation in financial markets was that China was prioritising the modernisation of its economic system ahead of its political system. This was judged by many as sound when juxtaposed against Russia which at the time was doing the precise opposite. Boris Yeltsin, the first elected President was pushing through far-reaching reforms in a country that had a long history of despotic authoritarian leaders. This was achieved in the face of falling economic activity and rising inflation. The rise of the oligarchs was front page news as they hoovered up the privatisation certificates from disaffected and ignorant workers and then cemented their positions via cross holdings and large scale amalgamations. The concern at the time was how the benefits would accrue to the “average” Russian and how well indeed democracy would work.

China also presents a model of a government contending with the effects of its rapid economic growth, social change and the pressure for political reforms. There are more than cultural differences between the forms and processes of democracy envisioned by China’s leaders and those commonly enshrined in Western political systems. The popular media have tended to focus on the regressive and high-handed behaviour of China with dissidents and in Tibet. However, in contrast to Russia, the article, *Long Time Coming – The Prospects for Democracy in China* gives an interesting account of changes and growth in democratic forms and processes in China. The article details real changes that are taking place at an ideological and practical level that have significance and the potential to transform China to a modern pluralist liberal state. The full text of the article has been abridged here for reasons of space, but in 2006 in a visit to the United States, Premier Wen Jiabao enunciated three key components in China’s concept of democracy: elections, judicial independence and supervision based on checks and balances.

Apart from the CCP leadership addressing reform within the party, it is also encouraging to discover the forces that have been unleashed from market reform. Consider for example, the effect of 12,000 licensed legal firms whose commercial success will presumably hinge on their performance in court. Likewise the commercialisation of China’s press is resulting in the publication of material unpalatable to Beijing tastes and in stark contrast to the “information gathering” function of the official Xinhua News Agency. Things are not always as they seem, however. Forbes Asia ran an excellent story in its 21 July edition highlighting the practice of red envelopes. This is where journalists working for major media interests, or simply masquerading as journalists, extract hush money payment for NOT running stories on events such as coal mine accidents.

The article *The Myth of the Authoritarian Model – How Putin’s Crackdown Holds Russia Back* has, as its central contention, the argument that Putin’s undermining of the democratic gains of the early post-Communist years has created a society where despite strong economic growth, the outcomes for the average Russian on a whole range of measures mean that they are worse off today than a decade ago. Economic growth is principally attributed to the reforms arising from the end of communism and to the benefit of rising world oil prices. The blame for constraints on economic growth is put upon the concomitants of a more autocratic rule – more corruption, less secure property rights and transfer of formerly prosperous private companies to state controlled assets of diminished value. There are significant variables lurking close to the surface in this scenario. If oil is a key element to the prosperity of the people and the maintenance of Putin’s political power, then the effective management of this resource and the strategic deployment of profits to build infrastructure for longer term economic wealth is critical.

As Ivan Krastev¹ points out, “Although Russia’s economy has performed well in the past 10 years, it is more dependent on the production and export of natural resources today than it was during Soviet times.” What the Western observer may ponder is the domestic stability and the direction of foreign policy in a regime that “offers its citizens consumer rights but not political freedoms, state sovereignty but not individual autonomy, a market economy but not genuine democracy.”

Another tyranny prevails in China – the legacy of the Cultural Revolution that bit deeply into the Chinese psyche and lingers in the personal connections and corruption that, not surprisingly, impede the reform process that is now in evidence.

With the world readying itself for massive changes in the balance of world power, we felt these articles would offer some insights. As an investor it has important implications for risk and potential reward. Whichever way it turns, surely the old order will be hard-pressed to dominate global debate...

KERR NEILSON

Managing Director

1 Krastev, Ivan, *What Russia wants*, The Australian Financial Review, 23 May 2008





LONG TIME COMING

THE PROSPECTS FOR DEMOCRACY IN CHINA

JOHN L THORNTON

FROM FOREIGN AFFAIRS, JANUARY/FEBRUARY 2008

CHINA'S LEADERS HAVE HELD OUT THE PROMISE OF SOME FORM OF DEMOCRACY TO THE PEOPLE OF CHINA FOR NEARLY A CENTURY.

After China's last dynasty, the Qing, collapsed in 1911, Sun Yat-sen suggested a three-year period of temporary military rule, followed by a six-year phase of "political tutelage," to guide the country's transition into a full constitutional republic. In 1940, Mao Zedong offered followers something he called "new democracy," in which leadership by the Communist Party would ensure the "democratic dictatorship" of the revolutionary groups over class enemies. And Deng Xiaoping, leading the country out of the anarchy of the Cultural Revolution, declared that democracy was a "major condition for emancipating the mind."

When they used the term “democracy,” Sun, Mao, and Deng each had something quite different in mind. Sun’s definition – which envisioned a constitutional government with universal suffrage, free elections, and separation of powers – came closest to a definition recognizable in the West. Through their deeds, Mao and Deng showed that despite their words, such concepts held little importance for them. Still, the three agreed that democracy was not an end in itself but rather a mechanism for achieving China’s real purpose of becoming a country that could no longer be bullied by outside powers.

Democracy ultimately foundered under all three leaders. When Sun died, in 1925, warlordism and disunity still engulfed many parts of China. In his time, Mao showed less interest in democracy than in class struggle, mass movements, continuous revolution, and keeping his opponents off balance. And Deng demonstrated on a number of occasions – most dramatically in suppressing the Tiananmen protests of 1989 – that he would not let popular democratic movements overtake party rule or upset his plan for national development.

Today, of course, China is not a democracy. The Chinese Communist Party (CCP) has a monopoly on political power, and the country lacks freedom of speech, an independent judiciary, and other fundamental attributes of a pluralistic liberal system. Many inside and outside China remain skeptical about the prospects for political reform. Yet much is happening – in the government, in the CCP, in the economy, and in society at large – that could change how Chinese think about democracy and shape China’s political future.

Both in public and in private, China’s leaders are once again talking about democracy, this time with increasing frequency and detail. (This article is based on conversations held over the past 14 months with a broad range of Chinese, including members of the CCP’s Central Committee – the group of China’s top 370 leaders – senior government officials, scholars, judges, lawyers, journalists, and leaders of nongovernmental organizations.) President Hu Jintao has called democracy “the common pursuit of mankind.” During his 2006 visit to the United States, Hu went out of his way to broach the subject at each stop. And Premier Wen Jiabao, in his address to the 2007 National People’s Congress, devoted to democracy and the rule of law more than twice the attention he had in any previous such speech. “Developing democracy and improving the legal system,” Wen declared, “are basic requirements of the socialist system.”

As with earlier leaders, what the present generation has in mind differs from the definition used in the West. Top officials stress that the CCP’s leadership must be preserved. Although they see a role for elections, particularly at the local level, they

assert that a “deliberative” form of politics that allows individual citizens and groups to add their views to the decision-making process is more appropriate for China than open, multiparty competition for national power. They often mention meritocracy, including the use of examinations to test candidates’ competence for office, reflecting an age-old Chinese belief that the government should be made up of the country’s most talented. Chinese leaders do not welcome the latitude of freedom of speech, press, or assembly taken for granted in the West. They say they support the orderly expansion of these rights but focus more on the group and social harmony – what they consider the common good.

**TODAY, OF COURSE, CHINA IS NOT A DEMOCRACY.
YET MUCH IS HAPPENING THAT COULD CHANGE HOW
CHINESE THINK ABOUT DEMOCRACY AND SHAPE
CHINA'S POLITICAL FUTURE.**

Below the top tier of leaders (who usually speak from a common script), Chinese officials differ on whether “guided democracy” is where China’s current political evolution will end or is a way station en route to a more standard liberal democratic model. East Asia provides examples of several possibilities: the decades-long domination of politics by the Liberal Democratic Party in Japan, the prosperity with limited press freedom of Singapore, and the freewheeling multiparty system of South Korea. China might follow one of these paths, some speculate, or blaze its own.

In a meeting in late 2006 with a delegation from the Brookings Institution (of which I was a member), Premier Wen was asked what he and other Chinese leaders meant by the word “democracy,” what form democracy was likely to take in China, and over what time frame. “When we talk about democracy,” Wen replied, “we usually refer to three key components: elections, judicial independence, and supervision based on checks and balances.” Regarding the first, he could foresee direct and indirect elections expanding gradually from villages to towns, counties, and even provinces. He did not mention developments beyond this, however. As for China’s judicial system, which is riddled with corruption, Wen stressed the need for reform to assure the judiciary’s “dignity, justice, and independence.” And he explained that “supervision” – a Chinese term for ensuring effective oversight – was necessary to restrain abuses of official power. He called for checks and balances within the CCP and for greater official accountability to the public. The media and China’s nearly 200 million Internet users should also

participate “as appropriate” in the supervision of the government’s work, he observed. Wen’s bottom line: “We have to move toward democracy. We have many problems, but we know the direction in which we are going.”

FREE TO CHOOSE

Given the gap between the democratic aspirations professed by leaders such as Hu and Wen and the skepticism that their words elicit in the West, a better understanding is needed of where exactly the process of democratization stands in China today. Chinese citizens do not have the right to choose their national leaders, but for more than a decade, peasants across the country have held ballots to elect village chiefs....

Electoral experiments at the county level – one administrative rung up from a township – have also attracted attention. Since 2000, 11 counties in Hubei and Jiangsu have conducted “open recommendation and selection” polls for the position of county deputy chief. This represents less than half a percent of the counties and county-level cities nationwide, but any reform of leadership selection in counties, which have an average population of about 450,000 each, would be significant news....

SOME EXPERTS CONSIDER A CCP THAT ACCEPTS OPEN DEBATE, INTERNAL LEADERSHIP ELECTIONS, AND DECISION-MAKING BY BALLOT TO BE A PREREQUISITE FOR DEMOCRACY IN THE COUNTRY AS A WHOLE.

In recent years, China’s leaders have also made an effort to expand competitive selection within the CCP. Some experts believe that the development of “intraparty democracy” is even more significant for China’s long-term political reform than the experiments in local governance. They consider a CCP that accepts open debate, internal leadership elections, and decision-making by ballot to be a prerequisite for democracy in the country as a whole. President Hu and Premier Wen routinely call for more discussion, consultation, and group decision-making within the CCP. Intraparty democracy was a centerpiece of Hu’s keynote address to the CCP’s 17th Party Congress last fall. Not long after the meeting, Li Yuanchao, the newly appointed head of the Party Organization Department, published a 7,000-character essay in the People’s Daily elaborating on Hu’s call for further reform in the party. The fact that Hu himself does not wield the personal authority of Mao, Deng, or his predecessor, Jiang Zemin, and relies





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on consensus within the nine-member Politburo Standing Committee, is itself noted as progress in unwinding the overcentralization of power at the national level....

If intraparty democracy takes hold, some scholars predict a trend in which like-minded cadres will coalesce to form more distinct interest groups within the CCP. A senior official of the Central Party School told our Brookings delegation that “interest groups” were no longer taboo within the party, although organized “factions” were not permitted. Still, some analysts predict that the CCP may one day resemble Japan’s ruling Liberal Democratic Party, within which formal, organized factions compete for senior political slots and advocate different policy positions....

THE RULE OF LAW

... The Chinese judicial system has made great strides over the past three decades, but it still has far to go. In 1980, when the judicial system was just starting to rebuild itself after the devastation of the Cultural Revolution, Chinese courts nationwide accepted a total of 800,000 cases. By 2006, that number had jumped tenfold, reflecting the transformation of the place of law in society. China has passed over 250 new laws in the past 30 years and is in the midst of creating an entire national code from nothing....

Paralleling the rise in the quality of judges and prosecutors has been the change in the status of China’s lawyers. Before the late 1980s, all lawyers were employees of the state; private practice did not exist. The first “cooperative law firms” appeared in 1988-89, and today China has 118,000 licensed lawyers practicing in 12,000 firms. (To compare, the United States has more than eight times as many lawyers for a population one-fourth the size of China’s.) The growth of private practice has propelled the further professionalization of the system as a whole, partly because lawyers need to win cases (or at least lighter sentences) for their clients in order to prosper....

Still, Chinese officials acknowledge that the judicial process remains rife with problems. One of the most serious obstacles to impartial verdicts is the web of personal relationships known as *guanxi* – bonds forged over years by the exchange of favors and assistance – on which so many decisions in China are based. These ties can have an especially constraining effect on prosecutorial and court decisions. Judges in China routinely talk to the parties in a case privately, creating situations in which *guanxi* and corruption can readily contaminate the process. Some experts have suggested raising judges’ salaries and taking other steps to create a judicial elite distinct from other government officials in order to address this endemic weakness....

OVERSIGHT

... Another promising trend is the rapid commercialization of the Chinese press. The government still exercises extensive control over the media through government ownership of outlets and censorship. The redlines that journalists cannot cross still exist. But changes are taking place. As independent Chinese publications seek readers and advertisers, they pursue stories that people want to read; like their counterparts in the West, they have discovered that investigative journalism sells...

DEMOCRACY IN CHINA

Recent progress in elections, judicial independence, and oversight is part of the transformation of Chinese society and the expansion of personal freedoms that have accompanied three decades of breakneck economic reform and development. The government remains intrusive in many areas but much less so than before.

In the past 20 years, several hundred million Chinese have migrated from the countryside to the cities – the largest wave of rapid urbanization in history. Until a decade ago, the government enforced stringent controls on internal migration. Today, officials cite the additional 300 million farmers expected to move to cities over the next two decades as a positive force that will help alleviate China's urban-rural income gap. The state once assigned jobs and housing to every urban resident. Now, urban Chinese enjoy overseas travel to study, work, or play. Ten years ago, a Chinese citizen needed to get permission from his supervisor, his work unit's party secretary, and the local police just to apply for a passport, a process that could take six months, assuming the passport was approved at all. The entire procedure takes less than a week today, and approval is nearly as automatic as it is in the United States. Less than two decades ago, all foreigners in Beijing were forced to live in designated locations, such as hotels or compounds guarded by military police. Today, foreigners and Chinese live side by side. When Chinese are asked about the democratization of their society, they are as likely to mention these sorts of changes as they are elections or judicial reform. They may be confusing the concept of liberty with that of democracy, but it would be a mistake to dismiss the expansion of their personal freedom as insignificant.

A senior Communist Party official I know marveled privately that ten years ago it would have been unimaginable for someone in his position to even be having an open discussion about democracy with an American. Now, the debate in China is no longer about whether to have democracy, he said, but about when and how. One thing the party should do immediately, he felt, was reform the National People's Congress so that it does not become a "retirement home" for former officials; the National People's

OVER THE LAST CENTURY, NO ONE HAS THOUGHT MORE ABOUT THE PROMISE OF DEMOCRACY IN THEIR COUNTRY OR BEEN MORE DISMAYED BY ITS ELUSIVENESS THAN THE CHINESE THEMSELVES.

Congress should be populated by competent professionals and eventually become a true legislative body. The government should also implement direct elections up to the provincial level, he argued, not Western-style multiparty elections but at least a contest involving a real choice of candidates.

The chair of one of China's largest corporations, who is also an alternate member of the CCP Central Committee, told me that better corporate governance in companies listed on overseas stock exchanges (and thus held to international norms), such as his, was another example of the expansion of "democratic habits" in China. Although corporate governance in China remains a work in progress, this chair said, the general trend among state-owned enterprises, especially those listed abroad, is toward greater transparency, stronger and more independent boards of directors, and management by mutually agreed rules. Over time, working in such an environment is likely to inculcate more democratic patterns of thinking in China's business elite, as well as in senior government officials who sit on the boards of state-owned enterprises.

Over the last century, no one has thought more about the promise of democracy in their country or been more dismayed by its elusiveness than the Chinese themselves. Again and again, they have witnessed a native democratic impulse surge and crash or be crushed prematurely. The empress dowager Cixi quashed the 1898 "hundred days of reform" initiated by advisers to the emperor Guangxu. The optimism that surrounded Sun's inauguration as provisional president of the Chinese Republic on January 1, 1912, was soon extinguished by the military ruler Yuan Shikai, who tried to crown himself as the first emperor of a new dynasty in 1915. Progressives within both the Nationalist and the Communist Parties espoused democratic forms of government in the 1930s before the onslaught of wars with Japan and then with each other. The establishment of the People's Republic in 1949 augured an era of self-determination, prosperity, and democracy. But that hope was crushed under the foot of Mao's relentless political campaigns, culminating in the Cultural Revolution. Before the tragedy of Tiananmen in 1989, the 1980s were a period of intense political ferment, when democracy was debated inside the government, think tanks, universities, and intellectual salons.

Compared to in those periods, the way in which China's leaders talk about democracy today may seem cautious. Critics argue that this reflects the government's lack of real commitment to political reform. Optimists believe that gradualism will make the current liberalization last longer than the euphoric, but ultimately failed, experiences of the past. One of China's elder statesman – who has known personally all of the country's top leaders since Mao – insisted to me that democracy has always been the “common aspiration” of the Chinese people. They are determined to get it right, he argued, but they require patience from the West. “Please let the Chinese experiment,” he said. “Let us explore.”

**OPTIMISTS BELIEVE THAT GRADUALISM WILL
MAKE THE CURRENT LIBERALIZATION LAST LONGER
THAN THE EUPHORIC, BUT ULTIMATELY FAILED,
EXPERIENCES OF THE PAST.**

Where that exploration will lead is an open question. There is a range of views among Chinese about how long will be required for democracy to take root, but there is also some agreement. One official put it this way: “No one predicts five years. Some think ten to 15. Some say 30 to 35. And no one says 60.” Others predict that the process will take at least two more generational changes in the CCP's leadership – a scenario that would place its advent around the year 2022.

In 2004, a survey was conducted among nearly 700 local officials who had attended a provincial training program. More than 60 percent of the officials polled said that they were dissatisfied with the state of democracy in the country then, and 63 percent said that political reform in China was too slow. On the other hand, 59 percent of them said that economic development should take precedence over democracy. And tellingly, 67 percent of the cadres supported popular elections for village leaders and 41 percent supported elections for county heads, compared with only 13 percent for elections for provincial governors and just 9 percent for elections for China's president.

Some Chinese like to point out that it took the United States almost two centuries to achieve universal suffrage. In the first several American presidential elections, most states restricted voting to white male landowners – no more than ten percent of the adult U.S. population at the time. Women had to wait until the twentieth century, and blacks in effect until the 1960s. “This is one issue,” a Beijing newspaper editor joked, “about which we Chinese may be less patient than you Americans.”

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Last spring, an article provocatively titled “Democracy Is a Good Thing” caused a small sensation in China. Published in a journal closely linked to the CCP, the article was authored by Yu Keping, the head of a think tank that reports directly to the CCP Central Committee. Although hardly blind to democracy’s drawbacks (it “affords opportunities for certain sweet-talking political fraudsters to mislead the people”), Yu was forthright and specific in his approval of it: “Among all the political systems that have been invented and implemented, democracy is the one with the least number of flaws. That is to say, relatively speaking, democracy is the best political system for humankind.”

CHINA MUST NOW COMPLETE THE TRANSITION FROM A SYSTEM THAT RELIES ON THE AUTHORITY AND JUDGMENT OF ONE OR A FEW DOMINATING FIGURES TO A GOVERNMENT RUN BY COMMONLY ACCEPTED AND BINDING RULES.

Yu did not predict an easy road to democracy in China. “Under conditions of democratic rule,” he observed, “officials must be elected by the citizens and they must gain the endorsement and support of the majority of the people; their powers will be curtailed by the citizens, they cannot do whatever they want, they have to sit down across from the people and negotiate. Just these two points alone already make many people dislike it. Therefore, democratic politics will not operate on its own; it requires the people themselves and the government officials who represent the interests of the people to promote and implement [it].”

Clearly, some people at the center of the Chinese system are thinking actively about these fundamental questions. The issue is whether and how these ideas will be translated into practice. China must now complete the transition begun in recent years, from a system that relies on the authority and judgment of one or a few dominating figures to a government run by commonly accepted and binding rules. The institutionalization of power is shared by all countries that have successfully made the transition to democracy. China’s ongoing experiments with local elections, reform of the judicial system, and the strengthening of oversight are all part of the shift to a more rule-based system. So are the ways in which Chinese society continues to open and diversify, incrementally creating a civil society.

Institutionalization may progress the most over the next few years in an area that could be decisive in determining China’s political evolution: leadership succession.

How a country manages the transfer of power at the very top sends an unmistakable signal to all levels below. On this point, China has already come some way. To be chosen as Mao's successor was the most perilous position one could be put in. Deng had his own problems anointing a durable successor; he remained the most powerful man in China for nearly a decade after relinquishing all his official posts in 1989. It was his successor, Jiang, who saw the first peaceful transfer of power in modern Chinese history, when he gave up his positions to Hu. Jiang has remained a power behind the scenes, but no one would suggest that he holds the influence that Deng did.

One senior leader told me that the issue of succession can no longer be managed effectively in the ad hoc manner of the past. Both China and the world have changed too much; the process of selecting the country's leaders needs to be institutionalized. The problem, he explained, was that an acceptable new process has yet to be put in place, and until one is, it would be impractical to jettison the old system. China finds itself in an ambiguous transition at the moment. For his part, this leader believed that progress might be seen by the time of the Third Plenum of the 17th Party Congress, in 2009. Some party members have even suggested that Hu's heir as general secretary of the CCP could be chosen through a vote of the entire Central Committee when Hu retires in 2012. The method by which Hu's successor is selected will be an unmistakable indicator of the political future China's current generation of leaders envisions – signaling whether they believe, as Sun did a century ago, that democracy can best deliver the prosperity, independence, and liberty for which the Chinese people have struggled and sacrificed for so many years. ■

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THE MYTH OF THE AUTHORITARIAN MODEL

HOW PUTIN'S CRACKDOWN HOLDS RUSSIA BACK

MICHAEL McFAUL AND KATHRYN STONER-WEISS

FROM FOREIGN AFFAIRS, JANUARY/FEBRUARY 2008

THE CONVENTIONAL EXPLANATION FOR VLADIMIR PUTIN'S POPULARITY IS STRAIGHTFORWARD.

In the 1990s, under post-Soviet Russia's first president, Boris Yeltsin, the state did not govern, the economy shrank, and the population suffered. Since 2000, under Putin, order has returned, the economy has flourished, and the average Russian is living better than ever before. As political freedom has decreased, economic growth has increased. Putin may have rolled back democratic gains, the story goes, but these were necessary sacrifices on the altar of stability and growth.

This narrative has a powerful simplicity, and most Russians seem to buy it. Putin's approval rating hovers near 80 percent, and nearly a third of Russians would like to see him become president for life. Putin, emboldened by such adoration, has signaled that he will stay actively involved in ruling Russia in some capacity after stepping down as president this year, perhaps as prime minister to a weak president or even as president once again later on. Authoritarians elsewhere, meanwhile, have held up Putin's popularity and accomplishments in Russia as proof that autocracy has a future – that, contrary to the end-of-history claims about liberal democracy's inevitable triumph, Putin, like China's Deng Xiaoping did, has forged a model of successful market authoritarianism that can be imitated around the world.

This conventional narrative is wrong, based almost entirely on a spurious correlation between autocracy and growth. The emergence of Russian democracy in the 1990s did indeed coincide with state breakdown and economic decline, but it did not cause either. The reemergence of Russian autocracy under Putin, conversely, has coincided with economic growth but not caused it (high oil prices and recovery from the transition away from communism deserve most of the credit). There is also very little evidence to suggest that Putin's autocratic turn over the last several years has led to more effective governance than the fractious democracy of the 1990s. In fact, the reverse is much closer to the truth: to the extent that Putin's centralization of power has had an influence on governance and economic growth at all, the effects have been negative. Whatever the apparent gains of Russia under Putin, the gains would have been greater if democracy had survived.

POLITICAL THERMIDOR

The process of democratization started before Russian independence. In the years leading up to the collapse of the Soviet Union, Mikhail Gorbachev began to introduce important reforms, including competitive elections for many national and local offices, pluralism in the media (even when still state-owned), and freedom of association for political and civic groups. After 1991, Russia started developing all the basic elements of an electoral democracy. There were competitive elections for parliament and the presidency and mostly competitive elections for regional governors. Political parties of all stripes, including opposition communist and ultranationalist groups, operated freely, as did nongovernmental organizations (NGOs). Electronic and print media outlets not controlled by the state multiplied. So vibrant was the political opposition that Yeltsin twice faced possible impeachment by the Communists in the Duma, Russia's lower house of parliament. Deep divisions among national officials, regional governors, oligarchs,

ALTHOUGH THE FORMAL INSTITUTIONAL CONTOURS OF THE RUSSIAN POLITICAL SYSTEM HAVE NOT CHANGED MARKEDLY UNDER PUTIN, THE ACTUAL DEMOCRATIC CONTENT HAS ERODED CONSIDERABLY.

and media outlets made the 1999 parliamentary election the most competitive contest in Russian history.

Yeltsin was far from a perfect democrat: he used force to crush the Russian parliament in 1993, bulldozed into place a new constitution that increased presidential power, and barred some parties or individuals from competing in a handful of national and regional elections. He also initiated two wars in Chechnya. The system that Yeltsin handed over to Putin lacked many key attributes of a liberal democracy. Still, whatever its warts, the Russian regime under Yeltsin was unquestionably more democratic than the Russian regime today. Although the formal institutional contours of the Russian political system have not changed markedly under Putin, the actual democratic content has eroded considerably.

Putin's rollback of democracy started with independent media outlets. When he came to power, three television networks had the national reach to really count in Russian politics – RTR, ORT, and NTV. Putin tamed all three. RTR was already fully state-owned, so reining it in was easy. He acquired control of ORT, which had the biggest national audience, by running its owner, the billionaire Boris Berezovsky, out of the country. Vladimir Gusinsky, the owner of NTV, tried to fight Putin's effective takeover of his channel, but he ended up losing not only NTV but also the newspaper *Segodnya* and the magazine *Itogi* when prosecutors pressed spurious charges against him. In 2005, Anatoly Chubais, the CEO of RAO UES (Unified Energy Systems of Russia) and a leader in the liberal party SPS (Union of Right Forces), was compelled to hand over another, smaller private television company, REN-TV, to Kremlin-friendly oligarchs. Today, the Kremlin controls all the major national television networks.

More recently, the Kremlin has extended its reach to print and online media, which it had previously left alone. Most major Russian national newspapers have been sold in the last several years to individuals or companies loyal to the Kremlin, leaving the Moscow weekly, *Novaya Gazeta*, the last truly independent national newspaper. On the radio, the station *Ekho Moskvy* remains an independent source of news, but even its future is questionable. Meanwhile, Russia now ranks as the third-most-dangerous place in the

world to be a journalist, behind only Iraq and Colombia. Reporters Without Borders has counted 21 journalists murdered in Russia since 2000, including Anna Politkovskaya, the country's most courageous investigative journalist, in October 2006.

Putin has also reduced the autonomy of regional governments. He established seven supraregional districts headed primarily by former generals and KGB officers. These seven new super governors were assigned the task of taking control of all the federal agencies in their jurisdictions, many of which had developed affinities with the regional governments during the Yeltsin era. They also began investigating regional leaders as a way of undermining their autonomy and threatening them into subjugation.

RUSSIA NOW RANKS AS THE THIRD MOST DANGEROUS PLACE IN THE WORLD TO BE A JOURNALIST, BEHIND ONLY IRAQ AND COLOMBIA. REPORTERS WITHOUT BORDERS HAS COUNTED 21 JOURNALISTS MURDERED IN RUSSIA SINCE 2000.

Putin emasculated the Federation Council, the upper house of Russia's parliament, by removing elected governors and heads of regional legislatures from the seats they would have automatically taken in this chamber and replacing them with appointed representatives. Regional elections were rigged to punish leaders who resisted Putin's authority. And in September 2004, in a fatal blow to Russian federalism, Putin announced that he would begin appointing governors – with the rationale that this would make them more accountable and effective. There have been no regional elections for executive office since February 2005.

Putin has also made real progress in weakening the autonomy of the parliament. Starting with the December 2003 parliamentary elections, he has taken advantage of his control of other political resources (such as NTV and the regional governorships) to give the Kremlin's party, United Russia, a strong majority in the Duma: United Russia and its allies now control two-thirds of the seats in parliament. Putin's own popularity may be United Russia's greatest electoral asset, but constant positive coverage of United Russia leaders (and negative coverage of Communist Party officials) on Russia's national television stations, overwhelming financial support from Russia's oligarchs, and near-unanimous endorsement by Russia's regional leaders have also helped. After the December 2003 elections, for the first time ever the Organization for Security and Cooperation in Europe issued a critical report on Russia's parliamentary elections,



which stressed, “The State Duma elections failed to meet many OSCE and Council of Europe commitments for democratic elections.” In 2007, the Russian government refused to allow the OSCE to field an observer mission large enough to monitor the December parliamentary elections effectively.

Political parties not aligned with the Kremlin have also suffered. The independent liberal parties, Yabloko and the SPS, as well as the largest independent party on the left, the Communist Party of the Russian Federation, are all much weaker today and work in a much more constrained political environment than in the 1990s. Other independent parties – including the Republican Party and the Popular Democratic Union, as well as those of the Other Russia coalition – have not even been allowed to register for elections. Several independent parties and candidates have been disqualified from participating in local elections for blatantly political reasons. Potential backers of independent parties have been threatened with sanctions. The imprisonment of Mikhail Khodorkovsky, previously Russia’s wealthiest man and owner of the oil company Yukos, sent a powerful message to other businesspeople about the costs of being involved in opposition politics. Meanwhile, pro-Kremlin parties – including United Russia, the largest party in the Duma, and A Just Russia, a Kremlin invention – have enjoyed frequent television coverage and access to generous resources.

In his second term, Putin decided that NGOs could become a threat to his power. He therefore promulgated a law that gives the state numerous means to harass, weaken, and even close down NGOs considered too political. To force independent groups to the margins, the Kremlin has generously funded NGOs either invented by or fully loyal to the state. Perhaps most incredible, public assembly is no longer tolerated. In the spring of 2007, Other Russia, a coalition of civil-society groups and political parties led by the chess champion Garry Kasparov, tried to organize public meetings in Moscow and St. Petersburg. Both meetings were disrupted by thousands of police officers and special forces, and hundreds of demonstrators were arrested – repression on a scale unseen in Russia in 20 years.

In his annual address to the Federation Assembly in April 2007, Putin struck a note of paranoid nationalism when he warned of Western plots to undermine Russian sovereignty. “There is a growing influx of foreign cash used directly to meddle in our domestic affairs,” he asserted. “Not everyone likes the stable, gradual rise of our country. Some want to return to the past to rob the people and the state, to plunder natural resources, and deprive our country of its political and economic independence.” The Kremlin, accordingly, has tossed out the Peace Corps, closed OSCE missions in Chechnya and then in Moscow, declared persona non grata the AFL-CIO’s field representative,

raided the offices of the Soros Foundation and the National Democratic Institute, and forced Internews Russia, an NGO dedicated to fostering journalistic professionalism, to close its offices after accusing its director of embezzlement.

While weakening checks on presidential power, Putin and his team have tabled reforms that might have strengthened other branches of the government. The judicial system remains weak, and when major political issues are at stake, the courts serve as yet another tool of presidential power – as happened during NTV's struggle and during the prosecution of Khodorkovsky. There was even an attempt to disbar one of Khodorkovsky's lawyers, Karinna Moskalenko.

BIGGER IS NOT BETTER

Many of Putin's defenders, including some Kremlin officials, have given up the pretense of characterizing Russia as a "managed" or "sovereign" democracy. Instead, they contend that Russia's democratic retreat has enhanced the state's ability to provide for its citizens. The myth of Putinism is that Russians are safer, more secure, and generally living better than in the 1990s – and that Putin himself deserves the credit. In the 2007 parliamentary elections, the first goal of "Putin's Plan" (the main campaign document of United Russia) was to "provide order."

In fact, although the 1990s was a period of instability, economic collapse, and revolutionary change in political and economic institutions, the state performed roughly as well as it does today, when the country has been relatively "stable" and its economy is growing rapidly. Even in good economic times, autocracy has done no better than democracy at promoting public safety, health, or a secure legal and property-owning environment.

The Russian state under Putin is certainly bigger than it was before. The number of state employees has doubled to roughly 1.5 million. The Russian military has more capacity to fight the war in Chechnya today, and the coercive branches of the government – the police, the tax authorities, the intelligence services – have bigger budgets than they did a decade ago. In some spheres, such as paying pensions and government salaries on time, road building, or educational spending, the state is performing better now than during the 1990s. Yet given the growth in its size and resources, what is striking is how poorly the Russian state still performs. In terms of public safety, health, corruption, and the security of property rights, Russians are actually worse off today than they were a decade ago.

Security, the most basic public good a state can provide for its population, is a central element in the myth of Putinism. In fact, the frequency of terrorist attacks in Russia



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has increased under Putin. The two biggest terrorist attacks in Russia's history – the Nord-Ost incident at a theater in Moscow in 2002, in which an estimated 300 Russians died, and the Beslan school hostage crisis, in which as many as 500 died – occurred under Putin's autocracy, not Yeltsin's democracy...

Nor has public health improved in the last eight years. Despite all the money in the Kremlin's coffers, health spending averaged 6 percent of GDP from 2000 to 2005, compared with 6.4 percent from 1996 to 1999. Russia's population has been shrinking since 1990, thanks to decreasing fertility and increasing mortality rates, but the decline has worsened since 1998.... Life expectancy in Russia rose between 1995 and 1998. Since 1999, however, it has declined to 59 years for Russian men and 72 for Russian women.

At the same time that Russian society has become less secure and less healthy under Putin, Russia's international rankings for economic competitiveness, business friendliness, and transparency and corruption all have fallen. The Russian think tank INDEM estimates that corruption has skyrocketed in the last six years. In 2006, Transparency International ranked Russia at an all-time worst of 121st out of 163 countries on corruption, putting it between the Philippines and Rwanda. Russia ranked 62nd out of 125 on the World Economic Forum's Global Competitiveness Index in 2006, representing a fall of nine places in a year. On the World Bank's 2006 "ease of doing business" index, Russia ranked 96th out of 175, also an all-time worst.

Property rights have also been undermined. Putin and his Kremlin associates have used their unconstrained political powers to redistribute some of Russia's most valuable properties. The seizure and then reselling of Yukos' assets to the state-owned oil company Rosneft was the most egregious case, not only diminishing the value of Russia's most profitable oil company but also slowing investment (both foreign and domestic) and sparking capital flight. State pressure also compelled the owners of the private Russian oil company Sibneft to sell their stakes to the state-owned Gazprom and Royal Dutch/Shell to sell a majority share in its Sakhalin-2 project (in Siberia) to Gazprom. Such transfers have transformed a once private and thriving energy sector into a state-dominated and less efficient part of the Russian economy. The remaining three private oil producers – Lukoil, TNK-BP, and Surgutneftegaz – all face varying degrees of pressure to sell out to Putin loyalists. Under the banner of a program called "National Champions," Putin's regime has done the same in the aerospace, automobile, and heavy-machinery industries. The state has further discouraged investment by arbitrarily enforcing environmental regulations against foreign oil investors, shutting out foreign partners in the development of the Shtokman gas field, and denying a visa to the largest portfolio investor in Russia, the British citizen William Browder. Most

World Bank governance indicators, on issues such as the rule of law and control of corruption, have been flat or negative under Putin. Those on which Russia has shown some improvement in the last decade, especially regulatory quality and government effectiveness, started to increase well before the Putin era began....

A EURASIAN TIGER?

The second supposed justification for Putin's autocratic ways is that they have paved the way for Russia's spectacular economic growth. As Putin has consolidated his authority, growth has averaged 6.7 percent – especially impressive against the backdrop of the depression in the early 1990s. The last eight years have also seen budget surpluses, the eradication of foreign debt and the accumulation of massive hard-currency reserves, and modest inflation. The stock market is booming, and foreign direct investment, although still low compared to in other emerging markets, is growing rapidly. And it is not just the oligarchs who are benefiting from Russia's economic upturn. Since 2000, real disposable income has increased by more than 10 percent a year, consumer spending has skyrocketed, unemployment has fallen from 12 percent in 1999 to 6 percent in 2006, and poverty, according to one measure, has declined from 41 percent in 1999 to 14 percent in 2006. Russians are richer today than ever before.

The correlations between democracy and economic decline in the 1990s and autocracy and economic growth in this decade provide a seemingly powerful excuse for shutting down independent television stations, canceling gubernatorial elections, and eliminating pesky human rights groups. These correlations, however, are mostly spurious.

The 1990s were indeed a time of incredible economic hardship. After Russia's formal independence in December 1991, GDP contracted over seven years. There is some evidence that the formal measures of this contraction overstated the extent of actual economic depression: for instance, purchases of automobiles and household appliances rose dramatically, electricity use increased, and all of Russia's major cities experienced housing booms during this depression. At the same time, however, investment remained flat, unemployment ballooned, disposable incomes dropped, and poverty levels jumped to more than 40 percent after the August 1998 financial meltdown.

Democracy, however, had only a marginal effect on these economic outcomes and may have helped turn the situation around in 1998. For one thing, the economic decline preceded Russian independence. Indeed, it was a key cause of the Soviet collapse. With the Soviet collapse, the drawing of new borders to create 15 new states in 1991 triggered massive trade disruptions. And for several months after independence, Russia did not even control the printing and distribution of its own currency. Neither a more

democratic polity nor a robust dictatorship would have altered the negative economic consequences of these structural forces in any appreciable way.

Economic decline after the end of communism was hardly confined to Russia. It followed communism's collapse in every country throughout the region, no matter what the regime type. In the case of Russia, Yeltsin inherited an economy that was already in the worst nonwartime economic depression ever. Given the dreadful economic conditions, every postcommunist government was compelled to pursue some degree of price and trade liberalization, macroeconomic stabilization, and, eventually, privatization. The speed and comprehensiveness of economic reform varied, but even those leaders most resistant to capitalism implemented some market reforms. During this transition, the entire region experienced economic recession and then began to recover several years after the adoption of reforms. Russia's economy followed this same general trajectory – and would have done so under dictatorship or democracy. Russia's economic depression in the 1990s was deeper than the region's average, but that was largely because the socialist economic legacy was worse in Russia than elsewhere.

ECONOMIC DECLINE AFTER THE END OF COMMUNISM WAS HARDLY CONFINED TO RUSSIA. IT FOLLOWED COMMUNISM'S COLLAPSE IN EVERY COUNTRY THROUGHOUT THE REGION, NO MATTER WHAT THE REGIME TYPE.

After the Soviet collapse, Russian leaders did have serious policy choices to make regarding the nature and speed of price and trade liberalization, privatization, and monetary and fiscal reforms. This complex web of policy decisions was subsequently oversimplified as a choice between “shock therapy” (doing all of these things quickly and simultaneously) and “gradual reform” (implementing the same basic menu of policies slowly and in sequence). Between 1992 and 1998, Russian economic policy zigzagged between these two extremes, in large part because Russian elites and Russian society did not share a common view about how to reform the economy.

Because Russia's democratic institutions allowed these ideological debates to play out politically, economic reform was halting, which in turn slowed growth for a time. During Russia's first two years of independence, for example, the constitution gave the Supreme Soviet authority over the Central Bank, an institutional arrangement that produced inflationary monetary policy. The new 1993 constitution fixed this problem by making the bank a more autonomous institution, but the new constitution reaffirmed

the parliament's pivotal role in approving the budget, which led to massive budget deficits throughout the 1990s. The Russian government covered these deficits through government bonds and foreign borrowing, which worked while oil prices were high. But when oil prices collapsed in 1997-98, so, too, did Russia's financial system. In August 1998, the government essentially went bankrupt. It first radically devalued the ruble as a way to reduce domestic debt and then simply defaulted on billions of outstanding loans to both domestic and foreign lenders.

This financial meltdown finally put an end to major debate over economic policy in Russia. Because democratic institutions still mattered, the liberal government responsible for the financial crash had to resign, and the parliament compelled Yeltsin to appoint a left-of-center government headed by Prime Minister Yevgeny Primakov. The deputy prime minister in charge of the economy in Primakov's government was a Communist Party leader. Now that they were in power, Primakov and his government had to pursue fiscally responsible policies, especially as no one would lend to the Russian government. So these "socialists" slashed government spending and reduced the state's role in the economy. In combination with currency devaluation, which reduced imports and spurred Russian exports, Russia's new fiscal austerity created the permissive conditions for real economic growth starting in 1999. And so began Russia's economic turnaround – before Putin came to power and well before autocracy began to take root.

First as prime minister and then as president, Putin stuck to the sound fiscal policies that Primakov had put in place. After competitive elections in December 1999, pro-reform forces in parliament even managed to pass the first balanced budget in post-Soviet Russian history. In cooperation with parliament, Putin's first government dusted off and put into place several liberal reforms drafted years earlier under Yeltsin, including a flat income tax of 13 percent, a new land code (making it possible to own commercial and residential land), a new legal code, a new regime to prevent money laundering, a new regime for currency liberalization, and a reduced tax on profits (from 35 percent to 24 percent).

Putin's real stroke of luck came in the form of rising world oil prices. Worldwide, prices began to climb in 1998, dipped again slightly from 2000 to 2002, and have continued to increase ever since, approaching \$100 a barrel. Economists debate what fraction of Russia's economic growth is directly attributable to rising commodity prices, but all agree that the effect is extremely large. Growing autocracy inside Russia obviously did not cause the rise in oil and gas prices. If anything, the causality runs in the opposite direction: increased energy revenues allowed for the return to autocracy. With so much money from oil windfalls in the Kremlin's coffers, Putin could crack



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down on or co-opt independent sources of political power; the Kremlin had less reason to fear the negative economic consequences of seizing a company like Yukos and had ample resources to buy off or repress opponents in the media and civil society.

IN THE ECONOMIC-GROWTH RACE IN THE DEVELOPING WORLD, AUTOCRACIES ARE BOTH THE HARES AND THE SNAILS, WHEREAS DEMOCRACIES ARE THE TORTOISES – SLOWER BUT STEADIER.

If there is any causal relationship between authoritarianism and economic growth in Russia, it is negative. Russia's more autocratic system in the last several years has produced more corruption and less secure property rights – which, as studies by the World Bank and the European Bank for Reconstruction and Development demonstrate, tend to hinder growth in the long run. Asset transfers have transformed a thriving private energy sector into one that is effectively state-dominated (private firms accounted for 90 percent of Russian oil production in 2004; they account for around 60 percent today) and less efficient. Renationalization has caused declines in the performance of formerly private companies, destroyed value in Russia's most profitable companies, and slowed investment, both foreign and domestic. Before Khodorkovsky's arrest, Yukos was Russia's most successful and transparent company, with a market value of \$100 billion in today's terms. The redistribution of Yukos' properties not only reduced the value of these assets by billions of dollars but also dramatically slowed the company's oil production. Sibneft's value and production levels have experienced similar falls since the company became part of Gazprom. Meanwhile, companies, such as Gazprom, that have remained under state control since independence continue to perform below market expectations, with their management driven as much by political objectives as by profit maximization.

Perhaps the most telling evidence that Putin's autocracy has hurt rather than helped Russia's economy is provided by regional comparisons. Strikingly, even with Russia's tremendous energy resources, growth rates under Putin have been below the post-Soviet average. In 2000, the year Putin was elected president, Russia had the second-fastest-growing economy in the post-Soviet region, behind only gas-rich Turkmenistan. By 2005, however, Russia had fallen to 13th in the region, outpacing only Ukraine and Kyrgyzstan, both of which were recovering from "color revolutions." Between 1999 and 2006, Russia ranked ninth out of the 15 post-Soviet countries in terms of average

growth. Similarly, investment in Russia, at 18 percent of GDP, although stronger today than ever before, is well below the average for democracies in the region.

One can only wonder how fast Russia would have grown with a more democratic system. The strengthening of institutions of accountability – a real opposition party, genuinely independent media, a court system not beholden to Kremlin control – would have helped tame corruption and secure property rights and would thereby have encouraged more investment and growth. The Russian economy is doing well today, but it is doing well in spite of, not because of, autocracy...

Kremlin officials and their public-relations operatives frequently evoke China as a model: a seemingly modernizing autocracy that has delivered an annual growth rate over ten percent for three decades. China is also an undisputed global power, another attribute that Russian leaders admire and want to emulate. If China is supposed to be Exhibit A in the case for a new model of successful authoritarianism, the Kremlin wants to make Russia Exhibit B.

Identifying China as a model – instead of the United States, Germany, or even Portugal – already sets the development bar much lower than it was just a decade ago. China remains an agrarian-based economy with per capita GDP below \$2,000 (about a third of Russia's and a 15th of Germany's). But the China analogy is also problematic because sustained high growth under autocracy is the exception, not the rule, around the world. For every China, there is an autocratic developmental disaster such as the Democratic Republic of the Congo; for every authoritarian success such as Singapore, there is a resounding failure such as Myanmar; for every South Korea, a North Korea. In the economic-growth race in the developing world, autocracies are both the hares and the snails, whereas democracies are the tortoises – slower but steadier. On average, autocracies and democracies in the developing world have grown at the same rate for the last several decades.... ■

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