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Can Russia be modernized?

Problems, causes, opportunities

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Plans to modernize Russia's economy are resisted by bureaucracies benefiting from the country's status as natural resource appendage of the developed world. That dependency on energy exports hinders political and economic progress is certain: but is high-tech the solution?

The debate on modernisation taking place in contemporary Russia at times puzzles western researchers, accustomed to a strict understanding of the term. Indeed, they may also consider Russia to be a country in which problems related to traditional industrialisation were resolved decades ago. Yet the issue of modernisation is very real and, in this short article, I will attempt to analyse it and ask whether it can be resolved in the immediately foreseeable future.

What does modernisation mean for contemporary Russia?

In my view, modernisation can be interpreted in two ways. On the one hand, it is understood as a purely economic and technological process, with the aim of achieving competitiveness at the global level. On the other hand, modernisation can refer to a development of social and political institutions that brings a given society closer to the ideal model represented by developed western democracies. The suggestiveness of the term can lead to inconsistencies in its use and it can be tempting to speak of modernisation, in the primary sense of the word, as industrialisation and, in a secondary



sense, as liberalisation. It seems to me that this approach is mistaken: first, because in today's world economic modernisation cannot be reduced to industrialisation alone and, second, because a consolidation of institutions is not always a foundation for liberalism. For example, the contemporary Russian economy is far more "liberal" than the quasi-socialist economies of Europe. In this way we risk getting bogged down in the usual arguments about terminology that fail to lead to any real increase in knowledge.

I prefer to talk about modernisation as, essentially, an economic process that leads to a modern, self-regulating economy capable of stable self-development. At the same time, the building up of an economy requires a serious, consolidated effort from both society and the state, directed at dismantling previous economic structures, opening up the country to the outside world and re-orientating social consciousness from traditional values and ideals drawn from the past, towards the future. In this particular context, I would say that the criterion for the success of modernisation is the absence of any need for new modernisations. [1] If modernisation is successful, in the relatively short term historically speaking (from 50 to 100 years or more), a country experiences no need for new mobilisation. The most important effects of economic modernisation are: a higher standard of living for the population; the appearance of a competitive industry that produces consumer goods and industrial equipment; the inclusion of the country in world trade as a supplier of these goods; the appearance of stable demand for home-produced technologies and the gradual release of these technologies onto the global market. At the institutional level, modernisation leads directly to the strengthening of judicial power. It gives a spur to business, consolidates private institutions, and liberalises investment within the country for local as well as foreign investors.

Successful economic modernisation creates the preconditions for a process of westernisation - in the sense of the term used by Theodore von Laue and Serge Latouche. [2] We are talking here about accepting western norms and institutions (I am consciously not speaking of "values" since I am convinced that they play a far smaller role than social norms [3]), the formation of a democratic political system, the accountability of the authorities to the voters, the guarantee of free speech and access to information, and a number of other features of western societies. I emphasise the notion of "westernisation" because practical development in a whole range of societies shows that, up to a point, successful modernisation need not be accompanied by the acceptance of western norms (although today, in



current circumstances, we cannot know for how long). That is why I believe that modernisation and westernisation are mutually complementary but not identical processes.

The connection between them is described – in somewhat unusual terms – in a well-known book by Fareed Zakaria, who says that “liberal autocracy” is an ideal basis for the development of a fully liberal society receptive to western values. [4] Zakaria also believes that the preconditions for a passage from the first to the second are conditional upon the achievement of a particular standard of living, in which the demands of a democracy become insuperable. I support this approach and consider the modernisation of Russia to be the most important precondition for its subsequent westernisation. That is why I would argue today for the most vigorous economic modernisation of the country.

Let me note that, in relation to Russia, Zakaria’s logic applies even more than in relation to other countries. Regrettably, the history of the Soviet Union and Russia is such that periods of democracy coincided with periods of deep economic crisis (as in 1917 and later in 1990-1998). There can be no doubt that the causes of these economic crises had nothing to do with the spread of any kind of democratisation; nevertheless, in the public mind today democracy is firmly associated with chaos. In a country such as Russia, modernisation should undoubtedly precede westernisation (the exception might be a simultaneous, hard-line imposition of western norms – that could occur if Russia were to join the EU – and the loss by Russia of some of its sovereign rights, which seems unlikely at present). Apart from historical factors, one should also bear in mind that at present a redistributive economy dominates in Russia and that, in this context, over 60 per cent of the budget is drawn from revenues linked to mining and the export of raw materials; furthermore, about 48 per cent of budget revenues come not in the form of taxes but in the form of customs duties. In these conditions, the authorities “feed up” the citizens of Russia at the expense of individual sectors and companies in which a small majority of people are employed. This largely explains the social passivity of the population. Until Russians begin to produce their own national assets, rather than pump them out of the earth, there will be no basis in the country for the formation of a western-style society. After all, for centuries, westernised society was a community of producers, before becoming a “consumer society”.

All this underscores the fact that the fundamental issue for contemporary



Russia should be an economic and technological modernisation that would turn the country into a major industrial power. Economies primarily orientated towards the natural resource sector are not liberal (although liberal economies which have acquired access to large resources of raw materials do not cease to be liberal). There are many examples that confirm this and that is why, if Russia aspires to become a liberal western country, it should be an industrial economy. New modernisation could resolve this issue.

Before comparing the current modernisation of Russia with various modernisations undertaken in the past, I would like to make a remark concerning the relationship between industrialisation and technological development. The programme of modernisation proposed by Dmitri Medvedev is based on the idea of accelerated technological development in the areas of information and communication technologies, nuclear energy, and space research. In my view, it would be impossible for Russia to make the transition from a “raw materials economy” to a “knowledge economy” for a number of reasons. First, the country is short of scientific and technological experts who could substantively develop new directions in technology. Second, the higher education system is being swiftly destroyed, and young specialists are leaving the country at a growing rate. Third, industry is not producing demand for new technologies, and rejects them because of the high level of monopolisation in most sectors. Fourth, it is perfectly clear that, even in the USA, the export of patents and rights to intellectual property in fact makes up a small proportion of total exports (most export depends on industrial goods). In Russia, this proportion is even smaller and, consequently, the development of a “knowledge economy” is unlikely to drive Russian modernisation. Economic research conducted by the World Bank in recent years shows, moreover, that countries that *apply* the newest technologies demonstrate faster levels of growth than those that *invent* them. [5] Lastly, practice shows that there is increasingly tough competition in the sphere of high-level technology worldwide: prices for high-tech goods fall swiftly, soon after they have been made widely available on the market. The Russian economy in its present form can develop only in conditions of constant growth in expenditure and prices. [6] All this gives reason to suppose that, in contemporary Russia, modernisation can only be industrial.

Today’s modernisation and previous attempts at

development

This point of view is gradually working its way into Russia, although many authors, both in Russia and abroad, are expressing doubts about the necessity for “new industrialisation”. Their objections can generally be reduced to two main categories of argument.

On the one hand, it is said that Russia is already a country with a relatively high standard of living and high incomes, which is why it would be inappropriate to apply the classical method of industrialisation based, in most cases, on the use of cheap labour. Supporters of this view generally support those who advocate a “great leap forward” from a raw material economy into a post-industrial economy.

Others, on the other hand, draw attention to the fact that, in the 1930s, the Soviet Union had already built up a powerful industrial base and that, in the 1950s and 1960s, it became a leading force in world technology. The period of industrial development has therefore passed, they say: the right thing now would be to focus on resolving more long-term issues. This position strengthens and consolidates support for the development of a “knowledge economy”.

I would consider the basic counter-argument to be that industrialisation and the development of scientific and technical progress in the Soviet Union took place without any adjustments in market legislation and without taking account of notions of competitiveness. The USSR remained a very closed economy (even in the years directly preceding its collapse, export represented no more than 4 per cent of GDP, 58 per cent of which was directed at socialist countries where there was no visible competition to Soviet goods). Its industrial production was characterised first by extremely poor quality and high energy intensity, and second by almost total lack of development (except in cases when this development was absolutely necessary, as in the military sphere). Yes, the Soviet Union was an industrial power, and its economy was the second in the world; but if one compares the presence of Chinese goods on the global market in the early 2000s with the presence there of Soviet goods at the beginning of the 1980s, the “price” of Soviet industrialisation becomes instantly clear. The specific feature of the time was that the Soviet Union existed as an industrial power, but was not globally recognised as such.



For this reason, the first attempt to “reverse the economy and face the public” – known, in the perestroika era, as acceleration and conversion – destroyed Soviet industry as it had been and failed to create any other. Instead of offering the world a competitive industry, Russia transformed itself into the natural resource appendage of the developed world. If, in 1990, fossil fuels constituted 37.5 per cent of export, then in the mid-1990s this rose to 48 per cent and in 2008 to 65.3 per cent. Industrialisation, intended to capture the real market, proved too complex for Russian industrialists and was *de facto* rejected for this reason. To this day, Russia has come nowhere near RSFSR indicators of the Soviet period on the production of manufactured goods: between 1985 and 2009, the production in Russia of mineral fertilisers, paper, steel, cement and passenger cars fell 1.21, 1.28, 1.49, 1.78, and 1.95 times respectively, while trucks, tractors, clocks and cameras fell 6 times, 34.91 times, and 600 (!) times over. [7] Never mind the fact that the country does not produce mobile telephones or equipment for the development of satellite communication; that only crude computer assembly is available; or that there is no production of most forms of office and copying equipment or of home audio-, photo- and video-appliances, as well as more complex home appliances. In all these sectors, reliance on import currently constitutes at least 90 per cent.

Mikhail Gorbachev once said that building “socialism with a human face” was the main objective of perestroika. Today, in my view, we should be thinking about “industrialisation with a human face”. It should not focus on heavy industry and contribute to a closing of the economy, as it did once. It should not, and cannot, be “brutal”. The objective of “new industrialisation” in Russia should be to secure the creation of new industrial sectors oriented towards the end-user, and to involve these sectors in a global division of labour as well as the gradual transformation of Russia into a state known not just as the largest oil-producer but as a significant exporter of industrial goods. Japan and China forced the West to consider the long-term future of the global geo-political game not when they undertook space exploration or nuclear testing, but when the shelves of American shops became filled with goods marked “made in Japan” or “made in China”. If Russia wants a place in the economy of the twenty-first century, the label “made in Russia” must be known to consumers in all continents.

The new industrialisation of Russia should take account of existing niches in the global economy and use the natural competitive advantages of the country (in the first place its rich and cheap natural resources). Its most



important characteristic should not be an orientation towards import substituting but towards export promoting. It is quite right to say, as some theoreticians do, that industrialisation based on import substitution not only fails to respond to contemporary issues, but has never achieved the ends it set for itself. [8] That is why, if Russian modernisation in the twenty-first century is to be successful, it should not reproduce the models of previous attempts at modernisation.

The conditions of a successful modernisation of the country could be: elevated ratios of capital accumulation; a sharp, state-regulated decrease in the profitability of the natural resource sector, in favour of raising the attractiveness of the industrial sector to investors; the introduction of European standards and technical requirements; the improvement of the investment climate through a sharp decrease of the role and scale of bureaucratic regulation; and, finally, a gradual departure from nepotism in human resources recruitment, and a transition to meritocracy. Russia can begin progressive development only when companies that have strengthened their positions in the course of the “new industrialisation” play a fundamental role in defining the country’s political and economic course, instead of representatives of natural monopolies.

The “discussion” on modernisation: Who is for, who is against?

As a rule, dramatic historical turnabouts are not only accompanied by political struggle but preceded by intense intellectual ferment. From the French Revolution to the October Revolution and Gorbachev’s *perestroika*, this law has virtually never been broken. Taking into account the effect of historical transformation on people’s personal lives, it is not surprising that, when a society encounters major change, it can sometimes split into two irreconcilably opposing camps. Confrontation between these camps can indeed crystallise plans for reform.

Nothing of the sort is happening in contemporary Russia. The modernisation announced by President Medvedev was received with an unconcealed lack of enthusiasm. No one expressed opposition to the proposed plan or the priorities outlined in it. Most of those who eagerly welcomed plans for modernisation play no part in the real business that would transform Russian economics and politics. On the one hand, this is explicable: modernisation,



as presented by the Russian head of state, is acceptable to all – even “Great Russian chauvinists” raise no objection to the notion that the Russia state should be stronger and technologically more progressive. Similarly political forces, including even United Russia – most of whose members are known only for their uncontrollable squandering of public funds – have not rejected the idea of modernisation, even though they were recently showing enthusiastic support for the creation of “an energy superpower” on the basis of “sovereign democracy”. Medvedev recognises this situation but apparently sees nothing unusual in it. In September 2010, he met a group of Russian and foreign political experts in Yaroslavl. In response to a question on whether it would not be a good idea to create a powerful social movement to support modernisation, he responded in the negative, justifying his view as follows: “At any rate, no one has ever looked me in the eye and said: ‘We are against modernisation, let us preserve everything as it was, we were developing in absolutely the right way. Everything is fine here. Don’t touch it. God forbid that you should spoil or destroy anything!’” [9] This is clearly a case of concept substitution: if no one is speaking out against something, it does not mean that everyone is speaking out in favour of it. An absence of critique should not be understood as a sign of support.

In my view, all this points to an extreme danger facing the agenda for modernisation in Russia. The most serious threat emerges from three, clearly definable theoretical postulates.

First, there is the position set out by President Medvedev. Today, modernisation in Russia is inconvenient for a great many people. It is unacceptable to representatives of the oligarchy that controls natural resources, because only cuts in its fabled profits can secure resources for the modernisation of the country. It threatens bureaucrats and *siloviki*, who have grown fat on the lawlessness of entrepreneurs and ordinary citizens – while modernisation is called to liberate economic initiative. It is inconvenient to the ruling party, United Russia, because it demands a principle of selection and allocation of personnel other than the criterion of closeness to its lifelong, venerated leader. It may be catastrophic for the biggest quasi-governmental enterprises, hiding their own ineffectiveness beneath pseudo-modernising rhetoric. The groups of those genuinely interested in modernisation are both far weaker and less numerous. This should be no surprise: reforms always were begun by minorities. That is why the increasing effort to ensure that no one is offended by modernisation could wholly dilute the content of the policy. Until society becomes polarised



on the basis of its attitude to modernisation, one can say that modernisation has not yet begun.

Second, the thesis that “there is no alternative to modernisation in contemporary Russia” is widespread in the country. This idea permeates the work of most scholars who regard themselves as specialists in modernisation. [10] Such a position is very dangerous, however. It is by no means clear that modernisation will be a success – but the well-rooted view that it cannot be unsuccessful or fail is almost certain to be translated into the assertion that, “on the whole”, modernisation has been successful, and that for the immediate future the issue can be taken off the agenda. This kind of concept substitution is very widespread in contemporary Russia. We have witnessed numerous failed administrative reforms that the authorities later instructed citizens to consider successful: the reform of the army, which most experts regard as disastrous, but which is welcomed in every conceivable way from above; innovations in education, which are viewed in diametrically opposed way by specialists and by the authorities. That is why, while agreeing with the statement that “there is no alternative to modernisation”, its adherents, supported by the authorities, are creating preconditions for it to be quickly reduced to nothing.

Third, constantly identifying modernisation with technological innovation is having a disastrously negative effect on the discussion. As already mentioned, there is no confirmation of the hypothesis about faster or more successful economic growth of states that have opted for innovation. What is more, a ruined scientific and manufacturing base in Russia gives no reason to hope for the success of a broad development programme in the innovation sector. Meanwhile, an artificial downplaying of innovation and an increased emphasis on information and communication technology leads, objectively speaking, to a reduction in the proportion of those who, with a full awareness of their mission, will become the “foremen of modernisation”. In the 1960s, impoverished Koreans who made their way into cities became the moving force behind Korea’s industrial revolution. In the late 1970s and early 1980s, Chinese peasants became the “engine” that powered market reforms. It is enough to recall this to understand that the social base of modernisation should be as broad as possible and not confined to groups of pallid, “egghead” programmers and bloggers, stuck in front of their monitors.

When assessing the state of discussions on modernisation in contemporary



Russia, one can identify at least four important points. Modernisation is not perceived as a radical change of the social and economic paradigm. That is why it is not an issue likely to provoke a social conflict that could serve the cause of development. Modernisation is being shrewdly represented as a private project – either pertaining to the industrial sector (offering five directions of modernisation) or to innovation that would touch the lives and interests of only part of the population. Modernisation is viewed as inevitable – and this means that it does not require any in depth debate. Lastly, almost four years after its “launch”, modernisation has no qualitative and quantitative aims, or points of orientation, and no criteria reflecting the degree of its progress.

I would therefore risk saying that there is no significant discussion on issues of modernisation in contemporary Russia. There are groups of experts who are hastily finishing off the vacuous “Strategy 2020” adopted by Vladimir Putin on the eve of the economic crisis. There are also alternative centres that sometimes suggest quite radical and, on the whole, justified prescriptions for reform. These positions are announced but not released into the public domain. There has been no directive from the authorities – including President Medvedev – calling for any kind of serious, in depth examination of the current state of the Russian economy or prospects for its development. Hence my scepticism with regard to whether Russia is capable of independently working out a programme of modernisation, and then implementing it. My response to this question is a categorical “no”.

What chances of success?

Consequently, my response to the basic question “does Russian modernisation have any chance of success?” is negative. The reason for this lies not in the curse of Russian history, the archaic quality of Russian culture, the oppression of the people, the vicissitudes of the climate, or an excess of natural resources. It is enough to look at Russians who have managed to move abroad to understand that, as a rule, our compatriots are no less capable of creative self-fulfilment in business or science than Americans or Europeans. In the 1990s, Russians showed no less ingenuity than in the darkest years of the twentieth century. They stood their ground during trials comparable to experiences in wartime. They reassessed their previous values and adopted new ideas. This is a nation capable of innovation and entrepreneurship like no other. The problem with Russia lies not in its



people, but in the authorities, their objectives and aims.

Today, Russia's corridors of power are filled with entrepreneurs who have ended up in offices, as bureaucrats. The objective the authorities set themselves is to earn enough for a comfortable life, ideally outside the borders of their own country. This fact alone significantly curtails any chance of modernisation, since it provokes a massive conflict of intent that did not exist (or virtually did not exist) in most countries that have modernised successfully and where politics was clearly separated from business. An additional problem is connected to the fact that the interests of most political leaders, ministers and deputies are bound up with the natural resource business, or with the distribution of budget funds drawn from the same sector. All this means that the authorities cannot have an interest in a modernisation that, quite objectively, represents departure from dependence on natural resources. This outweighs all the support that might be expressed for modernisation.

No less important is the fact that the Putin regime has created a completely new society, in which collective action is deemed valueless. It is far simpler for people to "resolve their issues" with the state individually, rather than try to reform the existing system. Furthermore, Russian society is far freer than in Soviet times, and people have the opportunity to avoid any "close encounter" with the state, either by withdrawing into private life, "fulfilling" themselves in social networks or simply leaving the country. This is an entirely new phenomenon - a free society in a country run by an authoritarian regime [11] - and it presupposes the impossibility of destroying the established system "from below", since the potential for protest has been largely lost.

Finally, one cannot ignore the purely economic aspects of the situation. Russian industry was largely privatised in the 1990s and today business owners are not interested in innovation since, to all intents and purposes, they have access to free sources of funding for production. Suffice to say that the production of one basic commodity - nickel - by one of Russia's biggest companies, the mining and metallurgical company Norilsk nickel, costs nothing at all, since all business expenses are covered by sales of platinum group metals, as by-products. This is true not only of this particular company, but others as well. In this situation, can one expect high-flying Russian industrialists to invest in their production to increase competitiveness? The economy is also crushed by monopolies, and the state



panders to this state of things. Thus, in 2006, the Federal Anti-Monopoly Service agreed to the formation of a huge aluminium producer – the United Company Rusal. The only condition was the demand that the new company should not sell its product in Russia at prices by more than 5 per cent over the daily fixing on the London Metal Exchange. All this shows that Russia lacks the preconditions for two key elements in modernisation: the development of competition and investment in competitive growth. These have been eliminated by the very regime that rules the country today.

Does this mean that Russia is doomed? Not in my view. President Medvedev's great achievement has been the fact that he has put ambitious aims before a reasonably free country, a country in essence different from the Soviet Union. This is true irrespective of the ultimate fate awaiting the initiative. The failure of the attempt at modernisation will undoubtedly provoke a re-examination of its causes and possible consequences – and the theory and practice of new, more successful modernisations will be formed along the way. Yes, an alternative to modernisation in Russia does exist: that the country retains its stagnant position of a “natural resource appendage”, initially to Europe and then, once the continent has developed more ecologically sound energy sources, to China. The slow decline of the economy and of society could go on for decades – especially if it is softened by substantial earnings in the export sector. In this scenario, my optimism would be founded only on the fact that most countries that have implemented successful modernisations were far poorer, less developed and more isolated from the global division of labour than Russia. Since their attempts at modernisation have not infrequently been successful, then indeed in this area nothing is impossible – which means that, in time, success will also come to Russia.

But when? That may be the most important question today, and everyone is waiting for the answer. I fear that this answer may not be chronologically definable – although one basic condition of a start to successful modernisation can be identified quite easily. History shows that all countries that have modernised aspired above all to leave the past behind as they did so. Korea sought to forget the horrors of civil war; Malaysia – its position as a natural resource appendage to Britain. Brazil aspired to put an end to the agrarian economy and to forget the years of military dictatorship; China – to overcome the heritage of the “cultural revolution” and decades of hunger and poverty. In this context, Russia's problem lies in the fact that it is showing no allergic reaction to the past – and the current authorities are



doing everything to ensure that none develops. But the more the Soviet period is celebrated, the more harshly the 1990s are stigmatised, and the more actively anti-American or anti-western views are advocated, the less chance there is for modernisation. Innovation can be introduced only if looking back imbues fear. That is why the real modernisation of Russia will begin when the country is on the brink of collapse and the Putin era is seen merely as a time when the country was exposed to greater larceny than at any period in the last few hundred years. For better or worse, it is unlikely to take place in the coming decade.

Footnotes

1. See Inozemtsev, Vladislav, "Dilemmas of Russia's Modernization" in: Krastev, Ivan; Leonard, Mark and Wilson, Andrew (eds.), *What does Russia Think?* London: ECRF, 2009, 46-47; Inozemtsev, Vladislav, "Istoria i uroki rossiiskikh modernizatsiy" (The history and lessons of Russian modernisations) in *Rossia i sovremennyi mir*, No 2 [67], April-June 2010, 6-11.
2. See von Laue, Theodore H., *The World Revolution of Westernization. The Twentieth Century in Global Perspective*, Oxford, New York: Oxford University Press, 1987; Latouche, Serge, *The Westernization of the World*, Cambridge: Polity, 1996.
3. For details see: Inozemtsev, Vladislav, "O tsennostiakh i normakh" ("On values and norms") in: *Nezavisimaia gazeta*, 2010, 5 March, 3.
4. See: Zakaria, Fareed, *The Future of Freedom. Illiberal Democracy at Home and Abroad*, New York, London: W.W.Norton & Co., 2003.
5. See: Malkin, Vadim, "Vysokotekhnologicheskaia lovushka: zachem Rossii innovatsii" ("The high-tech trap: does Russia need innovation?") in: *Vedomosti*, 2010, 17 November, 6.
6. See: Inozemtsev, Vladislav, "Izderzhavshaiasia strana" ("Expended country") in *Vedomosti*, 2010, 31 May, 6; and Inozemtsev, Vladislav, "Prichiny sverkhtraskhodov" ("The causes of excess expenditure") in *Vedomosti*, 2010, 1 June, p. 4.
7. See: Inozemtsev, Vladislav, "Nineteen Eighty-Five" in: *Russia in Global Affairs*, vol. 8, no 4, October-December 2010, 8-21.
8. Bhagwati, Jagdish, *In Defense of Globalization: How the New World Economy Is Helping Rich and Poor Alike*, Oxford, New York: Oxford University Press, 2004.
9. Quoted on: www.kremlin.ru/news/8882.
10. For a detailed evaluation of relevant literature see: Diskin, Iosif, *Krizis...I vse zhe modernizatsiia!* (Crisis... Yet it's still modernisation!), Moscow,



"Evropa" Publishing House, 2009, 7-16.

11. See: Inozemtsev, Vladislav: "Russie, une société libre sous contrôle autoritaire" ("Russia -- a free society under authoritarian control"), *Le Monde diplomatique*, 10/2010, 4-5.