

# Russia 2014



**Total: 40.32**

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## Quick facts

Population:	143.7 million
Unemployment rate:	5.11 %
GDP:	1857.46 billion \$
GDP growth rate:	0.62 %
GDP per capita:	12930 \$

## Economic Freedom

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### Security of Property Rights : 5.12

Private property is not well secured in the Russian Federation, yet with a slow but positive trend over the last ten years. Judicial independence from the political factors, vested interest groups and the executive power is low, which leaves room for their strong influence in the arbitration of justice. Courts are not impartial, and their decisions in similar cases differ giving better position to the party involved who has better political connections. Reliability of the police is also very low. Private property can be seized by the state with little if any compensation. Cost of businesses incurred by crime activities are still high, although at a lower level than in previous years. A much bigger problem arises from extortions committed by state officials. However, legal enforcement of contracts is a good side of the overall legal system: although characterised by many lengthy procedures, it incurs low costs compared to the value of the claim. This also holds for insolvency matters. Restrictions on the possession of real estate and agriculture land especially are still present for foreign nationals.

### Size of Government: Expenditures, Taxes, and Enterprises : 7.36

Government consumption in the Russian Federation is lower compared to the EU or OECD average, reaching 38,4% of GDP in 2014, a 4 percentage points rise since the beginning of the crisis. GDP fell significantly in 2009 due to lower inflow of FDI and demand for Russian exports products, but the growth rates rebounded after the recession. However, low prices of energy

products coupled political tensions and international sanctions crippled economic growth leading to stagnation in 2014 with a more negative outlook for 2015. The taxation system uses flat rates, but with some progressive elements in determining the level of social contributions. Income tax is 13%, VAT 18% and corporate tax is 15.5 - 20% (due to possible regional tax deductions). Social contributions consistently stand at 30% of the gross wage paid by the employer, which coupled with personal income tax gives a tax wedge of 33%. The government is present in many sectors through state owned enterprises, and not only in those sectors that are legally considered of strategic importance such as public utilities, mining, energy and military equipment. Many of these companies enjoy large direct or indirect subsidies to maintain usually relatively inefficient operations.

## **Regulation of Credit, Labour, and Business : 5.19**

Business regulation is overall favourable to conducting business activities, however many problems arising from market regulations remain a serious obstacle to entrepreneurial activities. Administrative requirements for conducting daily business activities are high and associated with substantial bureaucracy costs. This environment is suitable for the flourishing of corruptive activities and partial approach by state officials towards business entities. Obtaining a construction permit is not only a lengthy but also an expensive process, involving many procedures prone to corruption. The costs of getting access to the electricity grid are very high. However, licensing restriction although present are not prevalent, and tax compliance costs are not exuberant. Such starting a business is both easy and inexpensive. Labour regulations are mostly flexible, especially in regard to working hours, with low redundancy costs, not increasing with the numbers of years in tenure. Firing regulations are complicated due to obligatory third party notifications. Centralized collective bargaining are mostly concerning public sector employees, while the minimum wage is low compared to international standards, set at approximately 20% of the average wage. However, this can prove to be high in more remote and underdeveloped regions of the country. Military conscription, although reduced to 12 months, remains obligatory.

## **Freedom to Trade Internationally : 7.46**

Free international trade is not among the top priorities of Russian policy makers. Although some trade liberalization took place after joining the World Trade Organization (WTO) in 2012, tariffs on imported goods remain high. These protectionist measures serve as an instrument of economic policy (through the process of import substitution) as well as a political instrument in bilateral relations with other countries. Necessary documentation procedures for international trade are complicated, especially in the field of standardization requirements which serve as non-tariff barriers. The Russian Federation has been experiencing surplus in trade due to the high energy export (oil and natural gas) with symptoms of the Dutch disease, with an artificially strong currency discouraging Russian exports. The Rouble has weakened substantially due to capital outflows, low oil prices and international sanctions that were introduced due to Russia's role in the ongoing war in East-Ukraine. Russian counter sanctions banning imports of foodstuffs from countries involved took a toll on its international exchange, hurting European producers as well as domestic consumers because of increased food prices.

## **Rule of Law**

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## **Independence of the Judiciary : 3.08**

Since the conflict in Ukraine and the Annexation of Crimea highest political (e.g. former President Medvedev) and religious authorities in Russia openly reject the concept of the rule of law, labeling it as an “alien”, while promoting the less clear concept of (for example historical) “justice”. The widespread distrust for the rule of law among elites affects among other areas also the separation of powers. Like most other state institutions, the judiciary in Russia lacks independence from the executive. Mechanisms of protecting judiciary are weak, while career advancement of many judges depends to a large degree on their compliance with the wishes of the executive.

Dependence is most visible in politically sensitive cases, such as Mikhail Khodorkovsky`s in the past or Alexei Navalny`s recently. In the latter, the same charges were first put, then withdrawn for obvious reasons of political expediency and then put again after a few weeks time, when Navalny finally got a suspended sentence. Alas, his brother was sentenced to jail and de facto held as a hostage. The number of jury trials (versus those led by a single judge) shrank due to the recent changes in legislation. That has affected the fairness of trials in many serious cases, most notably those of terrorism. The independence of commercial arbitration courts, demonstrated numerous times in the past, has been slightly narrowed since 2013, due to their partial merger with the courts of general jurisdiction. Yet other than expected the practices of the commercial arbitration courts stay mostly still intact. In prisons, living conditions are poor. To it, illegal detentions and torture to extract information or confessions are widespread, not least in cases of terrorism. Medical services are sometimes denied to prisoners. During 2013, a degree of autonomy from the legislative branch of power was demonstrated by the Constitutional Court, which overturned several anti-democratic laws. If accepted, those laws would have had restricted voting, their candidacy, or election monitoring rights or put additional obstacles to the anyway near-extinct right to anti-government street demonstrations.

## **Corruption : 2.8**

Transparency International`s Corruption Perception Index 2013 ranked Russia as 127 of 177 countries of the world, with the (stagnation) score of 28. Global Corruption Barometer 2013 showed that the most corrupt were politicians (according to 92% of respondents), police (89%) and judiciary (84%). Freedom House finds that “corruption in the government and business world is pervasive, and a growing lack of accountability enables bureaucrats to act with impunity”. Liberal opposition activists go even further, claiming that institutions of market economy built during the immediate post-Soviet times are entirely replaced by specific „institutions“ of oligarchy and corruption. Anti-corruption campaigns occasionally launched by the government are superficial, mainly driven by redistribution of fiefdoms or marketing needs to the electorate. Similar to Soviet times, such campaigns merely reflect internal conflicts, tensions or dilemmas within the regime, rather than being a result of discoveries by independent investigation bodies. For instance, a huge corruption scandal had been opened in late 2012 in the Ministry of Defense. It led to the resignation and replacement of the Minister. But in the end, in 2014, a presidential decree of amnesty was granted to the main suspect.

## **Protection of Human Rights : 3.48**

Regarding to the protection of human rights, Russia is a very bad place. The situation has been deteriorating dramatically over recent years. One after another relevant constitutional provisions lost their meaning and impact. The government increases its grip on the economy (creating a

corporate petro-state with ever less independent financial resources and less opportunities for civil society or dissenting individuals to survive by their own means and live in their own ways). Parallel to that, anti-Westernism, religious conservatism and imperial nationalism are becoming the thin ideologies accepted in the public sphere. Associations, events, publications, media products or even lifestyles which “offend religious feelings” or otherwise challenge the ruling ideologies are restricted, while independent NGO activists, artists or journalists are arrested, intimidated or worse. Xenophobia, openly declared refusal of European (“Western”) liberal values and hostility towards anybody representing or defending those values seem official policy. Hereupon, serious restrictions are put on the activities of most foreign-based NGOs and to their ties with Russian counterparts: since 2013, a law has gone into effect stipulating draconian auditing rules for the local NGOs financed from abroad. Although academic freedom is generally still respected, the pressure in some social science fields (e.g. history) is growing and official ideology is politicising them. Next to the dominant Russian Orthodox Church “Non-traditional” religious groups are harassed by regional or local authorities. Trade union rights are legally protected and by and large respected, not surprising considering their top-down organization coming from Soviet times. Due to the legislation which bans “propaganda of non-traditional sexual relationships”, Gay Pride marches are not allowed. Other activities of LGBT organizations (panels, books, periodicals, access to media) are severely restricted. Ethnic minorities originating from Caucasus and Central Asia experience open racism and a lack of protection from state organs. Present restrictions to the movement of people within the country and choosing the place of residence (internal passports, the vicious circle of work and residence permits) are misused by local authorities and police to intimidate and discriminate people, especially “visible minorities”. Protection of those groups from racist attacks is inadequate. In 2013, President Putin carried a few measures to put obstacles to such discrimination and harassment, by holding local authorities more accountable for inter-ethnic climate in their communities.

## Political Freedom

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### Free and Fair Elections : 1.43

Elections in Russia are neither free nor fair. Despite a legal framework that, on paper, provides for transparent elections, in practice the government controls access to media and prevents its critics from either registering or campaigning. The Bertelsmann Transformation Index labels the voting process as “generally free” but pinpoints severe problems in electoral fairness. In the 2011 Duma elections the ruling United Russia party gained roughly 49 per cent of the vote. This figure is likely inflated and independent observers reported electoral fraud. One of the greatest threats to Russian democracy is the lack of strong opposition parties, essential for a working democracy. Furthermore, the parliament itself plays a limited role in favour of a presidential “steered democracy”. President Putin has managed to secure a new term in office in elections that were widely seen as fair, but crucially lacked serious competition. There were still reports of malpractice, however, with the independent watchdog organization Golos estimating that as many as 15 per cent of votes were falsified.

## **Absence of Unconstitutional Veto Players : 2.5**

The presidential system of Vladimir Putin has largely replaced the old oligarchic elite of the Soviet and immediate post-Soviet eras. Many of the new elite comes from backgrounds in the secret services or military ("siloviki"). This new, influential group belongs to the president's inner circle and holds unmatched power. They do not answer to any parliamentary oversight, since the parliament itself plays largely figurative role in Russian politics. A growing number of private military contractors are used by oligarchs and state enterprises such as Gazprom. Although these are technically legal under the Russian constitution, they are too often used as secretive armies exempt from liability.

## **Freedom of Press : 1.9**

The press in Russia is not free. Over the last few years Russian governments, at the behest of President Putin, have infringed upon the few remaining liberties in Russian media. News has become a tool for the government to combat enemies of the state. Journalists who criticise politics face fictitious criminal charges, death threats or physical violence. The case of Alexei Navalny, a blogger turned politician convicted to five years in prison for politically-motivated charges, demonstrates the difficulties activists face in challenging corruption. International journalists critical of Russia's policies are frequently denied entrance to the country. The prominent North Caucasian journalist Akhmednabi Akhmednabiyev was shot dead in July 2013 after being named on a list of those critical of Russian law enforcement, with little effort made to arrest the perpetrators. The World Press Freedom Index concludes that Russia consists of "an increasingly determined civil society and an increasingly repressive state".