Economic Internationalization of Russia: Roots, Trends, and Scenarios

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Abstract. This article examines the background conditions, trends, and scenarios of Russian economic internationalization. In the context of globalization, Russia is stepping up efforts to re-establish itself as a regional and global power. Despite recent progress in domestic economic development, Russia's comparative ratings in major international surveys remain modest or low and many indicators of political rights and civil liberties in Russia demonstrate worsening trends. Russia still lags behind other countries on many of the criteria measuring economic freedom, market attractiveness, globalization, corruption, opacity, and competitiveness. The article explores the lessons for Russia in its political-economic transformation from "peer" countries such as Chile, China, and Venezuela. In exploring the driving forces of Russian economic internationalization, the article focuses on three alternative scenarios conceptualized as "Chilean," "Chinese," and "Venezuelan." Each of these scenarios reflects various traits that have commonalities with the Russian political-economic system, leadership, and situational characteristics in the international context. After examining the internal dynamics and external environmental factors pertaining to Russia, the article concludes that the most probable mid-range alternative for economic internationalization will resemble the Venezuelan scenario, with some elements of the Chinese model also evident.

Keywords: • Economic internationalization • Globalization • Integration • Russia

Introduction: Russia and the Challenges of Globalization

Since World War II, globalization and political-economic interdependence have become powerful forces on both national and international agendas. Countries experience globalization differently, depending on their diverse historical and cultural backgrounds, demographics, economic resources and development

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priorities, and current and emerging political-economic trends. In the aftermath of World War II, the global community split into rival camps led by two superpowers, the USA and the USSR. Throughout the 1950s to 1980s the world underwent a serious political-economic reconfiguration. Communism collapsed and Russia, the largest republic in the former USSR, began reinventing and redefining itself in the face of new domestic, regional, and global political-economic realities. Russia's post-Soviet demise as a superpower and its recent re-emergence as an important international energy supplier and political powerhouse places internationalization high on Russia's domestic strategic agenda and makes it a force to be reckoned with by international stakeholders.

The proliferation of democracy, a remarkable increase in international travel, and the free flow of cross-border information across the world since the late 20th century have affected Russia in a far-reaching way. Coupled with the political-economic transformation under Gorbachev, these trends have led to economic prosperity, while raising issues of accountability and responsibility among the governing political and business elites. The advent of the Internet and new communication technologies have facilitated revolutionary changes in the proliferation of information, making Russian national and geographic borders less relevant from a global perspective. Increasing popular access to information and the creation of fledgling democratic institutions have imposed additional demands for transparency and accountability on Russia's governing classes. In this context, an array of international indices and surveys have become powerful tools in shaping domestic public opinion, while also providing frameworks for comparative international analysis. This article sets Russia's recent path to political and economic internationalization in a comparative context using three countries that have essential similarities in their political and economic trajectories: Chile, China, and Venezuela. It begins with a necessarily brief overview of the historical trajectory of Russia's internationalization in order to set the context for considering present patterns. It then situates Russia's current performance on a range of international economic and democracy indices, comparing it with that of the three comparator countries. The following section develops the main characteristics of the political-economic model dominant in Chile, China, and Venezuela, respectively. The final section applies these models to the Russian case. The article concludes by drawing out a number of generalized points from the overall discussion.

The Evolution of Russia's Internationalization Trajectory

Throughout its history, the Russian nation has not experienced compelling reasons for internationalization through economic cooperation and trade. Its international involvement in the "far abroad" has been largely through military activities and political alliances in foreign affairs. Its engagement with the "near abroad" has often been built on tenets of central planning and "zero-sum" concepts. Compared to the most developed nations in neighboring Europe, Russia's political-economic modernization began relatively late. European influences spread to Russia during the reign of Peter the Great (1682–1725). After spending time in Europe, Peter introduced numerous western-style reforms in Russia. In particular, he encouraged the rise of private industry and the expansion of trade, subordinated the Russian Orthodox Church to the Tsar, reformed the entire governmental structure, and established the beginnings of a western-style education system (*Encyclopaedia Britannica*, 2005). However, his introduction of European customs generated resentments in society and spawned a rivalry between cosmopolitan "Westernizers" and nationalistic "Slavophiles" that remains to this day one of the key dynamics of current Russian social and political thought. Peter's expansionist policies were continued by Catherine the Great, who established Russia as a continental power, governed by a central monarchy, and undertook administrative reforms, concentrated great wealth and privilege in the hands of the Russian nobility.

Due to Napoleon's failure to conquer Russia in 1812 and in the context of a new continental order following the Congress of Vienna (1814–15), Russia, along with Austro-Hungary, was positioned to dominate the affairs of Eastern Europe for the next century. During the 19th century, the Russian government suppressed repeated attempts to reform from within. Russian cities began to expand, but without the industrial base, adequate transportation, and means of communication critical to the generation of employment. The second half of the 19th century witnessed a rapid industrialization of the Russian economy, expansion eastward to the Pacific, and the construction of the Trans-Siberian railroad that opened vast new frontiers to economic development (US Department of State, 2007c).

The Bolshevik Revolution (1917) that followed Russia's defeat in World War I imposed communism and made the country a dominant force in the creation of the USSR in 1922. Under the USSR, Russia advanced its political-economic, military, and ideological influence for more than seven decades. Under Josef Stalin's leadership (1928–53) Russia further strengthened its influence within the USSR, over its satellites in Eastern Europe, as well as in other parts of the world through support for indigenous communist and nationalistic movements. A period of dynamic economic growth based on heavy industry in the immediate post-World War II period was replaced by stagnation in the following decades until Gorbachev's (1985–91) reforms. Gorbachev attempted to revive the economy and society by modernizing communism, and in the process he inadvertently released forces that led to his removal from power in 1991 and the eventual demise of the USSR. Since 1991, Russia has been transitioning away from communism by seeking to build a democratic political system and market economy (GlobalEdge, 2007b; Library of Congress, 2005). Although Russia has been relatively successful of late in its market transition, bankrolled by high world prices for oil and gas, its political system during the second term of the Putin presidency has increasingly drifted toward political authoritarianism, government capitalism, and limited representative democracy. These trends have led to Russia's political system often being described as a "managed democracy" (Kagarlitsky, 2005).

A high level of centralism in governance, strong statesmanship, authoritarian leadership, and an inward-looking orientation, along with traditional communitarianism have long been distinctive characteristics of the Russian political culture (Lewis, 2006; Zhuplev and Shein, 2005). The country's immense geographical size, harsh climate, and limited access to nonfreezing deep-sea ports and global waterways capable of supporting commerce have had constraining effects on trade with neighboring countries in Eastern and Western Europe and beyond. Unlike Europe, where the principle of separation of Church and state is recognized as fundamental in governance, the Eastern Orthodox Church, with its privileged position and influential cultural role, has been a crucial player in major aspects of the nation's political and economic life (Figes, 2002). The relationship between politically powerful figures (such as Putin as well as other key government figures) and the Russian Orthodox Church has become demonstrably close. Recent legislation on social, voluntary, and other nongovernmental organizations has placed extensive restrictions on the registration and operation of minority religions, further entrenching the influence and position of the Russian Orthodox Church. In addition, seven decades of communism in the USSR have deepened Russia's traditional self-centered orientation, self-reliance, and centralism in political thought and practical governance. These characteristics have also exacerbated nationalistic mistrust of foreigners, foreign products, ideas, and investment. There are multiple manifestations of cultural xenophobia toward foreigners and ethnic minorities (McFaul, 2007; Shlapentokh, 2006; US Department of State, 2006).

While Russia has demonstrated impressive economic progress since the late 1990s, recent years have witnessed a stark recentralization of political power under the Putin administration and an erosion of nascent democratic institutions. There are some clear signs of increasing economic self-sufficiency and assertiveness in foreign policy, and a return to patterns of political-economic dominance. These can be seen in Russia's pressure on the energy-dependent former Soviet republics in Eastern and Central Europe, and lately even Western European countries, based on Russia's newly emerging clout as an oil and gas supplier as well as a regional military power (McFaul, 2007; World Factbook, 2007b).

As Russian government revenues swell with taxes from oil and gas exports, its previous dependence on foreign aid, trade, expertise, and investment is weakening. The Kremlin continues to build what is known in the Russian political lexicon today as the "vertical of power" – a system of highly centralized governance with political-economic power concentrated in the federal government in Moscow and buttressed by the powerful security apparatus. The Russian federal government is regaining the levers of control lost in the turbulent 1990s under the Yeltsin presidency. In this context, there is a trend toward a renationalization of major "strategic" industries (oil, gas, and weapons production) and a concerted political effort to limit the influence of foreign firms in the Russian economy. Some recent examples include pushing Anglo-Dutch Shell, US-based Exxon, UK-based BP, French-based Total, and the other world energy majors out of the earlier multibillion-dollar oil-development deal in Sakhalin on a "volunteer" basis (Cummins and Chazan, 2006); refusal to sign the European Energy Charter Treaty; and punitive, politically motivated, economic and trade sanctions against Ukraine, Georgia, Moldova, and other former USSR neighbors in the "near abroad." Quite symptomatic in this context is the latest federal legislation that qualifies 40 industries in Russia as "strategic" and thus out of reach for foreign investment and other forms of strategic control by foreign entities in various ways, including their screening by the Russian Federal Security Service (Champion, 2006; Rambler Media, 2007).

Russia and International Economic and Democratic Indices

Reviewing Russia's key comparative international rankings gives a better understanding of its current standing, trends, patterns of governance, and future political-economic outlook in the world than information from Russian-based sources. In this section, international ratings of Russia's economic and political standing will be reviewed using indices developed by Freedom House, the Heritage Foundation, Michigan State University, and A.T. Kearney. The Russian indicators are compared with those for Chile, China, and Venezuela.

The Freedom in the World Survey

Since 1972, Freedom House has been publishing its Freedom in the World ranking, an annual assessment of the state of freedom in countries. Individual countries are evaluated on the basis of political rights and civil liberties that are derived in large measure from the criteria laid out in the Universal Declaration of Human Rights. The numerical ratings are based on a scale of one to seven (one indicating the highest level of democratic progress and seven indicating the lowest). The Democracy Score is an average of ratings for the categories tracked in a given year.

Since 1999, when Yeltsin abruptly stepped down as president and handpicked Putin to replace him, Russia's ratings in the annual *Nations in Transit* report have generally been worsening or stagnant (see Tables 1 and 2).[1] Russia's scores in both political rights and civil liberties have been on the decline, resulting in a repositioning of the country from the "partially free" to the "non-free" category. The *Nations in Transit 2006* report points out that the Putin administration is effectively excluding citizen input from important governmental decisions (Freedom House, 2006). It is concentrating all power in the executive branch and minimizing the legislative and judicial branches' ability to operate independently, largely by taking control of the legislature's agenda and defining policies for the country's judges. The Kremlin is undermining the ability of regional and local governments to act as a check on other levels of government.[2] Increasingly, influential groups close to the president are taking over Russia's economic assets from individuals who do not have formal state power, using claims of protecting the national interest to cover up their own narrow goals. The major theme for 2005 was the state's continuing repression of all aspects of political life in Russia, demonstrating that Russia is moving further from the ideals of democracy. The Kremlin continues to separate Russia from western democracies by tightening control over the media, harassing the already weak opposition, and seeking to put greater controls on nongovernmental organizations. Although there were some signs of a vibrant civil society on the Internet and in opposing the most restrictive Kremlin initiatives, non-state groups have not gained a broad ability to check growing bureaucratic power, and the level of corruption in the country has increased (Freedom House, 2006).

TABLE 1. *Russia in the* Nations in Transit *Report*

Nations in Transit ratings ↑ and averaged scores	1997	2001	2002	2003	2004	2005	2006
Electoral process	3.50	4.25	4.50	4.75	5.50	6.00	6.25
Civil society	3.75	4.00	4.00	4.25	4.50	4.75	5.00
Independent media	3.75	5.25	5.50	5.50	5.75	6.00	6.00
Governance	4.00	5.00	5.25	5.00	5.25	N/A	N/A
National democratic governance	N/A	N/A	N/A	N/A	N/A	5.75	6.00
Local democratic governance	N/A	N/A	N/A	N/A	N/A	5.75	5.75
Judicial framework and independence	4.00	4.50	4.75	4.50	4.75	5.25	5.25
Corruption	N/A	6.25	6.00	5.75	5.75	5.75	6.00
Democracy score	3.80	4.88	5.00	4.96	5.25	5.61	5.75

Source: Freedom House (2006).

TABLE 2. *Russia and Selected Countries in the Freedom in the World Survey*

	1991			2001			2002			2003			2004			2005			2007		
	PR	CL	Status	PR	CL	Status	PR	CL	Status	PR	CL	Status	PR	CL	Status	PR	CL	Status	PR	CL	Status
Chile	2	2	F	2	2	F	2	1	F	1	1	F	1	1	F	1	1	F	1	1	F
China	7	7	NF	7	6	NF	7	6	NF	7	6	NF	7	6	NF	7	6	NF	5	6	NF
Russia	*3*	*3*	*PF*	*5*	*5*	*PF*	*5*	*5*	*PF*	*5*	*5*	*PF*	*6*	*5*	*NF*	*6*	*5*	*NF*	*6*	*5*	*NF*
Venezuela	1	3	F	3	5	PF	3	4	PF	3	4	PF	3	4	PF	4	4	PF	4	4	PF

Notes: PR = Political Rights; CL = Civil Liberties; Status = Freedom Status (F=free; PF=partially free, and NF=non-free).
Source: Freedom House (2006).

The Index of Economic Freedom

The *Index of Economic Freedom*, first published by the Heritage Foundation and *The Wall Street Journal* more than a decade ago, measures 161 countries on 50 independent variables divided into 10 broad factors of economic freedom. The higher the score on a factor, the greater the level of government interference in the economy and the less economic freedom a country enjoys. Figure 1 illustrates Russia's comparative ratings. In 2007, Russia held the 120th rank in the world with a 54 percent degree of freedom (out of 100 percent), trailing European and world averages by a 10-point margin. Russia ranked 39 out of 41 countries in the European region with its overall score well below the regional average.

At the same time, Russia enjoys elevated levels of fiscal freedom, labor freedom, and business freedom in this index. The top income and corporate tax rates are 13 percent and 24 percent, respectively, although overall tax revenue is relatively high as a percentage of gross domestic product (GDP). The labor system is only partially flexible: dismissing a redundant employee is simple, but regulations in other areas are rigid. Russia's weaknesses lie in monetary freedom, investment

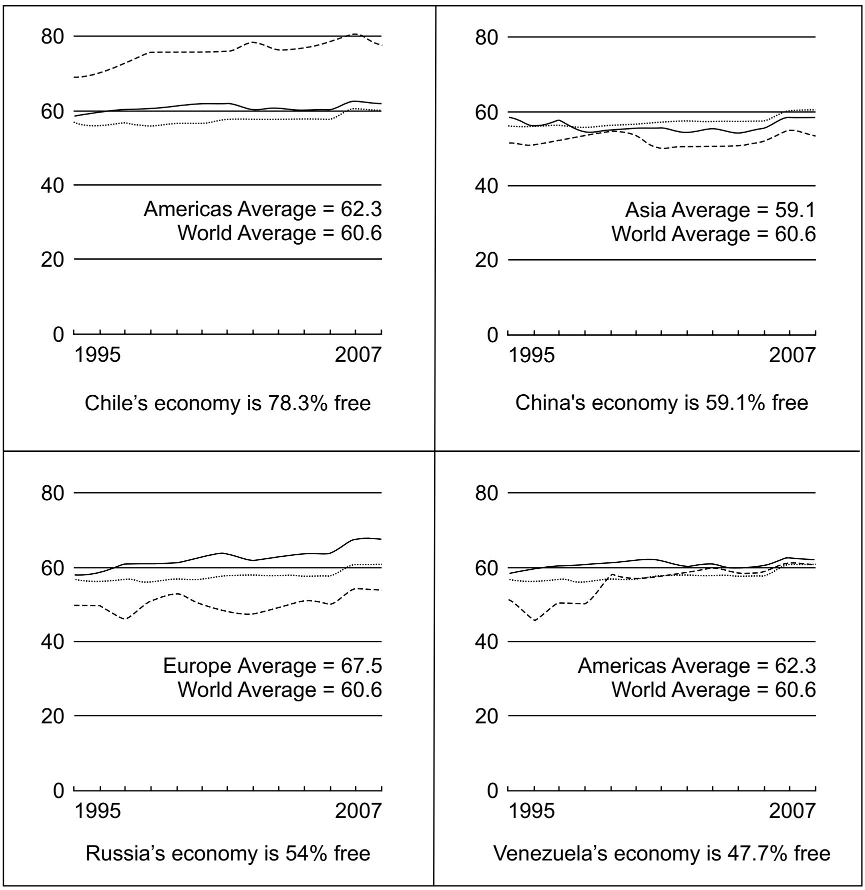

FIGURE 1. *Russia and Selected Countries in the* Index of Economic Freedom, *1995–2007*

freedom, financial freedom, property rights, and freedom from corruption. Foreign investment in virtually all sectors faces both official and unofficial hurdles, including bureaucratic inconsistency, corruption, and outright restrictions in lucrative sectors such as energy. Corruption engenders a weak rule of law, which in turn reinforces the transience of property rights and arbitrary law enforcement (Heritage Foundation, 2007).

Market Potential Indicators for Emerging Markets

Since 1996, Michigan State University (MSU) has published *Market Potential Indicators for Emerging Markets*. The 2006 index ranks the market potential of 27 countries categorized as "Emerging Markets." The increasing importance of emerging economies stems from the fact that they comprise more than half of the world's population, account for a large share of world output, and have very high growth rates which imply high market potential. Under the eight dimensions of the MSU index countries are ranked on a yearly basis from one (best) to 27 (worst), with the market potential index of a country on a 1–100 scale. Russia, as seen in Table 3, is positioned in the middle, its overall market potential ranking 13 out of 27 with a score of 35 out of 100. Russia is favorably ranked on market size (third) and commercial infrastructure (ninth) with the other indicators around or below the median (GlobalEdge, 2006). Russia's Overall Market Potential index has been steadily improving over the decade, but has dropped over the past two years (see Table 4). According to Wilson and Purushothaman (2003), Russia's GDP in US-dollar terms may exceed Italy's by 2018, France's by 2025, and Germany's by 2029. By 2050, Russia is projected to have a GDP of US$5000 billion, positioning it among the six major economies in the world after China, the USA, India, Japan, and Brazil.

A.T. Kearney/Foreign Policy Globalization Index 2006

The *A.T. Kearney/Foreign Policy Globalization Index* (GI) tracks changes in four key components of global integration by measuring indicators such as trade and investment flows, movement of people across borders, volumes of international telephone traffic, Internet usage, and participation in international organizations. The 62 countries ranked in the 2006 GI account for 96 percent of the world's GDP and 85 percent of the world's population. Major regions of the world, including developed and developing countries, are covered to provide a comprehensive and comparative view of global integration. Russia is part of the so-called BRIC group that includes Brazil, Russia, India, and China.

From position 44 out of 62 in 2004, Russia's GI score worsened by eight places in 2005 and improved by five places in the 2006 GI on the basis of strong inflows of foreign direct investment (FDI) in the oil and gas sector (see Table 5). Russia's GI group scores, among the 62 participating countries, are mostly in the medium range: Economic Integration is 33; Personal Contact is 52; Technological Connectivity is 42; and Political Engagement is 36 (A.T. Kearney, 2006).

The Opacity Index

The Kurtzman group's *Opacity Index*, first published in 2001, identifies the causes and measures the costs and effects of opacity. It draws on 65 objective variables from 41 sources, including the World Bank, International Monetary Fund,

TABLE 3. *Russia and Selected Countries in the MSU* Market Potential Indicators for Emerging Markets, 2006 *Survey*

	Market size	Market growth rate	Market intensity	Market consumption capacity	Commercial infrastructure	Economic freedom	Market receptivity	Country risk	Overall market potential: rank and index
Chile	21*/2**	19/25	17/44	23/13	13/51	1/100	12/10	10/57	16/26
China	1/100	1/100	25/23	12/59	16/45	27/1	22/3	13/49	1/100
Russia	*3/34*	*15/38*	*23/30*	*16/53*	*9/54*	*25/5*	*19/4*	*17/35*	*13/35*
Venezuela	18/4	8/51	24/27	17/52	19/39	24/5	16/6	26/4	26/3

Notes: *Rank (1–27, 1 being the highest rank); **Index.
Source: GlobalEdge (2006).

TABLE 4. *Russia's Overall Market Potential Index*

1995	1996	1997	1999	2000	2001	2002	2003	2004	2006
1*	20	12	16	17	33	39	42	40	35

Note: *Index (1–100, 100 being the best score).
Source: GlobalEdge (2006).

TABLE 5. *Russia and Selected Countries in the* A.T. Kearney/Foreign Policy Globalization Index 2006

	Economic integration		Personal contact			Technological connectivity			Political engagement				
2006 GI rankings	Trade	Foreign direct investment	Telephone	Travel	Remittances and personal transfers	Internet users	Internet hosts	Secure servers	International organization	UN peacekeeping	Treaties	Government transfers	2005 GI rankings
Chile: No. 34	31	4	40	40	51	30	32	30	11	39	6	25	34
China: No. 51	27	21	56	52	43	49	54	54	33	29	52	57	54
Russia: No. 47	*43*	*22*	*51*	*37*	*44*	*40*	*37*	*46*	*25*	*26*	*42*	*40*	*52*
Venezuela: No. 59	44	44	43	53	58	44	45	41	33	53	42	51	55

Source: A.T. Kearney (2006).

TABLE 6. *Russia and Selected Countries in* The Opacity Index 2004

	Category						
Country	Corruption	Efficacy of legal system	Deleterious economic policy	Inadequate accounting and government practices	Detrimental regulatory structures	Opacity	Opacity premium/ discount (%)
Chile	41	24	30	20	27	29	1.71
China	74	39	39	56	43	50	6.49
Russia	*78*	*44*	*39*	*40*	*31*	*46*	*5.64*
Venezuela	75	68	49	30	30	51	6.36

Source: Kurtzman et al. (2004).

International Securities Services Association, International Country Risk Guide, and individual countries' regulators. Various risks in the *Opacity Index* formula are translated into business terms. Each final score is associated with an opacity risk premium (or discount), which is expressed as an interest rate equivalent.

The opacity risk premium/discount in the Kurtzman group's study is calculated by taking the numerical difference in opacity between the subject country and the USA (chosen as a benchmark) and multiplying by 0.2213. In practice, this means that if a US investor wants to do business in China, for example, she or he needs to receive a return 6.49 percent greater than in the USA. In the case of Russia (see Table 6), the opacity premium that the US investor has to pay would be 5.64 percent (Kurtzman et al., 2004).

Lessons in Economic Internationalization from Peer Countries

Geographically, Russia is the world's largest country and is richly endowed with mineral resources and human talent (GlobalEdge, 2007b; World Factbook, 2007b). In an increasingly global and interdependent world, the nation's economic growth and prosperity depend on both its international involvement and competitiveness and the ability to learn from best practices in internationalization. For comparative purposes, Chile, China, and Venezuela have been selected as Russia's benchmarks or "peer countries," in that they have essential commonalities with Russia in their historical background, political-economic transitions, and trends and developments. While differences in history, culture, political-economic philosophy, regional and global relationships, and other fundamentals are to be expected, exploring Russia's similarities with these countries as benchmarks is a useful way of conceptualizing Russia's driving forces and scenarios for internationalization.

Chile

Chile presents an interesting example of an emerging economy that has undergone drastic transformation from a military junta regime to a democracy and a vibrant free-market economy in relatively recent times. Chile retains a strong government presence in ownership and control of copper mining as a "strategic" industry, similar to Russia's control of the energy sector. Another similarity between the two countries is an undemocratic transition of power in the past that has triggered drastic political-economic changes.

Chile's rankings on international scores are strong. It possesses "free" status in the Freedom in the World survey, holds 11th place (78.3 percent free) in the *Index of Economic Freedom*, ranks 16th in the MSU *Market Potential Indicators for Emerging Markets*, is 34th in the GI, and has a low 1.71 percent premium in the *Opacity Index*.

The 1973–90 military government of Pinochet sold many state-owned companies, and since 1990 the three democratic governments have continued privatization, although at a slower pace. The government's role in the economy is now mostly limited to regulation, although the state continues to operate the copper giant CODELCO and a few other enterprises. After a period of economic sluggishness ended in 2003, Chile's economy began to show signs of recovery, growing at about 5 percent per year in 2004–06, while maintaining low inflation. Similar to Russia's oil and gas export windfalls, Chile's GDP growth has strongly benefited from high world copper prices, solid export earnings (particularly through forestry, fishing, and mining), and increased FDI. Chile deepened its long-standing commitment to trade liberalization with the signing of a free trade agreement with the USA (2004) and China (2005) and already has several trade agreements with other nations and blocs, including the European Union (EU), Mercosur, South Korea, and Mexico. Record-high copper prices, helping to strengthen the peso and adding investment in the mining sector, are expected to boost GDP in 2007 (GlobalEdge, 2007a; US Department of State, 2007a).

China

China has been remarkably successful in its carefully navigated transition from central planning to a free-market economy. At the same time, it has maintained a high rate of growth, taking political-economic advantage of internationalization, and yet nominally remaining under communism. Similar to Russia, China holds "non-free" status in the Freedom in the World survey. Its ranking in the *Index of Economic Freedom* is number 119 (59.1 percent free), compared to Russia's 120 (54.0 percent free). In the MSU *Market Potential Indicators for Emerging Markets* survey, China holds the position of world leader, compared to Russia's 13th position. China's rank is 51 as compared with Russia's 47 in the latest GI and China's 6.49 percent premium in the *Opacity Index* is close to Russia's 5.64 percent.

Since the late 1970s, China has been reforming and opening the economy while reducing the influence of ideology in economic policy. At various points in the transition process, China has restricted imports through high tariffs and taxes, nontariff measures, trading-rights restrictions, and other barriers. Chinese officials are increasingly aware, however, that such protective measures contribute to endemic economic inefficiencies and encourage smuggling. To address these problems, the Chinese government agreed to reduce dramatically many barriers to trade under the World Trade Organization (WTO) accession process. As a part of WTO commitments, in 2004 China revised its Foreign Trade Law, lifting restrictions on granting trading rights to foreign enterprises. China today is the fourth-largest economy in the world (or second largest as measured in purchasing power). In 2005, its US$2.26 trillion economy was about a seventh of the size of the US economy. China's economy grew at an average rate of 10 percent per year during the period 1990–2004, the highest growth rate in the world. China's GDP grew 9.9 percent and its total trade in 2005 surpassed US$1.4 trillion, making it the world's third-largest trading nation after the USA and Germany.

The WTO accession symbolizes China's ongoing integration into the world economy and offers significant improvements in market access for many exporters. Export growth continues to be a major driver of China's rapid economic growth. To increase exports, China has pursued policies such as fostering the rapid development of foreign-invested factories, which assemble imported components into consumer goods for export, and liberalizing trading rights. Not surprisingly, China's investment climate also changed dramatically in 24 years of reform. Since the early 1990s, China has allowed foreign investors to manufacture and sell a wide range of goods on the domestic market, and authorized the establishment of wholly foreign-owned enterprises, now the preferred form of FDI. China is now one of the leading recipients of FDI in the world, receiving US$77.4 billion in inflows in 2005, compared to Russia's US$14.6 billion (United Nations Conference on Trade and Development, 2006a, 2006b). Foreign-invested enterprises produce about half of China's exports, and it continues to attract large investment inflows.

Foreign exchange reserves were US$819 billion in 2005 and have now surpassed those of Japan, making China's foreign exchange reserves the largest in the world (US Department of State, 2007b; World Factbook, 2007a).

Venezuela

Venezuela has been chosen for comparison with Russia as a country whose economic development, domestic and regional policies, as well as broader foreign relations have been heavily dependent on oil and that currently relies on authoritarian leadership with a populist agenda. President Chavez has a tendency to resort to authoritarian leadership, maverick attitudes and patterns of reliance on military/security forces in reaching political goals, crushing the opposition, and subjugating parliament and other democratic institutions in governing the country. Chavez's domestic social-economic and foreign political agenda is oil dependent. Chavez recently began using petroleum as a geopolitical and ideological weapon in pursuit of his political interests in the region and beyond, including building alternative socialist political-economic coalitions. Venezuela holds "partially free," versus Russia's "non-free," status in the Freedom in the World survey. Its rank in the *Index of Economic Freedom* is 144 (47.7 percent free) as compared with Russia's 120th position (54.0 percent free). Venezuela's rank of 26 in the *Market Potential Indicators for Emerging Markets* compares to Russia's 13th position. Venezuela's rank in the GI is 59 as compared with Russia's rank of 47 and its opacity premium is 6.36 percent, similar to Russia's 5.64 percent.

The Venezuelan economy and policies are heavily dependent on oil. In 2006, the country's GDP increased by 10.3 percent after a strong economic recovery in 2004 (17.9 percent) and 2005 (9.3 percent) following two consecutive years of deep economic recession. In a striking resemblance with Russia, the economic recovery has been driven by a large increase in government expenditure, based on an oil windfall, which in turn has generated higher consumption levels. As of 2003, all foreign exchange requests must be approved by the National Exchange Control Administration (CADIVI) and the Central Bank (BCV) completes all legal purchases and sales of foreign currency. Venezuela's economic prospects remain highly dependent on oil prices and the export of petroleum. In 2005, the oil sector accounted for roughly 15 percent of GDP, 90 percent of export earnings, and about half of the central government's ordinary revenues. In 2006, manufacturing contributed an estimated 17 percent of GDP. The manufacturing sector continued its recovery started in 2004, but remained hindered by a marked lack of private investment. Agriculture accounts for approximately 3 percent of GDP, 10 percent of the labor force, and at least a quarter of Venezuela's land area (US Department of State, 2007d). Similarly, Russia's GDP composition by sector was 5.3 percent for agriculture, 36.6 percent for industry, and 58.2 percent for services, while Russia's labor force by occupation was 10.8 percent in agriculture, 29.1 percent in industry, and 60.1 percent in services (World Factbook, 2007b).

President Chavez has promoted his "Bolivarian Revolution" as a model for other countries to follow. The policy calls for the establishment of a "multipolar" world devoid of US influence and for greater integration among developing countries. Venezuela is currently advocating regional integration financially supported by its petroleum initiatives, the creation of a South American Community of Nations, and the establishment of the Bolivarian Alternative for the Americas (a social integration project proposed by President Chavez as an alternative to the Free Trade

Area of the Americas). Chavez's latest steps in political-economic transformation include nationalization of the oil and telecommunication industries, where foreign, particularly US-based, companies have had a significant stake in ownership and management control. While this process is still unfolding, Chavez's public pronouncements point out that foreign firms will be compensated at arbitrary prices, not at fair market values.

In 2005–06, President Chavez deepened relations with Iran, and reached out to North Korea, Belarus, and Syria. He also launched a major re-equipment of the Venezuelan armed forces by purchasing new advanced weaponry (US Department of State, 2007d).

Under the forces of globalization and the continuing post-Soviet transformation, Russia is stepping up its efforts to re-establish itself as a regional and global power. In part, this drive is fueled politically and economically by Russia's strong clout as an emerging key supplier of energy and mineral resources. In pursuit of its domestic and foreign policy priorities Russia's strategic options can vary from emphasizing political-economic liberalism and free trade to expanding government involvement and control. These alternatives have their short-term and long-term advantages, drawbacks, and ramifications. Beyond objective forces driving Russia's economic internationalization, political leadership exerts a very significant influence. Under Putin (who continuously enjoys extremely high popular approval ratings, as reported by the heavily government-controlled mass media) Russia's foreign policy has become increasingly assertive in pursuit of the national agenda and a more active role in world affairs.

In this context, each of the three nations discussed above (Chile, China, and Venezuela) have some common traits in their political-economic trajectories that can be drawn upon by Russia in charting its course in economic internationalization. Chile's experience presents an instructive case of free-market transformation and liberalization. In its transition from military-political dictatorship toward democracy, the nation has embarked on the principles of economic liberalism in domestic policy and international trade and yet retained direct government control over a limited number of strategic industries. In contrast, Venezuela under the Chavez leadership is moving in the opposite direction: economic renationalization and regaining government control over key industries, curtailing Venezuela's participation in international organizations and initiating alternative alliances on a regional and ideological basis, as well as using the nation's rich energy resources and heavy-handed authoritarianism to promote a nationalistic agenda. Perhaps the most interesting lessons for Russia's economic internationalization can be drawn from China. China is Russia's neighbor, is comparable in geographical size, and has experienced a relatively long period of communist rule followed by a free-market transition. Unlike Russia, which has applied a "shock therapy" in its economic transition, China has been applying a cautious and gradual approach, yet maintained impressive rates of economic growth, foreign trade, and investment for more than a decade. Although the Chinese government's role in economic transition and development is still strong, it is gradually diminishing, giving way to market principles and compliance with WTO-based commitments. In contrast, Russia has striven for more than a decade to become a WTO member and the Russian government is expanding its direct and indirect control, as well as ownership, of a wide array of strategic industries.

Russia's Internationalization: Driving Forces, Scenarios, and Outcomes

For much of the 1990s, the issue of transition from communism and central plan-ning to democracy and a free-market economy dominated the Russian political agenda. Fierce battles for a redistribution of power and resources have taken place between numerous interest groups among the Russian elite. Attempts to transform the nation into a vibrant, prosperous, free-market economy and democracy integrated into the world did not materialize. Moreover, the advent of capitalism and new civic freedoms have resulted in massive political, economic, and social dislocation and popular discontent. Alongside Russia's immense size, mineral wealth, aspirations as a former superpower, and high economic potential there are the acute problems of a diminishing population, low life expectancy, and poor health as well as the issue of redefining the Russian national identity in an international context. This quest also includes whether the nation's primary affiliation should be with Europe, Asia, or should remain with "Eurasia," given Russia's potential, socioeconomic dynamics, strategic thrust, as well as political-economic and cultural similarities and differences with the outside world (Hersing, 2003; Trenin, 2002, 2005). Clearly, Russian leaders have begun to search for solutions to these issues beyond the western liberal-democratic and free-market model.

The Russian government's national security concept points out that, economically, Russia has been a poor country and the gap between it and the world's leading powers has widened during the past decade (Government of Russia, 2000). There is a growing concern that under these conditions Russia will face increasing difficulties in protecting its long borders and maintaining sovereignty from neighboring countries and from hostile outside forces. In this unfolding environment, finding the right response to the challenge of internationalization is becoming the key to Russian economic recovery and political realignment. It is a difficult task, given the decades of relative political-economic isolation from the world, the absence of international economic competitiveness, and failure to maintain a stable flow of foreign trade and investment. Apart from the windfall of petrodollars, the nation needs to improve its productivity, diversify the economy, and keep attracting both domestic and foreign investment. That will require reforms aimed at increasing competitiveness as well as improving its general investment climate and governance.

Rising domestic income due to high world oil prices and a favorable economic situation emerging from the 1998 ruble devaluation have finally triggered consumption and savings growth in Russia's formal economy.[3] Official recognition of the nation as a market economy, the support for Russia's accession to the WTO,[4] and the raising of Russia's investment grade by major international rating agencies show positive achievements in creating an environment more conducive for international business. Nevertheless, FDI remains a priority since investors are still cautious about long-term commitments (Vershbow, 2005). Thus, as with any development, Russia's internationalization is driven by a multitude of forces pushing and pulling the nation in different directions.

Forces *supporting* Russia's internationalization are fueled by increased public access to information, international travel, and personal, educational, cultural, and professional exchanges, all of which are becoming more common in Russia. Russia is eager to regain its lost post-cold war global image and enhance its leverage in reaching a strategic geo-regional balance of political-economic power based on its mineral resources. Russia's clout as the geo-regional energy supplier, as the demand for oil and gas increases, makes countries in Europe and elsewhere highly dependent on Russia for reliable supplies, generating particularly strong momentum for internationalization on Russian terms. Adding to this momentum is Russia's own sense of urgency in regaining the lost status of world superpower and a powerbroker in both the "near abroad" and global regions in the Middle East, Southeast Asia, and Latin America.

There are also many forces working *against* Russia's international integration. Technological advances in transportation and communications and the dismantling of cross-border barriers for commerce and cultural understanding are tempered by Russia's immense geographical size, remote geo-strategic location, a mixed affiliation with Europe and Asia, and the nation's historical tendency toward introspective political-cultural attitudes. These challenges continue to present a case of unique national identity and inner soul-searching rather than a quest for international outreach. With some exceptions, Russia's patterns of political centralism and authoritarianism in governing the nation are not compatible with those of its European or Asian neighbors. Economically, Russia relies on its potentially huge domestic market, self-sufficiency in mineral resources, and isolation from the rest of the world brought by its immense distances, harsh climate, complex terrain, and dilapidated industrial infrastructure. Apart from a few growth industries (energy resources, minerals, weapons, and some research and development sectors), Russian goods and services are not internationally competitive due to economic isolationism and government protectionism.

One political internationalization scenario for Russia developed by Andreasen and Kelstrup (2005) suggests that the geopolitical events of the next 15 years will turn Russia into a more important strategic partner for the West. Toward 2020, they optimistically argue, Russia could expand its links to NATO, the EU, and Asia-Pacific Economic Cooperation (APEC), China, Japan, and the countries of the Association of Southeast Asian Nations (ASEAN) as well as the USA. They predict that Russia will most likely experience an increasing rate of change within most sectors of society during the next 15 years. Some of the consequences of this development are a need for more flexible organizational structures and demands for a greater ability to handle various functions on the part of public bureaucracies and private enterprises. The rate of acceleration for the Russian community and for its economy will depend on what liberal-economic initiatives the state will take and on how the Russian bureaucracy develops. If Russia develops in the direction of autocracy and a centrally planned or government-controlled economy, the future will be markedly different. Russia will not derive the full economic, political, and social benefits of globalization. In the long run, government interference with private enterprise will continue to impact negatively on Russia's economic development. It may also interfere with the efforts of other former Soviet states to integrate themselves further with the political and economic structures of the world. Andreasen and Kelstrup (2005) suggest that Russia is not expected to develop an economically and politically integrated democratic system during the next 15 years. It is more likely that the country will steer a course between democracy and autocracy. Over the coming decade and more, the question of globalization will be a subject for debate in Russia. Part of the role globalization plays in Russia is in the scope of the media to inform, communicate, and present multiple views to the public. As noted in previous sections, the Russian media is still subject to considerable interference from the state.

Globalization could also provoke counter-reactions in Russia and foster a growth of nationalism. As the former Soviet Union broke up, people in Russia turned to different sources of identity and senses of belonging. The most important of these have been civil rights, religion, and nationalism. Developments in the field of globalization suggest that Russia may experience a more inward-looking penchant involving a stronger sense of nationalism, especially in domestic political rhetoric. Much will depend on the state's attempt to control the speed of globalization. Russia's impending membership of the WTO and accession to various international treaties will link the country to global development and the international division of labor (Andreasen and Kelstrup, 2005).

In the context of our discussion, the following conceptual scenarios for Russia may, alternatively, emerge:

1. A "Venezuelan" scenario will be based on the continuation of authoritarian leadership and a centralized political system along with strong or even increasing government control and sizeable asset ownership in the economy. Continuation of strong world demand for energy and remaining or even increasing dependence on Russian resources by many countries in Eurasia and beyond will also contribute to triggering this scenario.
2. The "Chilean" scenario is the opposite of the "Venezuelan" one. It presumes the possibility of democratic leadership and decentralized governance with more political-economic discretion for the Russian regions, moderate to diminishing outside demand for Russian energy and less international dependence on the Russian energy supply, as well as a diminished political-economic role for the government in the economy, except for a limited number of "strategic" sectors. As part of this scenario, Russian dominance as an indispensable international energy supplier may be eroded by alternative energy sources, chance global events, or a concerted political effort by the world's major nations or political-economic blocs to overcome their dependence on Russia.
3. The "Chinese" scenario lies midway between the "Venezuelan" and the "Chilean" scenarios. Under this scenario, Russia will develop a restricted ("managed") democracy and civil liberties while continuing to liberalize its domestic economy, international trade, and the investment climate. It will be accompanied by a gradually diminishing government role in equity participation and control over the national economy as well as the expanding of the political-economic power of the Russian regions. While Russia's economic freedom under this scenario may remain moderate or even gradually increase, continuing international dependence on Russia as an oligopolistic global energy supplier will increase Russian political-economic leverage both over the Eurasian region and globally.

Contingent on the actual interplay of international driving forces, including Russia's pending accession to the WTO, a hypothetical scenario involving EU membership, the dynamics in world prices for commodities and mineral resources, technological and economic advances in alternative sources of energy, as well as Russia's key domestic political-economic dynamics, the likeliest mid-range scenario for Russia is to fluctuate between the Venezuelan and Chinese models.

Conclusions

In the post-World War II environment, many nations embarked on internationalization in their pursuit of socioeconomic development and global competitiveness. Under advances in information technologies and transportation as well as the proliferation of democracy, international travel, and cultural exchanges over the past several decades, internationalization is being embraced not only as a forced strategic alternative, but, increasingly, as the political-economic mainstream. By virtue of these forces Russia is being pushed and pulled toward reassessing its role in the new global order and finding a model of internationalization that best fits its geo-strategic and domestic aspirations.

Russia's history, long-standing political philosophy, and administrative and general culture have induced ambivalent attitudes toward internationalization. Geographical vastness, inadequate roads, communication networks, and other elements of the nation's physical and industrial infrastructure, high centralization, authoritarianism, and bureaucracy in governance, inward-looking communal cultural values, and self-sufficiency in minerals and other economic resources explain this ambivalence from a historical viewpoint. Russia's late start in industrial development and restrained political-economic attitude toward internationalization have been exacerbated by seven decades of communism.

More than a decade of developments under the post-Soviet political-economic transition have brought mixed outcomes. While achieving significant progress in improving the economy, based on energy and mineral resources coupled with high demand and skyrocketing prices worldwide, Russia scores average or below average on a variety of international economic and democratic indices. While there are strong recent indications of economic improvements, Russia's international ratings on corruption, civil liberties, and political freedoms have been worsening. These negative aspects contribute to the nation's lower global competitiveness, act as impediments for foreign trade and investment as well as increase premiums and the cost of doing business in the country.

Under the Putin presidency, Russia is stepping up its international engagement in politics, trade, and investment in an effort to promote its own political-economic agenda. Naturally, many problems of economic internationalization stem from limited time and lack of experience under transition. For a long time, Russia's exports have been consistently driven by oil, gas, and other extracted products, amounting to almost 80 percent of total exports. Russia's per capita foreign direct investments are moderate, though falling short of their potential.

Further developments in Russian internationalization will most likely fluctuate between the "Venezuelan" and "Chinese" scenarios. The "Venezuelan" part of the Russian internationalization scenario will stem from its political-economic-cultural pattern of heavy reliance on exports of gas, oil, minerals, and other commodities as levers in foreign policy, under the assumption of continuing high world demand and prices. Another justification for using the "Venezuelan" approach is its fit with the Russian historical tradition of authoritarian political leadership and governance, as well as the high degree of centralism that permeated the nation and its political-economic networks. The "Chinese" motive in the Russian internationalization process may be instilled by the high government share of ownership in key sectors of the Russian economy and the state's overall strong role in the regulatory environment. Other reasons include China's remarkable success in its market transformation, WTO accession, and other successful aspects in its ongoing transformation.

Russia's successful accession to the WTO as well as potential aspirations for membership of the EU, G7, and other key political-economic alliances may significantly facilitate its internationalization and cultural integration into the world community. Possible changes in the political and business leadership and unpredictable events in shifting attitudes among key Russian players in a highly centralized and unstable political system may also have a crucial impact on internationalization. At this point in time, Russia is at an economic and political crossroads.

Notes

1. Russia's world ratings in the annual Corruption Perception Index have also been steadily worsening: 79th in 2001; 71st in 2002; 86th in 2003; 90th in 2004; 126th in 2005; and 121st in 2006 (Transparency International, 2007).
2. Under the Putin "vertical of power" and recently adopted legislation Russia's regional governors are essentially nominated by the president instead of elected by popular vote. Furthermore, Russia's pending federal legislation stipulates that the president can dismiss governors on the basis of "lost trust."
3. The share of the informal economy in Russia in the early 2000s was as high as 46.1 percent of GNP, compared to a 37.7 percent regional average and a 17.4 percent average among Organisation for Economic Co-operation and Development countries (Schneider, 2002).
4. After securing a bilateral WTO-accession agreement with the USA in 2006, Russia was expected to join the WTO in mid-2007 (Wikipedia, 2007). Political events in Russian domestic and foreign politics in 2007 point to the likelihood of a further postponement of the country's accession to the WTO.

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