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Abstract

Since the disintegration of the Soviet Union the role of Russia in international relations has been in flux—a reflection of its changing capacities, positions and interests. To a certain extent, this variability has been defined by the Russian economy, which in the 1990s passed through a stage of deep structural transformation and severe financial crisis, but which then benefited from a period of fast and mainly stable economic growth in the first years of the twenty-first century. Now, the serious economic decline as a result of the global crisis of 2008–2009 has been replaced by an unstable and uncertain recovery.

In the 2000s a very specific political regime of personalized power under Vladimir Putin—set to be back as president in 2012—was established in Russia. During his next term Putin will face the most serious challenges to Russia's economic policy yet. According to some scenarios, these challenges could significantly destabilize the country's politics and economy. Russia is facing a demographic trap; the ageing of the population is increasing the pension burden on the budget, while the shrinking labour force will surely become an obstacle to growth. The dependence of the budget and balance of payments on the price of oil has grown so great that even price stabilization becomes a threat to macroeconomic stability. The poor quality of the investment climate leads to falling private investment which, in turn, hinders the much-vaunted modernization of the economy. If combined, these problems will lead to the widening of the gap in technology and living standards between Russia and developed countries.

Elimination of political competition and the impossibility of replacing political leaders through elections have led to widespread corruption and abuses, crony capitalism, and the complete undermining of the independence of the courts and law enforcement which further complicates the search for adequate responses to the mounting economic challenges. As there are no reasons to believe that Vladimir

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