



Report on Wilton Park Conference 996

DIALOGUE WITH RUSSIA: MOVING FROM A RESOURCE-BASED TO A KNOWLEDGE-BASED ECONOMY

Thursday 19 - Sunday 22 November 2009

Introduction

1. Russia's leaders have set themselves the formidable task of creating a world-leading economy with a highly educated population. They recognise that, in order to narrow the technological gap between Russia and other leading world economies, Russia's economy must be modernised and diversified. Russia is a resource-based economy and will remain so for decades. If it is to become globally competitive, it will need to move from its present over-dependence on raw-material production and become competitive in other forms of economic activity. As Russia's leaders have defined the task, Russia will need to move from a resource-based to a knowledge-based economy.

2. The conference set out to explore the cultural, social and economic policies that Russia is exploring for its future development. What ambitions do the younger generation have for their country? What mechanisms and institutions do they consider necessary to achieve them? How to educate for entrepreneurship and make educational systems responsive to the needs of business leaders and the labour market? What is the likely impact of demographic and migratory trends? How to ensure respect for national identity and diversity? What place is there for religious concerns in the social and educational context?

Reforming Higher Education

3. To move to a knowledge-based economy, Russia will need a highly trained and skilled workforce. Its population of 142 million people already possesses talented

human capital. However, they need to be trained in the skills of the twenty-first century. Above all, young people need to be motivated to train for new skills and undertake new tasks. Educational reform is therefore one of the key challenges that Russia faces.

4. The Union of Soviet Socialist Republics (USSR) had a highly-developed higher education (HE) system that many other countries could only envy, and contemporary Russia has many educational successes of which it can be justly proud. Even so, innovation ground to a halt towards the end of the Soviet period, and the system is now in urgent need of reform. "The HE system was fit for the twentieth century, but not for the twenty-first," was a commonly held view. Only two Russian universities made it into the top 500 on the 2009 Shanghai Academic Ranking of World Universities: Moscow State University in 77th place, and St Petersburg State University in 303rd.¹

5. The foundations have been laid. Post-Soviet Russia has experienced an HE explosion. Putin first identified HE as being in need of reform in 2001; reforms began in 2004 and considerable progress has been made since then. In 1993, Russia had 626 universities and other HE institutions, attended by 2.6 million students. Today, the number has almost doubled to 1,134 state and private HE institutions with 7.5 million students. Nowadays universities are more open, flexible and autonomous than they were a decade ago.

6. Even so, the HE sector continues to suffer from many problems. These include: insufficient funding; lack of autonomy; lack of a system of peer review; excessive bureaucracy; narrow specialisations; low integration with business and between research institutions; restricted mobility for foreign researchers; few opportunities for student mobility; lack of support for joint projects run with other universities; difficult administrative procedures for recognising foreign degrees; scarcity of opportunities for researchers to attend foreign conferences or to publish abroad; low salaries; lack of a tradition of life-long learning; poor knowledge of English; and few alumni networks. "Misplaced national pride" was blamed for the unwillingness of many

¹ <http://www.arwu.org/ARWU2009.jsp>

Russian universities to invite foreign academics to conferences. Only 3 percent of students in Russian universities come from abroad, and most of them come from other CIS countries. Some speakers identified corruption as a problem, but most agreed that corruption was much less of a problem in HE than in other walks of life.

7. It should be stressed that these failings were not said to be universal, but they were identified as potential barriers to Russia's development of a knowledge economy. The idea of national research universities recently unveiled by the leadership was applauded. To develop this area, Russia needs both to persuade gifted young Russians to stay in Russia and work there, and to attract overseas specialists. One way of making work in Russia more attractive would be to develop means of recognising and evaluating foreign qualifications and experience -- at present, this can involve a lot of red tape. Russia needs to be rebranded, perhaps as "the wild frontier where anything is possible!" Steps such as increasing links between education and business and, in particular, expanding student's access to work experience should be taken. Some felt that, at present, too many young people in Russian universities are training in narrow specialisations and, as a result, they are failing to find work when they graduate. There was a call for more flexible training and, in particular, more training in critical thinking.²

Research and Development

8. In 1990, just before the system collapsed, the USSR had 1.2 million full-time scientific researchers; today, Russia has 380,000. While this is of course partly attributable to the loss of the newly independent states, it is also the result of demographic trends (see paragraphs 11-14), a failure to invest sufficiently in higher education and a brain-drain. One major problem identified during the conference was that Russia's research programme is highly dependent on state-funding and there is too little private investment in research. Russia's HE sector plays only a small role in research: at present, only one HE institution in eight is engaged in R&D. The Soviet legacy remains strong, with three-quarters of scientific research institutes dependent

² Educational reform was the subject of one of the conference's three break-out groups; see the Annex for details of the group's recommendations.

on state funding. As a result, defence production continues to dominate the R&D field. This is reflected in Russia's share of patenting being low and that less developed countries are catching up with it in this regard.

9. The Russian Academy of Sciences is still dominated, as in Soviet times, by elderly, entrenched bureaucrats; as a result, it acts as a brake on, not an impetus to, creative research. Russian scientists working overseas say they are not keen to return to Russia because they enjoy freer working conditions abroad; for example, they have greater choice about which conferences they want to attend and which research topics they want to pursue. In Russia, such matters are controlled by the Academy of Sciences which many see acting as a dead hand that urgently needs to be reformed.

10. Russia has been strikingly successful in the mobile phone and internet industries. It is telling that these are areas where funding by private business now leads the state, supporting the argument that economies where private investment outstrips state investment are more likely to succeed in innovation.

The Demographic Challenge

11. One of the toughest challenges Russia faces is demographic. A knowledge-based economy must have talented young people, but Russia's population is ageing and fertility rates are below replacement level. This is not a new problem: Russia's population began to decline in the 1960s, when fertility rates first dropped below replacement level. The population currently stands at 142 million; it is predicted to fall to 132 million in 2020 and 116 million in 2050.

12. Until recently, post-war baby-boomers dominated the workforce and were able to support the ageing population. Within the last couple of years, however, the size of the working-age population has begun to fall. This is caused by a number of factors, chief of which is the unusually high death-rate among Russian males aged 15-60. Smoking, binge-drinking, poor workplace security and high rates of road fatalities are

to blame. It does not help that the health-care system tends to focus on treatment rather than prevention of problems caused, most notably, by alcohol and tobacco.

13. While the birth-rate recorded a welcome rise in 2009, Russia's overall demographic trend is likely to hinder, not help, the modernisation project. Young, gifted scientists are coming up now in Russia, but the majority of scientists are approaching retirement age, or are already over it, and many of the brightest young Russians are going to study and work overseas. Young Russians are talented and hard-working, and keen to travel. To persuade the best and brightest students to stay in Russia, or to return to work there after studying abroad, will be a big challenge for the leadership. At present, a third of the graduates of one of Moscow's most prestigious academies go abroad to continue their education; of these, only half return to Russia, indicating a significant brain-drain. Pay and working conditions will play a key role in attracting such people back to Russia.

14. Russia also needs to attract skilled workers from other countries. At present, Russia is not attracting nearly enough skilled migrants, whether Russians who left Russia as part of the brain-drain or foreigners seeking to work there. On the whole, such workers do not seem to see Russia as a particularly attractive place to live and work; this is especially true of those with young families and expectations of high living-standards. For example, medical facilities are not highly rated. Speakers agreed that Russia needs to develop a specialised programme to attract more skilled workers. It should provide greater labour protection, engage in active recruitment, and clarify visa regulations. It should also develop ways to evaluate and recognise foreign qualifications and expertise, thus overcoming current red tape. Corruption remains an impediment to getting a work permit.

15. According to current estimates, Russia is home to some 12 million migrants. However, these tend to be unskilled and often under-educated migrants from the Commonwealth of Independent States (CIS) countries who come to do the manual jobs that many Russians do not want to do themselves. Because registered labour migrants have to pay higher taxes than Russian workers, many work illegally. The

problem of hate crimes against migrant workers and xenophobia are widespread and act as a deterrent to many who might otherwise decide to work in Russia.

Economic Reform

16. Determination to modernise the economy and to switch to a knowledge-based economy was highlighted by President Putin during his first term in office. Now the call has been issued with increased urgency by President Medvedev. "In the twenty-first century, our country once again needs to undergo comprehensive modernisation. Instead of a primitive raw-materials economy, we will create a smart economy producing unique knowledge, new goods and technology that people can use," Mr Medvedev said in his State-of-the-Nation address on 12 November 2009.

17. Russia was hit hard by the global financial crisis, and its leaders recognise that serious changes now need to be made. For example, most of Russia's current exports are unprocessed goods. In the words of one speaker, "Russia needs to stop exporting tree-trunks and start exporting furniture".

18. By comparison with other leading economies, Russia scores poorly on competitiveness, economic freedom and transparency, while corruption levels are high. Several speakers argued that the key to modernisation lies in institutional reform and that "institutions, institutions, institutions" is what Russia needs most urgently. By this they meant reforms in both the political and, above all, the legal spheres. A more open society is needed, involving institutional change that will promote competition. At present, small and medium enterprises (SME) account for only about 15% of Russia's GDP. Corruption (in the form of bureaucrats demanding bribes) was seen as the main factor holding back development of this sector of the economy. Speakers felt that the best way to reduce corruption would be to halt the seemingly inexorable growth of the state bureaucracy, which is now twice as large as it was in the Soviet period.

19. The following five priorities can be identified for institutional reform: development of legality; growth of civil society; formation of a smaller, more effective, less

interventionist state apparatus; greater foreign direct investment in a wider range of sectors and greater willingness to learn from abroad.

20. President Medvedev's pronouncements indicate that he understands what the problems are and how they need to be tackled. Some detected signs of a growing general awareness that state involvement in the economy has become excessive. They believed it would be good news if state intervention were to decline. Mr Medvedev has called for urgent reform of the judicial system and instigated efforts to reduce corruption in the bureaucracy -- in particular, in the law-enforcement agencies. So far, however, the indications are that there will be strong institutional resistance to reform, and it is not clear whether Mr Medvedev possesses the power to push through his reform package. Powerful vested interests are likely to seek to prevent a switch in the focus of the economy and to block institutional reform.

21. In general, there is little sign that the present leadership feels it necessary to democratise Russia's political system. Among participants, there was disagreement over how important this was. Some saw it as crucial, while others believed that Russia already has the institutions it requires and simply needs to make them work more efficiently. Younger participants tended to be more optimistic about Russia's prospects and less likely than older participants to criticise plans for the future. They are more confident that their country is on the right path. Even so, some expressed considerable frustration at the pace of reform, arguing that Russia needs to move fast to establish conditions comparable to those in "the West" through which business and entrepreneurship can really flourish.

22. Russia is seeking to move to a knowledge-based economy at the same time as other countries. This presents opportunities but also threats. There are many lessons to be learned from the experiences of economies that have diversified successfully, including Australia, Brazil, Canada, Chile and Turkey. But Russia may be hampered by its former superpower status and this may complicate the modernisation process, not least because Russia will have to be ready and willing to learn from the experiences of countries that it considers to be less advanced than itself. In fact, as the Chinese example shows, imitating can be a source of strength if allied with

willingness to learn from the experience of other countries and an environment conducive to foreign investment. China was able to copy the latest technology available worldwide and reproduce it economically because it had cheap manpower available to do so. Russia, however, does not enjoy the luxury of cheap and abundant manpower. So far, China has also succeeded in modernising its economy without democratising its political system. This is arguably not feasible in the case of Russia's substantially more sophisticated society and economy.³

Working with the Outside World

23. Russia and the UK have much to learn from one another. There are several programmes involving Russian and UK specialists working together successfully. For example, Russia ranks among the top twenty of the 110 countries with which the British Council fosters cultural relations. "What do young Russians need to adapt to a knowledge-based economy?" asked one speaker. "Good English, web access, openness to the outside world, all things that the British Council can help to foster." The Council's main focus is on the new, professional generation of people aged 18-35. The Chevening Scholarship programme, which enables young Russians to study in the UK, is a key tool for this engagement. The Council also runs a Young Creative Entrepreneurs programme, which identifies creative young Russians and helps them to obtain experience in the UK. The Council's work in Russia is currently restricted to Moscow; it sees its main task as being to rebuild trust and engagement and it would like to resume its work in other regions when possible.⁴

24. The conference also heard about the Chinese experience. China runs eight Confucius Institutes in Russia. Most of these are in the Russian Far East, plus one each in Moscow, St Petersburg and Kazan.⁵ Like the British Council, Confucius Institutes are emphatic in considering themselves promoters of trust and mutual understanding and not purveyors of propaganda: "a win-win solution, not a battle!"

³ Energy-sector reform was discussed in one of the conference's three break-out groups; see the Annex for the group's recommendations.

⁴ For information on the Council's activities in Russia, see www.britishcouncil.ru.

⁵ See www.chinese.cn/cn

25. Several leading Russian Higher Education (HE) institutions are pioneering new partnerships with foreign partners. "British degrees in Russia" (BRIDGE) is a British Council project that has been active for ten years, enabling universities in the two countries to work together to award joint degrees.⁶ Meanwhile, Moscow's Higher Economic School is working with the London School of Economics and has established a joint degree that is recognised by London University.⁷

26. The Open University Business School (OUBS) has been active in Russia since the early 1990s. Its International Institute of Management (LINK) is a non-profit non-state HE enterprise that enables students in CIS countries and the Baltic States to obtain Open University management qualifications while studying in their home countries, using OUBS courses translated into Russian. Since 1992, LINK has trained over 60,000 students in the CIS and Baltic countries. LINK prides itself that its teaching is not purely theoretical but is directly relevant to everyday work.⁸

27. Meanwhile, the recently formed *Russskiy Mir* cultural Foundation is in the process of establishing subsidiaries overseas, including at a number of leading UK universities.⁹

28. The UK's visa regime came in for criticism for allegedly hindering the development of better UK-Russian understanding; one participant argued "relations will not improve until this problem is resolved".

29. The talent, energy and enthusiasm of today's young Russians were displayed by young internet entrepreneurs who gave presentations on their activities. They highlighted the swift expansion of the internet in Russia.¹⁰ TV remains the preferred

⁶ See www.britishcouncil.org

⁷ See www.hse.ru/org/hse/icef

⁸ See www.oubs.open.ac.uk

⁹ See www.russskiymir.org

¹⁰ See for example www.lookatme.com and www.tandp.ru

medium of the majority of the population, but the internet is fast gaining ground, especially among young people.¹¹

The Role of Religion and Values

30. While Russia defines itself as an integral part of European civilisation, it also prides itself on having its own specific culture, of which the Russian Orthodox Church is an integral and important part. Many people, not least the young, look to the Church as the guardian of essential moral and spiritual values, even if they admit that they do not always live by them.

31. This was illustrated by the showing of the Russian film *The Island*, outside the formal programme. The film, which has had enormous impact in Russia, is the story of a man who expiates an act of wartime cowardice through penitentiary prayer and an ascetic life in a monastery on the shores of the Arctic sea.

32. Culture in Russia is multi-confessional, polyethnic and respectful of other cultures and faiths. While the post-Soviet Russian leadership looks to the Russian Orthodox Church as a partner to foster moral values and a shared sense of national identity it also reaches out to the Muslim community and seeks to involve Muslim clerics in such a partnership.

33. Some queried the assumption of multi-ethnic and multi-faith tolerance and pointed out that tolerance means accepting things that one is reluctant to accept, arguing that Russia still had some way to go in this direction. One speaker cited the opening of Tolerance Centres in 17 Russian regions to date, at which religious issues are discussed as a positive development. Another pointed out that finding effective ways to encourage tolerance is a universal concern. There were also calls for more open discussion of Russia's recent past.

¹¹ Media and public diplomacy were discussed in the conference's third break-out group; see the Annex for its recommendations.

34. Civil society in Russia is not yet well developed, but the first green shoots are appearing. One likened Russia to the fairy tale Sleeping Beauty, “on the threshold between sleep and waking.”

**Elizabeth Teague
Wilton Park
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Wilton Park Reports are brief summaries of the main points and conclusions of a conference. The reports reflect rapporteurs’ personal interpretations of the proceedings – as such they do not constitute any institutional policy of Wilton Park nor do they necessarily represent the views of rapporteurs.ⁱ

ANNEX

DIALOGUE WITH RUSSIA: MOVING FROM A RESOURCE-BASED TO A KNOWLEDGE-BASED ECONOMY

Reports from Working Groups

Working groups were held on higher education, energy policy and using media and public diplomacy as tools for moving from a resource-based to a knowledge-based economy and tasked with generating five suggested action points.

Higher Education

A strong university system is essential for a country's successful development. Russia has a strong and vibrant higher education (HE) sector. Many HE institutions now operating in Russia were set up quite recently and are functioning without adequate supervision. Some are centres of excellence and should be singled out for enhanced state support, but others are less effective. Many are still teaching curricula developed in the twentieth century, not ones adapted for the twenty-first century.

(1) At present, there is no peer review or ranking of Russian universities by academic excellence. This is necessary in order to make the universities more competitive and to foster the development of regional centres of excellence, including by cultivating links with local business. Some HE institutions should be encouraged

to merge, while allowing others to close. It was noted that this will not be simple. The federal government is aware of the problem, but regional politics are also involved.

(2) Work-based learning should be encouraged to break down the walls between academia and industry. Work attachments should become a normal part of the HE curriculum. Continuous professional development (not formal degrees but training on the job) should be promoted.

(3) Students should be able to choose between different HE institutions by ranking institutions according to excellence; offering students opportunities to study in different ways; disseminating student feedback; and setting up alumni networks as well as careers advice centres in universities and secondary schools.

(4) Research knows no national boundaries. International contacts should be encouraged by building partnerships with foreign universities; learning from others who have useful experience; using international benchmarks (e.g. for studying foreign languages); encouraging staff and student mobility. It is worth bearing in mind that almost every country in the world is trying to build links with the outside world. Russia may feel outside the network at present, but it doesn't need to be.

(5) Planning and communication is the hard part! The Russian leadership knows the desired destination that it wishes to reach through its reform package, but it is less clear that it has planned the journey or decided who should be put in charge. Leadership, management and a clear route map will be essential.

Energy Policy

The Russian leadership can make most efficient use of Russia's vast energy resources by:

(1) Changing the tax and regulatory systems to encourage SMEs in the oil and gas sector inside Russia. Ensure access to existing oil and gas pipeline systems both to

Russia's own producers and to those from outside on a uniform and transparent basis.

(2) Improving the efficiency of the present energy system. Russia should copy what's being done elsewhere in the world. There is no need to innovate.

(3) Accompanying price-related initiatives such as metering and higher prices, with information on energy savings. The government could cooperate with NGOs on this. This will encourage consumers to use energy more efficiently, and it will foster individual choice and responsibility.

(4) Promoting the role of the individual and the community. Consumers at present enjoy an abundance of cheap energy. Communities could be encouraged to take on such projects as apartment-bloc insulation to make better use of heating resources.

(5) Investigating how new energy-efficiency schemes and supply projects involving renewable energy might be integrated into local energy-delivery systems. The information gained, especially concerning best practice, should be disseminated to wider audiences.

Media and Public Diplomacy

If the goal is to trade ideas in a global market, invest in human capital and use technology to create a knowledge-based economy, how can this best be achieved?

(1) Through fostering an open media environment by encouraging international media partnerships; maintaining diversity of ownership; safeguarding journalists' security; guaranteeing internet freedom.

(2) By ensuring transparency and sharing of information by guaranteeing open and free access to government information, databases and statistics; encouraging e-government; facilitating information-sharing between countries and institutions (e.g., through internships and fellowships and by professional networking and exchanges).

(3) By fostering debate through engaging citizens in discussion about global and shared local issues such as climate change and energy security.

(4) By making the widest possible use of a variety of platforms and communities including students, entrepreneurs, the scientific and technical community and the media.

(5) By removing barriers such as financial red tape, outdated patenting processes, and infrastructure gaps and encouraging language-learning, facilitated by Information Technology.

ⁱ Should you wish to read other Wilton Park reports, or participate in upcoming Wilton Park conferences, please consult our website www.wiltonpark.org.uk To receive our e-newsletter and latest updates on conferences subscribe to <http://www.wiltonpark.org.uk/news>