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Speech at Expanded Meeting of the State Council on Russia's Development Strategy through to 2020

PRESIDENT VLADIMIR PUTIN:

Citizens of Russia,

Colleagues,

As I come to the end of this second term in office as President of the Russian Federation I think that I should speak about what has been accomplished over these last years and set out our long-term vision of the future.

As you well remember, the country was in a very difficult situation eight years ago. We had gone through a default and people had seen their savings devalued. Terrorists unleashed a large-scale civil war before our very eyes, insolently invading Dagestan and blowing up homes in Russian cities.

But the people responded with neither despair nor fear. On the contrary, our people closed ranks and drew together. Not only our military but society itself rose up to defend Russia, to defend our territorial integrity. Doctors and teachers who had not been paid for months loyally performed their duties. Workers, engineers and businesspeople all continued their work, trying to haul the economy out of its state of stagnation and collapse.

People had a clear and sincere desire to make the state stronger and change the state of affairs in the country. Today, I would like once again to thank everyone who gave us their trust and support back then. I have always felt and seen this support very tangibly and without it we would not have been able to accomplish a thing.

It was the will of the people and their direct participation in Russia's destiny that was the decisive force that enabled us to accomplish what we have over these last eight years.

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I would like to take a closer look at the state the country was in during the second half of the 1990s and the beginning of this decade.

I remind you that the terrorists' invasion of Dagestan was a direct consequence of Chechnya having essentially separated from Russia. We faced a situation where outside forces with an interest in weakening Russia and perhaps even bringing about its collapse were openly inciting the separatists.

In Chechnya itself a regime of terror was unleashed on the population, which saw civilians and religious authorities killed, a slave trade of which the local people were also victims, and hostage-taking. Emissaries from Al Qaeda oversaw terrorist training

camps. The self-proclaimed 'Congress of the Peoples of Ichkeria and Dagestan' declared the goal of establishing a fundamentalist caliphate from the Black Sea to the Caspian.

Absolutely open preparations were going on to carry out aggression against Russia and seize its age-old territories.

What could we respond with?

Our armed forces were demoralised and not prepared for combat. Military servicemen received a pittance, which even then was not always paid on time. Equipment was becoming outdated at an alarming rate. Our defence industry, meanwhile, was choked by debts and its human resources and production base were shrinking.

Russia itself had become a 'patchwork' of territories. The majority of regions had laws that contradicted the Russian Constitution. Violations in some cases were simply flagrant. There were regions, for example, that defined their status as that of a 'sovereign state associated with the Russian Federation'. Legal provisions were drawn up to justify the territorial claims regions held against each other. Let me remind you that there are more than 2,000 such disputed territories, and if we ever let ourselves be drawn into this carve-up in the future it would prove endless and would destroy the country. Just think: back then, you could be a citizen of one of the Russian regions but not be a citizen of Russia!

State power was ineffective. This was evident in the weakened state institutions and disregard for the law. Russian media outlets often acted in the interests of particular corporate groups, carrying out their economic and political orders.

A large part of the economy was in the hands of oligarchs or openly criminal organisations. Agriculture was in a state of serious crisis.

The country's finances were exhausted and we were almost completely dependent on foreign borrowing. This was what ultimately led to the 1998 default, which ruined many businesses and fuelled poverty and unemployment.

Inflation ate away at people's already low incomes. Inflation in 1999 was running at 36.5 percent. The beginning of 1999 also saw the peak of wage, pension and benefit arrears (some benefits were not being paid at all). Companies had wage arrears of up to two years.

Real incomes were only 40 percent of what they were in 1991, and pensions were even lower. The result was that almost a third of our population had incomes below the subsistence minimum.

What this means is that a third of our population had been left completely destitute.

The difficult economic and social situation and the loss of many reference values had dealt a severe psychological blow to our society. Social ills, corruption and crime all

strengthened their hold. The demographic crisis also worsened. The birth rate fell and the death rate rose.

Wealthy Russia had become a land of impoverished people.

It was in these conditions that we began to draft and implement our plan, our plan to extract Russia from this systemic crisis. Above all, we began work on restoring constitutional order, restoring people's basic social guarantees, and strengthening the state institutions.

Our guiding principle was that Russia's recovery could not be carried out at the expense of the people and at a cost of even further difficulties in their lives. People had already gone through too many hardships and trials in the 1990s.

Through considerable effort we succeeded in ending the war in the North Caucasus. Separatism retreated and although terrorism remains an acute threat, we dealt it a decisive and crushing blow. Chechnya is now a full-fledged region within the Russian Federation. It has held democratic parliamentary and presidential elections and has adopted a regional constitution. Its economy and social sector are developing today.

We have re-established a common legal space in the country. Regional laws have been brought into line with federal legislation, which in its turn has undergone serious development, including the systematisation of laws and the adoption of a whole series of codes.

Not only have we once more become a united country, but throughout these years we have worked purposefully to develop federal relations.

We have established a clear delimitation of powers between the federal, regional and local authorities. At the same time, we have transferred a large part of the responsibilities for social and economic development to the regional and local authorities and have ensured the corresponding financial and material base. This represents a substantial decentralisation of power. I know that there is still much to do, but we are now working in the right direction.

We have strengthened the material base and the real independence of the courts.

Throughout this period we have worked consistently on putting in place a stable and effective political system.

We have rid the country of the harmful practice that saw state decisions taken under pressure from commodities and financial monopolies, media magnates, foreign political circles and shameless populists, a practice that was not only detrimental to our national interests but that cynically ignored the basic needs of millions of people.

Now we can state with assurance that the time when people's political rights were ignored is over.

We are doing everything possible to ensure that our citizens can exercise their rights

in full through an effective system of responsible and honest government.

Finally, Russia has returned to the world stage as a strong state, a country that others heed and that can stand up for itself.

We have built up a substantial foreign policy capital that is now contributing to our country's development and working to protect the interests of our people and our national business.

I would like to quote a few figures. Over these last eight years total investment in the Russian economy has grown not by percentage points but has risen seven-fold. During the preceding period, annual net capital outflow was from \$10 billion and up to \$25 billion. But in 2007, we had record capital inflow of \$82.3 billion.

Stock market capitalisation has undergone a fantastic 22-fold increase compared to 1999. In 2006, this indicator put us ahead of Mexico, India, Brazil and even South Korea, which has been showing very rapid growth. The stock market was worth \$60 billion at the end of 1999, but by the end of 2007, it had risen to \$1.330 trillion.

Russia's foreign trade turnover has increased more than five-fold. More than 6 million Russian citizens go abroad every year.

All of these figures are evidence that Russia has entered a new era as a modern state that is open to the outside world, and open too to business and fair competition.

We have now completely restored the level of social and economic development that was lost in the 1990s. People's real incomes now exceed their pre-reform levels. The economy is growing steadily.

Last year, we had our best GDP growth result yet – 8.1 percent. According to the figures for 2007 (according to international experts' data), Russia is ahead of G8 countries such as Italy and France in terms of GDP as calculated on a purchasing parity basis, and is now one of the world's seven biggest economies.

We have begun major projects in the energy sector, transport infrastructure, machine-building and housing construction. We are carrying out structural reform in the aircraft manufacturing and shipbuilding sectors. We have attracted substantial investment to the car industry and railway equipment sector.

We have established state corporations with big financial and organisational possibilities in the economic sectors most sensitive for the state. The situation is also improving in agriculture.

Our children will no longer have to pay our old debts. The state foreign debt has shrunk to 3 percent of GDP – one of the lowest ratios in the world.

We have built up substantial financial reserves that protect our country from external crises and guarantee that we will be able to meet our social commitments in the future.

Overall, we have established macroeconomic stability and ensured our country's financial independence. As a result, Russia has witnessed a real investment and consumer boom over these last two years.

Real incomes have undergone a 2.5-fold increase over these last eight years and pensions have risen by almost the same amount. I am well aware of the inflation situation and the rising prices, but I repeat that real incomes have risen 2.5-fold. Unemployment and the level of poverty have undergone a more than two-fold decrease.

We have checked the falling birth rate and rising death rate. As you recall, we drafted a demographic programme not long ago. Many doubted that the state investments this programme called for would be of any use. Today I am happy to say that they have been of use. The birth rate grew faster last year than at time in the last 25 years, and more children were born in the country than were born over the last 15 years.

Positive changes are taking place in education, science and healthcare. The state has once again begun paying attention to national cultural issues.

New opportunities have opened up for developing professional and mass sports in the country. The selection of Sochi to host the 2014 Winter Olympics is confirmation not only of our sports and economic achievements but also of Russia's growing international influence.

Our biggest achievement is the stability that enables us to make our plans, calmly go about our work and start our families. People once more have confidence that life will continue to change for the better.

I repeat that we have achieved all of this together. All of this is the fruit of our daily labour, this important work that has changed the lives of our citizens and changed our country itself, a country of which we are deservedly proud.

Colleagues,

We have indeed accomplished much over these last eight years and still ... Still we cannot rest on our laurels and become complacent. We need to take an objective and realistic look at the situation and take a resolutely self-critical approach.

We now have the task of effectively using the experience and resources we have built up to move on to a new stage in our country's development.

We have drawn up a budget and approved a concrete development plan for the period through to 2010. Now we need to look beyond this horizon – look at least 10 years ahead. This is why we are here today to discuss the long-term strategy that will take us through to 2020. This is a most important choice for our society, the choice of direction our country's future development will take.

Although we have had some successes over these last years we have still not yet

succeeded in breaking away from the inertia of development based on energy resources and commodities. There is nothing wrong with developing the energy sector and increasing commodities production, on the contrary, developing a modern energy sector, the best in the world, and creating high-technology enterprises in the mining and natural resources processing sectors are among our unquestionable priorities.

But even with the economic situation in our favour at the moment, we are still only making fragmentary attempts to modernise our economy. This inevitably increases our dependence on imported goods and technology and reinforces our role as a commodities base for the world economy. In the future, this could lead to us lagging behind the world's big economic powers and could push us out from among the world leaders.

If we continue on this road we will not make the necessary progress in raising living standards. Moreover, we will not be able to ensure our country's security or its normal development. We would be placing its very existence under threat. I say this without any exaggeration.

The only real alternative to this scenario is to follow a path of innovative development based on one of our biggest competitive advantages – realisation of our human potential. We need to make full and effective use of people's knowledge and skills so as to continuously improve technology, improve our economic results and raise the quality of life in our society in general.

But I want to make it absolutely clear that the pace of innovative development must be substantially faster than it is today.

Yes, this is the more complicated road. It is a more ambitious undertaking and it requires the state, the business community and the whole of society to make the utmost effort, but we really do not have a choice.

What choice can there be between the opportunity to become a leader in economic and social development, a leader in ensuring our national security, and the threat of losing our economic standing, losing our security and ultimately even losing our sovereignty?

Russia must become the country offering the best life, and I am sure that we can achieve this goal, not by sacrificing the present for some radiant future, but by working day by day to improve people's lives.

The transition to an innovative development path calls above all for large-scale investment in human capital.

Human development is the main goal and essential condition for progress in modern society. This is our absolute national priority now and in the future.

Russia's future and our success depend on people's education and health and their desire to improve themselves and make use of their skills and talents. I am not saying this because presidential elections are just around the corner. This is not a campaign slogan. This is vital for our country's development. Russia's future depends on our citizens' enthusiasm for innovation and on the fruit of the labours of each and every individual.

Developing the national education system is a key part of global competition and one of the most important values in life. Russia has everything: a wealth of traditions and the immense potential needed to make our education system, from schools to universities, one of the best in the world.

The education system should encompass the most up-to-date knowledge and technology. In the coming years we will need to make the transition to a new generation of education standards that meet the needs of the modern innovative economy. The Education Ministry is working now on these standards. I would like discussion on these standards to take place in society as a whole. What we need are modern standards.

The education sector should serve as the base for expanding scientific work. Science, in its turn, has substantial educational potential. We need to provide assistance to talented young people actively engaged in research work, help them to integrate successfully into the scientific and innovative environment.

We are in third place in the world for the number of scientists and we are one of the world leaders for state spending on science, but we are still a long way from the lead in terms of results. This is a direct consequence of insufficient interaction between scientific and educational organisations, the state and the business community, and insufficient private investment in science.

The state must encourage the business community to invest in research and development. The increasing state resources invested in science must be used as effectively as possible and concentrated on fundamental and cutting-edge areas of research, above all in areas that are crucial for our national security and our people's health.

One in every two men in our country does not live to see the age of 60 today. This is a disgrace. Our population is declining with every passing year.

I think that we will succeed in stabilising the population over the coming 3-4 years, although some of our experts, including in the Government, forecast that this would be possible only in 10-12 years time.

We need to do everything in our power to bring about a more than 1.5-fold reduction in the death rate, and to raise the average life expectancy to 75 years by 2020.

This calls for serious systemic change to the way our healthcare system is organised. It also calls for modernisation of our healthcare facilities and a quality improvement in human resources in the healthcare sector.

We need to create the conditions that will give people the possibility and the desire to look after their own health through disease prevention and getting involved in physical culture and sport.

Of course, we also need an effective family support policy. The important decisions and new measures we have taken lay the foundations for this policy. One of our most important tasks is that of building housing and putting in place the conditions that will enable people to find independent solutions to their housing issues.

We must also remember that economic growth and rising incomes will create increased demand for education and healthcare services. For these sectors to be able to meet growing public demand, the main criteria for financing must be the quality and amount of services they provide.

We need to make more active use of tax mechanisms to encourage investment in developing human capital. This requires us to exempt from taxation as much as possible companies' and citizens' spending on education, medical insurance, and co-financed pension schemes.

We need to ensure that all of our country's citizens, using their knowledge and skills, and with the state's help where needed, have the possibility of receiving quality education, looking after their health, buying a home and receiving a decent income, attaining the living standards of the middle class, in other words. I think that the middle class should make up at least 60 percent and perhaps even 70 percent of our society by 2020.

We need to begin closing the income gap right now. The 15-fold income gap that we currently have is unacceptable. But this does not mean that there should not be incentives for professional and creative self-realisation. We do not want a system that pulls everyone down to the lowest common denominator.

Russia must become the leader in terms of possibilities for career growth and opportunities for people to raise their own social and material status over the course of their lives. Russia must be the leader in encouraging talent and success.

All who want to work should have the chance of earning a decent wage, and the chance too to save enough money to maintain their standard of living after retirement.

At the same time, it is very important that today's pensioners and disabled people, who do not have such opportunities, receive decent pensions and benefits.

Finally, while on the subject of high living standards, we must also not forget about personal and public security in the broadest sense, security that ensures reliable protection of people's lives and property, a safe and clean environment, safety in the transport and housing and utilities sectors and effective prevention of man-made disasters.

Of course, in our work to develop human capital we should also draw on the wealth

of Russian culture and on its unique achievements and traditions.

All of this together constitutes a society that offers real and equal opportunities, a society without poverty, a society that guarantees the safety of all its citizens. Creating this society should be our goal and I am sure that we succeed in our objective.

Colleagues,

We face new and even more complicated economic policy issues today.

The Russian economy's biggest problem today is that it is extremely ineffective. Labour productivity in Russia remains very low. We have the same labour costs as in the most developed countries but the return is several times lower. This situation is all the more dangerous when global competition is increasing and the cost of qualified labour and energy resources is also on the rise.

Carrying out innovative development will enable us to substantially increase labour productivity. The main sectors of the Russian economy need to achieve at least a four-fold increase in labour productivity over the next 12 years.

In our work to make our economy radically more effective we also need to put in place incentives and conditions for progress in a whole number of different directions. This calls above all for the creation of a national innovative system based on all of the different state and private institutions supporting innovation.

This also calls for strengthening and expanding our natural advantages. We need to develop the basic sectors of our economy, including natural resources processing, and we need to make use of our energy, transport and agricultural potential.

This calls for large-scale modernisation of production facilities in all economic sectors. This requires a completely new quality of business management and completely new technology, above all machines and equipment. In most cases, the best technology is energy effective and energy conserving technology, economical and environmentally friendly technology.

One of the most important areas is that of developing new sectors that are able to compete globally, above all the high technology sectors that are leaders in the 'knowledge economy', in aircraft manufacturing, shipbuilding and energy. This also requires us to develop information, medical and other new technology.

We must continue our work to build new and modernise existing roads, railway stations, ports, airports, electricity stations and communications systems.

It is essential to develop the financial infrastructure and bring it up to a level that meets the economy's growing demands. Ultimately, Russia must become one of the world's financial centres. Given our gold and foreign currency reserves (which stood at a little over \$484 billion a few days ago), this would be a natural development.

Incidentally, silly rumours are going round that the rouble is going to be re-denominated. This is complete nonsense. In the current situation it would be foolish and impossible.

Overall, we need to develop market institutions and competitive environment that will motivate companies to cut costs, modernise production and respond flexibly to consumer demand.

We need to create thousands of jobs for highly qualified workers, jobs that make use of people's intellectual potential.

At the same time, the state must be active in helping people to change profession, find employment or start up their own business. This depends directly on establishing an effective system of ongoing learning and professional training and re-training. It also depends on creating a comfortable environment for small businesses. At the moment, small businesses work in very difficult conditions. It is awful what federal bodies in the regions with the support of regional and local authorities do. One can not start one's business for months. People have to give bribes in every controlling institution – fire prevention, environmental services, medical permissions – you need to go to all of them, and it's just terrible.

I will repeat, in our work in these various specific areas of social and economic policy we need to concentrate our efforts on resolving three key problems.

First: give everyone equal opportunities.

Second: create the motivation for innovative behaviour.

Third: radically increase the economy's effectiveness, above all through raising labour productivity.

If we succeed in achieving these objectives Russia will join the ranks of the world's technological leaders.

Clearly, achieving these goals places new demands on public administration. The state needs to set clear development objectives and establish a goal-oriented system. Real results in building an innovative society should be the main evaluation criteria for the state's overall performance.

But the state system today is weighed down by bureaucracy and corruption and does not have the motivation for positive change, much less dynamic development.

We need to do away with the excessive administrative pressure on the economy that has become one of the biggest brakes on development.

We need to establish competitive conditions for attracting the best and the brightest into the civil service, and make them more accountable to society.

One of the biggest problems in state management today is the excessive centralisation. The Government takes months and even years to take even the most elementary decisions. Formally speaking, everything is carried out correctly, according to the rules, but this is a case when the whole procedure, the order itself, lead to an absurd.

The Government should be the centre for coming up with the ideology and the strategic plans. It should approve federal programmes with clearly defined objectives, evaluation criteria and amounts of resources required, but it should not get involved in all the particularities and get bogged down in all the minute details.

The ministries should really manage the resources entrusted to them and independently issue the legal acts necessary for this work, as indeed was the initial plan of administrative reform.

The hallmarks of tomorrow's public administration system should be independence and responsibility, dynamic movement forward, adherence to the country's general development principles, effective resource use, bold and original decisions, support for initiative and innovation, a healthy flow of human resources, competence and broad horizons.

This approach should be the foundation not only for the state administration system but for the entire public sector and for all enterprises under the control of the state and local authorities.

The public sector employs around 25 million people (more than a third of the total workforce). This sector receives trillions of roubles in state investment and current state expenditure. We must therefore work in constant and purposeful fashion to improve performance in the public sector, which forms the backbone of the state as a whole.

It is also clear that the state cannot support and does not need such an enormous public sector. These numerous establishments and organisations should be able to work in a market environment and receive payment for their results and not simply for the fact that they exist. Their managers should bear personal responsibility for the quality of management.

We need to make use of the possibilities that exist for bringing private capital into the state sector, whether in industry or in the social sector.

A private company motivated to be effective will often be better manager than a government official who doesn't always have an idea what is efficient management and what the effect must be.

We also need to simplify the tax system and minimise possibilities for arbitrary interpretation of the law. We need to introduce tax incentives for innovative development. Overall, we need to work towards further reducing the tax burden and

setting a single VAT rate that is as low as possible.

We need to continue our work to establish an independent and effective judiciary that unquestionably guarantees entrepreneurs' rights, including the right to protection from arbitrary action by bureaucrats.

Finally, the state must ensure it has sufficient instruments at its disposal to ensure macroeconomic stability even in an unstable situation on world markets.

The result of this work will be to establish in Russia a competitive and comfortable environment for investment (above all in the high-technology sectors) and for doing business.

Implementation of an effective regional policy is one of the most important areas of modernising state administration.

Today we see increasing social and economic disparity between the different regions, and there are more regions at the bottom of the scale than at the top. The disparity between regions for most of the main parameters is phenomenal, in some cases a dozens-fold gap.

We need to work over these coming years to implement a new stage in regional policy aimed at ensuring not just formal but real equality between the different regions. Each region should have the resources it needs to ensure decent standards of living for its people and carrying out comprehensive development and diversification of its economy.

The development of new social and economic development centres in the Volga region, the Urals, Southern Russia, Siberia and the Far East has an important part to play in this work, as do the creation of a network of innovative regional production centres and the improvement of the transport and energy infrastructure.

I am convinced that only a balanced regional policy will enable us to ensure harmonious development throughout the country as a whole.

Colleagues,

The desire of millions of our citizens for individual freedom and social justice is what defines the future of Russia's political system. The democratic state should become an effective instrument for civil society's self-organisation.

This is work that will unfold over a period of years, work that will continue with the help of educational activity and the cultivation of a culture of civic spirit. Raising the role of non-governmental organisations, human rights ombudsmen and public councils will contribute to this work, as will the development of a multiparty system in Russia.

Russia's future political system will be centred on several large political parties that will have to work hard to maintain or affirm their leading positions, be open to change and broaden their dialogue with the voters.