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ANALYSIS

Russia's Use of Sport in Regional Development Policy

By Ben Aris, Moscow

Abstract

Russia has launched a 1 trillion ruble (\$33bn) investment programme to modernize its infrastructure. However, plagued by corruption and bedevilled by red tape and inefficiency, the Kremlin has framed much of its regional development programme in the context of hosting international sports events. The hope is that external deadlines and quality standards will add a layer of control that will ensure this investment is spent more widely and efficiently than in the past.

After nearly two decades of neglect Russia's infrastructure is in desperate need of renewal and repair. The Kremlin has aggressively and successfully bid for the right to hold several major sporting events, which it hopes will serve as a vehicle for regional development. Russia has plenty of money to invest in infrastructural development, but what it lacks—and what the sporting events provide—is some discipline in making these investments effective. In addition, Russia's successful bid to hold the 2018 World Cup will win Russia some sorely needed prestige after over a decade of Russia-bashing by the international media. As Prime Minister Vladimir Putin told journalists following the announcement of Russia's winning World Cup bid, "Russia loves football, Russia knows what football is and in our country we have everything to conduct the 2018 World Cup at a very worthy level". Highlighting the link between hosting international sports events and Russia's infrastructural development strategy, he added that "the decision corresponds with FIFA's philosophy of developing football, especially in those regions of the world where that development is needed."

Before the current economic crisis struck in 2008, Russia's growth was close to becoming constricted by infrastructural bottlenecks: Russia ranks 125 of 139 countries in terms of the quality of its roads according to the World Bank; in 2008 power supply and demand was evenly matched with blackouts occurring; only two of the country's biggest ports along Russia's vast 37,000 km of shoreline are connected to the federal road grid; most of the rolling stock on the rail network has reached the end of its useful life, or is close to being so; only 60% of landing strips are paved, while only 48% have lights; and despite the start of a new millennium, Russians still undergo the ignominy of cold showers for a month in the summer, during which time all the country's hot water is turned off for annual repairs to plumbing.

The economic contraction that followed the global meltdown in 2008 has brought some relief and bought the government more time, but as Russia's economy comes out of the other side of the financial crisis (growth

in 2011 will be between 4% and 5% according to analysts) all these problems will return—and soon.

The reason that infrastructure has been allowed to fall into disrepair since the collapse of the Soviet Union in 1991, is that the government's number one priority has been to get inflation under control. Tariffs were squeezed, cutting utilities (the so-called *energос*) off from investment capital. At the same time, part of the Finance Ministry's motivation for siphoning off most of the windfall gains from the burgeoning oil export revenues was to sterilise the petrodollars and also contain inflation. Only a small amount of the hundreds of billions of petrodollars flooding into Russia in the last decade have actually been spent.

Everything changed at the start of 2008 when inflation fell to single digits for the first time in Russia's modern history. The battle was won. The Kremlin immediately changed tack and announced a massive \$1 trillion investment programme. This compares with the \$16 trillion the US needs to spend and the \$40 trillion all developed markets need to spend, according to Renaissance Asset Managers (RAM).

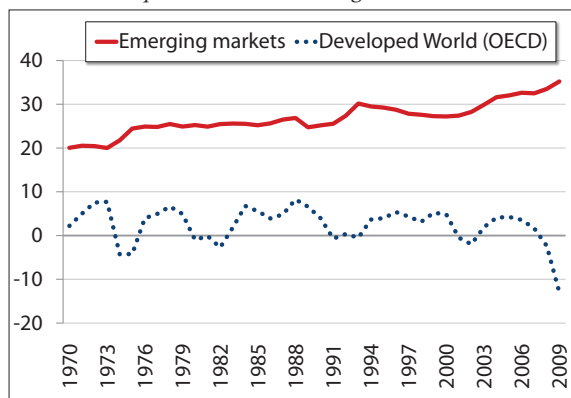
The Kremlin has already done much of the necessary groundwork. The state-owned utilities monopoly United Energy Systems (UES) has been broken up and partly privatised. The rail monopoly Russian Railways (RZD) has also been transformed into a joint stock holding company and a start had been made in reorganising it into rational pieces. A road fund has been set up and is already functioning, which will be financed by a new one ruble duty on gasoline sales. And plans to reorganise ports, airports and roads were also well in hand. Hence, in 2008 everything was more-or-less ready for investors.

Infrastructure Investment

By launching this infrastructure drive in 2008, the Kremlin was cutting it fine, but not so fine that the lack of infrastructure was impacting growth. Prior to the 2008 crisis, the global gross fixed investment (which is largely made up of infrastructure investment) to GDP ratio was about 23%, according to Russian investment bank Troika Dialog and in fast-growing emerging mar-

kets it was closer to 30%. As a general trend, investment in infrastructure within the emerging markets has been accelerating over the last decade, as these countries “emerge”, while infrastructural investment in developed markets is falling—and falling faster now that the developed world is struggling under a massive increase in debt.

Gross Fixed Capital Formation, Change in % Year on Year



Source: Renaissance Capital

In Russia the rate of growth of fixed investment fell to 15% in 1998 and only caught up to the global average in 2007. Then, as the subprime debacle began to unwind in 2008, fixed investment started falling again, going negative in 2009. More specifically, the infrastructure investment/GDP ratio in Russia has been on the low side at around 4–5% of GDP compared with the Growth Commission's (a World Bank-sponsored organization) estimates of a necessary level of 5–7% to sustain economic growth. By comparison, China spent 8% of GDP on infrastructure in 2007, according to Troika. In all, Troika estimates the infrastructure investment backlog in Russia is nearly three times GDP.

However, as Russia's economy starts to recover, investment is picking up fast. Takouhi Tchertchian, who runs RAM's Infrastructure fund, has pointed to the fact that for the next few years, investment—and specifically infrastructure investment—is expected to grow at twice the pace of the overall economy. In other words spending on infrastructure will become a major economic driver in the near term and could add as much as a couple of percentage points to the underlying economic growth, according to figures from RAM.

Russian GDP Growth 2008–2012

YOY growth	2008	2009	2010	2011F	2012F
Real GDP growth	5.6%	-7.9%	4.0%	4.9%	4.6%
Industrial Production	2.1%	-10.8%	8.2%	3.9%	5.7%
Fixed Investment	10.3%	-17.0%	6.0%	8.0%	10.0%

Source: Renaissance Capital

Sporting Chance

The challenge Russia faces is not how to finance all this spending or even making sure that the spending is efficient. Thanks to its oil revenues, Russia can afford to waste money and spend poorly. The most important issue that Russia must address is ensuring that the money spent leads to the creation of high-quality infrastructure. Even if it costs ten-times as much to build a road in Moscow as it does in Berlin (which it does), the key is that at the end of the process the road has to be a good road. And that is where the Russian government always falls down. The plans are good, but the Kremlin has always had a problem with implementation.

The Kremlin is attempting to get around this problem by hosting major sports events. The beauty of this plan is that in addition to a major overhaul of the infrastructure in the regions that will hold these events, there is a fixed deadline by which time the work must be complete and the results must meet international quality standards in the eyes of external inspectors. Moreover, because of the prestige associated with holding these events, the Russian companies doing the work understand that the glare of the international media will be on them, and that the consequences of failing to meet these standards will be severe.

This strategy was trialled with Russia's successful bid to host the 2014 Winter Olympics in Sochi, on the shores of the Black Sea. Tchertchian, who recently travelled to Sochi to inspect the current preparations, reports that most of the construction is well in hand. “Progress has been good and most of the major works are well underway,” says Tchertchian. “Moreover, some of the construction methods being employed are very progressive. Olympstroy [the state agency that is overseeing the work] says this will be the greenest Olympic complex ever built. Most of the stadiums are using solar panels for power. The materials are also high tech. And many of the facilities have been built in movable segments like giant Lego so that after the games are over the foundations and utilities remain, but the site can be redeveloped and turned into something else.”

Prime Minister Vladimir Putin has personally spearheaded the effort, with preparations begun even before Sochi was chosen as the host city in 2003. Most observers believe that Russia won the right to host the games because of the sheer will and power of Putin himself, who personally oversaw the presentation efforts. When Putin met with the Olympic committee panel to present Russia's case, he was flanked by Oleg Deripaska and Vladimir Potanin, two of Russia's richest men. After six years of planning and construction, Potanin, the controlling shareholder of Norilsk Nickel, has already invested \$1bn in developing Roza Khutor, which has

been expanded from a ski resort to a huge multifunctional complex for the 2014 Olympics. Roza Khutor was supposed to host competition for ten sets of Olympic medals: downhill, super G, giant and combined slalom. The Putin administration then instructed Potanin to prepare the complex for Olympic competition in two more disciplines—snowboarding and freestyle. Potanin will also build an Olympic village for 2,900 sportsmen, which constitutes almost half of all expected athletes; the other Olympic village, built by Oleg Deripaska in the Imeretinsky valley, is designed to accommodate 3,000. He has also bought the local airport, which is being expanded to handle international flights.

There have been some reports of corruption and delays, but Putin has personally knocked heads together and, at this point, progress on the Sochi development seems to be smooth, with more and more of Russia's business elite becoming involved.

Football and Trains

In spite of the importance of the Sochi Winter Olympics, the real coup was Russia's successful bid to host the 2018 World Cup. Football is a popular sport in Russia, but Russia (and the Soviet Union before it) has never done particularly well in the tournament, failing to qualify several times and never getting beyond the quarter finals.

As part of the bid, the Russian government promised FIFA it would spend at least \$10bn to develop the infrastructure in 14 cities—13 in European Russia, in which 80% of the country's population live, and Yekaterinburg in the Urals. However, in practice the Kremlin is actually planning to spend at least five times that amount on related work, which will all be done within the framework of preparations for the tournament.

The infrastructural preparation and development plans for the World Cup represent a massive expansion of the Sochi model. Russia has been directly challenged by China, which hosted the last Olympics and more recently the World Expo, winning acclaim for both by spending billions on these shows; the Shanghai Expo brought in a record 72m visitors—and that is the point of these events: they are supposed to be a coming-of-age party.

In Russia, the roads, bridges, rail, airports, ports and sports facilities will all be brought up to world-class standards. RAM's Elena Kolchina argues that "this will substantially increase productivity, employment and increase economic growth. Historically, large infrastructure spending has tended to add a 1–2% non-cyclical layer to trend growth. On the back of this and high commodity prices, Russia can re-join the club of the high-growth countries in the world".

Inevitably commentators are asking: "Will Russia pull it off?" There is not a lot of past experience to judge this against. So far the only big international event that Russia has hosted is the Eurovision Song Contest a few years ago (this went very well indeed according to participants).

The new infrastructure should bring enormous material benefits to the local economies in the host cities. The US Department of Transport estimates that each dollar of highway investment in America leads to \$6.20 of GDP growth and given that Russia's roads are so far behind the multiplier, in Russia this will surely be a lot higher. But just as important, and a lot harder to forecast, is the intangible benefits that hosting these events will bring, mainly connected to having hundreds of thousands of foreigners visiting Russia for the first time.

Following the World Cup decision, Putin pointed out that the Cold War had left an enduring stamp on the world's view of Russia, and this "flies all over Europe, all over the world, buzzing in people's ears and scaring them". He added that "we must show that we are open ... People will come and see for themselves. The more contacts, the faster that stamp is destroyed." A large part of Russia's bad international image is the result of sheer ignorance about what Russia is like. In a comparable case, Germany found that it earned a huge amount of credit from hosting the World Cup in 2006, which was seen as acting to counteract much of the lingering prejudice against Germany from the Second World War. Football fans that visited Moscow in 2008, when the city hosted the European Champions League final, had, for the most part, only good things to say about the trip.

While the western press continues to paint a picture of Russia as a fascist police state populated by paupers and under a perennial blanket of snow, the reality is that the people are intelligent, well educated, hospitable in the old school style, and fun. The huge influx of visitors that any World Cup brings will do more for Russia's image than any marketing campaigns can hope to achieve. And the charm campaign has already started. The Kremlin has promised to waive visa requirements for anyone with a World Cup ticket and will also offer free internal flights to allow fans to travel around the country to get to matches (which by itself will engender a lot of good will).

Also, the practical results are already materialising. The Kremlin is currently focussing its attention upon reforming the railways, a process which is now well advanced. In addition, the World Cup decision was shortly followed by an ambitious plan to build a high-speed rail network. The first Sapsan (Russian for Peregrine falcon) high speed train began to operate between Moscow and St Petersburg in December 2009

and plans for an extended network were rolled out in January 2011. The Moscow–St. Petersburg train cuts the journey time between Russia's two main cities (and the two biggest cities in Europe) to just 3.7 hours from 8 hours, and RZD says it will spend a total of €50bn (€14m–€22m per km) on several more routes before 2018. Total investment into the Moscow–St Petersburg track will be €10bn–€15bn, with a third coming from private sources.

The next high speed route will link Moscow and Nizhny Novgorod, with several more routes due to appear this year. Speaking to reporters on 28 January, Denis Muratov, CEO of RZD's High-speed Rail Lines unit, said that 660km of new routes should be up and running by 2017, which will link the capital with the host cities of Samara, Kazan and Yekaterinburg.

Analysts at VTB Capital in Moscow state that “the estimated cost of the high-speed train network suggest that World Cup spending could reach about \$85bn (\$65bn for trains plus roughly \$20bn for stadiums and related infrastructure, as estimated in December 2010 by Minister of Finance Alexey Kudrin).” Furthermore, they note that “the announced preliminary estimates of the World Cup costs exceed our initial expectations of \$50bn and support our view that the government's preferences are shifting towards higher infrastructure spending. This, coupled with the close to zero real interest rates, would help to boost investment, which we see as the key GDP growth driver in the near term.”

About the Author

Ben Aris is the editor/publisher of Business New Europe (<http://www.bne.eu/>), an online news resource and publication covering business, economics, finance and politics in Central, Eastern and Southeast Europe and the former Soviet Union.

Further Resources

Ongoing analysis of Russia's infrastructural programme is available by signing up to BNE's free fortnightly newsletter, covering Russia and the CIS. Back issues can be found at: <http://www.bne.eu/dispatchList.php?code=Infrastructure>. To register to receive the newsletter please go to: <http://www.bne.eu/users/register.php>

ANALYSIS

The Olympic Games in Sochi: Infrastructural and Security Challenges

By Valery Dzutsev, Maryland

Abstract

The 2014 Winter Olympic Games in the seaside resort city of Sochi has become a unique self-imposed burden for Russia. The massive preparative works for the Olympics have highlighted the state's incapacity to manage vast construction and infrastructure projects effectively. The proximity of the Sochi Olympics site to areas of militant activity in the North Caucasus poses security risks for the games' visitors that can hardly be ignored. In addition, the Olympic games in Sochi have revived a skeleton in Russia's closet—the Circassian genocide issue, a people that once occupied the lands around Sochi, but were partly exterminated and driven out by the Russian empire in the 19th century.

Sochi Olympic Paradoxes

Russia is known for its cold weather, which was supposedly one of Russia's competitive advantages in the contest for the right to host the 2014 Winter Olympics. Yet, the Winter Olympics in Russia will take place in the warmest part of the country, which is referred to as the only area in Russia with a subtropical climate. The average temperatures in Sochi in January are above +5°C, even though

the nearby mountains provide slightly colder weather during wintertime. This is just one of several paradoxes about the Winter Olympic Games in Sochi in 2014.

The initial costs associated with preparing the necessary infrastructure for the Olympics in Sochi were estimated at \$12 billion. Then the number rose to \$15 billion. Now the official estimate by the Russian Ministry for Regional Development exceeds \$30 billion, with most

of this money coming directly from the state budget. It is likely that even this enormous amount of resources may not reflect the true cost of the Olympics for Russia. *Vedomosti*, a business-oriented newspaper, reported in October 2010 that the Russian government's Audit Chamber tried to provide an accurate estimate of the Olympics' costs, in order to undertake an advance assessment of the state budget for 2011–2013. During this process, the Audit Chamber initially discovered that six government ministries and agencies would spend over \$11 billion across the next three years on preparations for the Sochi Olympics. However, eventually the Chamber revealed other hidden costs, outlining that fourteen state bodies were to spend a further \$5 billion of government funds in the same period.

The cost of the Sochi Winter Olympics will surpass those of the previous Winter Olympics in Vancouver and other previous host cities by the huge margin of 10s of billions of dollars. According to experts, the scale of these costs is explained by corruption, the low efficiency of the construction firms and, most importantly, the selection of the wrong venue to host the 2014 Olympics. On March 15, 2011 a further revelation about the Sochi Olympics emerged within the Kremlin. President Medvedev was told by his administration that the building materials at the Sochi construction sites are overpriced by 100%. Medvedev ordered Prime Minister Putin "to sort out" this issue, but it is hard to discern the government's alacrity to do so. Reports of corruption around Sochi have flooded the Russian press during the past couple of years, but yielded little result.

Sochi is squeezed between mountains and the Black Sea, restricting transportation within the city. To provide a reliable way of transferring the thousands of visitors for the Olympics from the city of Sochi to the lowlands amidst the mountains, in which many of the events will be held, a high-tech road combining railway and highway capabilities is being built in the area. This 50-km road alone costs over \$7 billion, which represents about \$150 million per kilometer.

Government officials state that their plans for the Olympics in Sochi will also provide developmental benefits for the whole area, which has bright tourism prospects because it is the only warm seaside area in the whole of Russia. Sochi's current population is about 400,000 and the government expects it to rise up to 800,000 by 2014. However, Sochi is known by Russians as a summer seaside resort, and it is very unlikely that Russians from Siberia will flock to Sochi to ice-skate in a city in which they would normally expect to find warmth and sunshine.

In May 2010 leading Russian opposition figures, Boris Nemtsov and Vladimir Milov, unveiled a stinging

report on the government's handling of the preparation for the Sochi Olympics. The official body that oversees the construction works, *Olimpstroi*, states on its website that both president Dmitry Medvedev and prime minister Vladimir Putin "personally control" preparations for the Sochi Olympics. According to the opposition, the expenses incurred thus far are not only unjustified, but they are also manifestly unsustainable in the long run. The report warned that the newly built infrastructure would certainly lay desolate after the Olympics have concluded, and thus precious resources would be wasted. An estimated 200,000 seats will be available for the visitors at the Olympic sites in 2014, yet currently Sochi has only 400,000 inhabitants.

Putin's Soldiers

Ural Mining and Metallurgical Company (UMMC) came up with an innovative approach to ensure that the Olympics facilities are put to good use after the games are over. This big Russian holding firm has proposed that it will build a Small Ice Palace in time for the Olympics and then disassemble and move it to another city. UMMC's *modus operandi* provides a rare glimpse of how Moscow is trying to overcome the challenges it faces in preparing for the Olympics. The Russian billionaire Iskander Makhmudov is believed to be the main beneficiary of UMMC. Reportedly Makhmudov received his first experience in international trade while working for Soviet government agencies. Back in 2002, the Russian news agency RIA-Novosti quoted Makhmudov as saying "we are all Putin's soldiers" (sic), when he was asked whether his company would be willing to help out one of Russia's regions.

There have been conflicting reports on where exactly the Small Ice Palace would be installed after the Olympics are over. Initially, UMMC planned to move it to Yekaterinburg in the Urals, where the company is headquartered. However, because of the massive public protests against pollution coming from UMMC's key factory in Vladikavkaz, North Ossetia, the management appear to have changed their mind, and are planning to move the Ice Palace to Vladikavkaz. On December 28, 2010 at a meeting with the North Ossetian governor, among the first questions of Prime Minister Putin was "UMMC-Holding will work [in North Ossetia], yes?" The factory in question, *Elektrozink*, is a 100 year-old facility situated in the central part of the 300,000 plus city of Vladikavkaz and is blamed for inflicting considerable damage on the region's environment and the local population's health.

The reciprocity between the Russian government and big businesses appears to be fairly straightforward. The businesses carry out government projects, especially

such critical ones as preparing Sochi to host the Olympic Games, taking on the financial burden and managerial risks. The government in response protects the businesses and enables them to capitalize by allowing them to bypass environmental and, possibly, other types of legislation. While this type of relationship between government and big business may look quite familiar to a western observer, the profound singularity of the contemporary Russian model, which is one of highly personified patronage, resembles a feudal fiefdom more than a modern state. This also explains why the challenges from corruption are so great in the country and the government's fight against corruption is so futile.

Circassian Challenge

Russia's plan to host the 2014 Winter Olympics in Sochi revealed a darker side of the area's recent history, which has cast a shadow over hosting future sporting events, as well as sparking hot debates in the Caucasus region and beyond. Before the Russian conquest of the Caucasus in the 19th century, the Sochi area, along with the whole of the North-Western Caucasus, was home to numerous Circassian tribes. The expansion of the Russian empire into the North Caucasus unsettled the Circassian populace and fundamentally altered the ethnic make up of the Black Sea coastal areas. Following the defeat of the Circassian armies in the second half of the 19th century, the vast majority of Circassians (an estimated 90%) were either killed, died of artificially imposed hunger or deported to the Ottoman empire.

Currently the Circassians, also known as Kabardins, Cherkess, Adyge and Shapsugs, primarily live in five regions of the North Caucasus, the Republics of Kabardino-Balkaria, Karachay-Cherkessia, Adygea as well as Krasnodar and Stavropol *krai*. The Circassians only comprise a clear majority of the population in Kabardino-Balkaria. Sochi is part of Krasnodar *krai*, which is predominately inhabited by ethnic Russians. In the past the Circassians dominated the whole area of Krasnodar *krai* and further afield, but now comprise less than 0.5% of the *krai*'s population. In total, the number of Circassians currently living in their homeland in the western part of the North Caucasus is about 0.7 million, as opposed to 5–7 million Circassians living in Diasporas abroad.

Ironically, the place where the Russian imperial army marked their defeat of the Circassians with a parade in 1864 is set to host most of the Olympic events, exactly 150 years later. In response, Circassian activists scattered across many countries, such as Turkey, Jordan, Syria, Germany, U.S.A. and Israel, have demanded that the 2014 Olympics be moved from Sochi. The activists claim that the horrors and the hardships inflicted by the

Russian empire on the Circassians qualify as "genocide" and therefore that the modern Russian state, as the self-proclaimed heir to the then Russian empire, must apologize and show a willingness to alleviate its consequences.

There is substantial historical evidence that supports the claims that the Russians committed atrocities in Circassian-inhabited areas during the 19th century. Russian generals, officers and travelers at that time had very little hesitation in describing the Russian state's punitive actions in the region. British journalist Oliver Bullough, in his recently published book 'Let Our Fame Be Great', labels these events as "the first genocide in Europe". The Russian side predictably dismisses these claims and there seems to be little pressure internationally to scrutinize the issue in depth.

However, at least one country in the vicinity of Sochi, Georgia, unexpectedly revealed its interest in inspecting the Circassian genocide issue in March 2010 and stated that if it found the claims to be justified would recognize Russians actions against the Circassians as genocide. Since this announcement, no recognition has followed, but the Georgian parliament is reportedly still working on the issue and may recognise the claims of genocide in the future. Indeed, following the Russian–Georgian conflict in August 2008, Georgia drastically reviewed its official view of the North Caucasus, announcing its proactive approach to the region.

North Caucasus' Simmering War

The international community may well choose to ignore the calls to hold Russia to account for the Circassian "genocide", but it cannot afford to turn a blind eye to the rapidly deteriorating security situation in the North Caucasus Republics, which are in close vicinity to the 2014 Olympic sites. Dagestan, Chechnya, Ingushetia, Kabardino-Balkaria all experience frequent attacks by separatist-minded Islamic militants. According to the Russian human rights center, Memorial, nearly 300 Russian law enforcement and military members died in attacks by militants in 2010. In relation to Sochi 2014, a very important development is that in the past year the violence has spread to Kabardino-Balkaria, which had been relatively unaffected previously. Kabardino-Balkaria is currently the western-most unstable Republic in the North Caucasus, and the situation there has the potential to influence the two other Circassian-populated Republics—Karachay-Cherkessia and Adygea. The latter two are adjacent to the Sochi region.

In January 2010, Medvedev created a special North Caucasus federal district. This move separated all of the Republics with major security challenges from the rest of the Southern federal district, in which the 2014 Winter Olympics are to be held. However, a double

suicide attack in Moscow on March 29, 2010, which killed 40 people and another suicide attack at the biggest airport in Russia, Domodedovo, on January 24, 2011 made Moscow's attempts to separate the conflict-ridden regions from the rest of Russia look unconvincing, especially for nearby Sochi. In 2010, militants attacked two hydroelectric plants, one in Kabardino-Balkaria and one in Dagestan, as well as numerous attacks on officials. In addition, tourists were killed in Kabardino-Balkaria and tourism-related infrastructure was targeted in February 2011. With these actions, the North Cauca-

sus insurgency proved its vitality and ability to launch many different types of attacks, and according to the current trend, are widening their actions across more and more of the territories in this volatile region. The Sochi Olympics will almost certainly be seen by the North Caucasian militants as a very lucrative target. Against this background, the Russian government has offered little reassurance to potential visitors to the Olympics, and thus currently anyone planning to attend the Olympics should be aware of this threat.

About the Author

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ANALYSIS

World Champions Bred by National Champions: the Role of State-Owned Corporate Giants in Russian Sports

By Markku Jokisipilä, University of Turku

Abstract

According to Vladimir Putin's "national champions" policy, Russian corporations in strategic sectors should serve national interests. A fascinating aspect of this policy is the Kremlin's recruitment of corporate giants, such as Gazprom and Rosneft, to fund Russian sport. International sporting success and the hosting of high-profile sporting events, especially the Sochi Olympics in 2014 and the FIFA World Cup in 2018, are seen as invaluable tools for signaling Russia's return as a great power. With its unrivaled track record of victories during the Soviet era, the Russian national ice-hockey team is viewed as having special importance by both Putin and Medvedev.

In his 1997 dissertation "Strategic Planning of the Reproduction of the Resource Base", the then future president of the Russian Federation, Vladimir Putin, introduced the concept of "national champions". What he meant by "national champions" was that large corporations in strategic industries crucial to national security should, as well as seeking to make profits, advance the interests of the nation. With close links to and strong support from the state, these companies would then become big enough to compete with privately-owned multinational companies, turning them into custodians of state interests in international trade.

On 18 May 2008, the Russian national ice-hockey team beat Canada 5–4 with an overtime goal in the final of the World Championships, played in Quebec City. For Russia, which during Soviet times had won seven Olympic and 22 World ice-hockey titles, this was

a first World title in 15 years. President Dmitri Medvedev congratulated the team immediately after the game in a telephone call, and two days later he hosted a reception at the Kremlin to honor the new world champions. In his speech the President stressed that "Russia needs such victories, it needs its sporting glory".

There is a strong link between these two seemingly distant events, namely the sponsorship money paid to ice-hockey by Russian corporations. For many Western commentators natural gas giant Gazprom, which is the biggest company in Russia, represents a textbook example of the "national champion" idea. Among its many activities, Gazprom is also one of the biggest sponsors of the Russian national ice-hockey team and Russian ice-hockey in general. Also, several other "national champions", including Rosneft and Tatneft (both oil), Transneft (oil pipelines), Russian Railways, Rosobor-

ronexport (arms export) and VTB Bank, have lavishly sponsored ice-hockey.

Ice-hockey is only one of the sports that these companies support, but it is a particularly important one, because of the tradition of international success during the Soviet era and its obvious popularity in the highest echelons of Russian power. However, although loved by both its people and its leaders, not long ago Russian ice-hockey was faltering miserably. As with so many other sectors of Russian society, the 1990s was a decade of chaos and immense difficulties for competitive sports. Success in the summer Olympics nosedived, from 132 Soviet medals in Seoul 1988 to 63 Russian ones in Atlanta eight years later. In the winter games, the decline was equally impressive: from 29 in Calgary 1988 to 13 in Salt Lake City 2002. The national ice-hockey team, which during the Soviet years had never finished outside of the top three in the annual world championships, was able to medal only once in the world championships across the first ten years of the Russian Federation.

The Yeltsin administration was beset by far too many economic, political and social hardships, to focus on arresting the deterioration of Russian sports infrastructure. However, as Putin came to power in 1999/2000, in conjunction with an embryonic economic recovery, the Kremlin's indifference towards the country's international sporting fortunes quickly began to subside. Putin saw reinvigoration of sport as a state priority, because of its positive impact on the country's international image and the spirit of the Russian people. In August 2000, Putin stated that "victories in sport do more to cement the nation than a hundred political slogans". Because of its huge societal resonance, he saw sport as an invaluable political tool. "The health of the nation depends directly on the successful development of physical culture and sport", he stated in October 2003.

Putin saw the restoration of Russia's greatness as his paramount task as president. To combat corruption and greed he developed a plan to renationalize strategic industries, especially in the energy sector. By first acquiring a majority stake and then filling key positions within the companies with officials loyal to the Kremlin, he ensured that these companies would act in the interests of the Russian state. This policy of "national champions" was a unique economic success story. Under Putin, Russia's gross domestic product grew by approximately eight percent a year and doubled in total across the ten years following the financial crash of 1998. This was mostly the result of the sharp rise in the price of oil, from 10 dollars to 130 dollars a barrel, but without reclaiming the energy and natural resources sector, assets privatized during 1990s, the Russian state would not have been

able to benefit from this to the degree it did. As a subplot to his renationalization effort, Putin tamed the oligarchs by giving them political immunity in return for their non-intervention in the realm of politics.

From the very beginning, securing the levels of funding necessary for Russian sport to succeed internationally was a part of Putin's "national champions" policy. Firms like Gazprom have been extremely profitable, but at the same time they have used a lot of their resources for activities that have very little to do with business interests. Most of these activities, for example organizing various charitable events and engaging in diverse social and cultural ventures, have stemmed precisely from their role as "national champions". Sponsorship of sport, which corporations began to pour more and more money into after Putin told them specifically to do so in 2002, is one of the most obvious examples of this. It has been difficult for private Gazprom shareholders to understand how exactly they are going to benefit from the company's huge role in funding the 2014 Sochi Winter Olympics, whereas from the Kremlin's "national champions" perspective it makes perfect sense.

During his presidency, and after that as prime minister, Putin has determinedly wooed international sport bodies to win the right to host high-profile sporting events, seeing this as a way to promote Russia's international image and to signal its resurgence as a great power to the world. He has been incredibly successful in his efforts, managing to secure for Russia an unprecedented royal flush of major international sporting events in the next few years: Summer Universiades in Kazan and the IAAF World Championships in athletics in Moscow in 2013, the Winter Olympics in Sochi in 2014 and, the biggest one of them all, the FIFA World Cup in 2018, which will be hosted across fourteen different Russian cities. Bidding for these events requires a lot of money in itself, not to speak of the eventual costs of actually organizing them. Although Putin actively and very visibly put his personal authority and reputation on the line to get these events for Russia, successful bidding would not have been possible without credible financial backing from the Russian corporate sector. "National champion" companies were recruited to the bidding campaigns from the very beginning.

Still pending is Russia's bid to host 2016 ice-hockey world championships in Moscow and St. Petersburg. Although not as high-profile as the Olympics or the World Cup, Putin has made no secret of his special interest in this particular event. With its two consecutive World Championship titles in 2008 and 2009, ice-hockey has spearheaded Russia's return to the top of international sport. In the field of sport, ice-hockey has been the image-building weapon of choice for both

Putin and Medvedev, as testified by their personal interventions into decision-making involving ice-hockey and their numerous ice-hockey-related public appearances.

Indeed, the best example of the application of the “national champions” policy in sport is the establishment of the new Continental Hockey League KHL (*Kontinentalnaja Hokkeinaja Liga*) in 2008. After the disappointing third place in the 2007 World Championships in Moscow, Putin summoned Sports Minister, Vyacheslav Fetisov, and the President of the Russian Hockey Federation and Chairman of the Duma Committee on Physical Culture and Sport, Vladislav Tretiak, two legendary players from the Soviet “Red Machine” national ice-hockey team, and Gazprom’s number two man, ice-hockey enthusiast Alexander Medvedev, to a meeting. Putin assigned his guests the task of reorganizing Russian ice-hockey, so that a return to gold standard would be possible.

After Tretiak, who had advocated a Soviet-style system run by the federation, had been sacked by Putin himself, Fetisov and Medvedev presented a plan of replacing the existing Russian Superleague with a new Eurasian professional league. Putin welcomed the ambitiousness of this proposed league, which would seek to challenge the dominant North American National Hockey League (NHL), the biggest, richest, most famous and most traditional league in the world of ice-hockey. The KHL started in autumn 2008 with 24 teams from Russia, Belarus, Kazakhstan and Latvia, involving 720 players from 15 different nationalities, with teams from cities spanning 6,150 kilometers from Riga to Khabarovsk in the Russian Far East.

Russia’s recently won World Championship title lent added prestige to the new league, as did the list of sponsors, which included Gazprom, Transneft, Russian Railways, Rosneft, Rosoboronexport, Rosgosstrakh, Magnitogorsk Iron and Steel, Evraz Group, Tatneft. According to the KHL business plan, the corporate sponsors would inject start-up capital of 10 million dollars each and as the league got up and running, five million dollars more per season. Initially the NHL reacted to its upstart Russian competitor with a pronounced nonchalance, but this changed quickly as the KHL teams proved capable of offering sufficient salaries to attract high class players, such as Jaromir Jagr, Alexander Radulov and Jozef Stümpel. Radulov’s decision to move, in the middle of an active contract, from the Nashville Predators to Salavat Yulayev Ufa created the first major conflict between the two leagues, with more likely to follow.

In May 2009 Russia won its second consecutive world title, again by beating Canada in the final. This was also an important achievement for the new league, as 18 of the players came from the KHL and only seven

from the NHL. The Canadian team was made up of 24 players from the NHL and only one from the KHL. By now it was clear to all sides that there was a new sheriff in the global hockey town. The victory was enthusiastically acknowledged and greeted by President Medvedev first with a telephone call, then with a telegram, and finally with a reception at the Kremlin.

Everything seemed to be set for a third Russian victory in a row when the teams hit the ice at the Vancouver Olympics in February 2010. After taking the gold with a Unified Team (Russia, Ukraine, Kazakhstan, Belarus, Uzbekistan, and Armenia—although the ice-hockey team only contained two non-Russians, both of whom later became Russian citizens) in French Albertville in 1992, the Russians had not won the Olympic ice-hockey crown since. However, these huge expectations were crushed in the quarterfinal game against archrivals Canada, with a humiliatingly easy victory by seven goals to three. In anticipation of the reaction back home, the head coach, Vyacheslav Bykov, told the reporters that it was best to “put guillotines and scaffolds up on Red Square”. As the headlines in Russia which followed soon attested, he was not far off the mark.

Ice-hockey players were not the only members of the Russian team to perform badly in Vancouver. In Russia’s worst-ever performance in the Winter Olympics, Russia won only three gold medals and finished 11th spot on the medal table. The day after the closing ceremony, Medvedev demanded the resignation of the people responsible for this disaster. The effect of this public rebuke was dramatic, as the President of the Russian Olympic Committee, Leonid Tyagachev, and seven out of twelve Winter Olympic sport federation heads decided to step down. The aftermath of Vancouver shows that for the Kremlin sporting success is a highly important instrument in creating political legitimacy for the regime. The fact that the President and the Prime Minister have such an obvious presence in Russian sport, and make constant interventions within it, is very exceptional in international comparison. For Russians in general and the Kremlin in particular, sport truly is no laughing matter.

Interestingly, the funding for Russian sport has suffered surprisingly little from the economic recession of 2008–2009. The debacle in Vancouver was not the result of a lack of money; on the contrary, the government spent an unprecedented amount on Olympic preparations. Indeed, it appears that the Russian government will continue to support sport regardless of the costs, because as Dmitrii Medvedev stated in an October 2009 speech, success in sport is directly linked to “our people’s health and our country’s reputation and prestige”. Consequently, sponsorship programs of “national champion” corporations seem to have been largely unaffected

by the ups and downs of the economy. This is particularly true for hockey. “Sponsors and club owners understand that hockey in Russia is not merely a business but has a great social status as well”, according to Gazprom’s Alexander Medvedev. As a true “national champion” the KHL, of which Alexander Medvedev is president, was able to create a 30 million dollar war-chest during the recession to pay bonuses and salary compensations for fluctuations in currency exchange rates.

After the Vancouver Olympics, President Medvedev initiated reforms to ensure that the money invested in Russian sports will be spent as efficiently as possible. The country is now preparing to host the Sochi Olympics, which according to Medvedev are “our chance to show the world that we are a capable, hospitable and a technologically advanced country”. But being acknowl-

edged as a good host will not be enough for Russia, if its athletes and teams fail to perform in the competition. Medvedev has stressed that after being humiliated in Vancouver, Sochi will be “our chance to show the world that we can stand tall and that we know how to win”.

If there is one victory that Russians crave more than any other in Sochi, it is in ice-hockey. As Vyacheslav Fetisov outlined, so much money, hope and expectations have been invested in the first-ever Russian Winter Olympics, that anything less than superior performance will be deemed unacceptable: “We don’t have the right to lose at home”, stated the legendary defenseman of the Red Machine to tabloid Komsomolskaya Pravda. No doubt both Putin and Medvedev see it similarly, and thanks to the “national champions” policy, money will not be an issue in seeking to secure success.

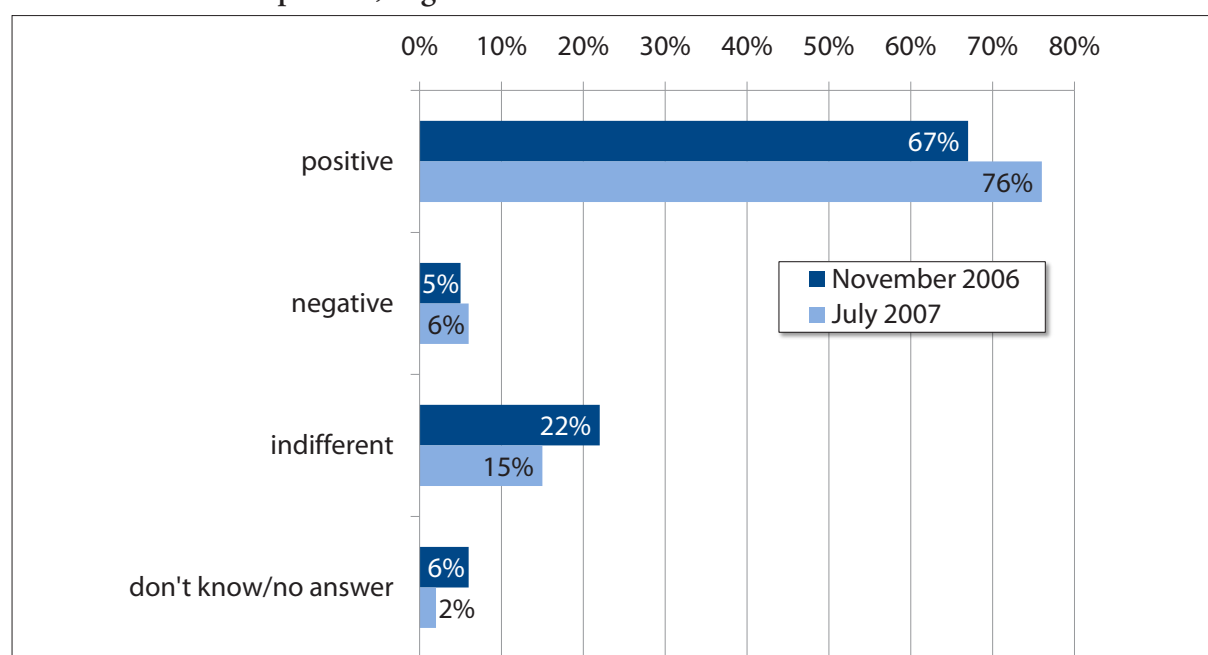
About the Author

Markku Jokisipilä is the Academic Director of the Baltic Sea Region Studies program at the University of Turku. He is the author of a forthcoming book on the links between ice-hockey and politics from the Cold war era to the present day.

OPINION POLL

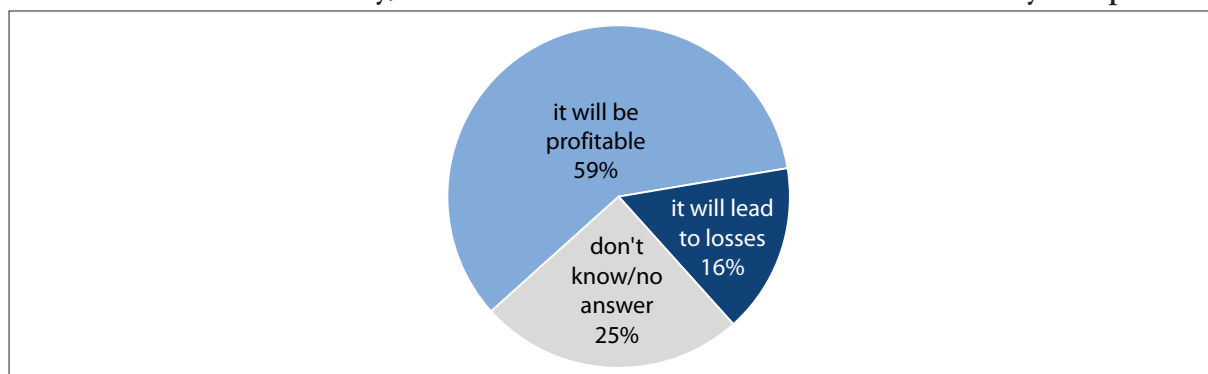
Russian Public Opinion on the Olympic Winter Games in Sochi 2014

Figure 1: What is your opinion about the fact that the Olympic Winter Games 2014 will be held in Sochi—positive, negative or indifferent?



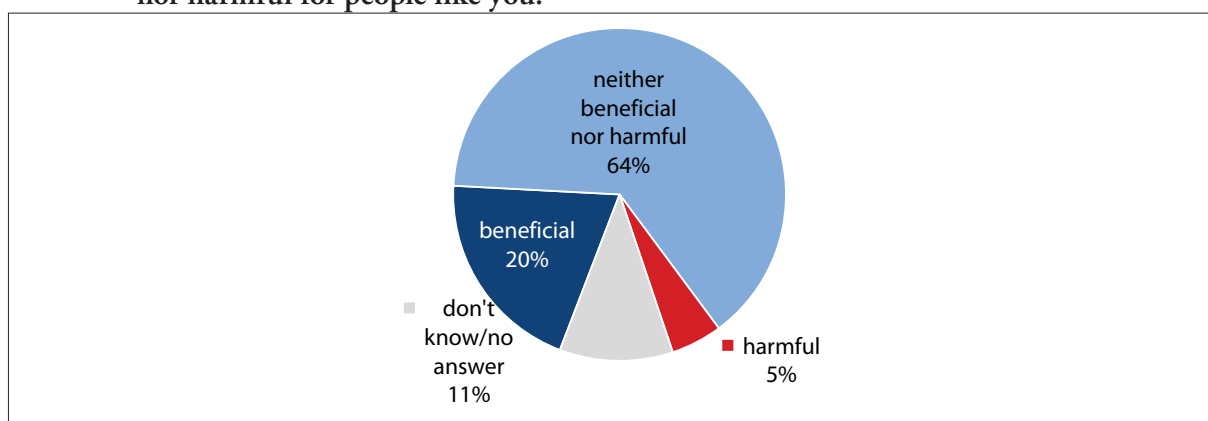
Source: representative opinion polls by the Public Opinion Fund (FOM) on 11–12 November 2006 and 14–15 July 2007, http://bd.fom.ru/report/map/projects/dominant/dom0729/dom0729_5/d072905

Figure 2: Some people believe that holding the Winter Olympic Games in Sochi will be profitable for our country, others think that this will lead to losses. What is your opinion?



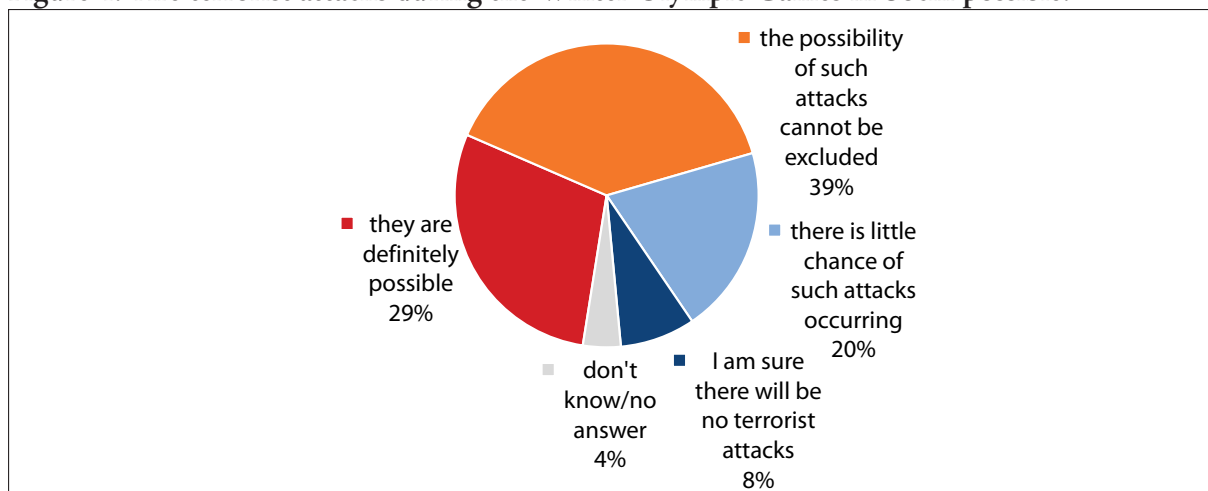
Source: representative opinion polls by the Public Opinion Fund (FOM) on 14–15 July 2007, http://bd.fom.ru/report/map/projects/dominant/dom0729/domt0729_5/d072905

Figure 3: Will the Winter Olympic Games in Sochi be beneficial, harmful or neither beneficial nor harmful for people like you?



Source: representative opinion polls by the Public Opinion Fund (FOM) on 14–15 July 2007, http://bd.fom.ru/report/map/projects/dominant/dom0729/domt0729_5/d072905

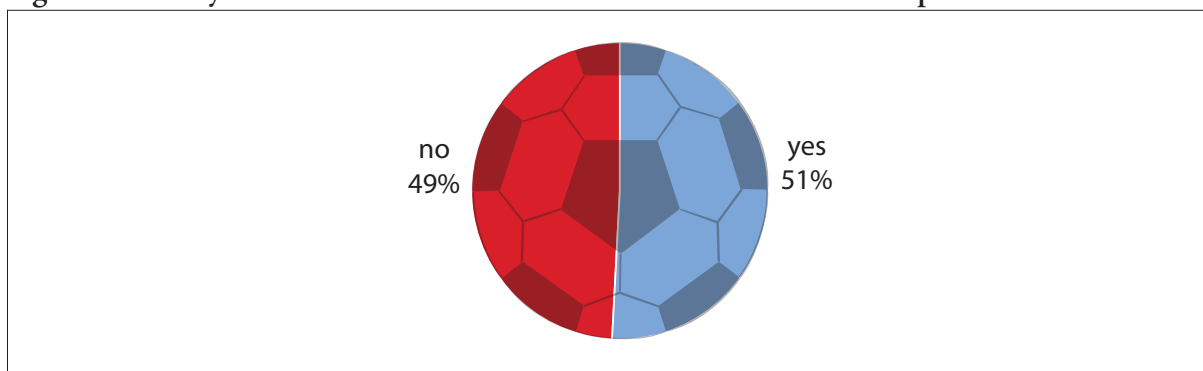
Figure 4: Are terrorist attacks during the Winter Olympic Games in Sochi possible?



Source: representative opinion polls by Levada Center on 13–16 July 2007, <http://www.levada.ru/press/2007071903.html>

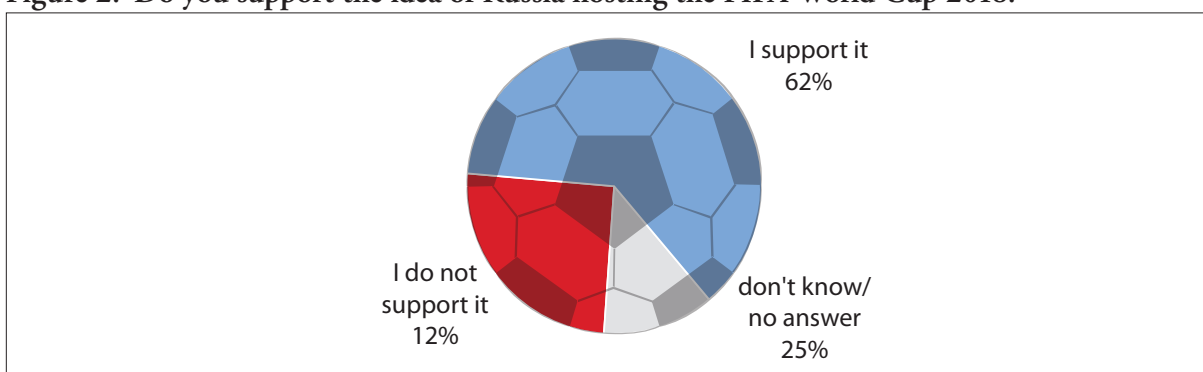
Russian Public Opinion on the FIFA World Cup 2018

Figure 1: Have you heard about Russia's bid to host the FIFA World Cup 2018?



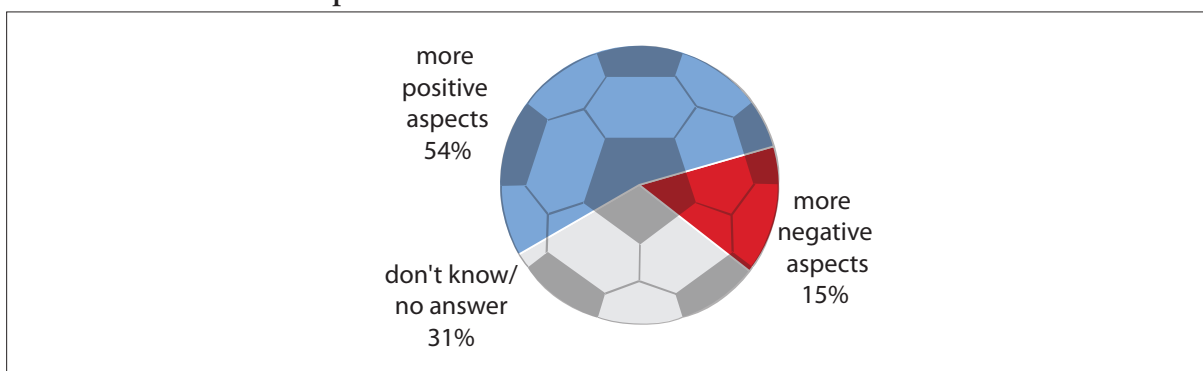
Source: representative opinion polls by VTsIOM on 20–21 November 2010, <http://wciom.ru/index.php?id=515&uid=111157>

Figure 2: Do you support the idea of Russia hosting the FIFA World Cup 2018?



Source: representative opinion polls by VTsIOM on 20–21 November 2010, <http://wciom.ru/index.php?id=515&uid=111157>

Figure 3: In your opinion, are there more positive or more negative aspects to Russia hosting the FIFA World Cup 2018?



Source: representative opinion polls by the Public Opinion Fund (FOM) on 11–12 December 2010, http://bd.fom.ru/report/map/projects/dominant/dom0729/domt0729_5/d072905

ABOUT THE RUSSIAN ANALYTICAL DIGEST

Editors: Stephen Aris, Matthias Neumann, Robert Orttung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen (www.forschungsstelle.uni-bremen.de), the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich), the Resource Security Institute, the Institute of History at the University of Basel (<http://histsem.unibas.ch/seminar/>) and the Institute for European, Russian and Eurasian Studies at The George Washington University. It is supported by the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language Russland-Analysen (www.laender-analysen.de/russland), the CSS analytical network on Russia and Eurasia (www.res.ethz.ch), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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Founded in 1982, the Research Centre for East European Studies (Forschungsstelle Osteuropa) at the University of Bremen is dedicated to socialist and post-socialist cultural and societal developments in the countries of Central and Eastern Europe.

In the area of post-socialist societies, extensive research projects have been conducted in recent years with emphasis on political decision-making processes, economic culture and the integration of post-socialist countries into EU governance. One of the core missions of the institute is the dissemination of academic knowledge to the interested public. This includes regular email services with nearly 20,000 subscribers in politics, economics and the media.

With a collection of publications on Eastern Europe unique in Germany, the Research Centre is also a contact point for researchers as well as the interested public. The Research Centre has approximately 300 periodicals from Russia alone, which are available in the institute's library. News reports as well as academic literature is systematically processed and analyzed in data bases.

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In its teaching capacity, the CSS contributes to the ETH Zurich-based Bachelor of Arts (BA) in public policy degree course for prospective professional military officers in the Swiss army and the ETH and University of Zurich-based MA program in Comparative and International Studies (MACIS); offers and develops specialized courses and study programs to all ETH Zurich and University of Zurich students; and has the lead in the Executive Masters degree program in Security Policy and Crisis Management (MAS ETH SPCM), which is offered by ETH Zurich. The program is tailored to the needs of experienced senior executives and managers from the private and public sectors, the policy community, and the armed forces.

The CSS runs the International Relations and Security Network (ISN), and in cooperation with partner institutes manages the Crisis and Risk Network (CRN), the Parallel History Project on Cooperative Security (PHP), the Swiss Foreign and Security Policy Network (SSN), and the Russian and Eurasian Security (RES) Network.

The Institute for European, Russian and Eurasian Studies, The Elliott School of International Affairs, The George Washington University

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The Institute of History at the University of Basel was founded in 1887. It now consists of ten professors and employs some 80 researchers, teaching assistants and administrative staff. Research and teaching relate to the period from late antiquity to contemporary history. The Institute offers its 800 students a Bachelor's and Master's Degree in general history and various specialized subjects, including a comprehensive Master's Program in Eastern European History (<http://histsem.unibas.ch/bereiche/osteuropaeische-geschichte/>).

Resource Security Institute

The Resource Security Institute (RSI) is a non-profit organization devoted to improving understanding about global energy security, particularly as it relates to Eurasia. We do this through collaborating on the publication of electronic newsletters, articles, books and public presentations.

Any opinions expressed in Russian Analytical Digest are exclusively those of the authors.

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