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How the natural resource curse contributed to the autocratic developments in Russian politics since the fall of the USSR

Introduction

According to the World Bank “Russia holds the world’s largest natural gas reserves, the second largest coal reserves, and the eighth largest oil reserves”³. The Russian Federation has a diverse economy, with a mix of state-owned and private enterprises operating in various sectors. Russia has the world’s sixth largest economy and its primary exports are oil and gas that in 2022 accounted for 60 percent of its exports. It is estimated that Russia’s natural resources are valued at \$75 trillion. They include crude oil, natural gas, coal, and rare earth metals such as deposits of tungsten, iron, diamonds, gold, platinum, tin, copper, and titanium as well as timber⁴. These resources play a significant role in Russia’s economy, both in terms of exports and domestic consumption

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³ World Bank (2019), *How Wealthy is Russia?*, <https://www.worldbank.org/en/country/russia/publication/how-wealthy-is-russia>.

⁴ M. Garside, *Natural Resource Value: Ranking by Country 2021*, Statista, <https://www.statista.com/statistics/748223/leading-countries-based-on-natural-resource-value/#:~:text=As%20of%202021%2C%20Russia%20held,of%2075%20trillion%20U.S.%20dollars> (access: 2.08.2022).

and the revenues from oil and natural gas made up to 45 per cent of the federal budget in 2021⁵.

The natural resource sector has become a dominant part of the Russian economy and thus affected the political developments of the state greatly. Understanding of the interplay of Russian politics and economics after the fall of the Soviet Union is integral for understanding why Russia has developed steadily into a more autocratic direction during the past few decades. The phenomenon through which we will be analyzing the intertwining of political and economic spheres of Russia is the natural resource curse concept. We seek to understand what factors have contributed to Russia's failure to avoid the natural resource curse and give examples on how the natural resource curse manifests itself especially in today's Russia political reality. Does the abundance of natural resources contribute to the emergence of a hyper-presidential, autocratic regime in Russia?

First we will define the theoretical lens, the concept of the 'natural resource curse' and how to explore it in regards to Russia. Then we will take an overlook on how the state's natural resources sectors were privatized and how the process was intertwined with a political power shift. We do not argue that the sole factor behind the increasingly autocratic system in Russia is the natural resource curse, however the effects of the natural resource curse should be understood as a significant contributing factor to this process. Natural Resource Governance Institute defines the natural resource curse as "the failure of many resource-rich countries to benefit fully from their natural resource wealth, and for governments in these countries to respond effectively to public welfare needs. While one might expect to see better development outcomes after countries discover natural resources, resource-rich countries tend to have higher rates of conflict and authoritarianism, and lower rates of economic stability and economic growth, compared to their non-resource-rich neighbors"⁶. In the Russian context this dynamic is highly visible during the past decades as the state with abundance of resource wealth has drifted into an increasingly autocratic form of governance

⁵ World Bank Group, *Russia Economic Report* (access: 2.12.2021).

⁶ Natural Resource Governance Institute (2015), *The Resource Curse*, https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf.

and the wealth gap between rich and the rest of the population is one of the largest in the world. According to data from the Credit Suisse Global Wealth Report 2021, the top 1% of Russian households own 76.5% of the country's wealth, which is one of the highest levels of wealth concentration in the world. Meanwhile, the bottom 50% of Russian households own just 5.8% of the country's wealth⁷. The natural resource curse has contributed to the political disempowerment of the general population, creating a cycle that has allowed for power concentration and thereafter further disempowerment of the people both politically and economically.

Methodology

In this article, we adopt a qualitative approach to explore the relationship between Russia's abundant natural resources and its political and economic systems. Through qualitative research, we collect information from a variety of academic and non-academic sources, including media reports, books, and reports, as well as using freely available secondary data sources.

We argue that Russia's natural resource abundance, particularly in oil and gas, has played a significant role in shaping the country's political system. Specifically, the government and individuals closely tied to the ruling elite have benefited from a steady stream of revenue from these resources, which has reduced the need for accountability to citizens.

Throughout the article, we analyze the available information to show examples of rent-seeking behaviors in the current hyper-presidential regime of Vladimir Putin. Using the extractive industries as an example, we demonstrate how Putin has achieved enormous personal wealth through various means, including a close-knit form of 'proxy' corruption with a Moscow-friendly tycoons' circle that is shielded from democratic accountability. As a result, the democracy in Russia has achieved only 'window dressing,' with institutions that are controlled from the Kremlin to the detriment of Russian citizens.

⁷ A. Shorrocks, J. Davies, R. Lluberas, *Global Wealth Report*, Credit Suisse Research Institute, 2021, <https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html>.

Our article utilizes a descriptive approach to provide a nuanced understanding of the complex relationship between natural resource abundance, political systems, and economic outcomes in Russia. Through qualitative research methods, we analyze the available data to demonstrate the emergence of an authoritarian hyper-presidential system and patrimonial capitalism in Post-Soviet Russia as a partial explanation of the natural resource curse.

The concept of natural resource curse

The concept of the natural resource curse, also known as the “paradox of plenty”, has been discussed by many economists and scholars over the years and it explored the relationship between natural resources and economic development emerged after the second oil shock of 1986. British economist Richard Auty introduced the “natural resource curse” concept in 1993 and focused mainly on the economic phenomenon of Dutch disease, as well as rent-seeking observed in natural resource rich countries⁸. Empirical research shows that natural resource wealth can be either a blessing or a curse depending on how it is managed and utilized and good governance and strong institutions are key to ensuring that resource wealth is used in a way that benefits the economy and society as a whole. In countries with weak governance and institutions, natural resource wealth can lead to corruption, conflict, and economic instability⁹.

There are diverse explanations why natural resource curse occurs, as there are various indices that could be examined, however the one possible explanation, according to many is that the abundance of the natural resources is causing competition and fight over resources, that leads to poor institutional quality and lower growth and that “the large rents that can be obtained from natural resources create incentives for governments and private agents to engage in rent-seeking behavior, “voracity”, corruption, or even civil conflict, thus crowding out entrepreneurial activity and

⁸ R. M. Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis*, Routledge, London 2005.

⁹ F. van Ploeg, *Natural Resources: Curse or Blessing?*, “Journal of Economic Literature” 2011, 49, no. 2, pp. 366–420.

other pro-growth activities"¹⁰. According to some researchers, weaker institutional development in resource-rich countries is due to the ease with which elites can capture or take large sums of cash. The theory proposes that large single-point sources of revenue, such as an oil project, can be managed outside the normal budget process and are relatively easily captured by powerful elites. To capture revenues, elites in natural resource-rich countries are less likely to invest in productive enterprises that create jobs and more likely to pursue rent-seeking, or fight for control of these resources. This can be achieved through tools like sovereign wealth funds, national oil companies, and contractors for extractive operations. The process of capturing rent is often facilitated by politicians or government officials who dismantle societal checks or create new regulations to gain access to resources or provide access to friends or family, which is called rent-seizing. This focus on rent-seeking and rent-seizing by elites promotes corruption and weakens institutional development, resulting in lower levels of public service delivery. Examples of this phenomenon can be found in countries like Afghanistan, Sierra Leone, and Tunisia, although the data supporting this theory is subject to debate¹¹.

Post-Soviet economic transition and creation of statist patrimonial capitalism

After the dissolution of the Soviet Union, the economic and political reforms were to transition Russia from a centrally planned economy to a capitalist market economy and towards democratic political system. Without previous democratic traditions as well as strong informal corrupted networks inherited after the Soviet era, Russia asserted its own vision of 'democracy' that majority of analysts and researchers likens to an authoritarian regime that supports 'oligarchic' form of hybrid statist patrimonial capitalism. The post-Soviet Russian political landscape achieved the window dressing of democracy with the existence of the

¹⁰ K. Kalcheva, & O. Nienke, *Diagnosing Dutch Disease: Does Russia Have the Symptoms?*, International Monetary Fund, <https://www.elibrary.imf.org/view/journals/001/2007/102/article-A001-en.xml>.

¹¹ Natural Resource Governance Institute (2015), *The Resource Curse*, https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf, pp. 4–5.

separation of powers, a cabinet of ministers and constitution. However, in practice it turned into an autocratic, hyper-presidential regime, where laws are weak, the constitution in constant flux to accommodate interests of the ruling elite, and the parliament houses hand-picked supporters¹². According to Ledeneva the system of governance in Russia is highly centralized and authoritarian, with power concentrated in the hands of a small group of elites who use informal networks and personal relationships to maintain control. This system, she argues, is based on a “gift exchange” model in which political power is traded for loyalty, favors, and access to resources. In this way, the state and the oligarchs form a mutually beneficial relationship in which they support each other’s interests and maintain their grip on power¹³.

According to Vasileva-Dienes, the informal practices and networks in Russia are deeply entrenched and are rooted in the country’s historical and cultural legacy. These practices and networks operate alongside and sometimes in opposition to the formal institutions of the state, such as the judiciary and the rule of law. The author suggests that the informal practices and networks have become a means of preserving and reproducing the existing political and economic order, and that they have contributed to the creation of a system in which economic and political power are closely intertwined and those informal practices and networks are at the core of Russia’s statist-patrimonial capitalism. The state de facto dominates the economy unchallenged by weak democratic institutions, and supports the close integration of economic and political power. Vasileva-Dienes argues that this form of capitalism has contributed to the persistence of poverty and inequality in the country, and that it has hindered the development of a more diverse and competitive economy¹⁴.

The transition to the current form of economic system in Russia happened with the process of privatization that took place in the 1990s. As Mark Galeotti, a Russia expert at the Royal United Services Institute, has argued, the privatization process in Russia was “essentially a looting

¹² A.W.M. Gerrits, *Exploring Democracy In The Russian Federation: Political Regime, Public Opinion And International Assistance*, “Contemporary Politics” 2010, 16(1), pp. 33–48.

¹³ A.V. Ledeneva, *Can Russia modernise?: Sistema, Power Networks and informal governance*, Cambridge University Press, Cambridge 2014.

¹⁴ A. Vasileva-Dienes, *Informality Trap: A Foundation Of Russia’S Statist-Patrimonial Capitalism*, “Contemporary Politics” 2018, 25(3), pp. 334–352.

of state assets, and those who benefited most were not those who had worked hard to build the businesses, but instead those who had the contacts, the cash and the clout to get the best deals”¹⁵ This, he argues, created a system in which a small group of oligarchs became incredibly wealthy and powerful, but at the expense of the wider population. According to Karen Dawisha, a political scientist and author of “Putin’s Kleptocracy: Who Owns Russia?”, “the post-Soviet transition witnessed the rise of a new ruling class of oligarchs who, in a matter of years, acquired astonishing wealth and political power”¹⁶.

A quantitative study conducted by Braguinsky examined the evolution of the first post-communist oligarchy in Russia by analyzing the career paths of the 296 most prominent first-wave post-communist business tycoons. The study found that 43% of these tycoons were insider oligarchs who had a privileged background in the *nomenklatura*, or the Soviet-era political elite, that thanks to that insider status put them at the advantage in terms of access to resources, connections, and information, which helped them to acquire wealth and power more easily than outsiders. According to Braguinsky, “Insiders had access to all sorts of non-public information, particularly about the value of state assets that were being sold off”. The study points out that the oligarchs concentrated in certain industries, such as energy, metals, and banking, where the state had retained a significant degree of control over the economy. This concentration of insider oligarchs in strategic industries gave them even more power to shape the direction of the Russian economy and politics¹⁷.

Seizing control over natural resource extraction industries

The process of Russian privatization in the 1990s was complex and controversial, involving the sale of state-owned assets to private investors. One key aspect of this process was the privatization of natural resource extraction industries, including oil and gas, which were seen as key to

¹⁵ M. Galeotti, *Russian and Post-Soviet Organised Crime*, Aldershot: Aldershot 2002.

¹⁶ K. Dawisha, *Putin’s Kleptocracy: Who Owns Russia?*, Simon & Schuster, New York 2018, p. 5.

¹⁷ S. Braguinsky, *Postcommunist Oligarchs in Russia: Quantitative Analysis*, “The Journal of Law and Economics” 2009, 52, no. 2, pp. 307–349.

Russia's economic development. The oil and gas sector in Russia experienced a significant transformation in ownership, as reported by the Russian Ministry of Economy, with the proportion of state-owned enterprises decreasing from 96.5% in 1991 to 32.8% in 1997. This denotes a considerable change in the ownership structure of Russia's most critical natural resource sector, with private investors obtaining a substantial portion of the industry¹⁸. Some critics have argued that this process of privatization was characterized by widespread corruption and insider deals, with well-connected individuals acquiring valuable assets at below-market prices.

After taking power in 2000, Vladimir Putin and his government sought to increase state control over the natural resource sector and limit the influence of the oligarchs and to consolidate power. The oligarchs have been accused of using their wealth to influence elections, control the media, and exert pressure on the government to serve their interests. This has led to a system of crony, or "oligarchic" capitalism, where the interests of the few are privileged over the needs of the many. Putin courted the electorate and pledged that, "under his rule, they [oligarchs] would 'cease to exist as a class'"¹⁹. In result of this promise he removed "Yeltsin Era" oligarchs, as many of them were accused of tax evasions, sold their assets and left Russia or were jailed, like Mikhail Khodorkovsky of Yukos Oil. However, as Anders Aslund notes in his book, "Putin's Economic Policy and Its Consequences", Putin dismantled powerful oligarch groups after 2000 and replaced their influence and power with that of his trusted colleagues from St. Petersburg in key positions in state-run industries. "After Putin became president in 2000, he appointed his trusted St. Petersburg colleagues to key positions in state-run industries, such as Gazprom, Rosneft, and RAO UES"²⁰. The state-run companies bought out oligarchs' interests to consolidate extractive industries. For instance in 2005, Gazprom acquired a majority stake in the oil company Sibneft, which had been

¹⁸ M. Fish, *When Money Is Less. Super Executive Power and Political Underdevelopment in Russia*, [in:] *Russia in the New Century: Stability or Disorder?*, V. Bonnell, & G. Breslauer (eds), Boulder, Colo, Oxford 2001, p. 16.

¹⁹ A. Gentleman, *Putin steps up battle against the oligarchs*, Guardian News and Media, <https://www.theguardian.com/world/2000/jul/13/russia.ameliagentleman> (access: 10.03.2023).

²⁰ A. Aslund, *Putin's Economic Policy and Its Consequences*, Oxford University Press, 2019, p. 10.

owned by the oligarch Roman Abramovich. Similarly, in 2013, Rosneft acquired a majority stake in the oil company TNK-BP, which had been owned by a consortium of Russian and foreign investors²¹.

In Russia, as elaborated earlier, there was a lack of the western style democratic tradition and the strong democratic institutions. Since the beginning of Putin's rule in 2000's there has been a crackdown on independent media, civil society with a strong non-governmental sector with high levels of corruption. Any challenge to the ruling elite is suppressed with all means necessary. Despite the Kremlin's purge of oligarchs from the era of former president Boris Yeltsin, a new class of super-rich tycoons has emerged and flourished under the leadership of Vladimir Putin. The president himself emerged as one of the wealthiest people in Russia. The existing form of corruption is a "proxy" corruption in Russia's economy, which involves the use of intermediaries to conduct illegal activities. The government passed in 1993 the so-called „Law on State Secrets" that was amended in 2007. It gave immunity to state officials from criminal prosecution, making it nearly impossible to bring corruption charges against those in power. The law also limited the scope of independent media and civil society, making it difficult for independent actors to challenge the power of the state. The extent of the current corruption in Russia is indicated by the report by the Organized Crime and Corruption Reporting Project (OCCRP), an international investigative reporting platform, that include NGOs, journalists as well independent Russian publication *Novaya Gazeta* published in 2017 titled *Putin and The Proxies*. The report alleges that Putin's inner circle is formed by "a mix of family members, old friends, and friends who became family members", and their most lucrative businesses are either connected to the largely state-controlled oil and gas sector or linked to other state companies²². Putin's net worth is estimated at between \$40 billion and \$200 billion (at the low end, making him the wealthiest person in Europe and, at the high end, in the world)²³.

²¹ *Gazprom Inks Deal to Buy Abramovich's Sibneft*, Forbes Magazine, https://www.forbes.com/2005/09/28/gazprom-sibneft-abramovich-cx_cn_0928autofacescan04.html?sh=c78e71c34d4b.

²² *Report: Putin's 'Inner Circle' Worth Nearly \$24 Billion*, Radio Free Europe/ Radio Liberty, <https://www.rferl.org/a/putin-opccrp-report-inner-circle-wealth/28814462.html>.

²³ S. Karas, *Vladimir Putin Net Worth 2017: Russia's Leader May Be One of the Richest*

Any attempts to expose corruption and challenge Putin's hyper-presidential, autocratic regime by his political opponents are suppressed. One example is the fate of Alexander Navalny, the leader of the Russia of the Future party and founder of the Anti-Corruption Foundation. After exposing Putin's multibillion dollar residence with his and the structure of his 'proxy' corruption he survived assassination attempt by poisoning, and now serves many years in high security prison. In addition to Navalny's case, there is also a high-profile case of a Russian activist who was likely eliminated for his anti-corruption work – Sergei Magnitsky. He was a lawyer who worked for the investment fund Hermitage Capital Management in Russia and uncovered a large-scale tax fraud scheme that involved officials in the Russian government. He was subsequently arrested and detained for nearly a year in poor conditions. Magnitsky died in custody in 2009, and his death was widely believed to be the result of mistreatment and medical neglect²⁴.

Media in Russia despite mixed state-private ownership are censored or self-censor their content. According to a non-profit organization Committee for Protection of Journalists, from 1992–2023 in Russia 58 journalists were killed²⁵. Some high profile journalist assassinations, who were involved with reporting on economic issues, such as Forbes magazine editor Paul Klebnikow was shot in front of his office in Moscow in 2003, or Anna Politovskaya who reported on politics. There were 8 journalist killings from independent Nowaja Gazieta alone. Those killings made news organizations avoid topics that could anger the Kremlin resulting in making emergence of robust and informed civil society, a necessary element of democratic political system difficult²⁶.

The natural resource curse manifests itself in the Russian political

Men in the World, International Business Times; *Organized Crime and Corruption Reporting Project and Novaya Gazeta, Putin and the Proxies*, <https://www.occrp.org/en/putinand-theproxies>.

²⁴ *Magnitsky Wins Russian Rights Battle 10 Years after His Death*, BBC News, <https://www.bbc.com/news/world-europe-49481471>.

²⁵ *Committee to Protect Journalists*, https://cpj.org/data/?status=Killed&start_year=1992&end_year=2023&group_by=location&motiveConfirmed%5B%5D=Confirmed&type%5B%5D=Journalist (access: 14.03.2023).

²⁶ S. Walker, *The murder that killed Free Media in Russia*, Guardian News and Media, <https://www.theguardian.com/world/2016/oct/05/ten-years-putin-press-kremlin-grip-russia-media-tightens> (access: 14.03.2023).

and social realm in rent-seeking behavior and inefficient taxation. The high concentration of wealth in the natural resource sector can lead to rent-seeking behavior, where individuals or groups seek to gain control of resources or government contracts through corrupt means, leading to a lack of transparency and accountability. The Russian government is able to rely on rents from natural resource exports, rather than taxes on its citizens, to fund its operations. When a state can rely on natural resources as a source of income, they are less dependent on the people, the taxpayers. This creates a situation in which the government can act without the consent of the governed. As asserted by the Natural Resource Governance Institute, “governments are more responsive to their citizens and are more likely to transition to democracy when government spending is reliant on citizen taxation” whereas when the government can rely on natural resources as the main source of income, “politicians and government officials are (...) less directly tied to citizen requests or demands”²⁷. During the first decade of Vladimir Putin’s presidency the global price of crude oil skyrocketed, which allowed him to form a more autocratic system of governance, partly due to increased independence from the taxpayer sourced revenue.

Weak democratic institutions

There is a negative impact of the concentration of wealth and power in the natural resource sector on governance and institutions. The relationship between natural resources and democracy is complex, and the “rent cycling theory” proposed by Auty suggests that the way in which rents from natural resources are distributed can impact the level of corruption and the development of democratic institutions. In high-rent countries, the distribution of rents is often subject to political contestation, which can lead to corruption and a concentration of power in the hands of a few. This can result in autocratic or oligarchic institutions that limit civil liberties and freedoms²⁸. The idea that oil and mineral wealth has

²⁷ Natural Resource Governance Institute (2015). *The Resource Curse*, https://resourcegovernance.org/sites/default/files/nrgi_Resource-Curse.pdf.

²⁸ R.M. Auty, *Sustaining Development in Mineral Economies: The Resource Curse Thesis*, Routledge, London 2005.

a detrimental impact on democracy is a viewpoint that can be observed in a wide-ranging collection of case studies. These studies connect natural resources that are easy to tax, known as “point source” resources, to authoritarianism. For instance, Ross²⁹ discovered that a high ratio of mineral and oil exports to GDP corresponds with lower levels of democratic governance. Similarly, Wantchekon used comparable cross-sectional methods and found that a one percent growth in resource dependence, as measured by the ratio of primary exports to GDP, increases the probability of authoritarianism by almost eight percent³⁰. In Russia, as elaborated earlier, there was a lack of the western style democratic tradition and the strong democratic institutions. Since the beginning of Putin’s rule in 2000’s there has been a crackdown on independent media, civil society with a strong non-governmental sector. Any challenge to the ruling elite is suppressed with all means necessary.

Conclusion

It is important to view the interconnection of natural resource abundance as an important factor that contributed to the autocratic developments in Russian politics since the dissolution of the Soviet Union. The natural resource curse concept, however debated, sheds the light on some aspects of failure for Russia to transform into western style democracy. As elaborated earlier, there was a lack of the western style democratic tradition and the strong democratic institutions. The abundance of natural resources created a super wealthy elite that thrives in a ‘gift giving’ informal system of interconnectedness with corruption and lack of any accountability towards Russian citizens. The wealth from the extraction of natural resources, and a handpicked elite, supports the authoritarian hyper-presidential system that has emerged since Vladimir Putin took power. His government thrives on rent-seeking behaviors and therefore suppresses any political competition, democratic institutions, as well as the formation of a truly democratic society for a foreseeable future.

²⁹ M. Ross, *Does Oil Hinder Democracy?*, “World Politics” 2001, 53, pp. 325–361.

³⁰ L. Wantchekon, *Why do Resource Dependent Countries Have Authoritarian Governments?*, “Journal of African Finance and Economic Development” 2002, 2, pp. 57–77.

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Summary

The natural resource sector has become a dominant part of the Russian economy and thus affected the political developments of the state greatly. Understanding of the interplay of Russian politics and economics after the fall of the Soviet Union is integral for understanding why Russia has developed steadily into a more autocratic direction during the past few decades. The phenomenon through which we will be analyzing the intertwining of political and economic spheres of Russia is the natural resource curse concept. We seek to understand what factors have contributed to Russia's failure to avoid the natural resource curse and give examples on how the natural resource curse manifests itself especially in today's Russia political reality. Does the abundance of natural resources contribute to the emergence of a hyper-presidential, autocratic regime in Russia?

Keywords: Russia, Russian Federation, energy, natural resources, Russian politics, Russian economy