



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE
T: +44 (0)20 7957 5700 E: contact@chathamhouse.org.uk
F: +44 (0)20 7957 5710 www.chathamhouse.org.uk
Charity Registration Number: 208223

REP Programme Paper 2010/02

Ten Russian Propositions

Sir Andrew Wood

Russia and Eurasia Programme, Chatham House

22 February 2010

The views expressed in this document are the sole responsibility of the author(s) and do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/ speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions, but the ultimate responsibility for accuracy lies with this document's author(s). The published text of speeches and presentations may differ from delivery.

Thesis

Russia is in ill-piloted drift towards the shoals.

Argument

1) Putin/Medvedev. No substantive change in the tandem is in prospect despite some differences in public tone and stories of mutual irritation. President Dmitry Medvedev has neither sufficient followers nor the will to break free. Both men fear that any substantive moves away from top down direction would imperil present power structures. At the 22 January meeting with party leaders Medvedev defended the October local election results blatantly rigged in favour of (Vladimir Putin's) United Russia. Putin argued that Russia must not risk "Ukrainianisation" and in response to a warning from Communist leader Gennady Zyuganov that his rejection of reform could lead to Russia suffering the fate of the USSR remarked: "The Soviet Union started to reform and where did it all end?"

2) 2012 Elections. The decision as to who will run for President next will, absent radical change in the meantime, depend on who will by late 2011 seem best placed to defend the present elite. As things stand, that means Putin. The tandem cannot last as it is for 2012-2018, and Medvedev alone would very likely seem to his colleagues – and probably the public too – as not up to the task. The argument that some current power holders might support him in the hope of profiting from a redistribution of power or assets looks implausible, given the many who would lose and the few who would trust in his power to protect them.

3) The Next President. It is not however axiomatic that the next President will be Putin, let alone Medvedev. Putin has said that we should not hold our breath for him to quit politics. He is presumably as infected with the idea of his own indispensability as any leader, particularly one in a position where the channels of criticism are as blocked, and the channels of flattery as open, as they are in Russia. But things change, and the number of those, particularly in Moscow, who see Putin as the problem rather than the solution appears to be growing. Another candidate with support from within the present regime (Defence Minister Anatoly Serdyukov for instance?) is not to be dismissed from conjecture.

4) 2010/2011. \$75-80 oil is good, but not good enough to validate relief from a crisis overcome. The Russian government bought off trouble by preserving the status quo and by hiking social expenditure. The budget for this year still looks therefore to be headed for a serious deficit. Unemployment cannot

forever be prevented from rising by political pressure on enterprises to maintain 2008 levels. State involvement in the economy is higher than it was in 2008. Russia's dependence on the uncertain prospects of the global economy has been made all too clear.

5) Energy. Gazprom is not the cash cow it was. Russia's energy markets have diminished. The country's energy investment needs are daunting, and well behind schedule.

6) Modernisation. None of this is to predict early trouble. GDP growth in 2010 has been predicted to be at around 5 per cent - measured of course against the precipitate decline of 2009. But the longer-term prospects of Russia becoming anything other than resource dependent and backward without radical change are dim, and widely felt to be so.

7) Medvedev. The President has articulated the risk (like Putin before him) but his remedies are inadequate. Top down reform rarely works, particularly in a country with a vast, ill organised and deeply corrupt machinery of government – and that is the institutionalised Russian case. And the particular areas that Medvedev has singled out (energy conservation and the development of new types of fuel, medical technology and pharmaceuticals, nuclear energy, IT, space, and telecommunications) though worthy in parts make little sense as a whole. They are reminiscent of the time when the Soviet leadership hoped that the magic of computers (which they scarcely had) could save central planning.

8) The Problem. The authorities would like, as wanted their Soviet predecessors, economic dynamism without political renovation. This is impossible. The power structures and the economy are too interwoven. As the authoritative INSOR (Institute for Contemporary Development) report of 3 February remarked, in blinkering the population the authorities have blinkered themselves.¹ 'Anti-crisis' measures were directed at preserving existing large enterprises, not least those in which the ruling elite had a direct interest. The figures for the continuing decline in the manufacturing sector since the 1990s should be alarming to those in charge of the nation's fortunes. So should the minimal scale of Russian participation in high-tech trade; its import dependence and the dominance within that of luxury goods (cars for example) as opposed to items for capital investment; and the persistent difficulty in

¹ 'Russia in the 21st Century: Vision for the Future' The Institute for Contemporary Development http://www.riocenter.ru/files/INSOR%20Russia%20in%20the%2021st%20century_ENG.pdf

freeing small and independent enterprises from the strictures of local bureaucratic and political structures, as well as from larger politically connected enterprises.

9) The Prospects. Logically, one should be gloomy. The political elite, understandably enough from their point of view, will rate political stability above economic renewal, even if they would not put it like that, or accept that there was a choice to be made in this respect. Russia's emergence this year from the traumas of 2008/9 may very probably encourage such a cast of mind. There are no credible signs of manageable or steady change within the elite which would open up the 'vertical of power'. Perhaps that is no longer possible after the botched succession in 2008. A Putin return in 2012 would imply the further entrenchment of the current political system and Russia's continuing to fall behind the rest of the world. That would not erode the sense of grievance and humiliation that estranges Russia from so many other countries.

10) And Yet...Codifying Russia's evolution into eras symbolised by succeeding persons is handy but incomplete. There is also a shifting pattern in the way that Russia has thought about itself which has had a formative influence. Its effects since 2000 have been masked by the destruction of subordinate entities, and the centre's control of the mass media. But the assurance, even arrogance, which had developed under Putin and prevailed for most of 2008 has been dented. Hopes of an early return to the comparatively fat days of Putin's Presidency are still widely shared, but so are doubts. Medvedev may not have the answers, or the power to implement a credible programme, but by raising concern, even alarm, about Russia's longer-term future, he has made space for a wider and more public discussion about what ought to be done to ensure the country's future prosperity, or even for some, its survival. That matters, because it casts doubt not just on the ability of the current and seemingly unchangeable elite to manage affairs, but also their right to do so.

Some Conclusions

Around eight hundred businessmen, politicians, experts and analysts attended the annual Krasnoyarsk Economic Forum on 11/12 February 2010 in Tomsk called by President Medvedev to address the issue of modernisation. The President recommended among other things the establishment of a research and development centre as a core element of a 'city of the future', and for close cooperation between business and

government in pursuing modernisation. Plans for the latter should be submitted rapidly in order to include financing for agreed projects in the 2011 budget. Various businessmen reported, unsurprisingly enough, that they were modernising and innovating with vigour, and would welcome budgetary support. 70 per cent of those attending when asked to vote on the matter said that they did not know what the authorities meant by modernisation, and 50 per cent said that they were not prepared to sacrifice themselves for its sake. Finance Minister Alexei Kudrin said that investment rates would have to double to 30 per cent of GDP if progress was to be made. Deputy Prime Minister Igor Shuvalov concluded that “people do not entirely understand, they do not read our policy documents, they don’t listen to what the authorities are saying. Perhaps this is partly our fault. It seems that we do not explain ourselves well enough.” Andrei Sharonov, a former senior government figure now turned investment banker at Troika Dialog was even blunter when he commented that modernisation contradicted the government’s primary interest in stability, which was shared by the top levels of business. The general opinion, in his view, was that the country’s leaders did not really want modernisation, but favoured another round of property distribution.

The next round of local elections, due in mid-March 2010, will be closely scrutinised for excessive rigging in favour of United Russia. The regime’s moral legitimacy will be further compromised if they are – and they probably will be. It will become evident about the same time if Putin’s government is to follow up in a meaningful fashion on the ‘instructions’ Medvedev gave them in his message of 17 November to the National Assembly. There is as yet no sign of that.

The natural first conclusion is therefore that the inherent tension between economic renewal and the frozen political structure will continue to mount in 2010, and that if Putin returns to office for the 2012-2018 Presidential term it is probable that this contradiction will become steadily more evident.

Second, it will very likely get harder for outsiders, whether political or business, to manage their Russian interests. Change delayed for the short-term benefit of the present elite will make change later all the harder. Catastrophe is beyond present reasonable prediction, but it is not beyond imagination. And as noted above, there is a fair number of well-informed and intelligent Russians, including those who have been content to work with Putin and Putin/Medvedev, who have become fearful for Russia’s future.

Some of the factors which made it seem in the early eighties that the Soviet Union could not last are discernable now. This is not to predict that the Russian Federation will break up, though there are those who believe that it may. Moscow already has what looks like an unmanageable problem on its hands in the North Caucasus. The implications of that for outside powers and investors are clear. The Moscow leadership remain extraordinarily sensitive to popular agitation, not just in their own country but further afield. The protest against the local administration and Putin's government in Kaliningrad caught them on the hop. So did the riots in Vladivostok in December 2008. The elite's power rests on their unity, and securing popular acquiescence by economic growth. The erosion of these pillars would leave them with nothing but force and nationalism to rely upon.

Fourth, outsiders would do well to consider that Russians have long memories, particularly regarding Western behaviour. Compromising our values or passing them over in silence is dangerous. The EU is seen as weak, even hypocritical, because it has shown itself desperate to please. Western companies as well as governments need to be careful to speak to more than just those currently in power and to calibrate their messages to the reality of different Russian audiences. Failure to do so will be seen as acknowledgement that they are in hock to the present regime.

Sir Andrew Wood is a Former UK Ambassador to Russia and an Associate Fellow of the Russia and Eurasia Programme, Chatham House