



# Opaque as Always



The new man has arrived in the Kremlin as unexpectedly as his predecessor, who made the selection this time. With the Russian political season only half over – the formal presidential election is next month – thoughts are already focused on the decisions ahead.

**f**OR A KGB MAN, VLADIMIR PUTIN HAS PROVED AN astute political operator. In declaring his successor to be Dmitry Medvedev, a youthful technocrat from outside the intelligence services, the Russian President has once again demonstrated the authoritarian nature of the political system. But he has also shown that he likes to spring surprises and wrong-foot those who think they know what his next step will be. Nobody can be sure where exactly the country is heading. Yet a rapidly ageing population, combined with an undiversified economy and shady business practices, will provide the new president with plenty to think about.

Medvedev is unlikely to be pushed aside by Putin after a few months. Had Putin plumped for a technocrat, for example the current Prime Minister Victor Zubkov, then he would most likely have found some excuse to resume his presidency after a short period. Medvedev, however, will grow accustomed to the trappings of power and not want to relinquish his position. At first, he will be reliant on Putin for guidance, as he has been for most of his career. But after a while, it would not be surprising for the new president to begin to flex his muscles in an attempt to carve for himself greater independence.

## SECRET POLICEMAN'S MENTALITY

That prospect should cheer up Europe. Medvedev is said to be an economic liberal and a believer in democracy rather than 'sovereign democracy', Putin's favoured description.

There are those who doubt that anyone with such intimate links to Putin's Russia could be anything other than an autocrat. It is impossible to tell, but the fact that Medvedev's skills and instincts have been honed in law, business and the politics of St Petersburg, is welcome relief from the coterie of Kremlin advisers and ministers who spent their formative years in the KGB. And if Britain could do business with Putin, then it will be able to do the same with Medvedev.

The crude foreign policy that has led to spats with Britain over the murder in London of former spy Alexander Litvinenko; with the United States over Iran's nuclear programme and missile defence; and with a host of eastern European states over trade and energy, has its origins in a secret-policeman's mentality.

Tactics have been confused with strategy, assertiveness and obstinacy with the national interest. Russia has been able to behave like this partly because of high oil prices, and partly because of a sense that the shame and anarchy of former President Boris Yeltsin's years needed to be expunged.

We in Europe must accept that Russia has not become a democracy in any recognisable sense. Times have moved on from the totalitarianism of the Soviet Union. But Russia is authoritarian, with a touch of the police state. Political opponents are singled out and sent to jail; the media, whose independence has now virtually disappeared, does the Kremlin's bidding. Moreover, judicial and administrative institutions have been politicised to the extent that the whole electoral system is now geared towards delivering landslides to the President's United Russia Party.

## WEAK HAND

It is unlikely that this will dramatically change under Medvedev, nor will most ordinary Russians, who feel better off, want it to. Gross domestic product (GDP) growth under Putin has averaged a strong 6.7 percent and poverty has fallen.

But Russia has a weak hand and Medvedev needs to concentrate on improving the rule of law. When a foreign company invests, it must know that its investment is safe from political interference. Under Putin, foreign investment as a percentage of GDP has been much lower than the average for eastern Europe: less than three percent for Russia while five percent for Poland. The oil and gas sectors are out of bounds for most foreign companies, and even big foreign investors such as BP are forced to conform to the Kremlin's way of doing things.

Such heavy-handedness might lead one to think that Russia is acting from a position of strength. In fact, Russia's fortunes are likely to rise and fall with the price of natural resources. The oil and gas sector represents more than thirty percent of GDP and energy exports account for over sixty percent of total export revenues. This reliance on natural resources is, in reality, a liability.

Medvedev must be aware that Russia could become another Saudi Arabia, exporting energy but little else. To offset the risks of a downturn in oil prices, Russia needs to do more to make foreign direct investment more

attractive. Indeed, the Organisation for Economic Co-operation and Development has shown that much foreign investment in Russia is actually reinvestment by Russian-owned assets abroad: in 2005, 28 percent of foreign direct investment came from Cyprus.

## PEOPLE PROBLEM

Meanwhile, a demographic crisis is developing. Russia's population is falling by 700,000 people a year. The Russian government's own estimate is that the population will drop from 146 million now to 80 million by 2050. Others disagree and say the situation is even worse.

Whatever the figures, Russia's leaders have some serious challenges ahead. And yet, it is unlikely that Russia's future leadership will depart from the inefficient state capitalism as represented in Gazprom or Rosneft. Medvedev, as the Chairman of Gazprom, will continue to use the big monopolies as an extension of the Russian state.

In January last year, Medvedev attended the World Economic Forum in Davos. He made some remarks which illuminate his thinking: 'we aim to create big Russian corporations and will back their foreign economic activities. But the role of the state certainly should not involve telling any particular company or sector how to carry out diversification. Even if the state retains a controlling interest, we aim to create public companies with a substantial share of foreign investment in their capital.' This is by no means classical liberal economics in the Adam Smith mould, but it does represent an improvement on the paranoid way many of Putin's other close associates – the Siloviki, or KGB and military officers – think.

But we in the west have obligations too. Take missile defence, an issue where there is a legitimate joint interest because of the threat from weapons proliferation in Asia. The US should not merely inform Russia of its policy, but should make an effort to include Moscow as a partner in our thinking on these matters.

Russia, having felt neglected and humiliated over the last fifteen years, deeply resented the symbolism of the US's announcement of new missile and radar systems in Poland and the Czech Republic. That does not mean that we do not take a firm line on the issues where Russia behaves disgracefully, such as in Chechnya or, on occasion, in the Baltic states and eastern Europe. But we should try to show greater sensitivity in those areas where its legitimate interests are at stake.

The future for Russia is as opaque as it always has been. Things can change quickly. But it is likely that Putin will remain a strong, perhaps the strongest, influence in the Kremlin. He and his successor will have some big decisions to make, over Kosovo, over missile defence in Europe and over relations with the European Union and US.

Medvedev has a choice: as his power slowly increases he can continue Putin's crony capitalism and authoritarian practices, or he can move to introduce the rule of law and, however slowly, more democratic freedom. For the sake of Russia's future, he should choose the latter.

