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Who's in Charge in the Kremlin?

Ian Bremmer

Many Russians continue to believe that Russia will always need a single, dominant, and authoritative leader. Many in the West fear that "authoritative" will always mean "authoritarian," and that President Vladimir Putin is simply the latest in a long line of Kremlin autocrats who has chosen to steer his country away from internal liberalization and a foreign policy rooted in constructive international engagement. Debates rage in Russia and beyond over Putin's consolidation of presidential power and—despite his consistent protestations to the contrary—the possibility he may amend the Russian constitution to extend his presidency indefinitely.

Is Vladimir Putin too powerful for Russia's good? Events of the last year suggest a quite different trend in Russia's political life. The question is no longer simply one of Putin's appetite for autocracy. Instead, the threat to Russia's political, economic, and social stability is that, increasingly, no single person is really firmly in charge in the Kremlin, and that uncertainty will only grow as the next presidential election approaches.

There are plenty of troubling signs that Putin's inevitable loss of influence over the course of events in Russian politics is already well underway. Divisions within Russia's party of power are deepening. The rivalries those divisions have created now threaten the country's political development, investment climate, and economic growth, and the Russian president seems unable to do much about it. Putin is still in the driver's seat. But, to paraphrase former presidential speechwriter Richard Goodwin, he may already have discovered that the steering wheel is no longer connected to the engine.

Putin's loss of control arouses real anxiety in those looking for clear policy direction in Russia, because there has been an enormous consolidation of power in the Kremlin since the 1998 financial crisis, in which chaos in the Russian government led to a default on international debt. The more powerful the vehicle, the more dangerous it is that no one person seems able to steer it.

As elbows begin to fly heading toward Russia's 2008 presidential election, battle lines have been drawn inside the Kremlin and within Putin's United Russia Party. An increasingly acrimonious fight between the so-called technocrats and the *siloviki* (former and active officers of the military and security agencies) is spilling into the street and blocking both needed reforms and a sense of strategic direction. At the moment, the Kremlin's insiders have limited their initiatives to a kind of "anti-policy"—the scuttling (or gutting) of any initiative that might limit state control of Russia's politics and its resources. Government priorities now shift fluidly within the Kremlin, even as Russia's problems begin to mount.

Technocrats versus the Siloviki

The battle between the Kremlin's technocrats and *siloviki* is most publicly visible in the jockeying for position between Russia's energy "state champions," Gazprom and Rosneft. Technocrats, like Dmitri Medvedev and Alexei Miller, control Gazprom. Former security officers, like Igor Sechin and Sergei Bogdanchikov, are in charge at

Rosneft. The *siloviki* won a recent battle by blocking a merger of the two companies. But the technocrats overcame *siloviki* obstructionist tactics to swallow up another oil firm, Sibneft. The ongoing rivalry adds to an uncertain investment climate and undermines the government's ability to clarify rules of the road for would-be foreign investors and to coordinate efforts to increase efficiency in the energy sector. In fact, a worrying pattern has emerged: Putin issues statements intended to clarify official policy, and rival Kremlin factions quickly take actions that undermine his credibility.

Following the Kremlin-directed assault by Russia's tax police on the once-wealthy Yukos oil firm (and its president Mikhail Khodorkovsky), Putin sought strenuously to reassure potential investors that the affair was exceptional and would not be repeated. Last April, Putin used his annual state of the nation address to call on tax police to cease "terrorizing" companies. His senior economic advisor used the expression "tax terrorism" in interviews with journalists immediately following the speech. But the warring cliques within the Russian government almost immediately demonstrated a startling independence and have continued to pursue their interests with a determination and consistency that leave observers wondering who is in charge. Within days of the president's speech, tax authorities presented TNK-BP, a Russian-British joint venture that is Russia's second-leading oil producer, with a bill for nearly $1 billion and the threat of more to come.

Putin has even pressed for legal protections to reassure Russian companies that they need not fear more Yukos-style prosecutions. He has touted a three-year statute of limitations on investigations into the dodgy privatization deals of the 1990s. But the new law makes clear that the three-year clock starts ticking only after the terms of the earlier privatization deals have been fully disclosed, a loophole through which any Kremlin-appointed judge could drive a truck. And the subsequent tax claim on TNK-BP is *four* years old.

The energy sector is not the tax police's only target. In September, Putin advised German investors that he expected agreements enabling Volkswagen and DaimlerChrysler to build production facilities in Russia. Hours later, the Ford Motor Company's Russian subsidiary received a $10.6 million back-tax claim for 2001–03 (and the threat of another bill for 2004). Industry analysts say the claim will not make much of a dent in the car company. But the tax collectors' aggressiveness raises two fresh concerns. First, although back-tax claims on natural-resource companies have been a constant threat, the automotive sector previously seemed safe for investors. Second, and more alarming, the claim seemed deliberately timed to undercut Putin's efforts to lure foreign investment. If someone in the Kremlin hostile to foreign investment in key sectors can undermine the president's message within hours and without fear of punishment, investors beware. Foreigners, who have learned to doubt Putin's promises, now catch cold every time the tax police sneeze.

It is hardly surprising, therefore, that foreign investment in Russia is lagging. Investors still await final passage of a new Russian subsoil law that spells out exactly which national assets the Kremlin considers "strategic" and establishes legal limits on foreign investment in those sectors. As Kremlin factions battle to protect their special interests, investors may well wonder if even the "final version" of the law will prove the last word.

Spending on physical infrastructure is another casualty of the infighting. Given already onerous and rising taxes, why, Russian oil companies wonder, should they sink cash into improved infrastructure? The problem is particularly acute for the badly needed construction of new pipelines. Because Russia lacks pipeline capacity, much of its oil for export has to be shipped by rail or barge—at an average cost of $5 a barrel. As a result, Russia has become among the very worst managed of the world's large oil economies. Transneft, Russia's pipeline monopoly, has battled the Russian Railway Ministry for the revenue that comes with oil transport rights. Putin seems powerless to fully resolve the stalemate, leaving Russia without a coherent plan to transport its growing energy output.

Domestic Problems

Given this infighting at the highest levels of government, it is hardly surprising that Russia's economic performance has been disappointing. Unemployment and inflation each run in double digits. Corruption remains endemic within the bureaucracy. The Ministry of Finance's 2005 growth forecasts may well dip to 5 percent by the end of the year. Given Russia's windfall revenues from oil prices above $60 per barrel, these numbers are particularly tepid.

In fact, Russia's oil production has become the most worrying wild card in the global market. The International Energy Agency has estimated that the bulk of non-OPEC oil-production growth over the next several years will come from Russia. For reasons directly related to the Kremlin's policy incoherence, Russia's near-term oil production levels are more likely to be flat or even negative. The country's existing tax regime leaves the average firm about six cents for every dollar that oil prices rise above $27, and senior Kremlin officials warn that energy companies can expect another tax increase soon. Russia's few remaining independent energy companies, fearing the Kremlin's wrath, swallow their protests.

Russia's growth prospects are also threatened by Kremlin efforts to rebuild political capital through profligate state spending. Putin may not be fully in charge, but the Kremlin's technocrats and *siloviki* still depend for their influence on the Russian people's faith in government. Putin's popularity took a serious hit last year following well-organized demonstrations by pensioners furious over the monetization (and depletion) of their benefits. To restore the president's man-of-the-people credentials in advance of parliamentary elections in 2007 and the presidential election in 2008, the Kremlin sent the Duma a budget for 2006 that would raise nominal spending by 22 percent and real spending by 15 percent. The Duma dutifully passed the budget in December. Spending on health care will increase in 2006 by 81 percent. Spending on "communal services" will rise by a stunning 208 percent. Russia's budget surplus will help fund the spending spree. In addition, although Russia's stabilization fund is intended for external debt repayment, political pressures to spend it domestically insistently rise. Inflation is already running at 12 percent. All this new spending will further increase inflationary pressures and thus may significantly lower consumer purchasing power. If so, the infusion of cash meant to quell potential unrest could do just the opposite.

Other matters on the domestic agenda are also troubling. The bitter stalemate over Chechnya continues, and Putin has been unable to persuade Russians they are now safer from attacks by violent separatists. Alarmingly, Russia still has enough nuclear material stored in 40 scattered sites to build some 40,000 bombs. Experts warn that these facilities are still not properly secured. While the U.S. government worries that al-Qaeda operatives might buy or steal enough nuclear material for a devastating terrorist attack on an American city, the nation most vulnerable to nuclear terrorism is Russia itself. Chechen fighters have proven they can strike virtually anywhere in the country, and the threat of a catastrophic attack—possibly even involving a radiological "dirty bomb" in a major city—remains higher in Russia than in any other country. Russia is the only country in the world with large indigenous terrorist organizations, substantial amounts of unaccounted-for radiological material, and a host of highly trained (and underpaid) scientists with expertise in the production of weapons of mass destruction.

In addition, Russian and foreign businessmen complain that corruption flourishes at virtually every level of government. The current climate has proven exceptionally dangerous for those brave enough to tackle the problem. Since Putin took office in 2000, at least seven investigative journalists have been murdered. Most of the killings are thought to be reprisals for print or broadcast reports on organized crime or government corruption. Others are thought to have been revenge killings ordered by local politicians. When Paul Klebnikov, editor of *Forbes Russia*, was gunned down on a Moscow street in 2004, the list of possible suspects was long. Few independent observers were persuaded when the murder was blamed on two ethnic Chechens.

Foreign Policy

Investors and businessmen are not the only ones at a loss to understand the government's stagnation and lack of direction. The Kremlin's foreign policy lacks coherence, and U.S. policymakers are struggling to fathom who is in charge. Following the "colored revolutions" within three former Soviet republics (Georgia, Ukraine, and the Kyrgyz Republic), Putin has faced criticism at home for dithering while states within Russia's traditional sphere of influence reorient toward the West. Ukraine's Orange Revolution, in particular, has cost the Russian president substantial domestic political capital.

Following Georgia's "Rose Revolution" in late 2003, the new American-educated Georgian president Mikhail Saakashvili challenged the presence of Russian troops on Soviet-era Georgian military bases with a vigor unknown in his predecessor, Eduard Shevardnadze. Russia has since begun the withdrawal of its soldiers. Nor was Putin able to prevent Saakashvili from forcibly evicting the pro-Russian leader of the Georgian enclave of Ajaria, thus restoring Georgia's control over the territory.

Fearing a second revolution within the former Soviet realm, Putin took palpable risks during the Ukrainian election fiasco in late 2004. He openly endorsed (and even publicly campaigned for) the pro-Russian presidential candidate Viktor Yanukovych, a man widely seen as a willing tool of Ukrainian oligarchs and Russian strongmen. Yanukovych won an election immediately denounced as fraudulent by European and U.S. observers—and by Ukrainian demonstrators. When the race was rerun, Viktor Yushchenko triumphed easily, and Putin was left to gripe from the sidelines. Yushchenko has worked to reduce Russian influence in Ukraine. Sniping over Russia's loss of face has not abated.

When a third revolution occurred in the Kyrgyz Republic earlier this year, the Kremlin seemed unprepared and did little for the ousted Kyrgyz ruler beyond offering him asylum. In recent months, Russia has attempted to reassert its influence in a region once considered its "near abroad," and forcefully backed Uzbek president Islam Karimov when social unrest within the country threatened to spiral out of control last summer. Russia and China have made a concerted effort to push the U.S. military presence from Central Asia, and the Kremlin applauded Karimov's decision to give the U.S. military six months to clear out of a base in Uzbekistan. But all Central Asia's governments remain wary of any serious Kremlin attempt to reassert Russian dominance in the region and continue to play Moscow, Washington, and Beijing against one another to preserve their independence.

Beyond the former Soviet space, the Kremlin has developed new ties with Iran. But recent statements by Russian officials that Moscow intends to sell Iran more nuclear reactors were mainly an angry response to U.S. sanctions against foreign companies that provide precisely such help. The threat had little to do with policy: Iran has not asked for new reactors. Russia and Iran have few common interests beyond a shared desire for profitable commercial relations, and Iran's rejection of Russian attempts to mediate the international dispute over Tehran's nuclear ambitions has further soured relations with the Kremlin.

Russia has tried to compensate for its perceived loss of influence in Central Asia by reaching out to China. But even talk of a Russia-China alliance, so worrying to Washington, is limited by internal Kremlin disagreement. Prime Minister Mikhail Fradkov says Russia's trade with China will jump from $21 billion to $60 billion in the next five years, an extraordinary rise he claims will derive not just from oil, but from other natural resources and arms sales as well. The latter would be a significant concern for U.S. policymakers—particularly in the context of recent Russian-Chinese military exercises. But others in the Kremlin fear that a growing China poses real dangers for Russian national security, thereby limiting any substantive Chinese-Russian détente. Even if the Kremlin were to find a way to drive the United States from Central Asia, Moscow would quickly find itself in direct competition for influence and resources with Beijing—a battle that Russia lacks the economic and political clout to win.

Russia 2008

Until recently, there had been much speculation that Putin might have enough muscle to amend Russia's constitution and give himself a third four-year term as president—or abolish term limits altogether. For those hoping for a firm hand on Russia's steering wheel, that worry has given way to another. It is no longer a given that Putin can designate his successor. The president's recent promotion of Dmitri Medvedev, an experienced technocrat, to the post of first deputy prime minister and Defense Minister Sergei Ivanov, a respected member of the *siloviki,* to serve as another deputy prime minister indeed puts their names in the media spotlight. But no matter who succeeds Putin, the next Russian president will have to struggle to consolidate his authority amid the rivalries that plague the Kremlin.

It seems increasingly unlikely that Putin will continue as president after 2008. Given a chaotic election season, deepening divisions within the ruling elite, and the possibility of popular unrest, anxiety is likely to predominate in Putin's final days. The risk of serious political upheaval or a "colored revolution" in Russia seems quite small. But Russia's business elites, wary of election uncertainties, may again move substantial capital out of the country. And while Russia will probably enjoy moderate growth in retail, automotive, and service industries, foreign direct investment in any sector the Kremlin might label strategic—oil and gas, aviation, telecommunications, and metals—may well tail off.

Overall, Russia has come far in the last 14 years. Elections regarded as free and fair have occurred on schedule. The threat of Communist resurgence now seems remote. Extreme nationalists have failed to build on the momentum that their standard-bearer, Vladimir Zhirinovsky, attained in the mid-1990s. The military remains under civilian control. Even if small-scale entrepreneurship is still mired in red tape, Russia has embraced free-market capitalism. The Kremlin has been unable to meddle in the affairs of its neighbors—at least on the scale many feared in the early 1990s. Russia has a seat at the table with the world's leading industrialized nations, even if its relatively small economy sharply limits its leverage. Russia has adopted a pragmatic approach to NATO's expansion into the territory of the former Soviet Union itself. Russia's relations with the European Union continue to improve, despite EU criticism of Moscow's human rights record. European reliance on Russian energy will only deepen. Moscow and Washington have found common interest in a trade and energy development "dialogue," and in sharing intelligence in the war on terror. Bush and Putin, like Clinton and Yeltsin, have maintained relatively warm personal relations. Russia has recovered from the chaos of the Yeltsin years and the financial meltdown of 1998.

But these genuine accomplishments offer no guarantee of future stability. Even if Russia does need a single, dominant, authoritative leader to guide the country through the next stage of its political and economic modernization, Putin no longer seems willing or able to play that role. As 2008 approaches and Russia reaches another milestone in its post-Soviet development, political uncertainty over what comes next is likely to engender much anxiety and considerable political risk. ●