



CHATHAM HOUSE

Chatham House, 10 St James's Square, London SW1Y 4LE  
T: +44 (0)20 7957 5700 E: [contact@chathamhouse.org.uk](mailto:contact@chathamhouse.org.uk)  
F: +44 (0)20 7957 5710 [www.chathamhouse.org.uk](http://www.chathamhouse.org.uk)  
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# Russia's Coming Decade

Andrew Wood

Associate Fellow, Russia and Eurasia Programme, Chatham House

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## Summary Points

- Despite initial optimism, the overall effect of Vladimir Putin's presidency of Russia has been to weaken Russia's political structures by substituting the potential for a set of independent institutions by a closed elite answerable principally to itself, with little interest in reform or modernization.
- The lack of an autonomous legitimating ideology beyond a sense of national grievance, together with the absence of renewal within the ruling elite, has increased its tendency to distrust others, including its subjects, and to cling more insistently to its own received truths.
- The Russian government's response to the economic crisis has been primarily tactical in nature. It has sought to avoid popular discontent through palliative measures to keep down unemployment and prop up often unprofitable industries in the hope that a return to global growth will again push up commodity prices. Even in the short term, this is a risky approach; there is a possibility that Russia's reserves may not last until growth picks up sufficiently. In the longer term, changes in the oil and gas market outside Russia, and a failure to invest in domestic production, will weaken a resource-based growth model.
- Despite the rhetoric, there has been no attempt to launch a systemic modernization agenda in Russia. While the preconditions for renewal are well understood (political and economic competition, an independent judiciary, further liberalization including in the resource sectors, an effective anti-corruption campaign), none of these generalized aspirations have been fulfilled.
- There looks to be little prospect in the next couple of years that economic or social pressures will push the elite towards reform. However, the chances of keeping such a shift under control will become more difficult the longer it is postponed.

## Introduction

The next two years will be critical in determining whether Russia begins to develop over the coming decade into an effective polity with a modern and diversified economy. Three cycles, sketched out below, will interact to determine the outcome: the pre-electoral period will produce either more of the same or renewal; what follows the first efforts of the authorities to cope with the global economic crisis will indicate how far Russia will realize its fuller economic potential; and both these factors will show whether or not Russia is able in the predictable future to begin to lessen the distance between itself and the more advanced economies.

## The Political Cage

The institutional structure of the Russian state has been weakened as the potential for a set of interdependent actors answerable to the wider public that existed in the 1990s has been replaced by a closed elite answerable principally to itself. Vladimir Putin's re-election in 2004 pushed Russia further down the path of centralized personal rule. Dmitry Medvedev's anointment in 2008 was a missed opportunity for renewal. He has had no discernible success in pursuing the two themes he identified as central to his presidency, establishing the rule of law and attacking corruption. The institutional standing of the presidency has been attenuated by Putin's move to the 'White House' as prime minister. The result is rigidity.

The next electoral cycle begins in the new decade. Presidential and Duma elections are due by 2012, with the four-year term for the presidency being replaced by one of six years, renewable for a further six if it is Putin who runs – and probably also if Medvedev does. If Medvedev is to be more than a placeholder and Putin is to fade, the current president will have to build up his independent authority and personal entourage during 2010/11.

The issue of who will be next and where he (it would be a polite figure of speech to write 'she or he') will exercise power is bound further to lengthen its shadow over Russian politics between now and 2012. The chances of a third candidate emerging from within the ruling elite look remote, and would be disruptive. That too is a fact to be stressed: while power in Moscow has indeed become personalized it is also exercised through a small group made up of Putin's associates. Change has been minimal here too. The core of the regime remains with pretty much the same men of power (*'siloviki'*), reliant on a corrupt bureaucracy, and the rent of the dominant enterprises based on Russia's Soviet inheritance. However able some individuals may be, their

sense of change as risky, and best managed centrally and by themselves if it must be contemplated, is not likely to be shaken.

It is only human for such groups to become both introverted and captives of their own assumptions. Putin, Medvedev and their principal colleagues are by reason of the centralization of the Russian state more than usually circumscribed by their actions to date as individuals, as a group and through the prevailing expectations which now permeate the Russian state. The lack of an autonomous legitimating ideology beyond a sense of national grievance, together with the absence of renewal within the ruling elite, has increased the latter's tendency to distrust others, including its subjects, and to cling more insistently to its own received truths. It is, as *Pravda* used to say, no accident that the official view in Moscow so often seems at odds with the commonsense perceptions of the outside world. The longer the current political system persists, the greater the likelihood that these attitudes will become more dominant, and the more disruptive it will be for the present elite to review its policies. It is indicative that, for instance, even the idea of interrupting the judicial persecution of Mikhail Khodorkovsky for his alleged misdemeanours when running the former Yukos energy company, which had some currency when Medvedev came into office, seems now to be beyond the pale.

How the ruling elite will cope with the next presidential succession cycle is bound to be contentious as winners and losers are sorted out and as the implications for longer-term policies take shape.

### **The Easy Way Out of the Present Economic Crisis**

Once it realized the scale of the crisis it faced, the Russian government was by no means the only one to look primarily to first aid, not the post-crisis transformation of the economy. The essential task as seen by both Prime Minister Putin and his government and, perhaps to a lesser extent, President Medvedev, was to prevent popular discontent. That meant not only helping the banks but keeping workers in their existing employment, holding devaluation off and avoiding bankruptcies (especially but not only in the 'monotowns'). Much of the considerable funds allocated by the authorities went to large-scale enterprises controlled by the state or its associates, including enterprises with little or no prospect of ever becoming profitable.

That tactical approach has persisted. Whether or not it will be enough to see Russia through to calmer waters in the next couple of years does not depend only on Russia. The last year ought to have destroyed any illusion of the

country being a safe haven, though it is not certain that the top leadership has been completely persuaded of the limits to what Russia can do on its own, or in company with like-minded client states. The latest budget plans nevertheless recognize that the next couple of (pre-electoral) years will be difficult. The Reserve Fund is to be spent almost in full in 2010, and the National Welfare Fund hollowed out, as social and anti-crisis expenditures are kept high and the budget is once again in considerable deficit. Russia may seek to borrow (on present plans) some \$60bn over the next three years. The overall aim is still, rhetoric apart, to preserve current structures, however ineffective or even bankrupt, until the world economy recovers sufficiently to allow Russia to revert to the natural resource drivers which appeared to work so well over the past decade.

This seems a risky strategy, even for the short term. It depends critically, in the first place, on the recovery, speed and extent of global growth, and on Russia's reserves lasting until that growth picks up sufficiently. If this does not happen over the next eighteen months or so, and current policies are maintained, the strain on the government's finances will very likely become severe enough to force difficult and divisive spending choices on the ruling elite in the course of 2011. The IMF has warned, in its latest report, of the inflationary pressures building up because of the rising budget deficit. There are other rocks in the way, including weaknesses in the banking system, the vulnerability of the rouble, social discontent and so on. But there is, as far as I can tell, no compelling reason to expect a second and game-changing crisis wave to hit Russia this autumn. Tactical management of the economy in the expectation of a short global crisis is therefore likely to remain the first choice of the ruling group.

The longer-term flaws in this approach are considerable, even if tactical spending works well from the point of view of the governing interests in keeping the economy on its present path over the next couple of years. Russia's world will not be the same as it was for Putin in his first two terms as President even if global recovery is relatively quick. Changes in the oil and gas markets, outside competition and Russia's failure to invest effectively or sufficiently in the energy sector will ensure as much, together with the fact that nothing significant has been achieved so far in developing Russia's economy beyond its natural resource bases. And even there it lags behind its comparators. The money that seemed so abundant in 2008 will on current form have been spent by 2011, while the subsidies now agreed will be hard to reduce. But the government is unlikely to be moved by such doubts while its political interests point clearly towards as quiet a life as can be managed.

If, on the other hand, global growth does not resume with sufficient strength in the next couple of years then Moscow will come under greater pressure to contemplate a more strategic approach, which would require systemic reform. Achieving that would require either a radical change of policy by the present leadership, or their replacement; but the first is improbable – for who would risk being its initiator? – and there are no candidates for the second. It is also questionable whether there would be popular understanding of, let alone support, for radical change. A prolonged period of difficult global conditions would be likely instead to promote still greater central control over the economy, and society as a whole, with grim and in the end even self-destructive results.

### **Modernization**

The energy-inspired boom of the early 2000s encouraged hopes of Russia's future economic growth. But much of its dilapidated Soviet inheritance has continued to fade during this decade. Investment was inadequate even at its height. The global economic crisis has cruelly shown up the Russian economy for its dependence on imports financed by earnings from the country's natural resources. This is not to say that every Russian enterprise is flawed, just that there are not enough bright spots for Russia to begin to catch up with its competitors. On the contrary, it has continued to fall behind. Productivity, as measured by the Russian Academy of Sciences, is 27% of that in the United States, and 42% of that in Germany and Japan. Russia does not have the cheap labour available to China or India. Both the costs and the ineffectiveness of its road building are without parallel in the world. The number of Russian applications for patents is nugatory. Russia's obsolescent Soviet inheritance is as much a burden as an asset, as evidenced recently by AvtoVAZ, the failed Bulava missile, and the catastrophe at the Sayano-Shushenskaya hydro-electric station (not its first, either). And so on.

The preconditions for renewal are widely understood and have been publicly recognized by Putin, Medvedev and others, as well as in documents such as the Ministry of Economic Development's pre-crisis plan to lead up to 2020. They were listed by the Director for Macro-Economic Research at the Higher School for Economics on 13 August as follows: 'Political and economic competition, the independence and effectiveness of the courts, corruption, opening up the economy to foreign investment, and the exposure of the non natural resources sectors of the Russian economy to the global economy.' One might add a long-term commitment of the government to programmes

built around these principles, with a focus on key infrastructural investment, and supported by an effective and honest bureaucracy. Many Russians would call in addition for a reinvigoration of the country's education system, including its technological education.

But none of these generalized aspirations has been fulfilled; instead, political and even intellectual competition has been deprived of meaning. A credible modernization programme would be interconnected and extraordinarily wide-ranging. It would take a real Kamikaze to put flesh on its bones, let alone bring them to active life, because implementing them would directly threaten the structures of the present system. The idea widespread in recent years that generational change coupled with economic growth will eventually soften Russia's governing system and thereby allow an emergent middle class to take the reins was a comforting but illusory proposition, especially given the existence of a hardening 'vertical of power'. It was suggested in 2004 that Putin would in his second term build on the reforms of his first, that Medvedev would in 2008 make the system more just and flexible, and more recently that the present crisis would compel radical change. None of that has happened. President Medvedev's caustic comments in his 10 September article for the online journal *Gazeta.ru* were eloquent in underlining the need for renewal but short on practicable ways to achieve it. Meeting the challenge of avoiding Russian decline and political degradation gets more difficult, not less.

Over the next couple of years the governing group will have to come to an understanding of who will be their leader from 2012 (or conceivably earlier). That may well be while the hope of muddling through persists, or in a worse case before an attempt to deal with lasting global difficulties by still greater central control has been shown as wanting. Experience so far suggests that the elite would prefer Putin if he were prepared to resume full formal responsibility, but that Putin would not return as a reformer. Nor would his associates support him again if they thought that he might. They have too much to lose from radical [root-and-branch] change. There is no reason to suppose that the bureaucracy would be able to produce effective and disciplined change even if it could be made to take that task seriously. Medvedev could in principle yet surprise, but he is unlikely to become a dominant force able to marshal public and political support for effective modernization before or after the next rotation.

## Some Conclusions

Russia's obstacle to the greatness it could have, and that its leaders say they want, is that it is in a political cul-de-sac, with no evident orderly way out at present. The parallel with Argentina, a country which missed its destiny, has been suggested, and can be made to fit, sort of. The parallel with the Brezhnev years is closer, but incomplete, for now there is a greater vacuum in the Russian state. Putin quite recently told then President Bush that Ukraine was not a real country. The unintended corollary was that neither was Russia, without Ukraine

It is impossible to tell whether or when a further wave of economic or possibly social pressures, or the fear of such a wave, will break the cohesion of the present elite, and persuade enough of its members to take the risks inherent in a decisive and therefore liberalizing change towards political, social and economic modernization. This does not seem to be a prospect for the next couple of years, and the electoral cycle would inhibit it beyond that. But the chances of keeping such a shift under control will become more difficult the longer it is postponed.

I have not sought in this piece to consider Russia's relationship with the outside world. The country has been tellingly depicted as having made itself friendless. The announcement this summer of its decision to revamp its application to join the World Trade Organization into a juridically impracticable one of entering as a unit of a nascent Customs Union meant in practice that Russia was turning its back on the WTO. Moscow may find itself having to behave more tactfully than in recent years if it is to borrow soon on the international financial markets. But the more it closes in on itself, and seeks to deal with its problems by greater internal discipline, the greater the temptation to balance that by blaming external enemies. Moscow's problems in the Caucasus, in its own territory as well as beyond it, appear to have no permanent solution. Medvedev asked the Duma on 10 August to amend the law governing the deployment of Russian troops abroad so as greatly to enlarge the scope of pretexts for doing so. Medvedev's intemperate message to Ukrainian President Yushchenko on 11 July was notable for its refusal even tacitly to acknowledge that Moscow might bear any responsibility for the poor relations between Russia and Ukraine. Perhaps he and his colleagues genuinely do not realize that Russia might in any way be wrong. Trouble on that front is still possible around the turn of this year.