

WHY VLADIMIR PUTIN IS NOW IN A DEADLOCK by Piero Sinatti
DOING BUSINESS WITH RUSSIA? YES, PLEASE by Olga Annushkina
OPPOSITION: MORE THAN KASPAROV, IT WOULD TAKE SUPERMAN by Anna Zafesova
WHAT IS LEFT OF THE SOVIET EMPIRE by Fernando Orlandi
LITERATURE: WAITING FOR THE NEW PUŠKIN by Mauro Martini
AND CINEMA RETURNS TO ITS ROOTS by Ornella Calvarese

Where is the New Russia Heading

DOSSIER



The year 2005 got off on the wrong foot for Putin. In January and February more than one million people rallied against the government decision to “monetize social services”, meaning the welfare previously enjoyed by pensioners, war veterans and disabled ex-servicemen, students and soldiers. Transport, housing, health care, and prime necessity ser-

DOSSIER

The great stall of the new Russia

by Piero Sinatti

The economy is moving, but not enough. Extraordinary sales of petroleum and raw materials are behind the growth in GDP. Political reforms have stagnated and are replaced by a temptation to rebuild the State power of the past. Vladimir Putin is placing himself at the center of the game between reformers and conservatives, but his popularity is in decline. Because the one to pay the price of transition...

The first five-year period of the Putin presidency, which is now at the beginning of the second year of its second mandate, was marked by an important and fortunate macroeconomic indicator; a factor not subject to the stability which had characterised the Russian political scene through all of 2004. It was the uninterrupted growth of GDP at an annual rate of more than 7%, which would have been the envy of the ruler of any advanced industrialised country.

And yet the reason for this growth also indicates its limit. It is due to a special circumstance. Russia is the world's second-largest producer and exporter of petroleum and the largest of gas in a period of strong growth in world demand for energy products and their prices on international markets. And it is also among the greatest producers and exporters of metals, including those for which international demand and prices are increasing.

Raw materials constitute the largest share of Russian GDP and exports. Its growth made possible the creation of a very considerable state stabilisation fund (29 billion dollars), the accumulation of gold and hard-currency reserves of more than one hundred billion dollars, punctual payment and even payment in advance (to the IMF), of the foreign debt.

The decline in manufacturing remains, however. Only the armaments sector (VPK) is profitable and competitive on international markets. The high-tech sectors are not taking off (with the exception of military aerospace). In these Russia has separated itself not only from the USA, Europe, Japan and South Korea, but also from China and India.

The small and medium size enterprise sector (SME) is stagnating. Its share of GDP comes to 10 - 12%, whereas it comes to 50% and more in advanced economies. Infrastructure is backward and insufficient.

Investments are not growing domestically and above all abroad.



vices are the issue. In exchange for free social services, Russian government was offering a monetary contribution completely inadequate to cover the expenses. And the local administrations, on the other hand, are proving unfit to manage the new situation. After the protests, the “reform” has been widely revised.

Foreign investments – 10 or more times smaller than those that flowed into the economies not only of China but also of the countries of formerly communist Central Europe – went into the petroleum sector. Finally, the flight of capital from the country is again growing.

An ambitious programme

The economy is the decisive field for the Russian President, whose strategic goal is to conserve and strengthen the Russian State. Development or lack of it in the economy will be the measure of the success or failure of his political action.

The rates of growth though high during the first five years of the Putin government are not sufficient, in particular given their form and context, as Putin argues, to guarantee the balanced and diversified development of an economy no longer conditioned by raw materials. For this, it is necessary to double GDP within 10 years, as the President stated two years ago. They are pressing for a rapid modernisation of industry, the reform of the current monopolies for electricity, gas and railways. The credit sector will have to become an active subject of industrial modernisation and, more than anything else, of the increase of the SME. Investment will have to increase, more than anything else.

There will have to be transparency and certainty of the right to economic life which is still burdened by crime and corruption from the *chinovniki* in particular, public officials at all levels and beginning with members of the central and regional governments.

The role of the State in the economy

The question of the State's role in the economy is crucial. Divisions have emerged in the Russian leadership. The State continues to play a role as owner from gas (Gazprom monopoly) to telecommunications (Svjazinvest), from electricity (unified electrical system, EES) to the railways (RZhD), from the network of petroleum pipelines (Transneft') to a large petroleum firm, Rosneft', and to 35 holdings in the armaments sector (the second entry in Russian exports in continuous growth: China and India are Moscow's principal clients with contracts of around 10 billion dollars together). The case of Yukos, the first and most dynamic Russian petroleum holding, dominated the Russian economic and political scene from summer to autumn 2003 to today. For now it appears to have come to an end with the long incarceration of its founder and (ex) President, Khodorkovsky, and freezing of his assets to combat tax evasion demonstrated in court of over 28 billion dollars and with the break-up of his major pumping affiliate, Juganskneftegaz (JugNG). The State firm already cited, Rosneft', acquired this firm last December in an auction that was not very transparent. It in turn





Contrasto Reuters

The fate suffered by Yukos, the first and most dynamic Russian petroleum holding company, that saw the incarceration of its founder and freezing of its assets, has diffused an atmosphere unfavourable to investment.

seemed about to merge with Gazprom. The birth of a gas petroleum giant controlled and owned by the State, Gazpromneft, was expected.

Blocked offensive and different strategies

At this point, the State could have resumed full control of the entire gas and petroleum sector. It was the case – as was said and written in Russia and in the West – of the first phase of a much larger offensive to regain State control from some large financial and industrial groups controlled by oligarchs. In addition to the Yukos case, a report by the State auditor's department on the legal infractions, including tax infractions, they had perpetrated at the State's expense in the last ten years suggested this.

State sectors subject to the administration of the Kremlin and other parts of government are supposed to have inspired and managed the Yukos Affair. In particular, the individuals to whom Putin had entrusted control of firms like Rosneft, Gazprom, Aeroflot, and the holding company Almaz-Antej (armaments) in recent years. These are the *siloviki*, or people coming from the secret, internal and defence services. Among them Igor' Sechin stands out, ex-KGB, vice head of the presidential staff and President of Rosneft. And some of them are "civilian", mostly economists and lawyers from the St. Petersburg administration of the 1990s such as the head of the presidential administration and President of Gazprom, Dmitri Medvedev.

The new "centrist" line

The Gazpromneft operation, however, was blocked during the first months of 2005. The presentation of the auditor's report to the Duma was adjourned *sine die*. It had probably failed. The fact is that the Yukos case has spread "a climate unfavourable to investments". These were diminished in 2004, as at the same time the flight of capital started up again on a grand scale. The fate of Yukos created uncertainty about the prospects for a "Russian biznes community", tension in relations between it and "power" and fears among foreign investors. It aroused harsh criticism and accusations towards Moscow in the USA and Europe. A singular coincidence, rate of growth declined to about 4.50% between autumn 2004 and spring 2005.

The "renationalisation" policy has been blocked. And a more moderate, "Centrist", policy appears to have taken the upper hand in the Kremlin. Even if this policy wishes to maintain State control of certain strategic production areas and limit participation of foreign capital in them, it on the other hand considers it necessary, for the purposes of stability, to recreate a relationship of cooperation and dialogue with the economic elites and reassure investors. Medvedev, the Vice Premier Zhukov and the assistant to Putin, Shuvalov, have expressed this policy in public declarations and interviews (see the interview that appeared at the beginning of April in the Russian weekly "Ekspert" and reprinted in the general Russian and foreign press).

The Liberal-Liberalist approach came out into the open and with stronger criticisms than in the past. It includes, among others, the Minister of Economic Development, Gref, and Minister of Finance, Kudrin, and on more radical positions the economic counsellor to Putin, Illarionov. According to them, the State must limit itself to the

role of “regulating” economic life and privatisation should be extended to those energy sectors still in State hands, without placing limits on foreign investors. If this is not done, according to Illarionov, Russia risks “venezualisation”, i.e. dependence on petrodollars. And, according to Gref, “stagnation”, the *zastoj* of Brezhnev memory.

The two trends are agreed on the negative effects of the Yukos case and the exclusion of any policy of “renationalisation”. In an interview granted – not by chance to the “Financial Times” – in early April, Gref gave assurances that the Yukos case was “not part of a trend to strengthen State control over the economy”. Shuvalov defined it as a “unique case”, “an example”, implying that in reality they were seeking to deal a blow to massive tax evasion in the Yuko case.

The obligations Putin assumed during a meeting with the leaders of Russian “biznes” (25 March) were even more significant. Taking into account their preoccupations and requests, he promised a “constructive relationship” with the world of entrepreneurship, regulation of the fiscal controls, simplification of the procedures for licenses and for investments abroad and what is even more important a radical shortening of the limits of liability – from ten to three years – for all “transactions” associated with privatisations and the tax authority. A sort of amnesty. And he ruled out any interest in “renationalisation”.

For his part, Minister Gref promised that the course of the liberalising reforms – a condition for the admission of Russia to the WTO – would not be interrupted. This year, 1,500 firms are to be privatised (as opposed to 1,000 the previous year). Nonetheless, Gref says he is worried about the economy and predicts growth will slow from this year. He reiterated his doubts about the doubling of GDP within the time and in the way predicted by Putin.

The bureaucratic apparatus was overblown and inefficient, the institutions supposed to support and protect illegality were inadequate, and conservatism and hostility to the reforms was common even among the leading political elites. This is what is blocking the development and modernisation of the economy.

No one, however, has mentioned that the system of great conglomerates controlled by oligarchs with little transparency, insufficient modernisation of plant and a system of low salaries does not facilitate development. On the other hand, it would not be guaranteed by State management entrusted to the *siloviki* and *cinovniki* either.

Social malaise, poverty and demographic decline

The year 2005 began poorly for the President. In January and February, over a million people demonstrated against the government’s decision to “monetise social benefits”, i.e. the welfare received by retired people, veterans, war invalids, students and soldiers involved in health care, transportation, public housing (rent, water, heating, electricity, gas and telephone). In exchange for the services granted free of charge and/or at significant discounts, which originated in the Soviet era and were preserved and extended by Yeltsin, the government offered monthly money payments with which to pay for the services, the tariffs for which were increased in recent months. Such payments were therefore totally inadequate to cover expenses. An average monthly pension comes to about the



_The first attempts to “renationalise” certain companies, for example the merger of Gazprom (the Moscow head offices in the photo) and Rosneft’ that were supposed to create a giant gas and petroleum firm controlled by the State were blocked at birth in favour of a more moderate line

equivalent of \$50-60. Furthermore, the local administrations have proved unprepared to meet these payments.

The reform, inspired by the Liberal ministers and supported by Putin with strong media coverage, was designed to introduce the principles of the market and profit to the interested sectors to match their modernisation. In the wake of the protest, the reform had to be corrected and modified painfully, while some significant increases were granted to the pensions and subsidies. It was a serious error for the Fradkov government and a defeat for Putin, who suffered the first decline in his ratings.

In reality, the President is coming up against a social situation that arose from the disastrous transition to the market in the nineties that enriched a small elite, did not create a large middle class and impoverished the country.

The number of the poor is enormous (30% and more of the population lives below the minimum standard of living established around an equivalent of 30-40 dollars per month). The gap between the richest 10% and the poorest 10% is growing constantly (around 30-40 times) rather than shrinking, as noted recently by the sociologist Tatjana Zaslavskaja. "A screaming injustice" and a factor that restricts the domestic market as even the middle level of salaries, which has grown in recent years, but comes to 6,800 roubles (approximately 250 dollars) per month.



We should also see the demographic decline calculated at approximately 7-800,000 persons per year in the context of mass poverty. At the same time, the life expectancy of the male population has declined to 64 years.

The issue of crime

Putin had promised to introduce “the dictatorship of the law” into Russia, to crush corruption and organised crime. Well, a report in February by Minister of the Interior Nurgaliev gives evidence of the existence of 4-5,000 organised criminal groups and of corruption and crime that are still broadly diffused even within the very institutional organs that are supposed to combat them with grave consequences and retardant effects on the economy and in particular on the SMEs.

International politics and defence

Tensions and contradictions emerge even in this area. Putin has created favourable and solid strategic partnerships both with China, with whom Russia finally regulated the disputed borders, and signed multi-billion dollar contracts for the delivery of petroleum and arms with India, which is also attracted to strong cooperation in the energy and defence sectors.

Relations with the USA. On the one hand, both the dialogue and

_The disastrous transition to the market economy in the nineties created a situation in which 30% of the population is living below the minimum standard of living





_ The aerospace industry is the only high-tech sector that is truly competitive. In the photo above, three astronauts (one Russian, one Italian and one American) in the Soyuz TMA

“reciprocal understanding” and the cooperation between the two Presidents are continuing (Bratislava summit in February). The USA is interested both in increasing, thanks to Russian petroleum, the sources of petroleum supplies and reducing its dependence on sources in the Middle East, and in making progress on nuclear disarmament. Russia, with its 631 intercontinental missiles (ICBM) and its 18,000 nuclear warheads remains the only power in the world able to threaten the USA.

Washington and Moscow are committed to “combating the common enemy, international terrorism”. And yet – since the Beslan tragedy – the wind of a new “Cold War” is blowing. Washington is intervening increasingly frequently in domestic Russian matters: the Yukos case, the condition of the media, presidential nomination of governors and Chechnya. And when it installed bases in Central Asia and (in part) in Georgia, it tends to restrict Moscow’s influence in the area of the CIS to its own advantage.

In Georgia – region contiguous to the Caucasus and Caspian Sea, rich in gas and petroleum reserves and close to the Near East – and in the Ukraine – bridge between Russia and Europe – Washington has inspired and supported the movements that overturned the moderately and (for economic motives) realistically philo-Russian leadership in Tbilisi and Kiev.

Russia’s loss of influence over the Ukraine weakens Putin’s plan to create a kind of common market of the CIS called the “Eurasian Common Space”. The Ukraine should have been, along with Russia and Kazakhstan, a determining part of it.

Even the overthrow (hardly “velvet”) of the Akaev presidency in Kyrgyzstan last March is part of the same trend: the restriction of Russian influence in the post-Soviet space. The USA predicts and encourages a scenario similar to the ones in Tbilisi and Kiev in Belarus, the CIS country most organically tied to Moscow. Petroleum and gas pipelines pass through Belarus, as through the Ukraine, on their way to Western Europe.

Other motives for conflict between Washington and Moscow, in addition to the war in Iraq, include Russia’s nuclear cooperation with Iran, its massive sale of arms to China and India and penetration – in terms of arms sales – in countries traditionally supplied by the USA (such as Malaysia, Indonesia and Venezuela).

Finally, if the USA, with Bush Jr., has relaunched the “Star Wars” project and increased defence spending, Russia has projected both an anti-missile defence system “without equal in the world” (Putin and Minister of Defence Ivanov announced it last November) and two large nuclear submarines of the new generation carrying ICBMs. One of them has already been delivered to the navy.

Moscow has responded to the new U.S. bases in central Asia by reinforcing its own in the same region (Kyrgyzstan and Tadjikistan). And it is rejecting both the calls of Tbilisi and Washington to leave the two bases in Georgia as soon as possible and those of Moldova, the USA, the Ukraine and the EU to give up political and military protection of the separatist enclave of Transdnestria.

Russia finally has reinforced its partnership with Europe in the field of energy in particular. The latter has agreed to loosen the restrictions imposed on Russian exports (in particular on steel). The North European countries in the EU, Holland, Austria, and the ex-Communist countries (most notably Poland) however are expressing

a hostile attitude towards Moscow (on the questions of the Russian enclave of Kaliningrad, Chechnya, the Ukraine and its commercial relations).

Moscow's bilateral relations with Italy, Germany and France, on the other hand, are good.

Chechnya and ethnic complexity

The construction and strengthening of the democratic order in Russia constitute for the West an indispensable condition for strengthening cooperation with that great country. Putin wants to create a strong and centralised State. "It is in the DNA of Russia" – he has said many times and not without reason. It is a necessity to restabilise and strengthen the unity of the country. This is the meaning of the "power vertical" (*vertikal vlasti*), theorised by the Russian leader. Russia's enormous dimensions and its extreme ethnic complexity require it.

The country, furthermore, has never faced yet a conflict like the one in Chechnya, which seems to stretch out to the other republics in that unstable and economically underdeveloped area that is the North Caucasus. It is of great importance for the passage of petroleum (from the Caspian Sea) and close to the Muslim area of the Volga.

We find another contradiction dealing with Chechnya. The real attempts – ignored in the West – by the central and regional governments to restore there foundations of civil and economic life confront not only the weakened but still fierce terrorist forces but also the human rights violations of the RF military authority and by the philo-Russian Chechen armed formations.

The "power vertical" has its fulcrum in the substitution of the elective principal for the governors of the 89 areas subject to the Russian Federation (RF) with their nomination by the President. This measure was announced significantly the day after Beslan. And it is beginning to be implemented now. And it has yet to be contested in Russia itself. Especially after Putin, in the name of stability, confirmed an authoritarian clan and family leader like Mintimer Shamiev head of the ethnically complex Tatarstan (3,770,000 inhabitants and an important economy). Thanks to Putin, he is now enjoying his fourth presidential mandate.

We are facing very complex problems and options. They include, we must not forget, the defence of the identity of the Russian State, which sees in the solemn celebrations of the 60th anniversary of the victory this year grounds for national pride and continuity with the Soviet past itself.

The forms and limits of politics

Putin up to now has had the support of a "pocket" Duma dominated by the "President's party", "Russia united". A conglomerate of yes men, functionaries of the State and the regional structures, many of them linked to economic and financial groups. Nomenklaturists, glued together by power united by a generic authoritarian nationalism oscillating between statism and libertarianism.

Eliminated from Parliament in the 2003 elections, the parties with a Liberal or Liberal Democratic orientation were discredited and unpopular for their association with the reforms of the '90s. With a



_In Chechnya, attempts by the central and regional governments to reestablish a basis of civil and economic life conflict tragically with terrorist separatism. Above a picture of the commemoration of the Beslan massacre

much reduced parliamentary representation and struck by schisms and internal divisions, the PCFR of Zjuganov is more national conservative than Socialist. Furthermore, the two nationalist parties: "Motherland" and "Liberals" of the histrionic Zhrinovski are in decline.

This is how Russia is moving into the 2007 parliamentary and 2008 presidential elections, in which due to the constitutional prohibition of a third mandate Putin should not participate. This makes it necessary, in the absence of a leader capable of taking his place, to make constitutional changes to award him a third mandate or a "strong premiership".

Options and decisions take for granted the absence of a real representation of the parties, of true democratic and parliamentary dialectics and the extreme weakness (if not absence) of civil society and its institutions. They are reserved for the restricted political and economic elites that up to now have not proven themselves very worthy or shown dedication to the interests of the country.

Russia's development as a State and as an economy depends on the unity and clarity of its visions and strategies (that as yet are hard to see). If it fails – as the head of the presidential administration Medvedev warns – Russia risks "disappearing as a State". By comparison, "The collapse of the USSR would seem a Kindergarten game". The Russian people could exchange its traditional patience for the kind of "merciless and mad revolt" that more than once has tragically marked its history.

