

The first “i” stands for the Institutes of administration and the economy, which must be revamped. The second for the Infrastructures. The third for innovation. And the fourth for the Investments to be made, both by the public sector and

# Medvedev places his bets on the four “i’s”

RUSSIA 1

by Piero Sinatti

by private investors. They are the policies that the new tandem of Medvedev-Putin intend to carry out to modernize the country and vary the economy. They came out of the latest elections with a vote that exceeded predictions

**F**rom December 2, 2007 to March 2, 2008, the kurs Putina enjoyed a double triumph at the polls. The term is used by Russians to identify the policy followed up until then by outgoing President Vladimir Putin, whose term is expiring. In the national election held in December, the party that presented him as the “only first name” on the list of “United Russia” (UR), the “party of power”, received 64% of the vote and over two-thirds (306 out of 450) of the seats in the Duma assembly. In the March presidential election, Dimitri Medvedev, a forty-two year-old jurist and the First Vice-Premier, as well as the (outgoing) president of the powerful Gazprom gas monopoly, got 70% of the vote. He had been designated by Putin to be his successor to head the State. Four years ago, Putin had received 71% little more than 50% in March 2000. Medvedev’s success was decisively influenced by the fact that when he was picked to be a candidate, Putin agreed to be his Prime Minister.

According to political observers and a significant number of Western chancelleries (the US State Department in primis), the two elections did not meet acceptable standards for a democratic country.

Election laws that penalized small political

groups, administrative pressures, and the misuse of funds for electoral purposes by government departments presumably tipped the double election in favor of the winners. Also playing a role was massive television coverage in favor of the “party of power”, whose candidates refused to confront their adversaries in public. During the campaign, Medvedev formally intervened only once, specifically in Nizhny Novgorod four days before the vote. He gave his other speeches at official locations in Moscow and at ten regional centers, where as a government official he officiated at openings of schools, colleges, hospitals, modern new centers in the health care sector, new industrial facilities, major building construction sites, and agro-industrial production centers.

It was said that the opposition was absent from the presidential elections; actually, it was represented by Gennady Zyuganov, the virtually permanent leader of the Russian Federation Communist Party (RFCP), who was running for the third time and came in second with 17.8% of the vote – six points more than the showing of the RFCP in the political elections three months before.

Also running for president was nationalist Vladimir Zhirinovskiy and the unknown

demo-European unity supporter Andrei Bogdanov, who mysteriously succeeded in scraping up the two million signatures required to put his name on the ballot and then having them approved by the austere Central Election Commission. The number of signatures was more than double the number of votes he would receive on March 2. But neither “Zhirik” nor the eccentric Bogdanov could be termed “opponents”.

Remarkably absent from the presidential elections were candidates from two traditional liberal parties: reformers from the 1990s known as the SPS (Union of Rightist Forces), and Jabloko, whose following has been reduced to a small group of the intellectual elite in Moscow and Saint Petersburg. Barred from the Duma in the 2003 vote because they did not surpass the 5% electoral threshold, the two parties repeated their exploit in 2007, when they did not manage to go over a new 7% threshold. Hostile to each other and divided, they did not succeed in

coming up with a unified candidate for the presidential election and ended up deserting the election. The only aspiring candidates with liberal leanings – former chess champion Garry Kasparov and former Finance Minister and former premier (in 2000-2004) Mikhail Kasyanov – did not even get themselves on the ballot. The former gave up even before he began gathering signatures for his candidacy, and the latter’s 2 million signatures were rejected by the Central Election Commission (15% were declared invalid).

Kasparov, the leader of a composite movement called “The Other Russia”, lives many months out of the year in the United States and is a lead writer for the “Wall Street Journal”. A creation of the Western media, he was viewed by Washington as the head of a (dubious) “colored revolution” patterned after those that occurred in Georgia, the Ukraine and Kyrgyzstan.

His results were not exactly inspiring. In street demonstrations involving no more than one or two thousand people in Moscow and St. Petersburg, which were unwisely repressed by the authorities, Kasparov only succeeded in gaining Western media coverage (especially by the BBC and CNN) that was inversely proportional to his political importance. Finally, a group of intellectuals, journalists, Yeltsin followers, civil rights defenders and old Soviet-era dissidents denounced the “false elections” in a written “appeal for a non-vote” over the Internet.

### **The outcome of two presidential terms**

Like it or not, the popular consensus that had developed around Putin because of the results he had obtained in his two presidencies was reflected in the two elections. Firstly, he had achieved stability after more than a decade of gut-wrenching political, economic and social upheaval and risk of civil war. He had maintained the integrity and sovereignty of the State, thanks to his victory over centrifugal forces in the country and, above all, over cruel Chechnyan separatism and terrorism. No less insignificant were his results in the economic, financial and monetary sphere (see box), even though they had been favored by circumstances such as a constant increase – from 1999 to the present – in international prices for oil, gas and the other raw materials of which Russia had (again) become the largest producer and world exporter.



Last (but not at all least, even though this fact was ignored by Western media), in 2005, Putin passed a plan of public social intervention for the first time since the end of the USSR. It was called the "Four National Priority Projects", and its goal was to refurbish and modernize vitally important sectors that had been left without investments and relegated to secondary (or tertiary) importance, such as health care, education, housing, agriculture and rural areas. Supervision of these "priority projects" was entrusted to Medvedev, who went from the position of Chief of the Presidential Administration to being First Vice-Premier, while still retaining his job as Chairman of the Board of Gazprom. Russia has used its position as world leader in the production and export of oil and natural gas to relaunch itself as a major player on the international scene. To accomplish this, it participated first-hand in expensive, complex international projects for building oil/natural gas pipelines that would enable it to maintain control over the direct routes of export both to the EU and to outlying countries on the Pacific rim (Japan, South Korea and China). This process is being opposed by the United States and by certain former Communist countries in the EU (particularly by Poland, the Balkan states, the Ukraine, Georgia and Azerbaydzhan), which want to reduce Russian control over the flow of oil from the former Soviet Union and diversify sources of its procurement.

### **The limits to growth in the 2000s**

In any event, Russia's economic growth has remained closely linked to the energy sector, and thus to external factors that can change from favorable (as they have been over the past few years) to uncertain; such factors include international demand and prices for oil and gas.

The manufacturing sector is lagging in its efforts at modernization and development. It is still plagued with superseded plant systems and technologies, high energy consumption and low productivity, and lack of competitiveness (*konkurentosobnost'*) on international and domestic markets, except for the nuclear and arms sectors. In the latter sector, Russia is the third largest exporter after the US and the EU. But even here, as in the space sector (another successful area), the

country suffers from dangerous delays in development, as we shall see later on.

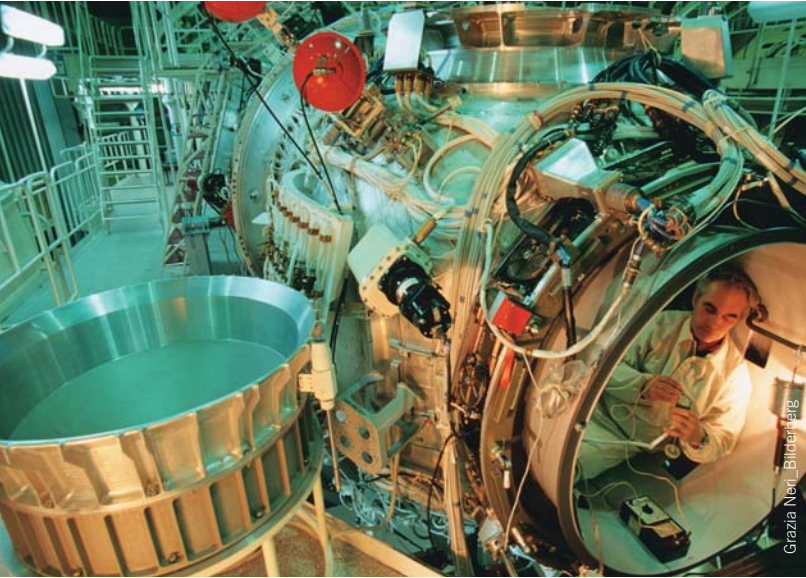
The result is a situation that has been noted with alarm by Putin a number of times. In high-tech products, as in many other manufacturing sectors, Russia is forced to be an importing country (for now).

Thus, Medvedev and Putin face the difficult task of "diversifying the economy" by reducing its dependence on gas and oil, and of developing the manufacturing sector, especially with regard to high-tech products. "Russia", he said, "has not succeeded in straying off the beaten path of inertia" characterizing an economy based on energy and raw materials, in the context of a "fragmentary modernization". Thus, "Russia is not going to go anywhere (...) if it can't ensure its security or normal growth, and its very existence is at risk".

This "scenario of inertia" must necessarily be replaced by a situation of "innovative development". Emphasis must be placed on "more efficient application of people's know-how and skills, on constant improvement of technologies, on economic results", "on a strong increase in productivity, which is currently very low". ([www.kremlin.ru](http://www.kremlin.ru), February 8, 2008).

The theme of "innovative development" was discussed by Medvedev a week later, when he opened the Economic Forum in Krasnojarsk (a major industrial center in Siberia), in a speech with liberal ideas and a liberal tone. It was the speech of the "four i's" – the ones that would help Russia escape from the "scenario of inertia".

The first "i" stands for the Institutes of Administration and of the Economy, whose operation must be revamped. Business activities – especially activities in the sector of small and mid-sized industry (SMI), which remained at a relatively low level and are burdened by the absence of an adequate credit policy – must not be impeded by administrative pressure from the *chinovniki*, by costly inefficiency and by the current maze of procedures, licenses and unjust taxes. However, the greatest obstacle is ubiquitous, pervasive corruption, against which Medvedev has committed himself to "launching an authentic battle" (a package of laws on this is about to be passed). Part of state functions must be transferred to sectors outside the State. And companies controlled by the State



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\_The aerospace industry will continue to be strategically important for the Putin-Medvedev duo, who envisage considerable investment in this sector

must be managed in a higher quality manner; in particular, by “naming independent managers instead of *chinovniki* to their Boards of Directors”.

The second “i” stands for the infrastructures that are used in transport (railways, bridges, airports, motorways and modern roads), energy production, and telematic networks, and in science and education.

The third “i” is innovation, which not only involves the renewal of plant systems and machinery, but also requires increases in research efforts and discoveries, especially in high-tech areas. To accomplish this, a State corporation called Rostekhnologii has recently been created. This open stock company brings together highly qualified institutes and centers of technological and scientific research. Finally, the fourth “i” stands for investments. Public investments are now possible because of a favorable trend in the state budget, but must be accompanied by private investments – from both domestic and foreign sources – into manufacturing industries and, above all, into new technologies.

A year ago, a massive State investment (of 5 billion dollars) was used to create another State corporation called Rosnanotech for the development of nanotechnologies.

Like it or not, the fact that the State was assigned the role of being the locomotive behind “innovative development” is in the Russian DNA. Significantly, Vladislav Surkov, Putin’s ideologue and Vice Chief-of-Staff, has often cited FDR and his New Deal.

A discussion of the validity of this strategy, however, should not be dealt with ideologically as an abstract principle (as

liberalists do), but rather should emphasize the professional skill and the correct personal behavior and honesty of those who are called upon to carry it out, especially with regard to transparency in its execution. It is clear that absent these conditions, the “four i’s” are condemned to remain inconclusive wishful thinking.

The organizations, strategies, and management of the State-controlled corporations founded during Putin’s leadership have been accused of being “dull”. As far as the choice of their presidents, directors and CEOs is concerned, the task is handled by the men in the presidential clique (in a word, by the Kremlin) and by those who are personally associated with them. In his speech at Krasnojarsk, was Medvedev referring to the latter situation when he underscored the need to appoint “independent managers” to head the corporations?

In short, the purpose of these corporations is to promote the initial phase of modernization and innovation. But once that has been started, businessmen and private investors will have to do their part in order to reach the goal of “reducing the State’s role in the economy”, which has often been stressed by the “tandem”.

### **The corporations of the oligarchs**

The strategy described above clashes with a number of perceivable obstacles. On the one hand, there is the corruption and negligence (*chalatnost’*) of the *chinovniki*; on the other, the oligarchic, monopolistic organization of much of the private sector, which is dominated by super-holding companies (Financial-Industrial Groups or FIGs) involved in raw materials, even though they have come to be characterized by “many different profiles” (*mnogoprofil’nye*).

Necessarily, the oligarchs are private individuals whom the State (or the Kremlin) can ask – or require – to make copious investments in the new state corporations. It has indeed done so for the 2014 Winter Olympics in Sochi, and some oligarchs are already involved in the project; among the more famous is young Oleg Deripaska, the “king of aluminum”, who tops the list of the 98 Russia billionaires (in dollars) published by the Russia newspaper “Finans”.

Both Putin and Medvedev have made “social policy” a top priority and have linked it to the

development strategy that the government must implement for the country. According to Putin, such policy will not involve "...payment of subsidies to social institutions and financing them". Rather, it will entail "...the formation of a modern social environment centered around people, which works to improve their health, education, housing and working conditions, and to raise competitive ability, salaries (...)". In the final analysis, the goal of "social policy" is development instead of aid or protection (*sberezhenie*). "Leveling" (*uravnilovka*) and the imposition of present sacrifice in the name of a "bright future" are both eschewed as fetishes of Bolshevik utopianism. One of the tasks that require immediate attention is to reform the pension system so that retirees can escape from their current condition of poverty, but in a way that the expense (to be initially covered by one of the two sectors of Stabfond) does not encumber the state budget in the future. Another cardinal principle in social policy (*sotsyalka*) is aid to families, mothers and children. The checks sent to mothers for having children (known as "maternal capital") as an incentive to stop the falling birth rate have not been enough. In 2007, the trend in the birth rate reversed its direction for the first time since the 1990s. Comfortable housing must be made financially more accessible to young couples, nursery schools will have to be built, and medical and health care assistance to mothers and children must be increased. The "four national priority projects" we mentioned earlier are the cornerstone of the "social policy". To complete them, 462.84 billion rubles (around 20 billion dollars) have been appropriated thus far, a little less than half of which is earmarked for health care. Medvedev has discussed the need to introduce a health insurance system that enables everyone to take advantage of medical services at any level while requiring citizens to contribute to financing this sector at the same time. Putin and Medvedev himself, who supervised the "four projects" in the Putin government, have admitted that the results attained thus far have not been satisfactory. The project for rural areas has met with the greatest success, particularly in the agro-industrial sector. The

"more reasonable housing" project did worse, because many local administrations are interested in speculating on land. The truth of the matter is that these projects are hindered by the inefficiency of central and regional governments, and by corruption. Much of the money that was appropriated "got lost in the shuffle". In any event, the new executive will have the task of maintaining the priority position of the four projects and raising them to the status of programs the government is obligated to carry out, thus ensuring that they are constantly and sufficiently funded. After being neglected for fifteen years, social policy must not be considered to be a secondary or "dull" endeavor, said Putin. As Premier, he will personally devote his energies to it with the strongest commitment possible.

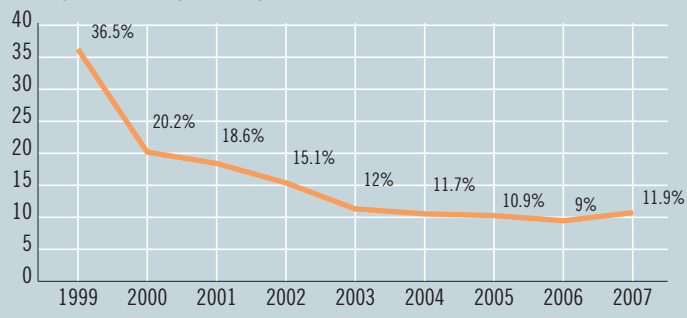
### **Inflation**

2007 ended with a worrisome statistic: the annual rate of inflation rose to 11.9% after being fixed at 8.5 percent. And despite measures to cool the rise in the cost of living that were decided on last autumn by the Zubkov government, prices are showing no sign of slowing down; they rose 2.3% in January and 1.2% in February. If they continue at this pace, 2008 will end up with inflation at 12-13% and not at the established rate of 8.5% that was confirmed in early March by the Central Bank. Finance Minister Aleksei Kudrin (the principal exponent of the "liberal" wing of the government still in power: will he be re-appointed by Medvedev and Putin?) has attributed the rise in inflation to the current international economic situation, and particularly to the increase (of up to 30%) in international prices for grains, especially for wheat. However, the Minister also hinted that increases in the cost of electricity, transportation and energy, and poor control over growth in the money supply, have contributed to the return of double-digit inflation. Also, a freeze in the prices of staple products simply did not work. Putin has said a number of times that inflation is endangering recent increases in salaries and the much smaller increases in pensions. But for now, neither he nor Medvedev have prescribed any concrete therapies against it.

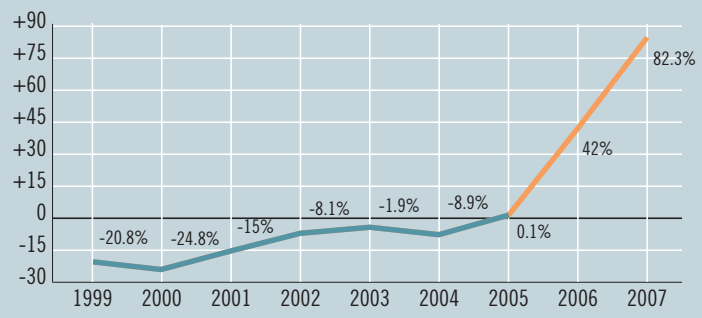
How the economy is doing

- Average annual growth in GNP: 7% (sexupled from 1999-2000 to 2007). 2007: 8%
- Industrial growth:  
2000: 11.9 % (due to the 1998 default-devaluation)  
2007: 6.3% (includes 9.3% in manufacturing, 1.2% in mining and - 0.2% in electricity).
- Growth (since 2000) in real family income and salaries: 250 to 300%.  
2007 (after adjustment for inflation): 20-25%
- Percentage of citizens below the poverty level:  
2000: 30%  
2007: 14%.
- Currency reserves in 2007: 478.6 billion dollars, the third highest in the world (after Japan and China).
- Stabilization fund (Stabfond) in 2007: 160 billion dollars\* (\*This fund is linked to the State budget. Putin created it by decree in 2004 to set aside portions of State income deriving from the sale of exported oil at prices greater than 27 dollars a barrel. On 1 February 2008, the Stabfond was divided into a reserve fund [for investments in low-risk bonds and other financial instruments] and a national welfare fund, which is partially set aside for reforming the pension system.)
- August 2006: repayment (well in advance) of debts contracted with the IMF and with countries represented in the Paris Club: 23 billion dollars, with a significant reduction in interest due.
- Capitalization of the funds market:  
1999: 60 billion dollars  
2007: 3000.330 billion dollars
- Direct foreign investments in Russia  
2006: 26 billion dollars  
2007: 45 billion dollars
- Total direct Russian investments abroad (since 2000): 59 billion dollars.

TRENDS IN INTEREST RATES



FLIGHT (-) AND RETURN (+) OF RUSSIAN CAPITAL (in billions of dollars)



Source: RIA Novosti; Izvestija; varie

In the realm of taxes, the question of reducing VAT (editor's note: now at 20%) is the order of the day, since it is considered to be penalizing companies, especially SMI. Many feel it should be cut in half, but Kudrin does not agree.

The Putin-Medvedev tandem

The attention of observers and of the media has focused (to the point of being ridiculous) on the functioning and balance of power of the tandem, and on the division of powers (*polnomochiya*) between the new President and the former President-now-Prime Minister when they take their posts after the presidential inauguration on May 7. Medvedev and Putin have repeatedly cited the powers that are reserved to them by the Russia Constitution. "The President has his powers, and the Premier has his. Nobody is suggesting they be changed", said Medvedev immediately after the presidential election, and Putin has echoed this view. The position of president is higher, both politically and hierarchically. He is the Head of State who lays down strategic guidelines for domestic and international policy, besides making appointments to the most important positions in the State and in the Presidential Administration. Until now, the Prime Minister of the Russian Federation has had an executive, almost technical function, and is consistently the scapegoat when policies are implemented poorly and/or when wrong or unpopular decisions are made. After the firing of Mikhail Kasyanov (a premier of questionable propriety and honesty, but with recognized skills in the economic/financial field), Putin chose the two colorless, secondary figures of Mikhail Fradkov and Viktor Zubkov as premiers. Now, the transfer of the premiership to Putin could change the president-premier relationship. A number of times, Medvedev has talked about "a shared effort", a situation that is favored by the relationship of mutual trust and esteem that has been created by fifteen years of working together. It is "a bond that can lead the country to achieve interesting results and may become an effective factor in the development of the State". Medvedev owes his rise to positions of great responsibility and visibility (President of the

Presidential Administration, Chairman of the Board of Directors of energy colossus Gazprom, First Vice Premier, and finally President of the Federation) to the fellowship and/or patronage or "protection" of Putin. Will this last after May 7?

Medvedev has often pointed out the tandem's continuity and his will to continue on the path beaten by Putin (*put' Putina*) in both domestic and in foreign policy. For his part, Putin said at a meeting with German Chancellor Angela Merkel, "Medvedev is a Russia nationalist in the good sense of the term, no less than I am (...). He won't be any easier to deal with".

If anything, their diversity lies in the social spheres they come from (Putin hails from the proletariat, Medvedev from the intelligentsia) and in their professional roots (KGB the former, university teaching the latter). Both, however, are legal scholars, and both were members of the quasi-liberal St. Petersburg Sobchak labor union.

They also differ in character, shape, accent and emphasis, which makes Medvedev appear to many observers as less aggressive and less assertive, or even "liberal" and conciliatory. And even more Western. Is this because he prefers Deep Purple to the Russia pop-patriotic group Lyube, which is Putin's favorite?

In any case, both have mentioned the need to "develop and reinforce" democracy, freedom, and political and civil rights in Russia while simultaneously strengthening "civil society" and expanding the middle class, which is still rather small. "Freedom is better than non-freedom", said Medvedev, and this phrase has been pointed out as a sign that he is different from Putin. But not enough, it seems to us. Judgments on the functioning and organization of the "tandem" will begin pouring out in May, when the new government is formed. Major changes are predicted in it and in the Presidential Administration (an institution that Medvedev knows very well, since he headed it for three years).

One thing is for sure: Putin will not be a short-lived, technical premier like Fradkov or Zubkov. According to the "Nezavisimaya Gazeta" (March 12), a new sports facility complete with equipment and a swimming pool is being built on the Krasnopresenskaya embankment near the White House, which is

the headquarters of the government. This detail leads one to believe that Putin, a sports enthusiast, will remain seated in the Prime Minister's kabinet (also being thoroughly renovated) for a long time.

### Foreign policy

The problems in foreign policy that Medvedev will have to face are anything but easy. 2007 was a year of renewed antagonism between Washington and Moscow, and there was even talk about a new "cold war". There was the announcement by the US (in January) that it wishes to deploy components of its partially implemented space defense system (ABM) in Poland and in the Czech Republic by 2011, and Putin's strong response (in February) at the Munich Conference on Security. Tension has also grown due to a desire (more American than European) to accelerate the entry of Georgia and the Ukraine into NATO, and because the US has been interfering in Russia's internal affairs. In February, the unilateral recognition of the independence of Kosovo by the US and the Euro-West, in violation of a specific UN resolution, aggravated the strain.

In 2007, Moscow resumed its control flights of strategic bombers over the Pacific and the North Atlantic, and decided to send its fleet back into the Mediterranean and the North Atlantic. Russia also intends to increase military spending to modernize its armaments, especially those intended for strategic purposes. Successful tests have been performed on ICBM missiles (Bulava, Topol-M), and the construction of new models of TU bombers and Borey strategic submarines is planned.

However, Russia is still way behind the US in this area. According to US Defense Secretary Robert Gates, Russia's military spending is only a tenth of the abnormally large amount spent by the USA, which is seeking global strategic supremacy.

Russia responded to the US initiative in central eastern Europe (about which the EU is embarrassingly silent, while the former communist countries in that area approve of the plan because they are directly involved) by suspending the Treaty on Conventional Armed Forces in Europe (CFE, signed in 1990) last December.

Medvedev will have to improve its thorny relations with CIS countries, especially with



\_ Dimitri Medvedev was elected by a wide majority of votes: proof that there is a genuine consensus on the current power in Russia's limping democracy

the Ukraine, the most important of the group. Immediately after the election, he announced that his first foreign trip abroad will take place in one of these countries.

To the East, Russia will favor relations with Iran (because of their problematic nuclear cooperation) and with China, which is a member of the Shanghai Cooperation Organization or SCO together with Moscow. To the West, economic-commercial relations with the EU are excellent and growing, especially on the bilateral level, despite the dispute over Russia's failure to ratify the Energy Charter Treaty. Political relations are colder, especially between Moscow and London.

### **The Balance of Power within the Elite**

The task of observers and analysts of Russian politics (who do not trust Washington-dependent sources and their ideological preconceptions and questionable conspiracy hunting, as most people do) is to describe the decisions made by the ruling groups and the way in which they are arrived at. These observers must thus determine to what extent the "tandem" will maintain the commitments it has made, especially with regard to economic and social policy, which was given a high priority. And they will also have to see whether executive control over the media and parties will diminish. Putin and Medvedev have reiterated their intention to strengthen social institutions and the multi-party system, but it is not clear whether the executive and the absolute majority that controls the Duma will receive the feedback from society and from public opinion that is necessary for proper operation of the State. In any case, one unsolved problem still

remains: the possible influence of the elite on the country's institutions; i.e., the presidency, government, parliament, and regional governments. The elite are more-or-less hidden power groups, the most important of which are those in the Kremlin. Contrasts within these groups have been reported, and subgroups and lines of division within them have been identified using the tools of traditional Kremlinology.

Over the past few months, attention has been focused on the infamous *siloviki*. These "men of the Kremlin" and their associates hail from the "structures of force" (*silovye struktury*); i.e., the security services, the Armed Forces and the Interior Ministry. Their most often-mentioned representative is Vice-Chief of Kremlin Administration and "Chekist" Igor Sechin, who is also president of the huge State-controlled oil corporation called Rosneft.

A stormy "behind the scenes" struggle is said to have begun not only between the *siloviki* and other sectors in the "power structure", but also among them, thus giving rise to new relationships of power. Signs of this struggle have certainly surfaced, and they did so just before the double election. Let's examine a few. There was an appeal to the "Chekists" to end their "infighting" by General Viktor Cherkesov, the head of Russia's anti-drug squad, which was published in "Kommersant" last November. A few days earlier, one of his direct collaborators had been arrested for extortion and violation of State secrets. Subsequently, there was the sensational arrest for embezzlement and fraud (on November 21) of Sergei Storchak, who was the Vice Minister of Finance, manager of Stabfond, and direct collaborator of Kudrin, the "liberal" minister. Kudrin vainly came to his defense and denied the accusations, and asked that he be released on bail.

In late November, again in the columns of Kommersant, a young *biznesman* named Oleg Shvartsman (the president of the Finansinvest financial group) revealed that Igor Sechin had "collected" funds for a venture capital company known as RVK, which were then rerouted to state corporations. To obtain the money, Sechin had apparently used an imposing, informal information network to pressure oligarchs and *biznesmeny* into "contributing". The process was called a "velvet re-privatization" by



Shvartsman, whose Finansinvest is participating in the venture. It presumably benefits the family members of the *siloviki* and persons associated with them, by making them stockholders.

Two weeks earlier, "Die Welt on line" in Germany published a sensational interview in which Russian political expert Stanislav Belkovsky said that Vladimir Putin had a personal net worth of around 40 billion dollars, consisting of a 37% share of the Surgutneftegaz oil company, 4.5% of Gazprom and 50% of a company called Gunvor. The latter firm markets oil products, is based in Switzerland, and formally belongs to Gennady Timchenko, who Belkovsky termed a representative (*vertreter*) of the President.

The assertion, which was echoed in the Russian press and by many observers (such as anti-Putin journalist Yuliya Latynina), was attributed to sources belonging to a wing of the FSB associated with Sechin. Responding to the accusation last February in a TV interview, the outgoing president said that his only riches were the trust the Russian people had placed in him with their votes. But no action has been taken against Belkovsky, who lives quietly in Moscow. According to some observers, the struggle mentioned above presumably persuaded Putin to distance himself from the *siloviki* and from their "hard-line" wing, and to choose Medvedev as successor instead of Sergei Ivanov, who seemed to have a greater chance of getting the nod (for most of last year). Ivanov is one of the most influential *siloviki* and comes from the KGB. He held the position of Defense Minister for a long time before becoming First Vice-Premier and being appointed by Putin to supervise the military-industrial complex (known as VPK or OPK) and its high-tech sectors (aviation, space, new technologies). These positions carried greater political and economic clout than those given to Medvedev.

In any case, Ivanov's candidacy could have evaporated for other reasons; for example, because of delays and breaches of contract in the high-tech and VPK sectors he was supposed to oversee. The GLONASS satellite navigation system, for which Moscow had signed a contract of cooperation with India, was seriously delayed because of problems at the Roskosmos space center. At present,

GLONASS cannot hope to compete with the American GPS system on international markets. Moscow also defaulted on a billion-dollar contract for military material that was supposed to be shipped to India within established time frames and cost parameters. Among the items involved was the Admiral Gorshkov aircraft carrier, whose renovation and modernization (together with a nuclear submarine) had been assigned to the Severmash shipyards in Severodvinsk, in the Arkhangelsk region. Severmash was also accused by Odfjella, a Norwegian company, of failing to deliver 12 chemical transport ships by the deadlines listed in the contract. Also, Beijing complained about the poor quality of several important pieces of equipment it bought from Moscow for the Tian Van nuclear power plant, and similar reasons are behind the possible scuttling of an order for 38 Il-76 and Il-78 military aircraft ordered by Beijing.

Finally, Algeria has threatened to return 15 MIG-29 fighters for malfunctions and obsolescence in some of their components. These unfortunate situations may have torpedoed Ivanov's candidacy.

Without diminishing the importance of the "behind the scenes" struggles mentioned above (of which no other important episodes have occurred since November) and of further analyses by Kremlinologists (and let's face it: such studies are much easier than analyses backed by facts and figures), the actions taken in politics and the economy, the laws that are passed, and the directions and decisions taken on internal, foreign, economic and social policy will be the yardsticks used to measure the evolution of Russia under the guidance of the "tandem", who must ensure that the country breaks free of its "inertial development".

Using these yardsticks, we shall see whether "the powers that be" and Russian society can or will step up the pace and begin moving toward "diversification" and the high-tech revolution. Russia has failed to participate in this revolution, not only during the eight years of Putin's reign, but also during a longer, torturous history that Moscow cannot escape from simply by subserviently following Western (or rather, American) recipes. We saw the result of such formulas in the chaos that occurred in Russia during the 1990's.