PUTIN’S CRISIS: DEALING WITH RUSSIA’S POLITICAL UPHEAVAL

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Only one year after Vladimir Putin handily won a second presidential term, his domestic and foreign challenges are snowballing and his aura of almost superhuman invincibility is quickly dissipating. This is not to say, however, that Putin should be counted out: He is still in control.

U.S. interests in Russia include cooperation on terminating Iran’s nuclear arms program, non-proliferation, the global war on terrorism, Russian membership in WTO, and bilateral cooperation on energy and economic issues. President George W. Bush, who will meet Putin in Bratislava, Slovakia, on February 24th, should maintain a solid working relationship with Putin, while supporting the forces of democracy, tolerance, open markets, and civil society in the long term. This balancing act will not be easy.

Crisis of Confidence

The Putin Administration faces a crisis of confidence. Russian Prime Minister Mikhail Fradkov’s Cabinet survived a vote of no confidence in the Duma on February 9th, but the real target of the abuse heaped on the Prime Minister by the nationalist and leftist opposition parties (representing the power elites) was never in doubt—Mr. Putin himself.

Moscow politicians are uneasy with the country’s perceived lack of direction in domestic and foreign policy. Consequently, a 2008 transition to a successor hand-picked by Putin is no longer a sure thing. Neither is passage of a series of constitutional/legislative changes that would guarantee Putin continued rule as Prime Minister after two presidential terms—with enhanced powers such as control of defense, the security services, and the legal system.

Russia’s political malaise has set in despite high oil prices and a gross domestic product (GDP) growth rate of around 7 percent—robust by any standards. Still, a 20 percent drop in Putin’s popular support leaves one to speculate how quickly the situation could deteriorate if oil prices tumbled. Stagnation and uncertainty manifest themselves in many areas:

Failure to attain the kind of growth needed to realize Putin’s proclaimed goal of doubling the GDP by 2010. Deteriorating investor confidence in the wake of the Yukos affair quadrupled capital flight in 2004. Investors are voting with their feet, and the elites perceive this as a failure to achieve an important national target.
Monopolization of state power by a small group of Putin loyalists. They come primarily from the St. Petersburg security services and mayor’s office, where Putin worked in the early 1990s. This group has overtaken state-owned companies, the justice system and courts, and even some private companies. Russians complain that this coterie controls the “financial flows,” leaving precious little to other elites in terms of opportunities for enrichment and making the political and economic system fundamentally unfair. If this group perceives Putin to be too weak, it may attempt to remove him. However, the group’s ungainly and growing power and wealth raise stakes for the anti-Putin coalition and increase the incentive to dilute or terminate the power of the St. Petersburg group—through the ballot box or by other means if necessary.

A widespread perception that the current Prime Minister and his cabinet are failures. Most recently, the Cabinet bungled social welfare reform that was supposed to replace in-kind benefits for the elderly with monetary payments. Inadequate planning and poor execution led to the largest campaign of street demonstrations since Putin came to power in 1999. A coming reform of subsidized housing and utilities, if implemented as poorly, could further damage the regime’s prestige. Putin’s attempt to appease protesters by paying increased sums to officers, military retirees, students, and others—while simultaneously boosting the FSB and military budgets—has created the impression of weakness and indecision. Still, Putin can always sacrifice the Cabinet and Prime Minister, turning them into scapegoats and dampening social tensions.

Protectionism and economic nationalism. Recently, the Minister of Natural Resources announced that “non-Russian resident companies” (those owned by foreigners and by Russians offshore) will be forbidden from developing Russian natural resources, such as oil, gold, and other minerals. This approach will allow Russian companies with dubious connections to the Ministry or the Kremlin to bid for and win lucrative licenses while excluding foreigners and “undesirable” Russians. Such an approach will depress the sale prices of mineral extraction licenses and deny the Russian government much needed revenue.

Failure to conduct the “de-oligarchization” of Yukos. The ham-handed, opaque disembowelment of Yukos by the Prosecutor-General’s office and tax authorities has turned Russia into a nightmare and her government into a villain, so far as many Western investors are concerned. Given that Standard and Poor’s has upgraded Russian sovereign debt as investment grade (BBB-) due to early repayment of the country’s International Monetary Fund debt, positive balance of payments, and budget surplus, the Yukos affair has cost Russia billions of dollars in lost investments. Putin’s chief economic advi-
sor, Andrey Illarionov, openly termed the sale of the Yukos main production unit, Yuganskneftegaz, the “swindle of the year,” while Putin’s Minister of Economic Development, German Gref, has publicly called for its return to YUKOS. The elites are polarized over economic policy direction.

Denying Western oil companies access to Russia’s energy resources. Exxon announced its withdrawal from the Sakhalin Island field project after the Russian Energy Ministry demanded a payment of $1 billion to continue development there. Russia is also likely to turn down the possibility of building a pipeline from Western Siberia to the Arctic warm-water port of Murmansk to sell oil to the U.S. Instead, Moscow may opt for a $12 billion dollar, 3,500-mile pipeline from Taishet in Siberia to the port of Nakhodka on the Pacific to supply oil to the Asian-Pacific region, including Japan, Korea, and China.

Foreign Policy Challenges

Russia’s policy fiascos are multi-dimensional. Policies fail when private, corporate, or bureaucratic interests are put above raison d’etat, as happened during the regime of Nicholas II in the early 20th century. Policy makers allow themselves to fall back on Soviet clichés and stereotypes or even on their czarist-era precursors. An example would be opposing the U.S. policy on Iranian nuclear disarmament, “not because of Iran, but because it pushes us into a corner,” as one senior Russian lawmaker put it. He added that U.S. unilateral policies based on military superiority are unacceptable not only to Russia, but also to China, France, and Germany.

The Russian foreign policy and defense establishment seems unable to design and implement policies that would further develop cooperation with NATO or fight Islamist (Salafi/Wahhabi) terrorism in the Northern Caucasus. Russia washed its hands of promoting democracy in Belarus and Turkmenistan. It supplied SA-18 anti-aircraft missiles to the terrorist-supporting regime in Syria and ignored strategic cooperation with the U.S. in Asia, where Moscow claims to perceive a long-term Chinese threat to the Russian Far East but is doing little to address it.

Currently, Russia is pursuing uneven, unpredictable, and counterproductive policies in its self-declared—and shrinking—sphere of influence, nicknamed the “near abroad.” These policies, characterized by the increasing influence of the Federal Security Service (FSB), are sometimes conducted without the knowledge of, or coordination with, the Foreign Ministry or the Security Council.

Meanwhile, hard-line circles are assailing the Putin Administration for failing to secure the election of pro-Russian politicians in Ukraine and Abkhazia despite vast expenditures to do so. One Russian lawmaker accused the FSB of carrying out operations in Abkhazia and Ukraine that went out of control,
resulting in a black eye for Mr. Putin. These perceived foreign policy failures, coming against a backdrop of ‘great power’ rhetoric, make Putin look weak in the eyes of the quasi-imperialistic political elite and could give strength to a future bid to remove him.

Democracy and Security Deficit

Ever since the 2003 Duma elections, democratic politics in Russia have deteriorated. The center-right Union of Right Forces and center-left Yabloko both failed to clear the 5-percent barrier. Some say this occurred with a little “help” from the Central Electoral Commission. This left the political scene dominated by the pro-government United Russia party, and the opposition, while still under control, is coming from ultra-nationalists of different stripes. By eliminating single-mandate electoral districts, shifting Duma elections to national party lists, and abandoning election of governors, Russia took a step backwards in the direction of undemocratic centralism and increased chances for high-level corruption, as nominations can now be bought and sold. Tight control of television by the Kremlin has backfired, as the media is losing what remained of its already-low credibility.

Security is a particularly sore spot. The FSB fell short in preventing the terrorist attack in Beslan (the fifth such attack since 1995), homicide bombings in the Moscow metro, and terrorist attacks on board two passenger planes in 2004. The Putin Administration has failed to identify and punish the security officials who allowed Beslan to happen, thus contributing to the sense that no one is responsible. It has failed to comprehensively reform the security services and armed forces, which are remnants of the 20th century totalitarian system and are unable to face the 21st century threat of Islamist terrorism. The Putin Administration is at a loss as to how to prevent Islamist extremism and terrorism from spreading from Chechnya to the adjacent republics of Ingushetia, Kabardino-Balkaria, and Dagestan in North Caucasus. This expansion threatens the Russian state with an open-ended jihad, while Russian territorial integrity is at stake. Eventually, Tatarstan and Bashkortostan may become more Islamist.

Finally, the Kremlin failed to control, let alone reverse, ubiquitous corruption in the state apparatus. The Russian state has not become a reliable and civilized partner to domestic and foreign business—which would have provided the rule of law, predictable legislation and regulation, and property rights and investor rights that are not subject to political whims.

Challenges for the Bush Administration

The U.S. needs to realize the depth of the malaise that Russia now faces. The era of quick fixes is over, and U.S. advice is no longer welcome—if it ever
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was. Give-and-take, however, may still be the best diplomatic tool, as senior Russian officials say that many issues on the bilateral agenda are negotiable. Specifically, the U.S. should: Request cooperation in neutralizing the Iranian nuclear weapons program, as it threatens both Russia and the U.S.; Foster Russian cooperation in former Soviet areas, such as dispute resolution and troop withdrawals to end “frozen conflicts” in Moldova, Georgia (including Abkhazia), and Nagorno-Karabakh; Encourage the Kremlin to liberalize Western investors’ access to hydrocarbon and other natural resource sectors, as well as pipeline transportation, and divest and privatize some of the current ineffective state holding in these industries; Condition progress of Russia’s World Trade Organization accession talks upon dismantling state monopolies and reversing opaque and protectionist practices in state economic management; Support democratization of TV and mass media and encourage Russia to promote private and public non-state TV channels; and Clarify to Russia that the U.S. is not seeking its dismemberment and fully recognizes its territorial integrity from Kaliningrad in the West to Dagestan in the South.

Conclusion

Washington needs to keep its priorities with Moscow straight and emphasize security issues, such as disarming Iran and non-proliferation. Lecturing about democracy may not be effective: Carrots and sticks may work better. Russia is facing a period of political instability as power elites jockey for positions in the parliamentary and presidential cycle of 2007–2008. The U.S. should not pick favorites or interfere but rather adhere to the principles of transparency, democracy, and business cooperation, while protecting its own security, diplomatic, and economic interests in Russia and Eurasia.

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