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Transcript

Putin Again: Implications for Russia and the West

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Alan Philps:

Today we're very lucky to have four leading experts on Russia to talk about the implications of Vladimir Putin's return to the Kremlin. As you can see, the report is boldly titled 'Putin Again'. I hear there have been some anxious moments upstairs at the Russia and Eurasia Programme about what to do if Zhirinovskiy suddenly wins on the first round. But I'm pretty sure that's not going to happen.

What we do know is that the face of Russian politics has in fact altered out of all recognition over the past two months. In December, street protests erupted following the obviously fraudulent elections to the Duma, the Russian parliament.

The country before that had seemed to be dozing in a Brezhnev-like stupor, but suddenly it's come alive and has entered a new era of political uncertainty which makes the future all the more unpredictable. It is clear on the domestic front that educated Russians, at least, are no longer willing to keep quiet in the name of stability.

We have four speakers here, the four authors of the report. I will introduce them one by one. They will speak sitting down, if you're happy with that. First, on my left is Sir Andrew Wood, former ambassador to Moscow and an associate fellow of the Russia and Eurasia Programme at Chatham House. He is author of a book with Lilia called *Change, or Decay: Russia's Dilemma and the West's Response*. Andrew. Six minutes.

Andrew Wood:

Thank you, and I shall try to take less than six minutes. The essential point I want to get across is that these elections are a stage in a process. They're not the resolution of a process. They won't solve anything. They'll produce a shift in the atmosphere.

Of course in a sense, that's always going to be true, because it's the same cast of characters as it was in 2000, in 2004, in 2008 and now here we are in 2012. I may have missed one out, I can't remember. So just technically, it's not going to be an election in the sense that we know things, a new beginning.

But more importantly, it's going to be a stage in a process because the meaning of the last three or four months in particular is that it has crystallised a growing tension between the rulers and the ruled. The opposition, I think, has had its successes in that it has crystallised that issue. The dilemma facing

it is how it can continue and make more concrete its attempts to oppose Putin. But more importantly I think to change the political structures which govern Russia.

There is a risk that the falsification on 4 March will be such as to provoke a renewed dynamic of protests about the elections themselves. That would give the possibility of the opposition becoming more repressed rather than allow them to develop. But I think it's more likely that the falsification will be insufficient to provoke that outcome. I hope so, anyway.

In the longer term, the protests will revolve around, or the opposition will revolve around the way that corruption, meaning abuse of power, in Russia is attacked. And it will depend on the development of the economy in particular, which Phil will be talking about.

For Putin, what he's lost is that he's lost the aura of being on a throne and in a sense untouchable. And his re-election won't restore him to that position. The falsification issue again is toxic for him, either in... if it's not too great, then he will be able to claim a greater degree of legitimacy. And of course, the other way around.

He's published a number of papers as to what he intends to achieve. They're notable for their gnomic aspects. They're extremely difficult to interpret precisely what they can mean in practice. There is a threat, however, from our point of view which needs to be paid attention to. And that is the thread of anti-United States and anti-West in general, which people will dismiss as electoral rhetoric, but it is in fact rather more than that. If you listen to some of his more spontaneous outbursts, it's always a theme which comes out. So I think that is a point for us to watch.

But more generally, what he's done is to promise to spend a great deal of money on popular causes and that is money that he doesn't actually have. The dependence of Russia, or the Russia budget, on the oil price has increased not decreased. He has not in any way prepared the Russian public for the pains and stresses that would occur both to the governmental machinery and to the population as a whole, and to individual entrepreneurs if true modernisation took place.

So he's conceded some things in form but not in substance. It is an election programme of more of the same without change to meet what are actually quite considerable difficulties coming down the path for Russia. It's not only that he hasn't prepared things, there are actually limits to what he can concede in terms of renewal and change without endangering his rule.

So I think the conclusions that we came to in our report, although sombre, I noted actually we have no difficulty in reaching; the initial draft was agreed more or less straight away, which considering their rather gloomy aspect was interesting. But I do think they reflect a reality that Putin may produce a degree of stability in the short term, though I'm not even sure about that, he cannot guarantee stability in the longer term.

But the opposition can't actually produce a coherent programme which has structures which can put it into practice. And that I think is the dilemma that faces the country for the next couple of years or more.

I think the conclusions we should draw are, first of all, that the short term is going to dominate. That we're in a sort of dance towards the end of the Putin regime as we've known it. That there is a risk of a repressive reaction to the strains that are present for that regime. And that the primary role of the West is to watch this process as clearly and honestly and bravely as they can. I'll just end there.

Alan Philps:

Thank you very much, Andrew. I'll introduce Dr Lilia Shevtsova. She is senior associate at the Carnegie Moscow Centre, also an associate fellow of Chatham House, the Russia and Eurasia Programme. Author of several books on Russian politics.

Lilia Shevtsova:

The most important is the last one.

Alan Philps:

In order to make it brief, I thought I might guide you into talking about all those presidential debates between Putin and the other contenders.

[Laughter]

Lilia Shevtsova:

Thank you, Alan. Thank you for your sense of irony. For starters, if I may, just 20 seconds. First of all, I would like to express my thanks to the people who are sitting here. You can't imagine what a pleasure it was, what a kind of adventure it was, to deal with them. They're my deep and old friends. But you

know, to go back and forth, talking about Russia's undercurrent psychology, phobias, my own fears, apprehension, and you know, and our own humility, that was a real adventure and I'm very much grateful to you folks. And I'm grateful to the Chatham House for bringing the best and the most dear friends, and the marvellous audience.

And now I'm back to much more, I would say, dramatic, pessimistic, maybe cynical points. In fact, I have three points to raise and to suggest for discussion. These points are relevant to our topic, but also they are relevant apparently to a much more broader process that is going [on] in our current political and intellectual reality. At least they worry me constantly.

So the first point is on how it's useful sometimes to be shocked, stunned and puzzled. Here is what I have in mind. Russians took to the street in December out of the blue, totally unexpected, for the majority of the Western and European and US political leaders.

A lot of my friends, astute observers and writers, in November, but even in the articles that were published after the protests in December, they were writing about the traditional Russian stability. They were writing about lack of force in Russia that will force some kind of dissent. They were enjoying Medvedev's modernisation. They were talking about new Putin's liberalisation effort. And they were talking about sustainability of the recent policy.

And also, modernisation, how they call it in the EU? Modernisation for engagement or engagement for modernisation. And this says a lot about our mentality, about our limits in understanding the reality and about our ability and readiness to grasp the dramatic processes that are going on. Not only in Russia but across the post-Soviet space.

And maybe the Russian case will be a waking call for all of us, that will force us to revisit a couple of clichés and truths, with respect, you know not only with Russia, with respect to our understanding of the global transformation, modernity, realpolitik, geopolitical relations, engagement, etc.

Second point. Second point on... I'm stealing this phrase from my favourite, Arnold Toynbee, on the suicidal statecraft. We all hear at this podium, have been making it a mantra, talking about unsustainability of the Russian matrix, of the Russian political system for a long time. But here, just look at the new phenomena. When the Russian leader, Russian leadership, Russian political regime, and Russian political system, have started to undermine themselves in an absolutely sadomasochistic fashion.

Putin himself, from being the guarantee of the status quo and stability, trying to reproduce the status quo and his own grasp on power, has started to rock the boat and ruin the same stability. He finally is the unique force that has mobilised the motley crowd of opposition, bringing together nationalists, liberals, left-wing, extremists, moderates, etc. I could have never imagined myself walking down Moscow streets with nationalists. But we do it now.

Putin, by returning back to the old Russian paradigm of the besieged fortress, return to the search for an enemy, outside of Russia and inside of Russia, he introduces into Russia already forgotten stereotypes of confrontation between the city and rural Russia. Between the younger generation and traditional Russia. Creating and triggering the deepening sense of mutual hostility and confrontation. And if and when we have a real revolution in Russia, Putin will be the main architect of it.

And third point. My third point is on the end of ambivalence and ambiguity. And we're all sitting here, knowing and caring about Russia and feeling it with our fingertips. Your audience is absolutely marvellous. You feel Russia. We all know that this ambivalence and uncertainty has been the way this country has been surviving and drifting in an unknown galaxy for the last 20 years.

No ambivalence. No more. Putin hates the word, and now we have at least clarity. We know absolutely well that he cannot guarantee status quo. How come? If he lost Moscow and St Pete [St Petersburg], and now from now on, after March 4 he will be sitting or standing or crawling behind the Kremlin walls for the rest of his term. And nobody, even within Putin's entourage will bet that he will stay through 2018.

And outside the Kremlin walls, he will have hostile, alien, Moscow, and St Pete. And not a single leader in Russia ever ruled Russia or ever preserved his power having Moscow as a hostile community. So he cannot guarantee the status quo; neither he can make a change, neither he can make a reform.

Why? Because any reform means political competition, means economic competition, means rule of law. That means disruption of the presidential [incoherent]. And he is not that type. So what is the result? What are the conclusions? The conclusion is also clear. The change in Russia, if it comes, it will come from outside of the system, outside of the leadership, from within the society.

So he is leaving us nothing but only revolution. And the dramatic question is whether transformation – yes in the format of revolution – will come before everything starts to implode, or during, or after. And who will be the major actor of this political alternative? So the jury is out on that. Thank you.

Alan Philips:

Thank you, Lilia. I'd like to introduce Professor Philip Hanson, expert on the Russian economy. Currently Emeritus Professor at Birmingham University and also an associate fellow of the Russia and Eurasia Programme at Chatham House.

Philip Hanson:

Thank you. I thought that from this cornucopia of insight and information that the report is, and I must point out to you that it's been endorsed by the Community Party of the Russian Federation... Seriously. It's true.

[Laughter]

I would just extract one paradox and one proposition to sum up the gist of what I have to say on the economy. The paradox is that the Russian economy would seem from many points of view to be doing quite well. And yet policy-makers and Russian economists are deeply, seriously worried about it. It seems to be doing quite well in the sense that last year GDP growth was 4%. Inflation was the lowest since the fall of communism at 6.1%. Surplus in the balance of payments current account, a surplus in the budget. And the total of public debt, sovereign debt, GDP, is only 11%, or ratio to GDP. Compare any Western country.

So why worry? The worry is basically that... well, two worries. That this is a slow down, this represents a slow down. Since the beginnings of recovery from the financial crisis 2008 and 2009, which nobody seems to anticipate an improvement on... 4% is the more attractive projection of trends going up to 2020. We're not looking at anything like a return to the old 7% rate of growth, of the inter-crisis period between '98 and 2008.

So this is a serious worry for a country which has this perennial task of catching up and overtaking which it seems constantly to fail to do. I've calculated that the ratio of labour productivity of Russia to Germany is 43 percent. It's a long way to go. Russia is an upper middle income country on World Bank definitions, which is a fair description. But it's still got a very long way to go in terms of productivity and levels of sophistication in the economy. And the prospect of not catching up at anything other than a really slow, very, very long term crawl, is quite daunting for policy-makers in Russia.

The other reason for concern of course is the downside risks. Downside risks associated particularly, not exclusively but particularly with possible falls in the oil price. Alexei Kudrin, the former finance minister, at Davos referred to the

possible scenario in which the oil price went down to \$75. I assume he means on average over one year. As a result, budget revenue will fall by the equivalent of 6% of GDP. And in his view, Russia is not in a position to borrow – and here he means, I believe, to borrow rapidly in a short period of time – than an amount equivalent to two to three percent of GDP. In other words, the markets get very, very frightened about Russia when the oil price goes down.

And all the plans for the budgets, looking forward – the 2012-14 three year rolling budget plan, and then the projections and the advice being given on the strategy to 2020 – all of those anticipate a nice, smooth, more or less steady growth in oil prices. Which is giving lots of hostages to fortune.

The proposition that I want to put to you is this, that on a more fundamental question, more fundamental than the state of public finances, or even more fundamental than the state of the public finances, the growth potential of this country has suffered from a change in both domestic and external circumstances.

Domestically, the demographic change. We all knew that the population in total was falling, but only recently has the working age population started falling. Even if you allow for some immigration, and there undoubtedly will continue to be some, one sees a fall in the available workforce over the next 10 to 15 years.

That has very, very considerable repercussions for growth prospects. It's not just that there's a fall in the number of labour inputs, it's the sharp decline in the number of young labour force entrants, which means a reduction in the improvement in human capital and a reduction in mobility of resources.

So we have that problem on the domestic side, and then externally we're in a world of deleveraging of credit where the former rapid growth of international credit to Russian companies and banks has simply levelled off. And that's not going to revive any time soon. Plus, our own problems in Europe – after all, Europe takes a half of Russian exports. And all the talk about reconfiguring Russian trade, moving eastwards, catering to the Pacific, the booming Asian markets, that's going to take quite a long time. They depend on Europe to a considerable extent.

So all of those problems underlie the prospect of slower growth. Now, given that slower growth, what's needed to make for better performance in the future? Given all the sources of growth that are weakening, there needs to be an improvement in productivity growth through an improvement in the economic institutions. And that's where the problems come up and they join up with the political problems that Andrew and Lilia have talked about.

Because basically, what the Russian economists advising on the strategy to 2020 are saying is you need rule of law, you need an independent judiciary, you need protection of property rights, you need a level playing field for business. They're saying exactly the same things that we're saying. And the question is, how is that politically to come about?

I ploughed through the early draft of this survey for the 2020 strategy revision, and I can't see any reference to how politically these changes are going to come about. As long as there is this enmeshed relationship between the political and official elite and business, the people in charge of policies are not going to embrace that kind of radical liberal change of institutions. They depend on, their wealth and influence depends on, the present situation, the present set-up.

So I think there will either be a continuous weakening of economic performance, with the downside risks according to what might happen to the oil price. Plus the prospect, oddly enough paradoxically, of conflict if there is a real serious attempt at introducing radical reform. Radical reform would be desirable in the long run, but in the medium term it could be quite painful. Thank you.

Alan Philips:

Thank you very much, Phil. Now it's the turn of James Nixey, expert on Russia's domestic and foreign policy. He's the programme manager and research fellow of the Russia and Eurasia Programme here at Chatham House. And James, you'll be speaking on foreign policy.

James Nixey:

Absolutely. Thank you, Alan. Thank you very much, everybody. I'm reminded, since you mentioned sort of nailing our colours to the mast in this report, of JK Glabraith saying that there are two types of forecasters; there's those who don't know, and those who don't know they don't know.

But that said, I do feel with Russian foreign policy, my task is slightly easier than my three colleagues here, because Russian foreign policy has maintained a fairly steady, true course. Maybe not one that the West particularly likes, since say 2000. And it seems very unlikely to deviate from that on the basis not least that Putin will remain in power.

So this presentation, that chapter, is really founded on the basis of the idea that you don't believe in themes so much as in their relationships. And also in the search for some foreign policy successes which I've tried very hard to find, but somewhat in vain.

But there's no doubt about it, that Russia is trying very hard these days to be a significant foreign policy actor out of area, if you like. Believe me in Chatham House, we get plenty of offers from the Russian government to engage in joint events, but never about Russia itself. They're all about sort of international relations and the ways in which Russia can contribute to international relations.

And Russian foreign policy very much seems to be wanting to be about being heard, to be obeyed even, and certainly this idea of demanding respect. That's very much reflected in one of the articles that Andrew was referring to which did concentrate on foreign policy. And that theme kept on coming up.

I'll very quickly do a sort of a tour du monde, if you like, looking at the sort of four points of Russia's compass. And to start with the West and Russia's relationship with the West... clearly Russia is intrinsically European. It's very hard to doubt that. It's Western-centric but not pro-Western of course. And it certainly measures itself by the West still. Often favourably these days. It doesn't regard the West as all-powerful any longer. And certainly not as a unitary actor.

It also remains true that Russian prefers to deal with Western countries rather than Western based international organisations. It prefers dealing with capitals rather than headquarters. And in Brussels, where we were yesterday presenting this report, it still seems to me as well that there are too many there who believe that the EU needs Russia far more than Russia needs the EU. The truth is, it's a mutually symbiotic relationship. And that remains so. And Brussels has, however, done a lot better of late. It's been a little bit tougher; it's authorised some raiding of gas from subsidiary offices in European capitals. It's prevented the downstream investment of certain opaque Russian companies. And it's suddenly found some more teeth recently, although the main sort of under layer of the relationship with the EU is a partnership for modernisation and it hasn't moved yet and achieved anything particularly concrete.

The other part of the West, if you like, the US, that relationship is founded upon the recent as you all know. Quite frankly, it's dead but no one seems able to admit it. And then certainly sees no prospect of being revived until after the current US presidential elections. It's because they need these small

foreign policy successes themselves. To revive it anyway, you'd need some substantial successes. And since the low hanging fruit has already been picked, it's hard to know where to come from. So the stalemate there ensues.

To Russia's south, that can be split into the Black Sea region and the Middle East in certain ways. Russia is a fading Black Sea power, I'm sorry to say. It used to control some 2,000 kilometres of Black Sea coastline. It now controls just over 500. And Turkey, which is an increasing power in the region, and in some ways Russia seems more analogous to Turkey in many ways, rather than the BRIC countries. And Turkey is pushing itself as an actor more in the region and Russia is losing out.

In the Middle East, I will land upon Syria in a bit more detail, but certainly in general Russia is very uncomfortable, perhaps for obvious reasons, with the Arab spring, with the revolutions in North Africa and beyond. And that's not just because of the often given reasons of having bases there and investments, although certainly it loses out significantly in terms of its military exports as a result of what's been happening in Libya, Egypt and Syria.

It also is genuinely concerned about the idea of mission creep, that the West has gone beyond its mentality. But it also still retains this zero sum mentality, I'm afraid. Russia does of course benefit from these regions, paradoxically, because it forces up the oil price. But then of course in the long term, that's a hindrance to economic reform in and of itself.

For Syria in particular, it's the *issue du jour*, then Russia's position is not entirely unreasonable here which is not often acknowledged. The basis of its position is again, it's not investments, we simply don't understand what will happen if there was Western intervention and that seems perfectly reasonable.

But it does ignore the considerable humanitarian dimension which is absent from much of Russian foreign policy. The fact of the matter is, there's a devil's alternative here, people will die whether you intervene or you don't intervene. And Russia seems unable to acknowledge that aspect.

More surprising as far as Syria is concerned, it seems strange that Russia backs a losing horse right now. It used to do that in the Yeltsin years. It would object to create these red line issues, the West would trample all over them quite frankly. And it made Yeltsin look rather weak. Putin stopped that. And that contributed considerably to Putin looking like a much stronger leader. But it strikes me as strange that Russia is fighting a war here that it just can't win.

To the east, China in particular. I think we see here an extraordinary gap between Russia's sort of capabilities and its ambitions. China just doesn't look to Russia as an equal, as a partner, or even as a balancer. It doesn't view Russia as particularly reliable. It just looks at it as a source of raw materials. But Russia meanwhile persists in instrumentalising China and valuing it as a sort of an instrument rather than in and of itself.

Japan, the relationship is at a stalemate because of the Northern Territories, that's going absolutely nowhere. And North Korea it is as difficult for Russians as it is for everyone else. And in fact, Russia has been humiliated just as it has over Iran. It's tried to make some concrete suggestions and has been let down.

This year Russia actually will look a bit more like an Asian power than it normally does, because it's hosting the APEC summit in Vladivostok in December of course. But that will quickly fade as it moves on to great sporting events that it's got coming up in its calendar as well.

So that sort of leaves the north and the Arctic. This is still of great unknown, we don't quite know what's up there in terms of its hydrocarbons still. But it is an area where Russia has played a very sensible card thus far, flag planting stunts aside. It has come to a legal settlement on the Barents Sea Treaty. It has lodged its application of the UN very patiently for a long time, and perhaps because of its natural advantages of area control, it possesses most of the coastline, then it seems to me that Russia is playing this card patiently for the time being. But as for new actors coming into the Arctic, we don't yet know to what extent Russia will take to this increased globalisation of the area.

Very briefly on the former Soviet states, if I have two minutes. Well it's not really considered foreign policy at all. It was notable by its absence in the article I referred to earlier. It's still a major bone of contention in the West. It loses and it wins in the former Soviet states. It loses because there's a lack of enthusiasm from the former Soviet states for Russia so the Eurasian Union isn't going anywhere. But it wins because the West itself is not particularly interested either and nature abhors that kind of vacuum.

So I will conclude then and just say that Russia is still searching for this unique voice in world politics, to be a significant other. But it struggles to sound very different from its old Soviet voice. And when it does say something different, then it sounds rather like a spoilt child so often. So it is very much the lowly power, Lilia's last but one book. It's at least a weakened power.

I take no joy in saying this. I hesitate to say it in a way, because I believe in a strong Russia. I certainly want a prosperous Russia. But the conclusion, the cumulative weight of evidence that you see presented here leads to very little other conclusion. So the fact is we do live under the same sky but we clearly have a very different horizon at the moment. So I'll leave it there.