

“I am not sure whether Russia will be a Western-style democracy at any point – definitely not in my lifetime”



Vyacheslav Nikonov is a well-known and respected Russian political consultant and analyst. President of two influential political organizations in Russia – the Unity and Polity foundations – Mr Nikonov also serves as a senior consultant to The PBN Company, advising the firm and its clients on current Russian polity, policy and government developments. RIR caught up with him at a PBN breakfast briefing in London in December 2004, at which he addressed members of the UK business and financial community. In a wide-ranging interview, he rather modestly laughs off the suggestion that he is ‘well connected to the Kremlin’, but does admit to going there ‘from time to time’

Why do you believe that the Russian government will be more suspicious of investment by western businesses in Russia after the events in the Ukrainian elections?

At this stage, it is too early to predict, but it looks like Putin took the whole situation very personally as a co-ordinated western attempt to limit Russia’s influence in Ukraine, which is considered to be the source of Russian civilisation, and which goes against Putin’s strategy of arranging a free economic space in the former Soviet Union. At the same time, there are some fears that there may be a similar attempt of regime change in Rus-

sia. That definitely leads to the conclusion that limiting the possibilities for the opposition and their western sponsors would be worthwhile.

Yet, even before the Ukrainian elections, major investment deals have been vetted from the top and are subject to a degree of suspicion ...

The major investment deals were sanctioned from the top – but there are foreign companies that have been working in Russia for many years without meeting anyone from the government, or even the local government. So it is not necessary for all businesses to be con-

nected politically – but for huge businesses, which are interested in strategic assets such as oil, of course the government is making the big decisions, which is quite understandable.

On the question of whether the government is suspicious, I have never heard of a country that is not suspicious of foreigners. In Russia it could get worse or it could stay the same. How this situation will develop, I am not sure.

Why is Russia’s image currently so dismal in the western media?

Generally, the press is quite negative, which is a function of what I call ‘the

revolution of high expectations'. There was the expectation that Russia could be easily transformed into a western-style democracy with standard market practices. That is just not the case. I am not sure whether Russia will be a western-style democracy at any point – definitely not in my lifetime. There will be a different way.

Really it is a question of expectations and that is why the media is dissatisfied with Putin. In my mind, he is restoring some governability and order in a country which has had an anarchical period of destruction.

The end of direct elections for regional governors has attracted much criticism, yet they seem to be a pretty venal and corrupt bunch ...

Absolutely, and one of the reasons why the Economist, for example, should approve of the reform of the gubernatorial system is that the population in Russia is less liberal than the president. Putin is more liberal than 90% of Russians – so during the period when governors were elected, from 1996 to 2004, there was not a single reformist governor elected. We have a chance for reforms now, and the situation cannot get worse. It will get better.

Has the government lost the impetus for economic reforms? If so, is that in part because there is a lack of economic talent in the government, who fail to act as a team, especially on the economic agenda?

Putin is an economic liberal – he may be less liberal than some of the businessmen, but he is still more liberal than the public and than the governors. I think that there are too many teams, with conflicting agendas – the Siloviki team has one agenda, and they are not friendly at all to any foreign investment. The economic team is now also divided between Kudrin and Gref, who are not on very good terms. And now we have a new team, which is called the 'technocrats not from St Petersburg' – Fradkov, Zhukov and a few others in the cabinet.

Of course, the economic agendas are of the various teams are very different. For Kudrin and Gref the question of the liberalisation of the economy is very important; for the others it is not a priority, rather the governability of the economy is the key question and whether the government can influence economic processes. These are different agendas and Putin, I think, would not sacrifice one team for another. He is pragmatic, on one hand, but on the other he also likes

this system of checks and balances. He doesn't want anyone to concentrate too much power, which means that he can be the arbiter in whatever situation – that is his governing style.

Surely there are obvious downsides to Putin's governing system?

Oh yes – there are many downsides, especially because you do not have a coherent policy or no policy at all. When you have this administrative reform that has paralysed the government for quite a while, there are a combination of factors, which do not contribute to a more coherent or strategic economic policy.

Of course Putin runs the show. There are many bureaucrats in the government who know that when you do nothing you don't risk anything! If they act, and risk something, they may be in trouble. This is one of the reasons why Russia is not in a hurry to spend money. Kudrin has said that it is because it would be inflationary – which I doubt because there are so many projects on which it could be spent in a non-inflationary way. There are things to do in Russia; it is not the most prosperous country. But no one in the government wants to take a big risk of proposing a serious investment programme. Because in Russia, some of the →

PBN's Breakfast Briefing in London, December 2004



Guy Harington of Citigroup and Nigel Stanbury of ExxonMobil talk politics with PBN's Nikonov



Nikonov gives insight into what foreign investors might expect from the Kremlin in Putin's second term.



money will be stolen, so they would be accused of initiating a scheme for stealing money, which can create problems politically. That is one of the weak points of the Putin government.

Are the economic liberals regrouping? Is there hope that they may regain a more forceful presence in the government?

It is hard to say – the liberals were always quite close while having their own opinions. Their reactions to certain developments are similar since they are very close ideologically, but I don't think that they can really make a team with each other because they are too independent and orientated towards their own agendas. And Putin prefers everyone to remain as independent as possible so that he will be the judge.

However, if you look at the economic side of the presidential administration, which is getting more and more important, it is certainly more liberal than any bureaucrats in the government, not just Illarionov but also Dvorkovich. They are more activist, they are the driving-force for speeding up the reorganisation. They are asking questions as to why the reforms are not progressing. Dvorkovich is in the key position in the Administration to address economic issues.

One of the fundamental questions asked by western investors, after the saga of the Yukos affair is: does the Kremlin not understand western concerns or do they simply not care?

I think it is both. There are many people in the administration – especially on the security-services side and to the Attorney General's office – that do not understand the west and they do not care. They are doing their own job, whether it is politically motivated or not, and they don't care. I think force structures are really acting in a way to harm Russia. And many of the criticisms that you can find in the western press are justified – but that is Russia, that is the way things are done here. Russia is not a well-institutionalised democracy.

The western press always describe you as 'close to the Kremlin' and 'well-connected', is that another misrepresentation on their part?

Since the people in the Kremlin are not

generally available for interview, the press want to show that they have managed to interview someone who is 'well-connected'. Sometimes it may be exaggerated; but I do go to the Kremlin from time to time.

What is the mood in the Kremlin now?

They see the problems, which are overwhelming – the list of problems is always huge – however, they are more optimistic because now that the country has money they can do certain things. Also, there is not a real problem with the opposition, nor a problem with the Duma. The threat of Russia falling apart has gone and nor is there a problem paying salaries and pensions, which was the main economic problem in 2000.

The relationship with the west has become quite a serious problem, but if you compare today to 2000, you won't find much of a difference because in 2000 the media in the west was terrible with all the scandals related to corruption and 'the Family'.

There are problems with the intellectuals, who feel that they will be underrepresented, and problems with the business community, who are not happy with everything that Putin is doing, especially with the fact that they are supposed to pay some taxes which are new for them.

The people in the administration understand the situation quite adequately. At the same time, they are not almighty, and it is definitely not an authoritarian regime. In an authoritarian regime, you press a button and all the lights go on. It is not the case in Russia. In Russia you can press whatever buttons and still nothing would happen!

I spoke to one government official and asked why the government is not doing very much at the moment. He said that they are trying to create the institutional mechanism, to figure out what is there. They found that 'the belts' from the government in some cases are going nowhere; in some cases there are no belts and in some cases they are connected to a device which is working for itself and producing no output. Therefore, the agenda is to connect the government with society, the local administrations and so on – not to create something authoritarian. **rir**