

The New Imperial Russia

MARSHALL I. GOLDMAN

Abstract: As oil prices rose from \$10–12 a barrel to \$80 a barrel, Russia found itself with an unprecedented economic windfall. This has allowed Russia to expand its economic influence both internally and externally. Putin was lucky enough to take over the presidency just as the recovery began. The challenge is for Putin's successor to sustain that recovery.

Keywords: imperialism, oil, recovery, Russia, superpower

How unsettling it was to read that President Vladimir Putin ordered the Russian air force to send its strategic, nuclear-armed Bear long-range TU-95 and Blackjack TU-160 bombers back on patrol missions around the world. It means that once again Russian bombers will be flying missions over the Arctic, Atlantic, and Pacific oceans, to the edge of U.S., Japanese, and European airspace and far from Russian borders. Moreover, just a few days earlier, Chief Admiral Vladimir Masoein, Russia's navy commander, declared that Russia would reestablish a formidable naval presence in the Mediterranean, not a sea contiguous to Russia itself.

Fifteen years ago, when *Demokratizatsiya* made its first appearance, Russia had ceased such missions—not because it did not want to, but because it could not afford to. (If the United States keeps squandering its resources in Iraq, there may well come a time when the United States will face similar cutbacks.) Not only did the USSR disintegrate in 1991 but so had the Cold War. Putting an end to more than seventy years of confrontation, Russia under Boris Yeltsin reversed course and embraced democracy and the market, or at least its own Slavic versions. This was seen as eliminating most of the ideological differences separating East and West. As for the remaining balance-of-power issues, particularly between Russia and the United States, they were largely put aside, if for no other reason than that Russia seemed to be near bankruptcy. After the financial breakdown of August 17, 1998, when Russia defaulted on its debt and most of its banks were forced to close, Russia was indeed bankrupt. Through most of the 1990s, Russian military forces lacked the funds to fuel their planes for more than a few hours a week. The TU-95s and TU-160s were kept on the ground. Russia's inability to suppress rebels in Chechnya in 1994–96

Marshall I. Goldman is the Kathryn W. Davis Professor of Russian Economics, Emeritus, at Wellesley College and the associate director of the Davis Center for Russian and Eurasian Studies at Harvard University. His most recent book is *The Privatization of Russia: Russian Reform Goes Awry* (London: Routledge, 2003). Copyright © 2008 Heldref Publications

highlighted how far Russia had fallen from its superpower status. If Russia could not put down a rebellion within its borders, how could it be expected to be any more effective outside those borders? Moreover, with widespread unemployment, a ruble few inside or outside Russia wanted, and a country sacked by rapacious oligarchs and contending mafia clans, it seemed it would be many decades before Russia would again be able to afford to fund its military and political adventures and aspirations.

But sooner than anyone anticipated, the economy began to recover. Within a year after the August 1998 collapse, there were already signs of revival. In August 1999, after trying out four different prime ministers, Yeltsin finally settled on a virtual unknown, Vladimir Putin. By then, helped by the rising price of petroleum, industrial production in September 1999 began to grow at rates as high as 20 percent per year. Admittedly, this was against a backdrop of a 15 percent decline in September 1998, but in 1999, GDP for the whole year rose almost 6.5 percent.

Looking back, many observers unfairly credit the turnaround in the economy to Putin. But industrial production began to increase earlier, in March 1999, when Evgeny Primakov was prime minister. Nonetheless, Putin did all he could to sustain the growth once he was appointed prime minister. Urged by the talented St. Petersburg economic advisers he brought into the government, he enacted a flat income tax of 13 percent and set a goal of 7 percent annual economic growth, which, given the magic of compound interest, would double the GDP in ten years.

Undoubtedly, these measures had an impact. Not all Russians suddenly started to declare their income and pay taxes once taxes were set at 13 percent, but enough people paid to help improve Russia's financial situation. More important, it was the increase in petroleum prices that triggered and sustained Russia's decade-long economic boom. Without taking anything away from Putin, it is not an exaggeration to say that if Yeltsin's term had lasted a few more years, even under his otherwise unsteady and permissive leadership, the Russian economy would have recovered from its near disintegration.

Because so much of this "economic miracle" occurred on Putin's watch, he is given credit for it. While a crackdown on some of the oligarchs, the flat tax, and the goal of doubling the GDP in a decade were important factors, the introduction of another less-well-known concept played as big if not a bigger role: Putin's notion of "national champions." He developed this concept in a 1997 master's-type thesis he wrote for the St. Petersburg Mining Institute. In it he put forth an "owner's manual" on how to take advantage of Russia's rich endowment of raw materials, particularly its petroleum and natural gas. Written considerably before anyone, including Putin himself, could have dreamt that he might someday become prime minister—not to mention president—Putin called for the reacquisition of many of the former state companies that had been privatized so the Russian government could use these properties in the interest of the state. These entities would become what Putin called "national champions." They would not be like the industrial ministries that characterized the Soviet Union's central planning system, but they would be expected to be instruments of the state, more so than the counterpart industries nationalized by the Labor Government of Great Britain in the 1950s.

Putin's concept was not original, however. General Charles De Gaulle proposed a similar notion when he was president of France in the 1950s. Jean-Baptiste Colbert had a similar notion in the seventeenth century. Moreover, Clifford Gaddy of the Brookings Institution discovered that Putin plagiarized the concept, word for word, from a book written by William

King and David Cleland, who at the time were professors at the University of Pittsburgh. (Putin had one citation to the Russian translation of their work in his footnotes.)

Russia seemed to be a natural place for such national champions. An enterprise such as Gazprom, formerly the Ministry of the Gas Industry, was already, in effect, a national champion. Under the executive leadership then running Gazprom, it did not behave like one. Its senior executives were too busy stripping the company's assets and placing their wives, mistresses, and children in ownership and managerial positions.

Once elected president in March 2000, however, Putin moved almost immediately to purge the senior ranks of Gazprom's management. In June 2000, a mere three months after his election, Putin replaced Gazprom's chairman of the board of directors, Viktor Chernomyrdin, with the more responsive Dmitry Medvedev, who had worked with Putin when he was vice mayor of St. Petersburg. Medvedev was also appointed to head the Kremlin administration, and in December 2007, Putin selected Medvedev to succeed himself as president of Russia. The following year, Putin continued his purge and removed CEO Rem Vyakhirev and appointed Aleksei Miller, another St. Petersburg associate, in his place. Putin instituted similar purges in other state-owned companies. He also began to reclaim companies and assets such as Yukos and Sibneft that had been privatized as part of the Loans-for-Shares effort under Yeltsin, effectively renationalizing them by putting them under government control as subsidiaries of state-owned Rosneft and Gazprom.

With the funds from oil and gas exports generated by these national champions overflowing into the state budget, Putin no longer had to worry about foreign debt coming due or the budget and balance of trade deficits. By August 2007, Russia had more than \$540 billion in convertible currency and gold in its vaults—not bad considering those same vaults had been empty nine years earlier. Additionally, some of the new budget surplus revenue flowing into the treasury from taxes was being used to repair and replace the country's long-neglected infrastructure. Not surprisingly, revenue was also used to enhance Russia's military. In 2005, Putin increased military spending by a substantial 27 percent and in 2006 he again increased military expenditures, this time by 22 percent. This still left Russia's military inferior to the United States', but Putin has done his best to shrink the gap and reconstitute Russia as a military force.

While Putin has sought to restore Russia's military and political standing in the world, the United States finds itself bogged down in Iraq and increasingly criticized by its allies. By contrast, Russia is creating new alliances, particularly in Asia, and unless the United States can extricate itself from Iraq, the U.S. presence in the Middle East will continue to jeopardize U.S. standing in the world. Moreover, its Iraqi adventure has discredited the reputation of U.S. armed forces and encumbered the United States with a historic debt burden. With its attention diverted to Iraq, the United States has neglected matters at home and has done little to stop the emasculation of its manufacturing base. The United States, in effect, is squandering its capital and industrial base for the sake of resolving a foreign civil and religious war.

While the United States grows weaker, the Russians have moved to put an end to similar bloodletting. They fled Afghanistan in 1988. More recently, Russia sought to contain the civil war in Chechnya and its involvement in the war. By turning over most of Chechnya's policing to Ramzan Kadyrov and encouraging Chechens to fight Chechens, Putin has reduced the toll on Russian troops and the drain on his country's budget and psyche. The Chechens have not become Russian boosters. But in contrast to the way the

United States has become bogged down in Iraq, Russia can now concern itself with issues that are unrelated to Chechnya.

When evaluating the U.S.-Russia relationship these last few years, the picture would be incomplete unless we also take note of the special relationship between the two presidents, George W. Bush and Vladimir Putin. Given the rivalry between the United States and Russia (at least in the twentieth century), it is surprising to see how closely the two leaders and their families have bonded. Yet given how much they resemble each other in both spirit and values, perhaps we should not be surprised. Both are relatively young, macho in spirit, and fanatic about exercise; Putin with his judo and skiing and Bush with his mountain biking and brush clearing. They both regard civil rights as an obstacle to strong central leadership and a check on the fight against terrorism. While it may explain nothing, it is also worth noting that by odd coincidence, both of them have had to bring up two daughters.

That Bush and Putin get along so well, better than any two American and Russian leaders in history, is probably due to the fact that when their relationship began in 2001, Russia was still relatively weak and the United States was at the peak of its unchallenged power—economically, militarily, and politically. As long as Russia posed no threat to the United States, the United States could afford to be magnanimous, as it almost always is after the defeat of a wartime (hot and cold) rival. Given that it was no longer a superpower, Russia lacked the wherewithal to counter U.S. moves. In addition, Russia, more so than the United States at the time, was deeply involved in and concerned about Islamic terrorism both within and outside its borders—a legacy of the Afghan war. It was also clear Putin understood that if Russia was to again become a superpower, it would only be able to do so if it had a healthy economic base. This meant avoiding foreign adventures and, in particular, direct challenges to or provoking the United States.

But in less time than observers could have anticipated, the Russian economy righted itself, and although its manufacturing sector is still not as competitive as Putin would like, Russia no longer concerns itself with bankruptcy or whether foreign creditors will be forgiving. Now, with its cash hoard, it is a creditor and its companies are buying up foreign competitors. Who would have thought? Admittedly, none of this would have happened if petroleum prices had remained at \$10 a barrel. But it is striking to see Russian oligarchs and their companies, and some of Putin's national champions, both state and privately owned, buy up healthy Western corporations. Examples include Oleg Deripaska's purchase of Magna, a Canadian auto parts manufacturer, and Norel's acquisition of LionOre, a Canadian nickel mining company, and the OM Mining Company. In Europe, VSMPO-Avisma, the world's leading titanium company, has bought Tirus International, a Swiss producer of titanium. Viktor Vekselberg has become the largest shareholder of Sulzer, a Swiss engineering company. He also owns 14 percent of OC Oberlikon, a Swiss technology group. Deripaska has also been investing in Europe. In addition to buying companies in Serbia, he purchased 30 percent of Strabad, an Austrian construction firm, and about 10 percent of Hochtief, a German construction company. Gazprom has made even bigger investments, buying shares of German natural gas companies and Pennine Natural Gas in England. A Russian bank now also owns 5 percent of the shares of EADS, Airbus's parent company. Given the public's lack of interest in ownership, the European public is likely unaware of most of these purchases. Regardless, they clearly know that in 2003, Roman Abramovich, by then Russia's richest oligarch, purchased the Chelsea football team in London for seventeen million British pounds.

The Russians have not limited themselves to Europe and Canada. In the United States, the Russian company Evras has taken control of Oregon Steel Mill. Other Russian companies now own Rouge Industries in Detroit and the Stillwater Mining Company. As for Deripaska, he has reportedly purchased as much as 5 percent of General Motors' stock. Except for the General Motors purchase, most of these acquisitions affect relatively few Americans. A major exception is the LUKoil purchase in 1997 of the Getty Petroleum Marketing's retail gasoline service-station network. These gasoline stations were located primarily along the East Coast. This deal involved the sale of more than 1,300 stations, an increasing number of which are being converted from Getty to LUKoil stations. It should be noted, however, that as a by-product of the growing interdependence that comes with Russia's emergence as a globalized economy, the American company ConocoPhillips began to buy what eventually became 20 percent of LUKoil stock in September 2004.

“This meant avoiding foreign adventures and, in particular, direct challenges to or provoking the United States.”

As long as oil prices remain high, the size of Russia's holding of foreign currencies is likely to grow. If so, we can expect more purchases of these businesses around the world. That makes many outside of Russia nervous. It is not that investors from one Western country never try to buy businesses in another country. But foreign investment by the state and Russian companies often involves opaque and nonconforming, even heavy-handed, methods. As an example, leading Western firms such as Royal Dutch Shell, BP, and Total suddenly found that Gazprom had become not only their new but also their dominant partner, with more than 50-percent control of their Russian company, and that it was able to buy its shares at a fraction of what should have been the prevailing market price. Existing laws and contracts are easily overridden. For those affected this way, the “rule of law” in Russia should more appropriately be called the “law of the ruler.” It explains why some companies in the West, such as the steel company Arcelor, after considering a partnership with Severstal, a Russian steel company, decided at the last minute that it had better partner instead with the Indian steel company, Mittal. Arcelor was fearful that, given how secretive corporate life in Russia can be and Putin's emphasis of the national champion concept, if Arcelor signed with Severstal, it would discover that their real partner would turn out to be Vladimir Putin.

Russia's economic and financial presence in the West, beyond Eastern Europe, is something new in Russian history. Never before have so many Russian companies been so active or so invested. Revenue from Russia's oil and gas exports made this “ruble power” possible. It is something that does not quite fit with Joseph Nye's concept of hard and soft power. It certainly is not “soft” because there is clearly distrust by foreigners of Russia's intentions. Almost none of those companies being bought in the West welcome such purchases or expect they will gain new experience or prestige as a result. Yet Russia's new status is not a result of “hard power” because none of these takeovers outside of Russia are as yet a result of military or other strong-armed actions.

While most of Russia's new influence is due to its ruble power, it has to be acknowledged that Russia has gained some soft power, at least in the political and military arena. For the most part this is not due to anything Russia has done but to the miscalculation, arrogance, and unilateral policies of the United States and, to a lesser extent, its NATO allies. Ignoring assurances made at the time of the collapse of the USSR and the Warsaw Pact that NATO would not expand to Russia's borders, NATO not only welcomed almost all the former Warsaw Pact countries into NATO membership, but it also built up its military presence there in a way that Russian authorities saw as threatening. NATO countries as a whole are a partner to much of this, but most of the blame falls on George W. Bush. In part that also explains why Putin announced that he planned to pull Russia out of the Conventional Armed Forces in Europe Treaty, a clear setback for arms control efforts in Europe. No doubt Bush's earlier decision to disavow U.S. adherence to the Anti-Ballistic Missile Treaty was also a factor. Most recently, U.S. efforts to install a radar system in the Czech Republic and a battery of anti-ballistic missiles in Poland have upset the Russians. They find it hard to believe that U.S. authorities would assume the Russians would accept their explanation that the U.S. missile system, which as yet is not operational, would have nothing to do with Russia but is intended solely to check aggressive efforts by Iran and North Korea. In Russian minds, this is an excuse to build up yet even more of a military presence on Russia's borders. Even if the technology of this anti-ballistic missile system has not yet been perfected, the Russians assume that someday it will be and then almost certainly the system would end up being directed against Russia.

Having been treated so badly by the United States and NATO, the Russians have felt humiliated by their treatment since the end of the Cold War. Now, however, the Russians feel self-confident enough to call a halt to what they regard as bullying. Two examples stand out. Konstantine Kosachev, normally the restrained and responsible chairman of the Duma's Foreign Affairs Committee, responded bitterly to the British request for the extradition of Andrei Lugovoi, the former KGB agent the British suspect was responsible for the polonium-210 poisoning of Alexander Litvinenko in London. Referring to the demand for Lugovoi's extradition and what he considered to be Britain's patronizing attitude toward Russia, he complained that "You can act this way to a banana republic, but Russia is not a banana republic."¹ What he was really saying was now that Russia has oil wealth, it is no longer a banana republic. Or as the governor of St. Petersburg, Valentina Matviyenko put it, "We spent so many years feeling there was something wrong with us—others lecturing us on how we should live and where we should go."² But no more. As she proudly explained, "Russia has now regained a sense of self respect. . . . We have overcome our inferiority complex."³

As long as Russia was weak, the United States could push Russia around and act unilaterally to promote its own interests without worrying that Russia might interfere. But when Russia regained some of its strength, it was inevitable that it would try to make up for lost time by reasserting what it regards as its status in the world. Moreover, given Putin's assertive nature, it would have been a surprise if he failed to do so.

If President Bush in June 2001, after his first meeting with President Putin in Ljubljana, Slovenia, looked into Putin's eyes and got a sense of his soul, as Bush reported, Bush must have seen that as soon as Putin had the chance, he would do just what he eventually did—reassert Russia's claim as a superpower. In the process, Russia has not only acted to reclaim its role as a superpower, but with its new wealth, it has moved out on the interna-

tional arena to claim a status that goes beyond where it was when it was only a political and military superpower. By buying an ever growing list of foreign corporations, Russia has claimed an economic standing that is unprecedented in scope and a historical first for Russia; a form of political and economic imperialism, in a way that it never was strong enough before to assert.

This is not all bad for the West. True, the Soviet Union's collapse in 1991 and Russia's subsequent economic meltdown may have allowed some in the West to gloat, but that was not a healthy situation. As Kosachev's and Matviyenko's aforementioned comments indicate, the loss of superpower status created a serious inferiority complex throughout Russia. Something similar happened in Germany after its defeat in World War I. That created a popular longing for a strong man who would restore Germany's glory. Now that at last the economic situation in Russia is more robust than ever, Russians should no longer have a need for such a Hitler-like savior. It would seem they now feel self-confident enough. If so, that might be worth a stronger Russia even if their political system remains a source of concern. The point is that were Russia to remain weak and of no consequence, that could set the stage for a leader who someday we would all have cause to regret.

Now as both men prepare to leave their presidential offices, should Bush and Putin look back and compare how each of their countries compared to their rivals in 2000 and how they compare today, Bush would have to be disappointed and Putin elated. This is not to imply that the decline of the United States and ascendancy of Russia is all Bush's doing nor, as just noted, is it something to be lamented. Clearly, it is not in the United States' interest to have a seriously weakened Russia. This realization should soften the criticism of those who blame Bush for this change in political fortunes. Moreover, if it is any consolation, in looking to attribute blame for the reversal of Russian and U.S. fortunes, the increase in the price of oil has undoubtedly been even more important than Bush's mishandling of Iraq. As for Putin, he more than made up for his early mistake when he sent his troops into Chechnya. Since then he has steered Russia to its new imperial status with remarkable adroitness.

As for their successors, the new presidents in both Russia and the United States will soon have to deal with an East-West relationship that is under the most strain it has experienced since the early Gorbachev era. For Russia the news is good: it now has at its disposal new resources with the prospect that in the next few years, if energy prices remain high, the country's ruble power will become even stronger. By contrast, Bush's successor will find that the United States, with its weaker dollar and deteriorating industrial infrastructure, has become increasingly disadvantaged as it struggles to work its way out of the financial and political hole that it has dug these last few years. In fairness, it was inevitable that Russia's standing relative to the United States would improve as the Russian economy rebounded. But the spike in oil prices combined with the Bush administration's catastrophic foreign and military policies has not only accelerated the reversal of roles but placed the United States in a much more diminished standing relative to Russia. The new U.S. president in particular will have quite a challenge.

NOTES

1. Interfax, "Senior Russian MP Warns UK against expelling Russian Diplomats," July 27, 2007.
2. Argument i Fakty, "We Have Overcome Our Inferiority Complex," July 11, 2007.
3. Ibid.

Guidelines for Contributors

SCOPE

Demokratizatsiya: The Journal of Post-Soviet Democratization is an international and interdisciplinary quarterly journal that covers the historical and current transformations in the Soviet Union and its successor states. The journal welcomes submissions by academics, policymakers, and other specialists on the political, social, and economic changes begun in 1985. The journal also values critiques of specific laws, policies, and programs, as well as comparisons between reforms in the new countries and elsewhere that may serve as constructive examples.

REVIEW PROCESS

E-mail manuscripts to dem@heldref.org. Manuscripts can be sent as attachments in any typical processing program or as RTF files. Although we greatly prefer e-mail submissions, authors also may mail two copies of the manuscript to Managing Editor, *Demokratizatsiya*, Heldref Publications, 1319 Eighteenth Street, NW, Washington, DC 20036. All manuscripts should be submitted exclusively to this journal. Each submission will be reviewed by two of our editors, and the first-named author will be notified of acceptance, rejection, or need for revision. Authors will receive complimentary copies of the issue in which their articles appear and permission to reproduce additional copies of the articles. Reprints are available through Heldref Publications.

MANUSCRIPTS

Manuscripts should be double-spaced and include name, mailing address, telephone number, e-mail address, and a brief (one or two sentence) biographical statement. Citations should be endnotes (not footnotes) and should adhere to the guidelines found in *The Chicago Manual of Style*, 15th edition, University of Chicago Press, 2003. Accuracy of endnotes and tables is the responsibility of the author(s). Note style (chapters 16 and 17): **Books, monographs**—Robert T. Huber and Donald R. Kelley, eds., *Perestroika-era Politics* (Armonk, NY: M. E. Sharpe, 1991), 34; **Journal articles**—Nikolai Zlobin, “Perestroika versus the Command System,” *Demokratizatsiya* 3, no. 2 (Fall 1992): 42; **Newspaper articles**—Alexander Yakovlev, “Rossiiskikh fashistov porodil KGB,” *Izvestiya*, June 17, 1998. All text, tables, and notes should be typed double-spaced. If your manuscript is accepted, you will be asked to send it on disk or by e-mail.

Transliterations: *Demokratizatsiya* employs the following journalistic transliteration style for the Russian language: я = ya, ю = yu, х = kh, ш = sh, щ = shch, ь, ъ = (omitted), ы = y, ц = ts, ж = zh, ч = ch, ё = e or yo.

- When the **Russian letter E** appears as the first letter in a word, in most cases it will be transliterated as Ye: Yeltsin, Yekaterinburg, Yedinstvo, Yegor.
- Russian **proper names** that end in ий, should be y, rather than iy or ii: Valery, Yevgeny, Dmitry. Exception: Yuri. Those ending in ой, ей, ай remain as oi, ei, ai.
- Use **Russian political divisions** by name whenever possible, such as oblast, krai, okrug, uyezd, obkom, etc., instead of region, administrative region, district, etc.
- **Acronyms** must be spelled out the first time they are used and, with few exceptions such as CPSU, must be written in the original language. Example: Military-Industrial Complex—VPK, Lithuanian Communist Party—LKP, Communist Party of Russia—KPRF
- The first time a person’s name appears in an article, please include **first name**, even though in Russia it is not customary. First names and the names of **publishers** should also be used in endnotes.