

10 February 2012

## Competition comes to Russian politics

### Summary

- Russia's 'Winter' is not an Arab Spring, but its impact will leave a lasting and profound change on the country. It has injected genuine competition into the political process. Fear has been sucked out of the system.
- A new generation of political leaders is starting to make its voice heard in Russia, putting the old guard under pressure. These voices are not coming out of the 'formal' opposition, but from ad hoc advocacy groups.
- After a decade of acquiescence, the Moscow liberal and business elite are showing their first signs of discomfort with Putin. Sensing they now have the upper hand in the Kremlin, some increasingly see their former mentor as a liability.
- Putin is far from finished. If he can accept a new level of debate and criticism, there is no reason why he cannot come out of the March elections with a strong mandate and a new level of legitimacy. What he does with that power is unclear.
- For investors in Russia the protests should signal not revolution but evolution. They will not materially increase the level of political risk in Russia, and they may even decrease it.

The speed at which political changes have occurred in Russia over the last six months has shocked everyone; no one more than Vladimir Putin. They have set in train a course that will be very difficult to alter. Our assessment is that the last six months have seen exasperation with persistent failure of the Russian state tip over into a striking and unexpected reinjection of competition into the Russian political system. While the protestors are introducing an organic set of checks and balances, there is no doubt that the system will have to catch up with their demands. For the first time, Putin's own power structure has come to regard him as a potential liability.

Much now depends on how Putin handles this process. While many have concluded that Putin is finished, our assessment is that if he can accept the reality of contested rule, he may actually emerge from the presidential elections with a genuine mandate. This Global Counsel Insight note looks at the process that has turned Russian

politics upside down and asks what it means for the future of politics in Russia.

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### **It started in the forest, not on Facebook**

The heatwave in the summer of 2010 sparked forest fires across swathes of Western Russia. The searing heat was said to have killed up to 5,000 people with at least 50 dying in blazes sparked by the weather. The damage to the government's reputation was incalculable, with suggestions that the Kremlin was slow to respond and accusations that fire-fighters had taken bribes to prioritise who they saved first. A few months later journalists who campaigned to protect a forest on the outskirts of Moscow from road developers were savagely beaten.

These examples of egregious incompetence by state actors combined with the capacity to organise targeted campaigns against the authorities laid the stage for what came next. When the job-swap arrangement between Dimitri Medvedev and Vladimir Putin was announced last September it provoked widespread public dismay, which coalesced into accusations of electoral fraud after the December Duma elections and three major demonstrations in Moscow. These protests have been deliberately provocative against the state, but for the first time in a generation they have been met with accommodation by the government.

The protests mark a tipping point in Russian politics in which the trade-off between economic growth and a low level of political freedom and nagging corruption has become too much for metropolitan middle class voters. Russian GDP growth has risen at 6% a year since 2000 and average wages have increased 13-fold during the same period. Although it remains highly dependent on hydrocarbon revenues, it has begun to diversify. But for the protesters this progress no longer justifies - or simply is no longer compatible with - a system in which saving one's house requires a bribe to the fireman. There is a feeling that the problem starts with the attitudes at the very top.

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### **Surkov's job was to manage political competition. His reshuffle tells us something.**

Surprisingly quickly, competition has returned to Russian politics. Fear has been sucked out of the system and restoring it will be very difficult without a violent crackdown, which is inconceivable in the current climate. The first dramatic symptom of this was the ejection of Vladislav Surkov from the Kremlin, who was then reshuffled into a senior job in the government. Surkov, who has spent a decade devising schemes and slogans to define Putin's governing view, was also responsible for managing relationships with the leaders of Russia's other political parties. He has done this so effectively that many of those 'opposition' leaders were regarded as little more than ciphers of the Kremlin.

However, under the consensus managed by figures like Surkov a new group of opposition leaders has emerged. They have cut their political teeth organising local campaigns with simple messages and tangible outcomes focusing on civic projects to improve public services, and highlight the most flagrant excesses of the Russian state. These groups have organised online, below the radar of the authorities who assumed that control of mass media on state TV was a sufficient antidote to the impact of disparate social media.

#### Box 1: key figures in the Russian opposition

##### *Political activists*

**Yevgeniya Chirikova.** Ecological activist. Led the local campaign against the destruction of the Khimki forest in the north-west of Moscow. She succeeded in persuading President Medvedev to intervene to review the plans. She was detained by the authorities upon her return from meeting officials in Brussels after the parliamentary elections.

**Alexei Navalny.** Anti-corruption activist. A blogger who turned his back on Yabloko (Russia's version of Social Democrats) to lead a high-profile campaign to highlight corruption in state-backed corporations. Still a practicing lawyer who spent time at Yale, he has acquired small stakes in companies such as Rosneft and VTB to challenge senior executives on behalf of small shareholders. He is the most charismatic and articulate of the new opposition.

**Mikhail Prokhorov.** Oligarch. A billionaire who flirted with politics in the summer of 2011 before accusing the Kremlin of undermining his position in the pro-business "Right Cause" party. Re-entered the fray as an independent presidential candidate. Will secure media coverage but his billionaire past will turn off most voters.

**Sergei Udaltsov.** Leader of the Left Front movement. A radical socialist who leads a party with the slogan 'Land to the peasants, factories to the workers, power to the council'. He was imprisoned after the first protests after the Duma elections and named by Amnesty International as a prisoner of conscience.

##### *Non-political activists*

**Boris Akunin.** Leading Russian crime writer. A popular author with a following in the West. The fact that he is a Georgian by birth has been highlighted by Putin in an attempt to suggest he is an enemy of Russia.

**Leonid Parfyonov.** Journalist. Prominent in the liberal media and former news anchor. He made real political waves last year when he spoke out at an awards ceremony against the lack of freedom on state TV. He broke a taboo that has encouraged other liberal commentators to be much more vocal against the current regime.

**League of Voters.** A non-aligned collection of intellectuals and celebrities formed to highlight how citizens can protect their voting

rights. Their volunteers monitor polling stations and share information on possible violations.

Their best known leader is Alexey Navalny, a new style of activist and the canniest political figure to emerge in the past decade. His blend of nationalism and respect for the Orthodox Church, the great unseen power in modern Russian politics, plus his eschewing of almost any engagement with the West has won him an audience way beyond his list of Facebook friends. Navalny is a lawyer whose Rospil.info website has showcased corrupt tenders and inappropriate transactions between state-run businesses.

Navalny is not currently affiliated with any party; he has built his following online. In buying small stakes in MICEX-RTS listed companies with a close relationship to the state he has been able to expose corrupt practices and according to his modest team of four lawyers and bloggers save up to 40bn Rubles (\$1.3bn) of public money. In private discussions with international fund managers (who he briefs to secure their votes at AGMs for his campaigns) he draws a direct parallel with the clampdown on Al Capone's criminal empire in Chicago, recognising that while the regime's worst crimes will go unpunished, the low-level criminality is enough to expose the racket. The fact that he still fails to get on mainstream TV says everything about how seriously the Kremlin take him.

### The liberals see their chance

What makes these protest movements different from a previous era of the largely disaffected Moscovite elite is that they have now been joined by political and business leaders who have spent a decade working alongside Putin. Their informal leader is Alexey Kudrin, the former finance minister, who had the good fortune to resign in the aftermath of the Putin and Medvedev job-swap announcement. At recent events in both Davos and Moscow he has been heard asking rhetorically whether it is possible to modernise Russia without more political competition or freedom.

To date he has avoided directly attacking the Prime Minister, but he has been quite happy to take aim at the President and it is assumed that he will move into Medvedev's shoes after Putin's first reshuffle. Putin's First Deputy Prime Minister Igor Shuvalov has taken a similar line, telling a recent event that the protests "were a very positive opportunity for clear voices to focus on positive things, don't be afraid of the conservatives". Alexey Ulykaev, the chairman of the Central Bank of Russia, recently stated that there was a "lack of trust in the political system", which was a result of "incompetent intervention of the state."

For these political leaders, speaking out against Putin would still be a step too far. But they are putting the system which he conceived under strain and, for the first time, they are prepared to put real distance between him and themselves in public. After a decade of seeing their influence in the Kremlin subordinated to former-KGB

hardliners they feel the tables have turned. It is not inconceivable that in time they could view their former mentor as a liability.

This fraying relationship with the Moscow elite and with the liberals in his own party is potentially Putin’s greatest weakness. While he will calculate that he can lose this support and still survive on the support of his base outside the capital this may well be a miscalculation. If Putin “loses” his capital this will send a powerful signal to the rest of the country that his influence is on the wane. The removal of popular Yabloko leader Grigory Yavlinsky from the ballot after irregularities were identified in his nomination papers is a reflection of this. Yabloko remains the most popular choice of metropolitan liberals.

### The comeback kidski?

How this all plays out is difficult to judge. Much will depend on Putin himself. In recent weeks he seems to have abandoned the ill-judged attacks on the protestors, which characterised his initial response in early December. During a New Year hibernation he was said to be virtually uncontactable. This has been followed by a series of rambling newspaper articles, many of which indirectly address the concerns of the protestors but are written in a way which suggests both that he wrote them himself and that he fails to understand the scale of the challenges that he now faces.

	Jan 7	Jan 14	Jan 21	Jan 28	Feb 12
Party "Unified Russia"	40	42	42	42	46
Communist Party	14	15	13	12	11
Liberal Democrat Party	10	11	10	8	9
Just Russia Party	8	7	9	7	8
Don't Know	9	7	9	11	-
Would not vote	14	13	13	15	-

Table 1: Electoral support by party, 2012

Source: WCIOM (2012)

However, before writing Putin off, it is worth remembering that while his support is likely to fall in the first round of the presidential elections in March, a second round run-off against the Communist leader Gennady Zyuganov would almost certainly see him secure the largest electoral mandate in Europe. Putin’s pride will be hurt by a failure to secure 50% of the vote in the first round, or if he performs worse than United Russia did in the Duma elections, but he could actually emerge with a clear - if genuinely contested - mandate. If he continues to poll some distance ahead of United Russia (currently

a gap of 9%) he will inevitably want to scrap the party, as he has in the past, and conceive a new one. This could cause uncertainty and instability.

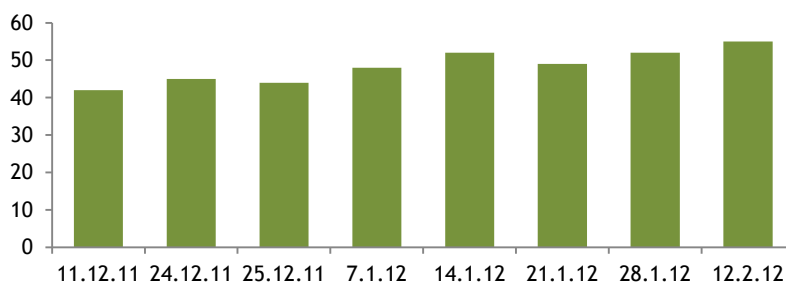


Chart 1: Putin approval ratings 2011-2012

Source: WCIOM (2012)

It is possible that a revived Putin could use such a mandate as a platform for tackling Russia's deep economic reform problems. Were he to do so he would cure the single greatest factor in holding back Russia's growth over the past decade: Russian risk. This disease has inhibited FDI (which is high but could be higher), suppressed value in local Russian equities (which trade at a heavy discount to other emerging market peers) and, crucially, has encouraged a drain in human capital which has seen Russian centres of technological expertise flourish in Israel, Silicon Valley, the UK and Germany.

But Putin has also largely run out of easy options on economic growth. There will be no repeat of the huge oil price rises that underwrote so much of the new prosperity - and state revenues - of the last decade. Nor are there slack industrial resources in the economy waiting to be remobilized as there were at the end of the Yeltsin period. Whether Putin is genuinely ready for a period of far-reaching reform is unclear. As always with him, the temptation to fall back on a familiar insular mix of nationalism and state capitalism will be strong.

Whether Putin is equipped for a contested political future takes us into the realm of psychology; we will have to wait and see. The key thing about the protests is that, unlike the events of the Arab Spring, they are much more likely to usher in evolution than revolution; organic change rather than a destabilising break with the past. Russia remains a difficult place to do business. The protests cannot make it any worse, and they may well have set in train a process that makes it better.

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