



Russian president Vladimir Putin has surprised everyone by appointing the unknown Viktor Zubkov as prime minister – and indicating that he himself is willing to become party leader of United Russia and prime minister in a new cabinet. Everything Putin does he does with one object only: to ensure political stability. For the moment he is succeeding brilliantly.

Putin prepares for calm transition to new presidential era

| *By Hans van Koningsbrugge*

In a recently published interview in *Argumenty i Fakty* Valentina Matviyenko, governor of St. Petersburg and confidant of President Putin hammered home his view that Russia has now regained its self-respect. The average Ivan Ivanic of the 1990s was forced to go through life with an inferiority complex, but that is now a thing of the past. The Russian State, which Matviyenko compared with a large ship that should stick to its course as much as possible, had little need for outside advice and was now heading for a glorious future.

That optimistic viewpoint does however require some qualification. Many Russians

are sick and tired of the widespread corruption, which is also scaring off potential foreign investors. During an election period this theme is of course quickly translated into political action. It should be made clear that the highest office holder has not lost sight of the concerns of the 'ordinary man in the street'. That explains the Kremlin's recent ratification of the European convention on corruption. The head of the Russian Court of Auditors, former premier Stepashin, expects the Duma to pass the convention into law at the end of 2007. That alone will force countless conspicuously well-off officials to explain the sources of their assets if they are

investigated; an obligation that has caused an eight-year delay in the convention's passage through parliament. That gives the Russian Auditor's Office the legal instruments it needs to greatly extend its anti-corruption activities. But it will not be possible for much concrete action to be taken before the spring of 2008, a time at which there is little electoral credit to be gained.

It is also highly notable that Stepashin is already working closely with British anticorruption experts, and agreement has already been reached on British assistance with the auditing of government spending for the 2014 Winter Olympics in Sochi.

The problem with all this was that Stepashin's current activities, however important they might be, are barely reaching the public and if they have an impact it will not be felt until after the parliamentary and presidential elections. In short, the Kremlin needed something mediagenic to publicise its anticorruption efforts. What could be better than the appointment of a new premier who was head of a high profile financial anticorruption authority? It is impossible to ignore the parallel with the Yeltsin period. Just before his resignation, the previous Russian president, whose tendency to juggle prime ministers sooner showed his powerlessness than anything else, appointed a new premier

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who then went on to succeed him. In the same tradition the latest prime minister to be appointed – notably even before his confirmation by the Duma – has made it known that he, too, harbours presidential ambitions should the call come.

The question remains however whether Viktor Zubkov will actually stand for presidential election. He might remain premier under a new president, or wait and see how his popularity develops. Either way: Zubkov's appointment has taken the Russian elite completely by surprise. With the departure of premier Fradkov the road appeared to have been opened for those generally acknowledged as potential successors to Putin: Sergey Ivanov and Dmitry Medvedev. Up until recently it seemed that the most likely candidate was Minister of Defence Ivanov, who has repeatedly accompanied the president during public appearances. But the presidential wizard thought otherwise, thus demonstrating that Putin remains the leading Putinologist and still has a tight grip on the reins.

So who is this Viktor Zubkov? It is notable that virtually no one expected his appointment. Why? Zubkov's age certainly isn't on his side. At 66, he is an older member of Putin's entourage by a large margin. He is a prototypical apparatchik, who is not best known for his light-heartedness. The new prime minister is not a pure silovik, which means he was not a leading figure in the FSB and/or in military circles. That is highly significant in view of the fact that the siloviki, which dominate today's Kremlin, actually comprise three groups. There are those who were there in the heyday of the Soviet Union, those who forged their careers in the wake of Gorbachov, and the younger generation that came to power in Yeltsin's time. Putin's charisma and his economic successes made it possible for him to hold these three groupings together. The choice of Zubkov as an outsider does not pose any threat whatsoever to the existing Kremlin factions, which leaves the balance in the prevailing elite intact. At the same time the new premier has close contacts with the military-industrial complex through the marriage of his daughter Yuliya to Anatoly Serdyukov, who was defence minister when Zubkov gained the premiership and stepped down in view of his father-in-law's new position. In 1992-1993 Zubkov was a member of the Committee for International Relations of the city of St. Petersburg, where he acted as Putin's deputy. Despite that formal hierarchical situation Zubkov was sooner master than pupil in the relationship. It is telling that Zubkov was on first-name terms with Putin, whereas Putin called him 'Mister', so to speak. With this appointment the current president fell back on the circle of acquaintances from his earliest years in politics. From 2001, first as chairman of the board and later as the director, Zubkov played an active role in the Russian Federal Financial Monitoring Service – Rosfinmonitoring – where he took up the cudgels against money laundering. That gave Zubkov a significant role in the battle conducted by Putin against a number of oligarchs from 2001 onwards. There is no doubt that the new premier demonstrated his loyalty to the Kremlin during that period.

Besides anticorruption, the key point of all this was the desire for political stability. The Russian voter must not be given the impression that potential presidential successors are at each other's throats, and certainly not before the Duma elections due in December 2007. The aim of this is to ensure that the party of Putin's choice, United Russia, gains a large – and together with the other Kremlin party Fair Russia – preferably two-thirds majority in the Russian parliament. That would give the next president the power he needed to actually govern. A repeat of the trauma of the years 1991-1993, when the president and parliament held each other in a political stranglehold, must be avoided at all costs. That will only be possible if United Russia can profit from the popularity of the current president. It is not for nothing that this is the only movement permitted to use photographs of the president for electoral purposes. No political errors that could damage the presidential image must be made. At the same time the current president is demonstrating that he is no lame duck. Putin's move also makes it possible for him to regain presidential office in 2012 should he so desire. Given his age it is unlikely that Zubkov will serve a second term if he wishes to stand for the presidential elections; a situation that would have been different if a prominent silovik, such as Sergey Ivanov, had been appointed. Other than that, the very same Ivanov was generous with his compliments for the new premier. In an interview he cited a Russian saying in which he described Zubkov as a diligent worker who makes little noise but has a very capable pair of hands. Ivanov is thus showing the unity Putin so dearly wants to see. The current president's subtle political game is thus combining three objectives: anticorruption, stability and the possibility of a return to the political stage after 2012.

Caretaker |

In the meantime Zubkov has quickly made it clear that he is not to be trifled with. During his first cabinet meeting the new premier let fly at his new colleagues in full view of Russian television. Vice-premier

Naryshkin took full blast because his subordinate – referred to in Soviet terms as comrade – Drozdov had been slow in releasing federal funding for the victims of an earthquake in Sakhalin. Zubkov thus demonstrated before the cameras that the regions, too, can count on his attention. That is not unimportant viewed in the context of Russia's historical tradition in which the Kremlin must always seek a balance between the centre and the periphery. Either way, it is clear from opinion polls that Zubkov's star is sharply in the ascendant. Before his appointment he was known by only 12% of Russians, but that has now risen to about half of all respondents. Of course, that has nothing to do with Zubkov's capacities, but everything to do with the confidence placed in him by the sitting president. Zubkov might only have a derived identity for now; but it is an identity that can gain in strength either as president or as premier. The question that now remains is whether Zubkov is in fact the 'caretaker' he is described as in the international media. Whether or not that appellation is justified, there is no doubt that the new premier will have a fundamental role to play in what Vladimir Putin regards as being crucial: a stable transition from the one presidential era to the next.

But what does all this mean to Russian political culture and the Russian economy? In that context there is another important reason for Zubkov's

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appointment. When Fradkov took office a major restructuring of the Russian governmental apparatus was announced. Various ministries were merged and/or

restructured, and the number of vice-first ministers was drastically cut back. But it is clear that these measures have not essentially altered the Russian system of government. There will now be a rotation of people at the top, but the offices will stay in the hands of a small group of people who are closely associated with the



Photo: Vladimir Rodionov/Corbis.

current president. It is also safe to assume that president Putin will continue to exert considerable influence, also following the end of his period of office. This is in fact the de facto change to the Russian constitution, in which power centres on the incumbent head of state. The question is whether the unity in the governing elite will be retained, and for how long? The leader's popularity forms the key to the stability of the system. Putin can rest assured that the electorate will follow his choice. Power can be transferred, but popularity cannot. That presents a clear

threat to the current political system. The actual significance of the Putin episode – and which is also electorally interesting – is the Russia economic recovery. Compared to the latter years under Yeltsin, when there was a danger of Russia descending to the status of a third-world country, the current

Russian economic development is phenomenal. Putin had already decided before becoming president that it would only be possible to achieve sustainable economic growth by making optimum use of Russia's potential for mineral resources. In 1999, drawing on material he had analysed for the dissertation he completed in 1997, the future president called for the creation of 'national champions', vertically-integrated financial-industrial groupings, which would control the entire process from production to sale. Those national champions would however have to be state controlled. And that is precisely what has taken place in the oil and gas sector. Gazprom, in which the Russian state has held a majority interest since 2005, has developed into the world's biggest gas company. A single figure will suffice to illustrate the huge scale of this company: the investment plan for 30 billion dollars is scheduled for 2007. This clearly has everything to do with the drastic rise in income from gas and oil exports. It has given the Russian government

the opportunity to create a stability fund, which at the end of 2006 totalled 89 billion dollars. The purpose of the fund is to prevent a sudden depreciation in the rouble, something that happened in the summer of 1998 and which ruined the burgeoning Russian middle class. Large groups in Russian society have greatly benefited from all of this. Average monthly income has risen since the depths of 62 dollars a month in 1999 to 408 dollars in 2006. An increase to 533 dollars has been forecast for 2007, or put differently: the Russian Von Münchhausen has succeeded

in pulling himself out of the swamp by his own hair.

Oil price |

This Russian economic recovery will have to continue if the current political system is to remain in place. Here, too, stability is the key word. With a growth percentage of 8% the Russian economy grew faster in the first half of this year than expected. Oil prices of 70 dollars and higher make a long-term growth scenario likely. The driving force behind this economic growth – as well as high prices for mineral energy carriers – is private consumption. That is being facilitated by sharply rising – 11% in the period from January to June 2007 – actual salaries. However, at the same time imports are growing faster than exports. That is because oil production has risen by only 3% and gas production not at all. Despite that, Russian currency reserves have increased spectacularly. At the end of August they totalled 416 billion dollars, a 60% increase on the previous year. The biggest threat faced by the Russian economy is a drastic fall in the oil price. But even that could easily be absorbed by the stability fund. There are a number of threats in the long term. The first is the strong dependence on oil and gas income. Large-scale investments will be needed to maintain gas extraction at its current level. The dominance of the gas and oil sector will not pose a problem as long as it is temporary, but it will be necessary to work towards a broad knowledge economy. The economy will have to diversify in the future, and that will have to be accompanied by a drastic improvement in the infrastructure. Another threat is formed by the demographic development: the Russian population is decreasing by about 800,000 to 1,000,000 a year, which means that by 2020 Russia is likely to have 5 million fewer citizens than now. If that trend continues Russia will have a population under the 100 million mark by around 2050. That is a disaster scenario for the Russian government. President Putin has responded by calling on ethnic Russians outside of the Russian federation to migrate to the motherland, and child benefit has been raised from the

equivalent of 28 to 60 dollars a month. Where will Zubkov's priorities lie? Combating corruption and tax fraud will be the obvious themes, and not for electoral reasons alone. Russia will continue to need foreign investment in the future. But the Russian image regarding corruption will have to substantially improve. That also has implications for the Russian business sector. It will be necessary to watch out for the world's biggest mining companies and business people and politicians in Siberia who are starting to regard oligarchs as co-investors and friends. This also fits with another trend. In recent years the Kremlin – in the form of the siloviki – has tightened its grip on the Russian economy by forming new state corporations. That has led to 44% of the oil sector being returned to state control since 2001. But much of this has taken place behind the scenes. The dismantling of the Yukos Empire has drawn plenty of international attention. The main beneficiary of this was Rosneft, now Russia's biggest oil company with a market capitalisation of 78 billion dollars. This company is headed by Igor Sechin, the president's vice-chief of staff and a prominent silovik.

The renationalisation process is continuing. The most recent controversy concerned the former head of Rusneft, Mikhail Gutseriyev. He has fled Russia, and the assets of his company, the 7th Russian oil producer, have been frozen. Put differently it can generally be said that the political influence of the top business people, compared with the siloviki, is limited. The next step – which Zubkov is bound to take – is the creation of state-dominated mega-companies in the key sectors of the economy. A case in point is the United Aviation Corporation, which was set up by the Kremlin in May 2007 and which unites both civil and military aircraft manufacturers such as Sukhoi, Tupolev and Mig. Viewed in that light it is understandable that Zubkov used his maiden speech for the Duma to announce the expansion of the defence industry and the strengthening of the armed forces as priorities. Another area where

centralisation of that nature is planned is the banking sector. Given his previous work experience it will come as no surprise that Zubkov will be making his presence felt in that area.

Regarding energy, the Kremlin leadership is convinced that Europeans should be less concerned about the reliability of Russian gas supplies. In this context the Russians always point to the continuous supplies at the time of the Cold War. Where Western Europe is interested in reliable supplies,

The next step is the creation of state-controlled mega companies

Russia wants stable sales markets. The recent EU policy of not allowing state-owned companies of 'risk countries' such as Russia and Saudi Arabia to acquire a controlling interest in network-related EU companies is at odds with the wishes of Gazprom. The actions of Brussels are casting uncertainty on the fate of Western European Gazprom investments. The sensitivity of this subject is underlined by Moscow's prickly response to the Brussels plans, which holds out the prospect of countermeasures. Konstantin Kosayev, head of the permanent committee for foreign affairs of the Russian parliament was quick to fire a warning shot: 'Just as they want to stop us from playing an active role in market sectors in the West European economy, we will have to limit the access of our foreign partners to the correspondingly strategic sectors of the Russian economy.' That presents plenty of subjects for diplomatic discussion in which Zubkov will have to find his way.

All in all, Russia is not facing a period of major instability. The Kremlin in general and the incumbent president in particular are keeping a tight grip on the reins. The president's popularity will ensure a calm transition to a new presidential era. ■