Now Comes the Tough Part in Russia

By STEPHEN KOTKIN

DMITRI A. MEDVEDEV will be anointed president of Russia today thanks to the political handiwork of VLADIMIR V. PUTIN. But maybe the real winner is economic globalization.

From December 1999 to the end of 2007, a period overlapping the presidency of Mr. Putin, the value of Russia’s stock market increased from $60 billion to more than $1 trillion. When John F. Welch Jr. ran General Electric, from 1981 to 2001, the value of the company’s stock rose from around $14 billion to more than $400 billion.

Fortune magazine named Mr. Welch “manager of the century” in 1999. No one is suggesting that Fortune give Mr. Putin the same title — except, perhaps, all those Russians who have consistently backed his strong-arm policies.

Most Russians do not love Mr. Putin per se, but they love Mr. Putin’s Russia. They love being middle class. They love planning for the future. It is no comfort to the politically persecuted, but average wages in Russia are leaping 10 percent a year, in real terms.

The growing millions of Russian homeowners, vacationers and investors may seem inclined to authoritarianism or just apolitical. But they certainly value a strong ruble, moderate inflation, affordable mortgages, access to higher education, satellite television, Internet connections, passports, foreign visas and — above all else — no economic shocks.

If Mr. Medvedev, 42, a former legal counsel at a Russian pulp conglomerate, can continue all that, and occasionally make a show of standing up to the West, he’ll be a hero, too. Still, a gigantic question mark hangs over this succession — and not solely because Mr. Putin may stick around in an ambiguous capacity.

Russia stands at a crossroads bigger than the one it faced in 1998, when it drastically devalued the ruble and defaulted on its debt. That searing debacle turned out to be the prelude to a spectacular resurgence, built in part on newfound fiscal restraint and the boom in the price of oil and other natural resources. But it also was built on a relentless, China-driven rise in overall global demand that, with the cheaper ruble, helped indirectly call back from the dead Russia’s vast unused capacity inherited from the Soviet era.

So after nearly 10 years of robust growth, the Kremlin faces a quandary. Expectations have been raised, and now many Russians, though wary of upsetting social stability, want not just high growth, but also a new modernization driven by innovation and broader entrepreneurialism. They want their whole country
to reach a Western European standard of living — a standard that, historically, very few countries outside the region have attained.

THAT Mr. Putin’s Russia should be seen not as a failed democracy but as a triumphant market economy with a “very rough, brutal, and cheerful capitalism” is the argument of “Getting Russia Right” (Carnegie Endowment, $19.95), a short, handy book by Dmitri V. Trenin. (It is also the position argued publicly by this reviewer for more than a decade.)

“There is,” adds Mr. Trenin, a Russian analyst in Moscow, “a Russia beyond Putin’s.” True enough, though Mr. Trenin does not detail that Russia. Almost no one does. Russia’s dynamism is spurred not only by greedy cronies at all levels operating in an unaccountable political system, but also by an explosion of consumers.

Mr. Trenin advises American policy makers to drop what he sees as their attempt to form a “Democratic International,” which he defines as a mirror image of the old Communist International, or Comintern, but which seeks to unite all the world’s democracies. Instead, he advises banking on a new global capitalist club, which includes Kazakhstan and China as well as Russia.

How in the world did it happen that Russia, still a country grappling with problems like relatively low life expectancies and alcoholism, is also, for the first time in its history, a land of widespread property ownership and of consumers brimming with confidence and pride?

In “Russia’s Capitalist Revolution” (Peterson Institute, $26.95), Anders Aslund, a Russia analyst (and a former colleague of Mr. Trenin’s), argues that zero credit should go to Russia’s most popular politician, Mr. Putin. On the contrary, Mr. Aslund, who is from Sweden and based in Washington, insists that Russia’s economic breakthrough should be credited to Anatoly B. Chubais, who oversaw the government’s privatization program in the 1990s, when the country lost about 40 percent of its gross domestic product.

It’s a bold thesis.

But Mr. Aslund’s beloved “young reformers” were in government only briefly — by the way, he worked as their consultant — and they seem to be all of three people, one of whom, Mr. Chubais, became an industrial oligarch.

Still, as in his earlier books on the same subject, whose idée fixe is the supposed superiority of hyperfast and hyperradical reform, whatever the circumstances, Mr. Aslund can claim two important achievements.

First, he again demonstrates that it was not the privatizations under Boris N. Yeltsin that set in motion Russia’s egregious insider enrichment. Instead, he shows, it was a process begun under the Soviet president Mikhail S. Gorbachev, and subsequently continued, to grant lobbyists preferential access to commodity export licenses at a time when there was a gap between world prices and very low regulated domestic prices — allowing them to pocket a windfall.

This important corrective is then overshadowed by Mr. Aslund’s repeated assertions that even half-baked
privatization is still wonderful and that Russia’s “was close to ideal.”

Second, and more fundamentally, Mr. Aslund explodes the myth that Russia’s economic growth is reducible to fossil fuel prices. (Ask Nigeria about the economic boom that is supposed to follow from a prolonged oil-price surge.)

Further, he suggests that the so-called oligarchs “do not own that large a share of the economy” (he identifies 30 groups accounting for one-quarter of the G.D.P.) and that they “face severe market competition.” No fan of Russia’s state-owned companies, Mr. Aslund notes that they, too, “are remarkably focused on their stock prices.”

Such realism about Russia’s state-owned companies is refreshing, as are the reminders that a broad private sector continues to dominate Russia’s gross domestic product.

Still, Mr. Aslund’s grinding morality tale pitting the supposed forces of light (Russia’s “young reformers,” as well as the jailed tycoon Mikhail Khodorkovsky) against Mr. Putin, as the prince of darkness, cannot explain the extent or timing of Russia’s boom. Huge factors that can explain it receive inadequate treatment. These include the global economy and the country’s macroeconomic stability.

GLOBALIZATION continues to be the great opportunity for Russia. But it is an opportunity that doesn’t allow for complacency.

Even if oil prices stay high, Mr. Medvedev, with or without Mr. Putin, does not have the luxury of kicking back into a bygone Soviet era when the oil-soaked elite gorged on the spoils as China still faced inward.

At home, the Kremlin may be sovereign and super-controlling, but that doesn’t work globally. Even companies owned by the state are borrowing money abroad and issuing stock on international capital markets, becoming subject to investors and regulators outside Russia. And then there are those really treacherous phenomena, like credit default swap derivatives.

Book after book piles up about Mr. Putin, the Kremlin and the oligarchs, but a definitive book about Russia and globalization awaits an author. It has been more than two years since Jonathan P. Stern published his ponderous but indispensable work “The Future of Russian Gas and Gazprom” (Oxford, $125), which shows that Russia’s gas monster is compelled to take global market considerations into account.

When it comes to China and globalization, new books shoot out the assembly line like those bon-bons in the “I Love Lucy” episode; workers can’t box them fast enough. Though Mr. Putin and Russian elites, no less than their Chinese counterparts, grasp the power of market barometers and fiscal discipline, it is China that American analysts typically offer as an example of world-transforming economic success. Russia is portrayed almost exclusively as an authoritarian menace.

So here’s a trick: A first step toward understanding Russia would be to read the press and academic accounts on China — and then substitute the word “Russia” for “China.” (This works in reverse as well.)
China, which unlike Russia remains under Communist Party monopoly, is certainly no less an authoritarian challenge than Russia is. And, like it or not, Russia, too, is something of a world-transforming economic success.

Expect Kremlin foreign policy to become even more focused on easing the acquisition of prime assets abroad, whether for Russia’s private companies or its state-owned ones. The Russian government itself, which accumulated more than $150 billion in a stabilization fund, will be getting into the game with the newly created Reserve Fund and National Prosperity Fund.

Did advocates for free trade and global integration foresee that states would end up controlling so much global wealth, especially states ruled by strongmen and sheiks? Sovereign wealth funds, the highest stage of capitalism, as Lenin might have said.

Mr. Aslund asserts that “Russia is simply too wealthy, educated, open and economically pluralist to be so authoritarian.” He refers vaguely to a possible new revolution. Mr. Trenin hopes that Russian oligarchs will want to permanently institutionalize their property rights, so that “the greed of the powerful few could eventually pave the way for the rule of law.” Fat-cat chance.

Today’s awkward two-leader situation in Russia is not without precedent: think back 40 years to the era of Leonid I. Brezhnev, leader of the Soviet Communist Party, and Aleksei N. Kosygin, the prime minister. But that tandem failed to adapt to a changing world. By contrast, the historic reputation of their Chinese contemporary, Deng Xiaoping, who achieved market transformation and global integration under centralized authoritarian rule, is likely to endure.

Mr. Putin, using a similar centralizing, marketizing, globalizing playbook, has helped put Russia in a position to win big. But if Mr. Medvedev — with or without Mr. Putin’s guidance — fails to capitalize by taking the difficult next reform steps, the two Russian presidents will fade from history.

Mr. Medvedev’s first presidential term, just like Mr. Putin’s, will furnish a window for important, long-stalled reform measures to sustain Russia’s rise. He’ll need to cut some taxes and red tape and shore up the legal system. Someone will also have to ride herd over Russia’s warring business clans, which are trying to devour one another and everything else in their paths. (Mr. Medvedev’s mushrooming entourage has even been eyeing choice properties coveted by Mr. Putin’s people.)

A bit of economic liberalization, and some brazen asset redistribution or consolidation: that’s Putinism, and a picture of continuity.

But if Russia is to make the transition to a more innovative, entrepreneurial economy, as Mr. Medvedev has stated, it must make other farsighted, complex investments in Russia’s human capital: education, health care, better conditions for private enterprise. It also requires a promised $1 trillion in new infrastructure investments — something that could lead to colossal waste and that even a well-governed country would be hard-pressed to get right.

What Mr. Medvedev’s Russia needs above all, but what Russia has never had, is the one thing that
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distinguishes all the most highly productive and innovation-driven countries: good governance.