

A close-up, high-contrast portrait of Vladimir Putin, looking slightly to the left. The lighting is dramatic, with one side of his face in shadow. He is wearing a dark suit, a white shirt, and a striped tie.

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Enigma variations

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Russia is not the Soviet Union, but what is it? A recovering world power—or a corrupt oligopoly with a market economy of sorts? Arkady Ostrovsky explains why it is both

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ON DECEMBER 25th 1991 the Soviet flag above the Kremlin was lowered for the last time and the last president of the Soviet Union, Mikhail Gorbachev, made his resignation speech. “The totalitarian system has been eliminated...free elections...free press, freedom of worship, representative legislatures and a multi-party system have all become reality.”

A few hours later, America's then president, George Bush senior, declared victory in the cold war. “For over 40 years the United States led the West in the struggle against communism and the threat it posed to our most precious values...That confrontation is now over. The United States recognises and welcomes the emergence of a free, independent and democratic Russia.”

The collapse of the Soviet empire was inevitable, rapid and largely bloodless. In its aftermath the world watched, with a mixture of hope and despair, the emergence of a new country that turned out a lot less free and democratic than advertised. Confrontation with America did not disappear but took on a new meaning.

In early August this year the Russian army, for the first time since the Soviet col-

lapse, crossed an internationally recognised border and fought a short, victorious war: with Georgia. Russia's leaders said they were defending two breakaway territories, Abkhazia and South Ossetia, from Georgia's aggression. But at home they also hinted that this was a proxy war with America which had tried to muscle its way into what Russia calls “the region of privileged interest”. It was a defining moment for Vladimir Putin, Russia's president until the election in March this year of Dmitry Medvedev and still the man who, from his new job as prime minister, holds the reins of power.

To many, the conflict brought back memories of the cold war and portrayed Russia as a Soviet Union mark two, trying to regain its former territories. All the signs appear to be in place: Russia is ruled by former KGB men like Mr Putin who see enemies everywhere; its political opposition is crushed; independent journalists occasionally get killed; and the state media pump out anti-American propaganda. Once again military parades are being held in Red Square. And in his belligerent state-of-the-nation address on November 5th Mr Medvedev threatened to station short- ▶▶

▶ range missiles in the Kaliningrad region, aiming them at Europe, unless America backed off from its plan to put a missile-defence system into eastern Europe.

But the parallels with the cold war are misleading. Russia is not the Soviet Union. It does not have a communist (or any other) ideology, nor does it have much faith in central planning. It has private businesses, a free market of sorts and a great taste for consumption. Russian firms are listed on foreign stock exchanges. Their managers fly business class to factories in the Urals, read financial newspapers and labour over spreadsheets on their laptops.

Members of the country's elite have many personal ties with the West: they own property in London, send their children to British and American universities and hold foreign bank accounts. But none of this stops the Kremlin from being anti-American and autocratic.

So far the state has not interfered in people's personal lives. It gives them freedom to make money, consume, travel abroad, drive foreign cars and listen to any music they like. They are even free to criticise the Kremlin on radio, in print and on the internet, though not on television. And although Russia's elections are stage-managed, the support for Mr Putin is genuine. During the war in Georgia it hit almost 90% in opinion polls. The biased television coverage plays its part, but unlike Soviet propagandists, who told people what to think, Russian propagandists tell people what they want to hear, says Georgy Satarov, who used to be an aide to a former president, Boris Yeltsin, and now runs INDEM, a think-tank. What people want to hear, especially as they are getting richer, is that their country is "rising from its knees", sticking its flag in the Arctic Circle, winning football games and chasing the Americans out of Georgia.



Mr Putin has positioned himself as the symbol of a resurgent nation recovering from years of humiliation and weakness. In fact, few Russians in the 1990s brooded on such feelings; most were too busy getting on with their lives. But there was one group that had good reason to be aggrieved: members of the former KGB. When Mr Putin came to power in 2000, they projected their views onto the whole country. America's hawkishness towards Russia made their job easier.

Mr Putin also accurately sensed and cleverly exploited nostalgia for Soviet cultural symbols. One of the first decrees of his presidency in 2000 was to restore the Soviet national anthem. Soviet icons were revived not because of their connection with communism but as symbols of stability, continuity and power. A TV show, "The Name of Russia", based on a British programme, "100 Great Britons", lists Joseph Stalin as one of the country's five all-time greats. Most Russians associate him not with repression and terror but with the power and respect which their country once commanded.

"Our foreign policy is clear. It is a policy of preserving peace and strengthening trade relations with all countries... Those who want peace and seek a business relationship with us will always find our support. And those who try to attack our country will be dealt a deadly blow, to deter them from sticking their snouts into our Soviet backyard." Stalin made this speech in 1934, reflecting on a recent world economic crisis which, as he explained, "spread to credits and liquidity, turning upside down financial and credit relationships between countries... Amidst this storm... the Soviet Union stands separate-

ly, like a rock."

Similarly, in reaction to the current economic turmoil, Mr Putin declared the Russian economy to be a "safe haven" for foreign capital. On the other hand, "the trust in America as the leader of the free world and free economy is blown for ever."

A love-hate relationship

The paradox of Russia's nationalism is that its patriotic zeal closely follows the American model. One of the biggest pop hits in Russia a few years ago was a song called "I Was Made in the USSR", first performed in 2005 in the Kremlin, in front of Mr Putin. "Ukraine and Crimea, Belarus and Moldova—it is my country... Kazakhstan and the Caucasus as well as the Baltics—it is my country... I was born in the Soviet Union; made in the USSR," its lyrics go. As the audience rose to applaud, it was perhaps unaware that the tune was the same as Bruce Springsteen's "Born in the USA".

Konstantin Ernst, the boss of Russia's main TV channel, which churns out nationalistic, anti-American propaganda, worshipped Francis Ford Coppola, an American film-maker. These days he produces American-style blockbusters on a Russian theme and sells distribution rights in Hollywood.

The loudest anti-Americans in Russia are not the unreformed communists but the well-dressed, English-speaking speechwriters from the *perestroika* era. The Kremlin's confrontation with the West is based not on differences of ideology or economic systems but on the conviction that Russia is no different from America and that the West's values are no stronger or better than Russia's. Any public criticism by Western leaders of Russia's behaviour is therefore ▶▶



▶ seen as deeply hypocritical.

America looms much larger in Russia's mind than Russia ever did in America's. To compete with America, Mr Medvedev even scheduled his recent state-of-the-nation address to coincide with the American election. Russia wants to be like America and follows in its footsteps. Unfortunately, says one American former official, "they followed our mistakes and not our system of governance."

Russia's war in Georgia and its unilateral recognition of South Ossetia and Abkhazia copied the West's recognition of Kosovo in the Balkans, even though only a few months earlier Mr Putin had said that unilateral recognition of Kosovo was "immoral and illegitimate". Conversations with Russian officials often end with the plaintive question: "What have we done that you haven't done?"

Igor Shuvalov, the first deputy prime minister and Mr Putin's right-hand man, was in London (where his son studies) when Georgia erupted. The war showed that Russia and the West are now cemented together, he argues. "It showed that all our values are exactly the same. Russia is a civilised country, we all want to live well, like ordinary Americans, we want to protect ourselves from external threats like you do...Perhaps we do not have such a sophisticated democratic infrastructure, but in essence American presidential elections are no different from ours."

The confrontation between Russia and the West is not about different values, he says, but about different interests, financial and geopolitical. "Friends are only friends

until you start splitting the money. These [Western] countries need to have access to oil and gas, and to get it they are prepared to use any means, including accusations that Russia has a different system of values. All...Russia is doing is defending its interests. We want to live peacefully, but the West cannot tolerate the idea that we are an equal partner, that we are the same. Now there is no more time for niceties."

Yet although the Russian elite has adopted a Western lifestyle, it rejects key principles of Western governance. Lilia Shevtsova of the Carnegie Moscow Centre, a think-tank, argues that "hostility towards America and the West sustains the authoritarian and corrupt rule of the rent-seeking elite which portrays its narrow corporate interests as the interests of the nation." In Georgia, Russia was defending not so much the separatists but its own ruling class and its value system. By imitating and repelling America at the same time, Russia tries to ward off a hostile value system that includes democracy and the rule of law. The Kremlin sees its relationship with the West as a zero-sum game: if it re-surges, America will decline.

A long way to go

A few years ago Mr Putin said Russia's national idea was to be competitive. The Kremlin asserts that Russia has regained its status of "a mighty economic power". Its goal is to achieve economic and social development which befits "a leading world power of the 21st century" by 2020.

This special report will draw attention to the many things that stand in its way.

The country is beset by chronic and dangerous weaknesses. Its economy depends on natural resources and cheap credit, and its private business, which pulled the country out of the 1998 crisis, is constantly being harassed by the state. Corruption is so pervasive that it has become the rule. Russia's population is shrinking by 700,000 a year. And its neocolonial methods of governance in the north Caucasus have created a tinderbox.

The gap between rich and poor is growing. Moscow's exclusive outskirts look like American suburban shopping malls writ large, yet villages not far away lie abandoned. The rich and powerful are steeped in luxury, yet the average Russian earns a mere \$700 a month. Russia is building pipelines to Europe but much of its own country has no gas or even plumbing. Russia's "great leaps forward" have rarely benefited its own people, who have traditionally been seen as a resource. Most Russians grumble about their lives, but see "international prestige" as a consolation prize.

Russia has the potential to develop into a strong and prosperous nation, but the Kremlin's nationalism, hostility towards the West and authoritarianism make the task more difficult. A two-minute video made by a Russian soldier captured in Georgia (now on YouTube) illustrates the point. As they smash up neat Georgian barracks, the Russians curse their own poverty and hail their victory in the same breath. "They [the Georgians] had everything," one Russian soldier says. "They had nice barracks, good furniture, and we live like tramps. But they got screwed." ■

The long arm of the state

The financial crisis may lead to renationalisation by stealth

EVEN to someone who has never been to Yekaterinburg, a large industrial city in the Urals, the changes are obvious. Shiny towers of metal and glass have shot up everywhere without order or design, pushing aside historic buildings and making the Soviet-era apartment blocks look even grimmer. At night cranes are lit up like Christmas trees. At eight in the morning heavy traffic, mostly of foreign-made cars, chokes streets that still bear Soviet names. The city's ultra-modern airport makes Moscow's look shabby.

Yekaterinburg, traditionally the centre

of the mining and metal-bashing industry, is a microcosm of Russia's economy. Until recently it has been flush with money, mostly from natural resources and cheap credit, spent in sprawling supermarkets, restaurants and car dealerships. Oil, gas and metals make up around 80% of Russia's exports, and until recently their prices were rising fast. For the past five years the economy has been growing at about 7% a year. Measured in dollars the rise has been much faster. Some of this money has been stashed away into a stabilisation fund, but a large portion has been fuelling an un-

precedented consumer boom. Real incomes have more than doubled since 1999 and the growth in retailing has averaged 12% a year.

In a country so long starved of good restaurants, hotels and shops, it was natural that consumers should take a lead role, says Andrei Illarionov, a former economic adviser to Vladimir Putin and now one of his fiercest critics. Besides, there is so much uncertainty around that most people would rather spend than save.

But there has been plenty of capital investment too, though mostly in extractive ▶▶



All quiet now in Yekaterinburg

► industries. Fixed investment last year rose by a record 21% on the year before, although it remains relatively low.

Private initiative, freed up by the market reforms of the 1990s, became the main force behind Russia's economic recovery after the 1998 crisis. Growth was particularly strong in sectors that were not weighed down by any Soviet legacy, such as mobile telecoms. But private ownership was also transforming Soviet-era behemoths.

Proud to be private

One example is Uralelektromed, a large copper producer in the Urals, which is partly owned by Andrei Kozitsyn. In the past five years the company's revenues have tripled. It has used the money to install a new production line, along with the latest American equipment. To add value, it has begun to produce high-quality wire, which it exports to Europe. "We had to be competitive, otherwise we were meaningless," says Mr Kozitsyn. Having started as a worker in the factory, he rose to the top because he wanted to be in business. But these days, he says, young people prefer bureaucratic careers.

Tax revenues from his industry provide about 40% of the Ural region's budget. But the government has used the money to pay higher salaries to its employees, recruit more of them and renovate offices rather than build new roads and railway lines, which companies like Uralelektromed badly need.

Crucially, the government failed to use the good times to diversify the economy, clean up its banking system, reform capital markets, strengthen property rights and establish the rule of law. As long as the oil price was going up, nothing that Russia did—from the overt expropriation of Yukos, a giant Russian oil company, to forcing foreign oil companies out of production-sharing agreements—seemed to stop the flow of money into the Russian stockmarket. The job of raising capital was outsourced to foreign banks and capital mar-

kets. They lent money to state companies such as Gazprom and Rosneft whose debts were implicitly backed by the government.

This uncontrolled corporate borrowing undid the government's success at repaying state debt, building up foreign-exchange reserves and setting up a stabilisation fund in which to accumulate some of the oil revenues. At the end of June Russia's total external debt was \$527 billion. Its total reserves in November were \$475 billion.

Mr Putin boasted that the net inflow of capital had reached \$80 billion last year and total foreign investment had risen to 9% of Russia's GDP. But only a quarter of this was foreign direct investment; the rest came in the form of loans and portfolio investments. As Kirill Rogov of the Institute of Economy in Transition, a think-tank, explains, this reflected the strength of Russia's reserves and the weakness of its investment climate. Whereas other emerging economies were fighting tooth and nail for direct investment, Russia was borrowing cheaply instead, he says.

When the world economy started to wobble, the government increased its spending by 40% to boost consumption, says Evgeny Gavrilin, chief economist at Troika Dialog, an investment bank. With demand outpacing supply, the Russian economy started to overheat. Inflation

topped 15% during the summer. Held back by red tape, the strong rouble and weak property rights, Russian industrial production grew by 5.4% in the first nine months of this year and imports in the same period shot up by 42%. Yekaterinburg is full of department stores, but hardly anything that is sold in them is produced around there. What is made locally is tanks, exports of which did go up last year.

Even as the Russian stockmarket went into a nosedive, Mr Putin insisted that Russia had escaped the financial crisis. On September 13th, in an interview with France's *Le Figaro*, he gloated: "We did not have a crisis of liquidity; we did not have a mortgage crisis [like America or Europe]. We did not have it, we escaped it."

When the music stopped

But when the oil price started to fall, foreign banks stopped lending and money began to flow out of Russia, it became clear that the economy was more vulnerable and more highly leveraged than many investors had wanted to believe. The cranes in Yekaterinburg, and in many other Russian cities, are now standing idle. Production lines have ground to a halt and metal companies and carmakers have begun to sack workers.

The fall in the stockmarket mattered because Russian firms had borrowed heavily against their shares and faced margin calls from their foreign creditors. Mr Illarionov says this is a "standard" credit and liquidity crisis rather than a budget crisis. Compared with many other countries Russia still has plenty of cash, even if its reserves are dwindling at a worrying rate. Leaving aside the recent spending spree, the country's overall macroeconomic policy has been sensible. For the past eight years the government has been running budget and current-account surpluses. If growth were to slow down to 3% next year, as some analysts predict, that would still be more than in most countries.

Igor Shuvalov, the first deputy prime minister, puts a brave face on it: "High oil prices corrupted us, inflated our expenditure and distorted our economy. If this crisis had not happened now, by 2011 the quality of credit portfolios would have been much worse. So it is a blessing. Now we can start the real project, to develop domestic industry and the financial sector."

In essence Russia's problems are political, not economic. "We have come to this crisis well prepared," says Yegor Gaidar, a former prime minister and architect of Russia's post-Soviet economy. "But now ►►



► we need to stop nationalising companies and cut down on populism. You can make any argument for nationalisation, but when Russia started to nationalise its oil industry production stopped growing.”

Russia may also need to devalue the rouble. The central bank recently allowed it to depreciate slightly against a basket of currencies, but it still intervenes in the market to defend it. Politically a strong rouble has become a proxy for a resurging Russia and devaluing it or letting it float would hurt Mr Putin's reputation.

As Mr Rogov explains, it would do no harm if Russia's highly leveraged oligarchs were to hand over their stakes to foreign creditors, but the Kremlin would not allow this. The risk is that instead of clearing the system and promoting the most efficient firms, the crisis is helping the least efficient. The government is already introducing protectionist measures.

“The crisis itself is less grave than the potential consequences of the government's actions in solving it,” says Andrei Sharonov, a former deputy economics minister who now works in the private sector. The government has earmarked a total of more than \$200 billion for various rescue measures, which as a proportion of GDP is almost three times what the Americans are spending. But in contrast to America, there is little public scrutiny of what the money goes on. The first victims to be rescued by the government were two banks said to be closely linked to senior government officials.

To unblock the banking system, the government deposited \$50 billion in three banks, two of which are state-linked. The third used to be controlled by Gazprom and is now owned mostly by private individuals. The idea was that the banks would inject liquidity into the system, but in the event they did not lend the money on to other banks, so now the government decides whom they should lend to.

Another \$50 billion of the rescue money was earmarked for bailing out “strategic” companies. At the front of the queue were Russia's largest oil and gas companies, including the state-controlled Gazprom and Rosneft. Igor Sechin, the powerful deputy prime minister in charge of energy, seems to have promised \$9 billion of government money to energy companies. Half of it will go to Rosneft, which has a debt of \$20 billion that goes back to its controversial takeover of the Yukos oil company. Mr Sechin is also the chairman of Rosneft and, says Mikhail Khodorkov-sky, the former boss of Yukos (and now in



jail), the man who destroyed his company.

Next came electricity companies, car-makers and anyone else who could think of a good reason to ask for help. As one Russian oligarch observed, a lot of people in the Kremlin would like to take back the companies that were privatised in the 1990s. Back then the oligarchs lent money to the cash-strapped state and got assets at knock-down prices in return. Now it is the companies that are in debt, whereas the state is cash-rich and can buy the assets back cheaply. To make them even cheaper, government officials publicly threaten companies or dig out old charges against them, as Mr Sechin has recently done with one of Russia's largest fertiliser producers.

The crisis has also changed the behaviour of private firms. In the past the market pushed them to improve their governance, but now they are encouraged to look towards the state, says Roland Nash of Renaissance Capital.

Mr Shuvalov admits that some private assets might end up in state hands, but he insists that the government does not intend to keep them. The question is how, and to whom, these assets will be sold. Nationalising businesses is risky in any country, but in Russia, with its weak institutions and powerful Kremlin clans, it is almost certain to lead to a redistribution of property to the ruling elite, mainly past and present members of the security services, collectively known as *siloviki*, or hard men.

Neither one thing nor the other

The new entities that could emerge from the crisis may be neither state nor private, says Mr Rogov, but the worst of both worlds: opaque, quasi-state firms run by people affiliated with the Kremlin. One model for this form of ownership is a privately controlled subsidiary of a state-controlled company. Another is something

called a “state corporation”.

One example is Russian Technologies, run by Sergei Chemezov, a former KGB officer and a friend of Mr Putin's from the 1980s when the two served together in East Germany. Until last year Mr Chemezov was in charge of a state arms-trading monopoly, which did not stop him from taking over a successful private titanium business and a car factory. This year his empire, now under the umbrella of Russian Technologies, has grown even further. State corporations' assets, Mr Chemezov once said, “are neither state nor private”; they are “state commerce”.

He has successfully lobbied for the inclusion in Russian Technologies of some 420 mostly state-controlled companies, some of which—such as airlines or property—seem to have little to do with the corporation's declared aim of promoting technology. Alexei Kudrin, Russia's finance minister, noted that giving Russian Technologies all these assets would amount to “a covert privatisation and the loss of control over how the proceeds are spent”. But his words fell on deaf ears.

Another state corporation is based on Vneshekonombank (VEB), which is meant to be bailing out Russian firms that need to refinance their foreign debt. The committee that decides on the bail-outs is chaired by Mr Putin himself. VEB has recently lent \$4.5 billion, well above its supposed limit, to Rusal, a company controlled by Oleg Deripaska, a Russian aluminium tycoon, so he could repay a foreign loan backed by 25% of Norilsk Nickel, the world's largest nickel producer. In return VEB will include government officials in the company's management and board. But even before the crisis Norilsk Nickel's controlling shareholder, Vladimir Potanin, one of the most politically savvy oligarchs, had put a former KGB officer in charge of the company—to be on the safe side.

The projection of KGB power in Russia's politics and economy has been a guiding principle of Mr Putin's period in office. In the past the *siloviki* often had to rely on tax inspectors or the Federal Security Service (FSB) to get hold of assets. Now the crisis is creating new opportunities for what Mr Illarionov calls the “KGB-isation of the economy”. The result, he explains, could be a new, highly monopolistic system, based on a peculiar state-private partnership in which the profits are privatised by Kremlin friends and debts are nationalised. This will not take Russia back to a state-run economy, but it is likely to shift it further towards a corporatist state. ■

Grease my palm

Bribery and corruption have become endemic

RUSSIA may not have democratic elections or the rule of law, but it does have one long-standing institution that works: corruption. This has penetrated the political, economic, judicial and social systems so thoroughly that it has ceased to be a deviation from the norm and become the norm itself. A corruption index compiled by Transparency International gives Russia 2.1 points out of ten, its worst performance for eight years and on a par with Kenya and Bangladesh. Ordinary Russians are well aware of this, with three-quarters of them describing the level of corruption in their country as “high” or “very high”.

The size of the corruption market is estimated to be close to \$300 billion, equivalent to 20% of Russia's GDP. INDEM, a think-tank that monitors and analyses corruption, says 80% of all Russian businesses pay bribes. In the past eight years the size of the average business bribe has gone up from \$10,000 to \$130,000, which is enough to buy a small flat in Moscow.

A businessman who was stopped by the traffic police in Moscow recently was shown a piece of paper with “30,000 roubles” written on it. He refused to pay and asked the policeman why he was being asked so much for a minor offence. “The answer was that the policeman had bought a flat for his mother in Bulgaria and he now needed money to do it up,” the businessmen said. Far from being a taboo subject, corruption is discussed openly by politicians, people and even the media—but it makes no difference.

Corruption has become so endemic that it is perceived as normal. Opinion polls show that the majority of Russians, particularly the young, do not consider bribery a crime. The Russian language distinguishes between “offering a reward” to a bureaucrat for making life easier for you, and the brazen (and sometimes violent) extraction of a bribe by a bureaucrat.

Small and medium-sized businesses suffer the most. Dmitry Golovin, who owns a tool-leasing company in Yekaterinburg, explains: “You go to the local administration to get permission for something and they send you to a private firm that will sort out the paperwork for you, which happens to be owned by their relatives.”

The reason for the persistent corruption is not that the Russian people are genetically programmed to pay bribes, but that the state still sees them as its vassals rather than its masters. The job of Russian law enforcers is to protect the interests of the state, personified by their particular boss, against the people. This psychology is particularly developed among former (and not so former) KGB members who have gained huge political and economic power in the country since Mr Putin came to office. Indeed, the top ranks in the Federal Security Service (ФСБ) describe themselves as the country's new nobility—a class of people personally loyal to the monarch and entitled to an estate with people to serve them. As Russia's former prosecutor-general, who is now the Kremlin's representative in the north Caucasus, said in front of Mr Putin: “We are the people of the sovereign.” Thus they do not see a redistribution of property from private hands into their own as theft but as their right.

The precedent was set by the destruction of the Yukos oil company in 2003-04. Mr Khodorkovsky, its then owner, was arrested at gunpoint in Siberia and after a

sham trial sent to jail where he has spent the past five years. Yukos was broken into bits and, after an opaque auction, passed to Rosneft, a state oil company chaired by Igor Sechin, the ideologue of the *siloviki*.

Tricks of the trade

Mr Khodorkovsky was accused, among other things, of selling Yukos's oil through offshore trading companies to minimise taxation. So now Rosneft sells the bulk of its oil through a Dutch-registered trading firm, Gunvor, whose ownership structure looks like a Chinese puzzle. The rise in Gunvor's fortunes coincided with the fall of Yukos. A little-known company before 2003, Gunvor has grown into the world's third-largest oil trader, which ships a third of Russia's seaborne oil exports and has estimated revenues of \$70 billion a year.

One of Gunvor's founders is Gennady Timchenko, who sponsored a judo club of which Mr Putin was honorary president and worked in an oil company that was given a large export quota as part of a controversial oil-for-food scheme set up by Mr Putin during his time in St Petersburg. Mr Timchenko says he was not involved in the deal and his success is not built on favours.

The Yukos case changed the logic of corruption. AS INDEM's Mr Satarov explains, before 2003 officials simply took a cut of businesses' profits. After Yukos they started to take the businesses themselves. These days businessmen pay bribes as much to be left alone as to get something done. They call it a “bribe of survival”.

This new form of corruption is changing the structure of the Russian economy. “Yeltsin-era corruption ended in a privatisation auction, even if it was a fake one. The new corruption ends in the nationalisation of business,” says Yulia Latynina, a writer. Nationalisation is not quite the right word, however, because sometimes state property is quietly transferred into private bank accounts. And even where a business is formally controlled by the state, the profits or proceeds from share sales may never reach its coffers.

When Mr Medvedev was chairman of Gazprom, a state-controlled gas giant, one of his first jobs was to oversee the return of assets which had been siphoned off under ►►



What are we going to do about this?

the previous management. But as Boris Nemtsov and Vladimir Milov, two opposition politicians, explain in a recent book, "Putin and Gazprom", in the past few years Gazprom's control over its multi-billion-dollar insurance company and part of its pension funds has passed to a private bank called Rossiya, controlled by Yury Kovalchuk, who is thought to be a friend of Mr Putin's. The bank advertises itself as "Rossiya: the country of opportunities".

A necessary evil?

Both Mr Medvedev and Mr Putin condemn corruption in public. In a recent speech Mr Putin grumbled: "Anywhere you go, you have to go with a bribe: fire inspection, ecologists, gynaecologists—everywhere. What a horror!" Mr Medvedev's first presidential promise was to fight corruption for the Russian public, and recently he thundered: "We have to do something. Enough of waiting! Corruption has become a systemic problem and we have to give it a systemic answer." Soon afterwards he appointed himself head of a new anti-corruption committee.

Mr Satarov says this may be more than just populism. "They feel that the system has become unmanageable. They also need to protect and legalise the wealth



they have accumulated in the previous five years—hence all this talk about building a legal system."

As a former lawyer, Mr Medvedev has started with legislation. A new draft law requires bureaucrats to declare their own and their family's income and assets. But there are a couple of loopholes. First, the information about their income is confidential and available only to other bureaucrats. Second, the family is defined as

spouse and under-age children—but not siblings, parents or grown-up children. "It is as if the government is telling everyone which accounts they should transfer the money into," says Elena Panfilova, head of Transparency International Russia.

The trouble is that corruption in Russia has become a system of management rather than an ailment that can be treated, explains Ms Latynina. Central to this system is the notion of *kompromat*, or compromising material. "It is easier to control someone if you have *kompromat* on them, so that is how a boss often chooses his subordinates," she says.

The only way to fight corruption, explains Ms Panfilova, is through political competition, independent courts, free media and a strong civil society. Those things may not get rid of it, but at least they would establish uncorrupt norms. Yet fighting corruption from within the Kremlin would require the skills of a Baron Münchhausen, who famously escaped from a swamp by pulling himself up by his own hair. As Mr Khodorkovsky said in a recent interview: "The fight against corruption is a fight for democracy." The interview cost Mr Khodorkovsky 12 days in solitary confinement. But the cost to Russia of allowing corruption to flourish is a lot higher. ■

A matter of judgment

Russia's legal system is deeply flawed

DESPITE Mr Putin's promise to establish a "dictatorship of the law", the judiciary in Russia is far from just. At least that is the view of Sergei Pashin, a former judge and now a law professor. He should know: in 2000 he was dismissed after supporting a young man who had political objections to serving in the army. Mr Pashin was later restored to office, but the young man he helped to free died in mysterious circumstances.

The trouble starts with the selection of judges, says Mr Pashin. The process looks reasonable on paper, but it leaves scope for interference. Judges are appointed either directly by the president or on his recommendation by the upper chamber of parliament. But most of them are first screened by a Kremlin commission which includes the deputy heads of the security services and the interior ministry. And al-

though judges are appointed for life, their careers (and perks) are in the hands of the chairman of their particular court, who is appointed for a six-year term, renewable once. To get that second term he has to prove his loyalty, Mr Pashin explains.

The criteria for assessing a court's work are the number of cases it processes and the number of successful appeals against its decisions. To avoid too many appeals, a trial judge often seeks informal advice from a judge in a higher court. Astonishingly, fewer than 1% of criminal cases tried by a judge end in acquittals. But in jury trials, which were introduced in all Russian regions except Chechnya in 2002, the acquittal rate is about 20%.

However, prosecutors quickly found a way round the new system. For a start, most cases coming before a jury involve a confession, often obtained under duress.

Yet when evidence of torture is presented, juries have to leave the room. Second, a jury can be dismissed if it includes someone linked to the police or security services, so prosecutors often plant such people in juries so that the verdict can be overturned if it is inconvenient.

Things are not much better in corporate disputes. Large companies rarely trust in a judge's unprompted decision. In commercial courts a judge often takes a bribe for reaching a speedy conclusion. All this helps to explain why the European Court of Human Rights is overwhelmed with Russian cases, and why large Russian companies seek justice in London. The Yukos case showed that the courts have become part of the Kremlin machinery. The problem, says one Moscow lawyer, is that "the law in Russia is often trumped by money and always by high-level power."

The incredible shrinking people

Russians are dying out, with dire consequences

YOU do not need to travel far to find evidence of Russia's demographic problems. Just 250km west of Moscow, in the Smolensk region, it is glaringly obvious. Turn off the main road in the village of Semlevo and you will see rusting gates and derelict buildings. Continue for a short distance on what just about resembles a road and you will see a new cowshed.

A third of the people working here are from Tajikistan. Marina, a 38-year old Russian milkmaid, is married to one of them. Talib, she says, may be strict, but he does not drink or beat her up. She prefers him to her first, Russian, husband who drank himself to death at the age of 47, leaving her with three children. Her 19-year old son is unemployed and drinks heavily.

Talib came to Russia so that he can feed his other family in Tajikistan, and Marina does not mind Talib having another wife. But local residents resent the Tajik and Uzbek migrants because "they are prepared to work for a pittance and take our jobs." Yet finding sober local working men in the village is difficult, says Sergei Pertsev, the farm manager. "Here, everyone has fallen ill with alcohol." To make sure the farm functions properly Mr Pertsev keeps people in reserve, to fill in for those who go on a binge. It used to be mainly men who drank, but now women do too.

Semlevo's collective farm was built in 1962. Since then the village's population has dropped to a third of its former level. Thirty years ago the village school had 500 pupils. This year only one girl entered the first grade. Some people have left the village, others have died of drink. Those who remain drink heavily. Still, by local standards, Semlevo, with its 900 residents, is a thriving metropolis. Some nearby villages have just two or three people left.

Tatyana Nefedova, a geographer and specialist on Russian agriculture, calls these deserted areas "Russia's black hole". In the European part of the country alone they account for one-third of the land mass. Urbanisation has drawn people from villages into larger cities and to the vast industrial building sites in the east and north of the country. Active life is concentrated in a radius of 35-40km from the centre of these large cities. Russia has only 168

cities with a population over 100,000 and their number is dropping. The average distance between large cities is 185km. According to Ms Nefedova, this means that a stretch of 100km between them is a social and economic desert. In villages closer to large cities, especially Moscow and St Petersburg, or in the south of the country, things are better.

But for Mr Pertsev, the idea that Russia is "rising from its knees" seems like a bad joke. Two years ago he lost his son, who was in the army. The young man was killed by a drunk driver who crashed into a column of soldiers in the dark. "The only people who live well in this country are those who make decisions, sit on an [oil] pipe or those who guard it," says Mr Pertsev.

The sorry state of villages like Semlevo is the result of "negative social selection", says Ms Nefedova: the most active and able people have migrated to large towns. Few people have stayed behind, and most of those are unable to work. In Semlevo there is only one farmer who keeps his own sheep and chickens. Most houses there have no running water, plumbing or gas heating. Still, Semlevo's old collective farm is considered lucky: it was recently

bought by a businesswoman from Moscow. Most other collective farms in this district are dead.

Russia's demography befits a country at war. The population of 142m is shrinking by 700,000 people a year. By 2050 it could be down to 100m. The death rate is double the average for developed countries. The life expectancy of Russian males, at just 60 years, is one of the lowest in the world. Only half of Russian boys now aged 16 can expect to live to 60, much the same as at the end of the 19th century.

No babies to kiss

"If this trend continues, the survival of the nation will be under threat," Mr Putin said in his first state-of-the-nation address in 2000. Six years later he offered an increase in child support and a bonus for second babies. Since then the birth rate has started to climb, the number of deaths has declined and life expectancy has edged up a little (see chart 5, next page). Mr Putin rejoiced: "We have overcome the trend of rising deaths and falling births... In the next three to four years we can stabilise the population figures."

But demographers say there are few ▶▶



Rare and precious

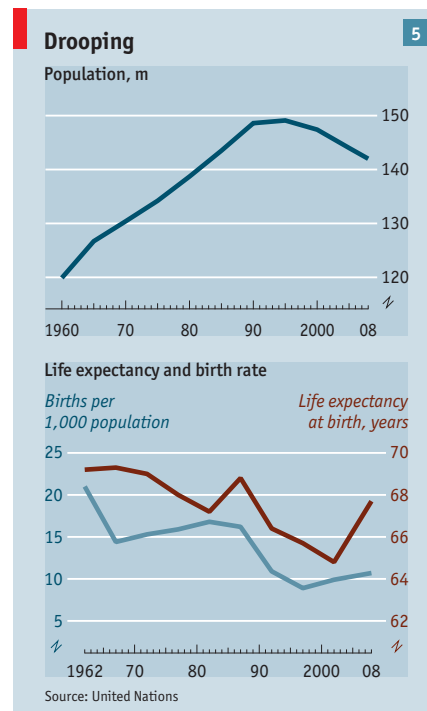
► grounds for optimism, and Russia's goal of increasing the population to 145m is unattainable. Anatoly Vishnevsky, Russia's leading demographer, says an increase in the number of births in a single year does not reverse a trend. People may respond to financial incentives by changing their timing rather than having more babies overall. An extra \$100 a month is helpful to people with low incomes and rural or Muslim families, who have more children anyway, but is unlikely to persuade middle-class families to produce more babies.

The main reason for the recent rise is that there was an uptick in the birth rate in the 1980s and the people born during that period are now having children themselves. But the next generation to reach child-bearing age is much smaller. "What we are going to see over the next few years is a rapid decline in the number of births," says Mr Vishnevsky. At the same time the death rate is likely to go up, not because people will die any earlier but because the generation which is getting to the end of its life now is larger than the one born during the war.

Russia's demographic crisis is one of the main constraints on the country's economy. Although Russia's population has been ageing, over the past decade the country has enjoyed a "demographic dividend" because the age structure was in its favour. This dividend has now been exhausted and the population of working age will decline by about 1m a year, increasing the social burden on those that remain. Over the next seven years Russia's labour force will shrink by 8m, and by 2025 it may be 18m-19m down on the present figure of 90m.

What makes a shrinking population dangerous for a country that has always defined itself by its external borders is the loss of energy it entails, Mr Vishnevsky argues. The Soviet Union did not just try to exploit the resources of its vast and inhospitable land, it tried to populate it. Now large swathes of land in Siberia and the far east are emptying out as people move to central Russia. The population density in the country's far east is 1.1 people per square kilometre. On the other side of the border with China it is nearly 140 times that figure.

The decline in Russia's population is often linked to the collapse of the Soviet Union. In fact, the pattern was set back in the mid-1960s when the number of births fell below replacement level and life expectancy started to shrink. In 1964, after several years of post-Stalin thaw, life expectancy



for men was 65.1 years, only slightly lower than in the West. But by 1980 the gap with the West had widened to more than eight years and is now 15 years.

Russia's health problems, says Mr Vishnevsky, were partly a legacy of the cold war. By the middle of the 20th century the developed world had learnt to control infections that killed large numbers of people. The next targets were illnesses caused by lifestyle, such as heart attacks, pollution and respiratory diseases. But whereas the West invested heavily in health-care systems and better lifestyles, Russia was putting its financial and human capital into the arms race and industrialisation.

If life expectancy in Russia had improved at the same pace as in the West, the country would have had an extra 14.2m people between 1966 and 2000, adding 10% to the population. The Soviet Union's spending on health care was less than a quarter of the American figure. The Communist Party elite was well looked after, but ordinary people were less fortunate.

Crucially, the paternalistic Soviet system, which survives in today's Russia, was geared towards fighting epidemics and infections rather than to empowering people to look after their own health. Even now Russian doctors treat patients and their relatives like imbeciles. Officially the state guarantees free care for all, but half the patients offer gifts and money to doctors and

the other half often have to forgo necessary treatment.

Boosting the country's health-care spending was one of the "national projects" Mr Medvedev was in charge of before becoming president. Last year its funding doubled to 143 billion roubles (\$5.8 billion). That is still below Western standards, but the main problem is that it is not well spent. For example, the government more than doubled general practitioners' pay. But as Sergei Shishkin of the Independent Institute for Social Policy argues, the pay increase was not linked to performance and created a sense of injustice among specialists.

The curse of the bottle

Russian history, particularly in the 20th century, has encouraged the view that life is cheap. But there is also a strong self-destructive streak in the national character. Drinking yourself to death is one of the most widely used methods of suicide.

Alexander Nemtsov, a senior researcher at the Institute of Psychiatry, points to a clear correlation between the death rate and the consumption of alcohol in Russia. A short anti-alcohol campaign conducted by Mikhail Gorbachev in the late 1980s extended life expectancy by three years. Mr Nemtsov estimates that nearly 30% of all male deaths and 17% of female deaths are directly or indirectly caused by excess alcohol consumption and that over 400,000 people a year die needlessly from drink-related causes, ranging from heart disease to accidents, suicides and murders.

The average Russian gets through 15.2 litres of pure alcohol a year, twice as much as is thought to be compatible with good health. The problem lies not just with how much but also with what is drunk: moonshine and "dual-purpose" liquids, such as perfume and windscreen wash, make up a significant proportion of alcohol consumption, according to Russia's chief physician, Gennady Onishchenko. Tens of thousands a year die of alcohol poisoning, against a few hundred in America. In large cities the fear of losing a job, and growing car ownership, is keeping people soberer.

The most obvious reason why Russians drink so much is the low price and easy availability of alcohol. Consumption increased dramatically in the 1960s when the state hugely boosted production. People started drinking not just on special occasions but during the week and at work too.

Vodka is one of a very few Russian products that seem relatively immune to inflation. Between 1990 and 2005, for example, ►►

▶ the food-price index increased almost four times faster than the alcohol-price index. A cheap bottle of vodka in Russia costs the same as two cans of beer or two litres of milk. The easiest way to curb consumption would be to make hard spirits much more expensive and less accessible, as many Nordic countries have done. But as with many other things in Russia, corruption gets in the way: two-thirds of hard liquor is produced illegally and sold untaxed.

Occasionally the government raises the alarm about alcohol poisoning, but it does little to curb drinking. Instead it has declared war on Georgian wine and mineral water, which it claims is not fit for consumption. But life expectancy in Georgia remains 12 years higher than in Russia.

Unlike drinking, AIDS is a relatively new problem for Russia. The first case of HIV was recorded in 1987, but it took a long time for the country to take notice. By 1997 the number of cases had grown to 7,000. Now the official figure is over 430,000, the largest in Europe. The real number could be double that, according to the World Health Organisation. Most victims are under the age of 30. Some two-thirds are drug-takers, but the epidemic is now spreading to the general public.

The government seems to have woken up to the danger and has increased spending. But Vadim Pokrovsky, head of the federal AIDS centre, says Russia still lacks adequate prevention measures.

About 28,000 people have already died of AIDS-related illnesses, but the real number could be masked by a co-infection of HIV and tuberculosis which kills people after two or three months. The incidence of TB is the highest in Europe. Last year



A cheap way to oblivion

24,000 people died of the disease, almost 40 times as many as in America, not least because most TB hospitals are crumbling and some lack sewerage or running water.

The only solution to Russia's demographic problems appears to be immigration, as in the village of Semlevo, but the Russian public is hostile to it.

Wanted but not welcomed

Most low-skilled migrant workers in Russia come from Central Asia. In the east of the country they are mainly Chinese. The precise figures are impossible to pin down because the vast majority of immigrants over the past decade have been illegal. Until recently they were treated much like serfs. They could not apply for work permits but had to rely on their employers, who would often impound their passports and refuse to pay them for their work. Thousands of corrupt police officers grew fat on the proceeds.

In the past couple of years the rules have become more accommodating and migrant workers can now apply for their own work permits and sign contracts with their employers. But for tax reasons only a quarter of immigrants do so. The new law has increased the number of legal migrants to more than 2m, but the real figure is thought to be five times that.

Many migrants are scared to venture outside on their own for fear of running into police or skinheads. Employers much prefer illegal immigrants to local workers because they are cheaper and will put up with worse conditions. But a xenophobic public habitually vents its anger on the immigrants, even though they are estimated to generate 8% of Russia's GDP.

Support for extremist organisations such as the Movement Against Illegal Immigration has risen sharply in the past few years. More than half the population supports the slogan "Russia for the Russians" and almost 40% feel "irritation, discomfort or fear" towards migrants from Central Asia and Azerbaijan. Hate crimes are on the rise. SOVA, a body that monitors racism, last year counted 667 racist attacks, including 86 racially motivated murders.

At a recent pep talk with the editors of Russia's leading media, Mr Putin urged them to guard against xenophobia. Russia's new day of unity is traditionally marked by ultra-nationalist marches, and the youth wing of Mr Putin's own United Russia party campaigns against immigrants. Dmitry Rogozin, a nationalist politician who built his campaign for parliament in 2003 on anti-immigrant rhetoric, is now Russia's ambassador to NATO. On his office wall hangs a portrait of Stalin. ■

The wild south

Russia's treatment of its republics in the Caucasus has turned them into tinderboxes

“I DESIRE that the terror of my name should guard our frontiers more potently than chains or fortresses, that my word should be for the natives a law more inevitable than death,” wrote Alexei Yermolov, Russia's legendary general who waged total war during his conquest of the north Caucasus in the early 19th century. A hero of the Napoleonic wars revered by Russian romantics, Yermolov is still universally hated by “the natives” who think of him as brutal, contemptuous and geno-

cidal. In the late Soviet period his statue in Chechnya was regularly blown up until it was eventually thrown into the river.

On October 4th a new, giant statue of Yermolov on a red granite pedestal was unveiled in the ethnically Russian region of Stavropol that faces the north Caucasus, marking an unseen line of separation between Russia and the five Muslim republics on its southern border.

When the Soviet Union collapsed, Chechnya, the most rebellious of the five,

demanded complete independence from Russia. Boris Yeltsin waged brutal war with it in 1994-96, with disastrous results. Vladimir Putin, trying to bring Chechnya to heel once and for all, resumed hostilities in an even more brutal form in 1999, with knock-on effects in the entire region. Nine years later the Caucasus still feels like a tinderbox. The Georgian war and Russia's unilateral recognition of South Ossetia and Abkhazia have added even more combustible material. ▶▶

► But the main cause of instability is Russia's colonial methods in the Caucasus, which have altered little since Yermolov's time. The difference is that he was conquering new territory, whereas Russia is dealing with people who are, at least on paper, its own citizens.

A peace of sorts

Chechnya is now relatively quiet under the thumb of a former rebel, Ramzan Kadyrov, who was installed as president by Mr Putin last year. Grozny, its capital, which was razed to the ground by the Russians, has been rebuilt. On October 5th Mr Kadyrov reopened the city's main thoroughfare, now lined with trees. It used to be called Victory Prospect, but Mr Kadyrov has renamed it Putin Avenue.

In recent local elections Mr Kadyrov, who is fiercely loyal to Mr Putin, promised that the turnout of voters for his hero's United Russia party would be "100% or even more". But it is not clear that his loyalty extends to Russia as a whole. As he himself has said: "I am not anyone's president, I am not a man of the FSB or GRU [Russian security services]. I am Putin's man... Putin is God's gift, he gave us freedom."

And Chechnya is indeed much freer of Russian control than it was eight years ago. Mr Kadyrov has his own armed forces, makes women wear headscarves, levies his own tax on businesses and sets his own rules. The day after the unveiling of the new-look Putin Avenue the occupants of the ground-floor offices, cafés and shops found their premises sealed off. Before they could start trading again they had to pay a "fee" of 200,000-500,000 roubles to some agency.

Recently Mr Kadyrov asked for Grozny airport, which is federal property, to be made over to Chechnya and given international status. It would also be nice for Chechnya to have its own customs service, he said. As for the Russian troops still stationed in his republic, he thinks their main job should be to guard Russia's international borders, not to meddle in Chechnya's affairs.

Yulia Latynina, a Russian journalist and writer, says that "the war between Russia and Chechnya was won by Mr Kadyrov." But although military resistance in Chechnya itself has subsided, violence has spread to neighbouring republics, notably Ingushetia and Dagestan. It is transmitted by state-sponsored repression, corruption and lawlessness that alienates and radicalises the population and drives young men into the hands of Islamist militants.

Ingushetia, a Muslim republic with a population of just 500,000, has turned into the region's new flashpoint. Reports of killings, explosions and kidnappings have been coming in daily. In the past year the number of attacks on police by Islamist militants, both Chechen and Ingush, has almost doubled. In return, the Russian security and military services have terrorised the local population, using much the same methods as the militants.

Sliding into anarchy

On a recent visit, cars with tinted windows and no licence plates raced around Nazran, Ingushetia's grim capital. Traffic policemen left their posts as soon as the sun set, in fear for their lives. "We don't know who is fighting with whom, but every day mothers cry over their children," said Zarema, who was selling Chinese clothes in a market. "If I am a Russian citizen, why are they not protecting me?" The word most often heard in Nazran is *bespredel*, or anarchy.

Almost everyone curses Murat Zyazikov, an ineffectual former KGB general installed by Vladimir Putin as the republic's president in 2002. Under his watch 600 people died and 150 disappeared without a trace, says Bamatgiri Mankiev, a former member of parliament and now one of the opposition leaders. Yet Mr Zyazikov could not be voted out because in 2004 Mr Putin abolished regional elections across Russia. Only when the situation came to resemble a civil war did the Russian government remove Mr Zyazikov on October 30th and

appoint a tough military commando instead. As the Ingush celebrated Mr Zyazikov's departure, his officials were clearing anything of value from the administrative buildings.

At a recent protest rally demonstrators threatened to call a referendum on independence for Ingushetia unless the government in Moscow treated them as Russian citizens. The cause of the rally (and probably of Mr Zyazikov's removal) was the brazen murder of Magomed Yevloyev, the editor of an opposition website that publicised human-rights abuses. He had irritated Mr Zyazikov by running an "I did not vote" campaign, collecting 90,000 signatures to counter the official claim that 98% of Ingushetia's 164,000 voters cast their ballot for the Kremlin's party in last year's parliamentary election.

On August 31st Mr Yevloyev arrived in Nazran on the same flight as Mr Zyazikov. When they landed, Mr Zyazikov was whisked off in a limousine and Mr Yevloyev was arrested and driven away in an armoured car. Minutes later he was dead, "accidentally" shot in the temple by one of the guards in the car. His body was dumped in front of a hospital. When Mr Yunus-Bek Yevkurov took over from Mr Zyazikov, he immediately offered his condolences to Mr Yevloyev's family.

Over the past 60 years Ingushetia has seen little kindness from Russia. In 1944 Stalin deported the entire Ingush and Chechen populations in cattle trains to Kazakhstan. When the survivors returned in 1957 they found their houses occupied by the mainly Christian North Ossetians. In 1991 Boris Yeltsin signed a law restoring the territorial rights of the Ingush. But the mechanism for this "territorial rehabilitation" was never established and soon a bitter conflict broke out between the Ingush and the North Ossetians.

Russia took the Ossetians' side, allowing them to push 60,000 Ingush out of the Prigorodny district. Some 18,000 refugees are still unable to return home. The official explanation is that "their neighbours are not prepared to live next to them."

Russia's war in Georgia and its backing of the South Ossetians inflamed feelings of injustice and anger in Ingushetia. Many Ingush identify with Georgia more than with Russia. And Russia's recognition of South Ossetia and Abkhazia has created new precedents for the North Caucasus.

Ruslan Aushev, Ingushetia's first post-Soviet president, feels strongly about the issue: "Russia fought two wars in Chechnya, which cost a lot of lives, blood, sweat ►►



Kadyrov is Putin's man

► and money, defending the principle of its own territorial integrity. Now it has recognised two small republics and added two new hotspots to its existing problems. This does not bode well for Russia." The biggest mistake the Kremlin made in the Caucasus, he says, was to use force.

The irony is that despite the many historic injustices it suffered, Ingushetia has traditionally been loyal to Moscow. The problems in Ingushetia, says Ekaterina Sokiryanskaya of Memorial, a human-rights group, are of Russia's own making. Most of them stem from indiscriminate violence in the second Chechen war which spilt over into Ingushetia.

Until 2001 Mr Aushev, a charismatic military commander who had served in Afghanistan, managed to keep Ingushetia relatively stable. He resisted attempts by the government in Moscow to drag the republic into the Chechen war and did not allow it to be used as a military base for the Russian army. Keeping Ingushetia neutral was no mean achievement, given its close ethnic ties with Chechnya. When Russian forces carpet-bombed the Chechen capital, Mr Aushev ignored Russian orders to cut off all escape routes from Chechnya and allowed 300,000 Chechen refugees into Ingushetia.

But in 2002 Mr Aushev was replaced by the much more co-operative Mr Zyazikov. The first bout of violence in Ingushetia was directed at Chechen refugees. Alleged rebels and their sympathisers were kidnapped and often tortured, both by Mr Kadyrov's forces and by their Russian backers. An Ingush official who tried to investigate the Russian security services' behaviour was himself kidnapped by the FSB. Mr Zyazikov did nothing.

Tit for tat

The violence soon engulfed the republic and in 2004 Nazran was attacked by armed rebels. "At the time", says Ms Sokiryanskaya, who spent five years in Ingushetia, "everyone was shocked by how many Ingush took part in the attack. Today no one is surprised that Ingushetia has its own armed underground." According to a survey carried out by Ms Sokiryanskaya with a North Ossetian think-tank, the main reason young people join the armed rebels are personal revenge, the violence of the security services, unemployment and propaganda by religious extremists.

Timur Akiev, who heads the Nazran office of Memorial, says the tactics of the Russian security services changed after 2005. Until then suspects were taken to

North Ossetia, where they were tortured and made to confess. They were then brought back to Ingushetia for trial and sent to jail. However, jury trials in Ingushetia stopped relying on such "confessions" and started to acquit suspects. Mr Akiev says that from then on people started to disappear or were shot during arrest even if they showed no resistance. Sometimes the dead bodies were fitted up with weapons or grenades.

What eventually sparked public protests in Ingushetia was the killing of a six-year-old boy. Early in the morning of November 9th 2007 three armoured personnel carriers, several minivans and a military truck, all without number plates, drove into a small Ingush village as part of a "special operation" to capture an alleged



terrorist. After throwing a smoke bomb through the window of a house, a group of armed men burst in and opened fire. But all they found was a family of five. One of the bullets had killed the youngest child.

When the soldiers realised what they had done, they made it look as though they had been attacked, throwing grenades at the empty house, moving the child's body and putting a machine gun next to it. The Ingush authorities took three days to react to the murder. Mr Zyazikov promised personally to supervise the investigation. So far no one has been arrested.

When people took to the streets, they were dispersed by the police in brutal fashion. A group of TV journalists who had arrived from Moscow to cover the murder and the protest were kidnapped from their hotel, beaten and "deported" from Ingushetia as if it were a separate state.

Two months later people came out in protest again, carrying pro-Putin banners and pleading with him to protect them from state lawlessness. Mr Putin dismissed the protests with the words: "Someone had decided that Ingushetia is a weak link

in the Caucasus and we see attempts to destabilise the situation there." Maksharip Aushev, an opposition leader in Ingushetia (no relation to the former president), spoke for many when he said: "Until then I could have bet that Putin did not know what was going on here, that the money is stolen, that unemployment is almost 80%, that people get abducted. But it is now clear that we have to do something ourselves."

Until last year Mr Aushev ran a successful marble-trading business and had little interest in politics. But in September last year his son and his nephew were abducted by the security services. He launched his own search and forced the local prosecutors to investigate what turned out to be a secret prison in Chechnya where Ingush residents were being taken for torture and execution. Mr Aushev later learnt that his son and nephew were taken to the mountains to be executed with snickers (explosives tied to their bodies) but at the last minute they were let go.

Unable to convey their anger through the ballot box and unwilling to take up arms, Mr Aushev and several others have set up an alternative parliament elected by family clans. They have agreed to co-operate with Yunus-Bek Yevkurov, Mr Zyazikov's replacement, who had previously commanded Russian troops in Kosovo and taken part in special operations in Chechnya. His first steps were encouraging, but to stop the violence he will have to fight both the militants and the federal forces who have got out of control. Unless Russia stops treating this region as enemy territory and begins to observe its own laws here, violence will escalate.

More devolution please

What happens in the Caucasus will define the future of federalism and of territorial integrity in the whole of Russia. The central government's policy failures in the Caucasus are particularly clear when compared with the far more successful policy being pursued in Tatarstan, the largest Muslim republic, which was integrated into the Russian empire in the 16th century and has been at peace ever since. In the early 1990s oil-rich Tatarstan became a symbol of decentralisation in Russia. It was here that Yeltsin famously said: "Take as much sovereignty as you can swallow." Under Mr Putin this phrase came to symbolise the weakness of Mr Yeltsin's regime. In fact it was its strength. It is the centralisation of power and the colonial methods of suppression of dissent that are the biggest threat to that territorial integrity. ■

Handle with care

A cornered Russia could pose greater risks

THE magic word during Vladimir Putin's eight years as president was "stability". The social contract between the Kremlin and the people was based on rising incomes and private freedoms. Most people happily signed up to this. According to Boris Dubin, a leading sociologist, three-quarters of the Russian people feel they have no influence on political and economic life in their country, and the vast majority of them show little interest in politics anyway.

It was this contract, backed by high oil prices and cheap credits, that kept Mr Putin's ratings up and allowed him to hold on to power as prime minister after his protégé, Dmitry Medvedev, was installed as president in March this year. When a foreign journalist asked Mr Putin shortly before the election why Mr Medvedev was not campaigning, the answer was candid: "Salaries in Russia are growing by 16% a year...people want this trend to continue and they see Dmitry Medvedev as a guarantor of this trend."

The rise in earnings, albeit from a low base, has also masked discontent about the appalling state of the health system and the corrupt and ineffective police. Most people say both have been getting worse in recent years, but they generally deal with them by making private arrangements with their local doctor and finding friends among the police. Seventy years of living in the Soviet Union have made them inventive and adaptable.

The lives of ordinary Russians have got better, but not that much better. Half of them say they have enough money for food and clothes but struggle to buy durable goods. Most simply hoped things would not get worse. Now, with an economic downturn under way, things are getting worse, especially in big cities where the improvements had been most noticeable. Private firms are starting to lay off staff and cut pay. For now the government is trying to soothe people's fears. Journalists have been told not to link the words "crisis" and "Russia", so the state media consistently talk only about a world crisis and Russia's "anti-crisis" measures.

Yet if the economy deteriorates, that will no longer be enough. A recent survey

of successful young urban people showed that many of them contemplate emigrating. For now, most people have even less appetite for protests than they did in 1998, when rouble devaluation and debt default caused millions to lose their savings.

Most Russians are deeply cynical about their government: 60% say its members are "only concerned with their own wealth and careers" and just 9% say they are honest. After the 1998 crisis businessmen who had lost everything picked themselves off the floor and started again, and the same thing may happen this time, although state interference in business has increased. But the popularity of Mr Putin and Mr Medvedev, who are seen as promoting stability, is likely to suffer. After the 1998 crisis Yeltsin's approval ratings, already in the dumps, plummeted from 15% to 1%.

Yet there are important differences between then and now. First, people have more to lose. Over the past decade GDP per person has almost doubled, to almost \$12,000 at purchasing-power parity. Second, Russia's rigid political system no longer allows much room for manoeuvre. When the 1998 crisis struck, Mr Yeltsin defused the situation by sacking the prime minister and the entire government. Until last year Mr Putin too had this option. When things went wrong people blamed the government, not the president. But now that Mr Putin himself is in the prime ministerial seat it may be harder for him to find scapegoats.

Third, in 1998 the government was

bankrupt and weak, so businesses were left to deal with the crisis in their own way. Now the government is sitting on massive cash reserves which have already become the object of factional fighting. The Kremlin is by no means a homogenous entity. Indeed, the main reason for making Mr Medvedev president under Mr Putin's supervision was that it would preserve the status quo. But now there may not be enough money to keep the large band of Kremlin friends happy.

Russian experts, whatever their differences, all agree on one thing: these are unstable, unpredictable and dangerous times. As Mr Satarov of the INDEM think-tank observes, the biggest advantage of democracy is that it allows political systems to adapt to changing economic and political circumstances. That luxury is not available to Russia. Instead, Mr Medvedev has proposed extending the presidential term from four to six years. This was Mr Putin's idea, and he may be the one to benefit from it. The change, which has been rushed through parliament, would give him the prospect of 12 years as president when Mr Medvedev's term expires in 2012. Some say Mr Putin might return earlier.

Whatever next?

The most optimistic (but unfortunately least likely) scenario is that the crisis will concentrate minds in the Kremlin and make it improve the country's investment climate, build proper institutions and tame anti-American rhetoric. Mr Gavrilin of Troika Dialog argues that Russia's attitude to America is closely correlated with its balance of payments. When that is strong, Russia turns anti-American; when it is weak, Russia becomes a friendlier place.

There are some signs that the crisis has strengthened the hand of economic experts in the Kremlin, such as the finance minister, Alexei Kudrin. One of Mr Kudrin's deputies, Sergei Storchak, who was arrested a year ago in a power struggle between different factions, has suddenly been allowed out of prison. But as long as the oil price remains relatively high and economic growth in the rest of the world is weak, businesses will rely more on the government than on foreign investors. ▶▶



► Still, a recent survey of various Russian elites, including business and media people, lawyers and doctors, showed that some 45% disagree with the current authoritarian system. Worryingly, the same survey found that the group which feels most alienated and unhappy about the status quo is the armed forces.

The chances that Russia will indeed turn more liberal are minimal. The mood is against it, and liberal parties cannot even muster the support of the significant liberal minority that does exist. The Kremlin has launched its own “democratic” clone parties to gather up these votes. According to one modern Russian writer, Zakhar Prilepin, ideological opposition to the Kremlin is impossible because the elite has no ideology: it is capable of agreeing with both the extreme right and the extreme left of the political spectrum. Its only ideology is to stay in power.

A more likely—and alarming—scenario is that the current regime will harden its stance and tighten the screws or be replaced by an even more nationalistic and militant one. That is the direction in which Russia has been moving for the past eight years. In his book, “The Death of the Empire”, Mr Gaidar, the former prime minister, points to the dangers of post-imperial nostalgia in Russia and draws parallels with the dying days of Germany’s Weimar Republic. The war in Georgia made those parallels more obvious. It has moved nationalist ideologues from the margins of political discourse to the centre.

According to Andrei Zorin, a cultural historian and professor of Russian at Oxford University, periods of restoration that follow revolutions do not bring back the old order but often introduce new threats and instability. “Russia may yet emerge as a nation state, but in the process it could also turn ugly and nationalistic,” he says. In such a multi-ethnic country that would be a recipe for further disintegration.

Many Russian liberals argue that Western policy towards Russia has helped to make the country more nationalistic. America’s triumphalism after the cold war caused the same sort of resentment in Russia as the settlement of the first world war did in Germany. America’s unilateral withdrawal from the Anti-Ballistic Missile Treaty in 2001, its plan to put a missile-defence system close to the Russian border and NATO’s expansion played into the hands of Russian hardliners, as did the West’s recognition of Kosovo. “You can only imagine how much champagne was drunk in Russia’s hardline circles after the



Some things have got better

recognition of Kosovo,” says Mr Gaidar.

Yet America acted as a catalyst, not the primary cause. The process that led to the war in Georgia had its own domestic logic inseparable from Mr Putin’s authoritarian system. That system, says Lilia Shevtsova of the Carnegie Moscow Centre, relies on images of Russia as a “besieged fortress”.

More dangerous than the cold war

The Russian leadership can, and does, blame the current financial crisis on America. It is doing its best to mobilise Russians against the West and the Westernisers and is becoming more confrontational. That might conceivably lead to another war in the Caucasus or to an attack on Ukraine, vulnerable because of the ethnically Russian Crimea. Georgia remains a particularly explosive place. Russia’s recognition of

South Ossetia and Abkhazia has made things worse. Pavel Felgenhauer, a Russian military analyst who accurately predicted the Georgian war in August, says a new and possibly bigger military conflict is only too likely.

Since Russia’s nationalism defines itself in relation to America and the West, much will depend on American diplomacy. Mr Gaidar argues that offering NATO membership to Ukraine or Georgia would be a gift to Russian nationalists. “This is not a return to the cold war. It is much more dangerous. With the Soviet Union everything was more or less clear and predictable. Both sides got used to each other and found a way of talking to each other. Both sides won in the second world war and were confident and not hysterical. Now we are dealing with a country that has suffered a collapse of empire. And a significant part of the Russian elite feels the time has come to fight back.”

The biggest challenge for the West will be to find a policy that neither appeases Russia nor ignores it. Given the country’s nuclear potential, its nationalism and its high levels of corruption, the risks are high. In the past Russia kept its nuclear technology out of reach of America’s sworn enemies, but a power shift inside the country could change that.

Historically, Russia has often demonstrated an ability to take unexpected turns, whether for good or ill. Few people foresaw the collapse of the Soviet empire. Russia today has a glass-like quality to it: rigid and fragile at the same time, and liable to develop cracks in unforeseen places. The danger lies in its unpredictability. Yet that may also be a reason for hope. ■

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