The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

No Dramatic Change in New Government

By The Moscow Times

May 24, 2012



The reaction to the new government has largely been neutral to negative. Perennial hopes that Russia was finally going to embark on a radical and rapid course of economic reform and political liberalisation failed to materialise — but then such hopes always have.

That is not how Russia works. The Kremlin doesn't do radical. Business leaders are happy at least and praised the "stability" the new cabinet brings. Policy will be rejigged and some good things added, but for most existing investors the continuity is as important, as they have learned how to operate in this environment and don't want radical changes — let alone an Arab Spring-style revolution. No one wants that; even the protestors.

But it is just as clear that we need change. A couple of appointments have been singled out by the steady-as-she-goes crowd for up-beat comment and optimism.

The promotion of former presidential economic advisor Arkady Dvorkovich to the post of deputy prime minister for industrial and energy policy is seen as a big step forward for the liberal camp, as Dvorkovich, like his former boss German Gref, only talks sense.

Part of his brief will be to oversee the energy sector, which seems to be in the crosshairs. One surprise was the appointment of relative unknown Alexander Novak to oversee the energy portfolio. At the same time, the departure of siloviki top dog Igor Sechin from government is another big shakeup in the structure of control over energy — he's been moved to head Rosneftgaz, the holding company that owns the state's stake in oil major Rosneft. This appointment has been widely taken to mean that Sechin will remain de facto in charge of energy.

However, all this talk of power is to miss the point of Putin's government. In Yeltsin's day running the Kremlin was all about brokering power, but under Putin, Russian politics has increasingly become about policy.

Of course, power still counts for a lot, but to understand where Russia will go under this new Cabinet it makes more sense to look at what sort of policy changes the new government will pursue.

Take the triangle of Dvorkovich, Novak and Sechin. The first thing is that Sechin will clearly be responsible for operational issues pertaining to developing the sector. Massive amounts of investment are needed and deals galore will have to be cut with foreigners to develop the Artic, the Barents Sea gas deposits and to open up eastern Siberia.

On the other hand Novak is not an oil man and comes to the job from the Finance Ministry, where he worked under Mr. Prudence, former minister Alexei Kudrin. Together with Dvorkovich's interest and academic qualifications in economics, it seems this formal control over the sector will be more about investment and collecting taxes from the natural resources sector in general.

This change in policy — or at least an extension of existing policy — is bolstered by the appointment of Andrei Belousov as head of the Economic Development Ministry. A well-respected economist, Belousov is close to Putin but also supports the president's preferences for big state spending. In other words, the plan seems to be to extract more revenue from the natural resources sector and spend it on big state initiatives to promote diversification and growth. The massive 20 trillion ruble spending program on the military-industrial sector will be one of the main beneficiaries here, and Putin is committing himself to this plan and hiring people to make it work.

The wisdom of this policy is questionable to say the least. Kudrin quit over the issue, but while the economics of it are doubtful you can see why Putin wants to do it: Negotiations over the West's missile shield are ongoing, and from the Kremlin's windows the system looks like a very belligerent threat to Russia's national security.

Apart from energy and defense the other appointments are a mixed bag. We can expect what we have had for most of the last decade: ongoing and steady progress with reforms, but nothing to catch the banner headlines, and plenty of screwups in the implementation.

A dramatic change would be exciting, but, for the business community, as long as Putin continues to deliver on improving quality of life, steady-as-she-goes will do.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow

Times.

Original url:
https://www.themoscowtimes.com/2012/05/24/no-dramatic-change-in-new-government-a35224