

The Golunov Case Exposes Russia's 'Submerged State'

Businesses and foreign investors would do well to remember that even Putin's brightest plans can be derailed by a single official far down the chain of command.

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Some of the lessons from the case of Russian journalist Ivan Golunov are obvious, such as Russian society's rising willingness to go toe-to-toe with the powers that be over what it perceives as the most egregious rights abuses.

But it also shows deeper things about the functioning of the Russian system of power that businessmen and policy analysts would do well to heed.

Golunov was arrested in Moscow on drug charges last week, but released on June 11 amid

near-unprecedented public outcry. The dominant version of events is now that the drugs were likely planted on him by police, possibly acting on behalf of people targeted in his exposés. At the same time, public backlash was forcibly capped by police: an unauthorized rally to demand punishment for those responsible for the case on June 12 ended in more than 500 arrests.

Many comments about the arrest on the government side took great pains to point out that President Vladimir Putin had nothing to do with it. In spite of the widely held view of Russia as a monolith run in rigid lockstep with and from the Kremlin, Putin, we were told, was nowhere to be found in the Golunov affair.

Instead, Golunov's arrest was orchestrated by a group of individuals forming one tiny patch of the great, national government morass just below the Kremlin and its closest allies. In the center of Moscow — within sight of the Kremlin — there are entirely independent actors who periodically run amok with catastrophic effect. This is to say nothing about what can happen in Vladivostok or Novosibirsk.

This layer of government can be even more opaque than the innermost corridors of the Kremlin. And it is the layer that most international investors encounter with the greatest frequency.

In today's Russia, Putin and a handful of other policymakers are the "visible state," the one that makes the strategic decisions and represents Russia in the eyes of the world and its own electorate. But below them, is the "submerged state" — a vast network of lower-level actors who pay lip service to the "outer state", but definitely have their own agenda.

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What is on this agenda is in fact exhibited by Golunov's own fascinating investigations (many of which are available in English). They paint an unflattering (to say the least) picture of public servants who oversee the miraculous drain of state funds, distribute state tenders to their affiliates, shove through questionable public projects despite grassroots opposition, or patronize various enrichment schemes on the far side of legality.

Few, if any, investigations by Golunov resulted in official follow-ups, but this only highlights the problem. The Russian "submerged state" spans all branches of power and comprises people whose goal in office is all too often embezzlement and enrichment, not niceties like the rule of law or public welfare.

What the Golunov case shows is just how much this "submerged state" is out of sync with the "visible state." Or perhaps it is the other way around: while Putin and the other policymakers are immersed in foreign policy games and 2030 strategies, the people overseeing the daily operations of the Russian state have developed their own, far less lofty — but often more profitable — goals.

What the Golunov case also showed is how this lack of synchronicity backfires on the "visible state." The Golunov case is now usually blamed on some mid-level Moscow officials or security officers — far below Putin's level. And yet their alleged ham-fisted actions have

spoiled Putin's own big day: on June 8, the day of the St. Petersburg economic forum, when Putin is traditionally the top newsmaker, Golunov surpassed him on the number of media mentions.

Moreover, the "submerged state" seems to be looking for protection from the "visible state," if not outright blackmailing Putin and Co for support. Putin's official policy has always been tough on any public protests because they are seen as a threat to his hold on power.

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In the Golunov case, including the June 12 rally, the public was protesting against lower-level actors seen as abusing their office. But because of the official "no step back" narrative, the authorities decided to crack down on the protesters, which does nothing but boost the nationwide tensions and chips away at Putin's already-flagging ratings.

All of this can be directly relevant not just for political analysts, but also for foreign businesses working in Russia. The local partners of such businesses can often have flawless official resumes and even media profiles — but those things would not necessarily reflect a connection to some "submerged state" actor.

And so an attractive business project that, on paper, looked harmless as a newborn kitten may very well erupt in a dirty fight between the public and the "submerged state" actors involved that drags the foreign partner's reputation to the bottom.

A recent case in Control Risks' own practice saw exactly this kind of scenario almost play out. A prominent foreign financial institution was willing to contribute money and technology to a state-supported public works project in Russia. However, our research showed the institution that the project has in fact been mired in a violent struggle with grassroots opposition due to the project's numerous flaws and the failure of its "submerged-state" backers to account for public reaction.

The Russian "submerged state" is not going anywhere — even a revolution would likely not suffice to remove it, as evidenced by Ukraine, a passenger in the same boat. The only force able to tame it is the public, and this is a decades-spanning job.

While this hard work is plodding along, businesses and foreign politicians would do well to remember that even Putin's brightest plans and promises can be derailed by a single official far down the chain of command pursuing their own dubious little agenda.

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