

Putin is Challenged, But Business is Better Than Ever

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Russia faces the extraordinary and unique situation that while facing a barrage of terror attacks, followed by an unprecedented domestic political crackdown, its economy is better than ever, and foreign investors and companies who are there find business better than ever.

Late summer and early fall brought with it a devastating wave of terror to Russia. Two Sibir jetliners, one headed for Sochi, the other to Volgograd, plunged to earth on August 24 killing 89 people in what was confirmed as terror induced explosions. A week later, a Chechen female suicide bomber detonated herself outside the busy Rizhskaya Moscow subway station, killing more than 10 people and wounding more than 50. The scene was deadly, with windows shattered, cars on fire, and bodies strewn everywhere. A day later the worst was to come. A mass hostage seizing of more than 1,200 children, teachers and parents in a Beslan middle school, in the southern region of North Ossetia, resulted in over 320 killed, over half children, and hundreds wounded. Armed Chechen militants terrified the town and the world with senseless scenes of horror involving innocent children that cannot be forgotten.

Putin responded with controversial policies strengthening central authority in Russia, including replacing regional gubernatorial elections with appointments, and an overall tightening of security in Russia. While criticized by some in the West, Putin is doing what needs to be done to insure stability and order in Russia, and to guarantee that terror induced chaos will not reign in Russia. His actions have produced two main schools of thought. One, he is returning to a Soviet model, using undemocratic methods; it's a power grab and a return to unhealthy Russian autocratic centralism OR two, he is relying on a strong state model to unify Russia; to avert disintegration and chaos; he is insuring stable economic growth with policies designed to promote necessary reforms in areas of law, tax, banking and other fundamental institutions; he is using military means to fight terrorism.

I ascribe to the latter interpretation, and find that Putin is simply following the U.S. model of response to terror post 9/11: reliance on military instruments (U.S. invasion of Afghanistan and Iraq) and a crackdown on civil liberties (Patriot Act). It's a fact of life that the modern state must insure its survival and must use whatever means it takes in the face of assaults on its very survival. It's curious that Washington criticizes Moscow for doing exactly what it's doing. It is noteworthy also, that cumulatively, Russia has lost as many victims in terror assaults since 2000, including apartment bombings, the theater hostage crisis, numerous suicide bombings in public places and rock concerts; downed airliners and then Beslan, as we did in the 9/11 terror attacks in the U.S.

Putin will stand by no longer. He is bent on the survival of the Russian Federation and the stabilization of its economy and prosperity. The economy is experiencing unprecedented growth rates and business is growing at unprecedented rates. The reform movement is on track. The top analyst with a major rating agency said astutely in private: "*Putin's moves have enhanced Russia's creditworthiness. There has always been the perception of corruption in the regions. At least now, there will be greater order and predictability.*" It is noteworthy, however, that many Russians see Putin's abolition of the elections as a violation of their constitution, and an overzealous concentration of power.

For business, Putin's anti-terror agenda is a positive development. It is a rational response to a major threat to the survival of Russian statehood. It will result in what everyone has been talking about for years, but what hasn't happened yet: the movement of capital into the regions and more balanced growth throughout Russia, not just in Moscow or St. Petersburg. It will enhance the confidence of investment capital to move into uncharted territories, knowing that the federal government has taken an active interest in the affairs of regional areas, and will insist on the rule of law there. Capital will flow only to areas where stability and predictability are a given. Putin's recent policies in the long-run will stimulate regional foreign investment, a much needed condition for the normalization of a decent standard of living for all Russians.

The U.S. should rethink its posture towards Russia, and realize what a valuable ally we have in the geopolitical region and international arena to combat Islamic fundamentalism and terror. Criticisms of Putin's handling of Russian internal matters, especially pertaining to Chechen terrorists are best kept close to the vest. Senior officials, including President Bush, understand this, I believe. For example, both Don Rumsfeld and President and Mrs. Bush paid special visits to the Russian Embassy to express their sympathies over the Beslan crisis and to sign the Book of Condolences.

As for business, despite slowdowns with visas and security, and other inevitable bugs and barriers, it's full speed ahead, and companies are more optimistic than ever about their Russian operations. The future has never been brighter. Terror will not bring Russia to its knees, any more than it will bring us to our knees. The fight against such an enemy we face only makes us stronger and more determined, both the U.S. and Russia. □



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