

What's Ahead for Putin's Second Term? Russia's Outlook for Politics, Business and the Economy

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The Russian elections are over. Putin is set for a second term. What can the business community expect for the next four years? In a nutshell, continued growth, stability and reform; a tough struggle against terrorism and up and down political relationship with the U.S. and Western countries, with somewhat more accommodation with the EU.

It's useful to look first at the Russian president's report card for his first term. Few would disagree that 2000-2004 were Russia's most successful years in over a decade. Its economic growth rate clocked in at the highest in Europe, around 7%. Putin set as his very first goal the stabilization of Russian politics and society, and he did just that. He managed to craft an effective working relationship with the Duma, Federation Council, his cabinet and the Russian people. He undertook a huge slate of reforms, more than ever before in Russia's history, and began to implement them to turn around the creaking economy, worn out and exhausted from years of command driven policies. He revitalized the political system, cynical from the Yeltsin years and ready for a change. Putin also stabilized relations with the outside world, and developed strong working ties with all Western nations, including the United States. Russia reduced its foreign debt level to one lower than that of France; became the world's leader in daily oil production, and instilled in Russians a sense of purpose and unity that had been missing for a long time.

Were there still problems and shortcomings? Naturally, it couldn't be perfect or without controversy. Lots of controversy was generated about Putin's handling of the press, Chechnya, the Yukos/Khodorkovsky affair, relations with border countries, and the elections themselves. But if what you are judging him on is output and performance, then it is undeniable that the job he did for his first term rates in the "A" category.

Putin's second term agenda is straightforward. He intends to eliminate and minimize the terror threat to Russia at all costs. He will speed ahead with economic development, with the intent to double the size of the economy in the next decade. He began even before the elections to overhaul the government system to create a leaner and more efficient operation. The reform movement will continue, with an emphasis on tax and legal initiatives, most of which will be favorable to foreign investment. Clearly, he intends to break the monopolies, including the power of at least some of the oligarchs, using methods seen as controversial in the West. He will maintain Russia's visible presence in global affairs with a new outstanding Minister of Foreign Affairs, Sergei Lavrov, and continue to aggressively integrate Russia into key institutions such as the World Trade Organization and the EU. While these are only a few objectives, stated in a simplified fashion, it is clear that the next period ahead will be one of Russia's best.

Foreign investors can expect stability and continued market reform. Putin will remain firmly in power and a strong, effective leader. Despite criticisms from the West alleging a drift to authoritarianism, press censorship and other individual rights issues or undemocratic behavior, Putin will continue to modernize Russia in the best way he knows how. He will safeguard Russia's borders, strengthen the state, and create a basis of prosperity for the Russian people, one which spreads the wealth and lifts Russia from its present extreme state of "haves" and "have-nots."

Conditions are better than ever to invest in Russia. You can expect that the buying power of Russians will grow significantly; small business will grow; the economy will diversify; and oil revenue will continue to act as the driver of the domestic economy with no end in sight for diminishing oil prices or demand. I'm optimistic about Russia's future, and most foreign companies who work there and know the economy and its people are too.