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PUTIN'S REELECTION:  
IMPLICATIONS FOR RUSSIA AND THE WORLD

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## P R O C E E D I N G S

MS. HILL: I'd just like to welcome everybody here today for our session on the Russian elections, and I'm a little nervous that nobody's sitting at the front. Do you all know something that we don't know? You know, talking about the subject can make one a little paranoid, so I'm a little confused as to why no one's coming -- is it reserved? There's no assigned seating, so if anybody would like to come down and sit at the front to make us feel less nervous, we'd be thrilled.

Also, with faded eyesight, you know, we'll be looking towards the back there to figure out who to engage in questions.

I'm Fiona Hill, the director of the Center on the United States and Europe here at Brookings into which Russia falls. So, Russia is part of Europe as far as Brookings is concerned. And I'm here with my fellow colleagues, Steve Pifer and Cliff Gaddy, all from the Brookings Foreign Policy Studies Program. Many of you will know Steve and Cliff already.

And what we want to do today is have more of a discussion with you, the audience, so this is why I'm making you come to the front, you see, all of this is staged and orchestrated. And we're going to divide up a number of the sort of bigger questions that obviously have arisen as a result of the recent Russian presidential election among ourselves. I'm going to talk, first of all, just a quick, brief overview of some of the takeouts from the election on the domestic political scene.

I'm then going to hand over to Cliff who's going to talk more about the economic/business dimensions of things, and then Steve is going to give you a few observations on the foreign policy implications in relation to the United States.

Now, the reason we've decided to do it more as a discussion, there's been a lot of events on the elections already in the last few days. I'm sure many of you

have been to some of them. There's been a lot happening today. There's some more during this next week and we thought you might all have Russian election fatigue, so we'd also like to hear from you about some of the questions that you feel might have been unanswered or other things that we might not have thought of that ought to be raised.

And there's a lot of people here who we know, know just as much about these things as we do, and I can see a lot of you out here who look at Russia from various different perspectives, so we'd also like to gauge some of your reactions.

So, first of all, I'll just throw out a few of the general points that we've taken away from the events. In fact, dating back to September when President Putin made his famous announcement that the tandem -- with Dmitry Medvedev -- the tandem arrangement of power where he was the prime minister for four years and Dmitry Medvedev was the president was now over and in fact that Putin was preparing to come back as president and to run as the sole candidate from the establishment in the election that just happened this past weekend.

Now, obviously, this announcement didn't go quite as planned. Putin and probably quite a lot of other people were quite surprised by the rather negative or indifferent reaction that this received on the level of the Russian population and what we saw in the aftermath of this announcement was that President-to-be Putin's ratings in popular opinion polls were on a downward trajectory. They had actually already been on a downward trajectory. Everything, of course, is relative because they were going from up in the 80 percentiles down into the 60s, but the trend was definitely heading downwards and it did not pick up when the announcement took place, which is what presumably the people around Putin and Putin himself had anticipated.

The other event of note was, of course, the December parliamentary

election, which has had a great deal of scrutiny already and all of us have been discussing that at great length over the last couple of months, the ending, effectively, of United Russia, the ruling party's monopoly on power. And although it retained a majority of seats in the Russian parliament, (inaudible) that something was wrong in the political system and that the popularity of the system, of the ruling establishment, was not the same as it had been in the past.

And although Putin was not directly associated with United Russia, obviously, he's not the leader, was not the leader, technically, of the party, but it was the party that was giving him support, there was a lot of concern on the part of Putin's campaign team after this that the negative reaction to United Russia in the parliamentary elections have had an impact on Putin's own political standing.

Now, what have we seen as a result of the March 4<sup>th</sup> election? Well, clearly Putin remains still the most popular individual political figure in Russia. I think we can say that irrespective of what the actual vote tally was. Was it 50 percent? Was it 64 percent? I think in many respects the percentage doesn't really matter although of course it matters from the point of electoral politics and, you know, we can talk about that as much as anybody wants to.

But Putin is still the most popular individual political figure in the Russian political space.

Now, that being said, there wasn't exactly a great deal of competition in the field, particularly for the presidential race. There were only five people in the race and four of them, of the four, three have already established a really long track record of losing presidential and political campaigns before and they're also not exactly new faces.

So, Mr. Zyuganov got his usual percentage, in fact, in presidential races. He actually did probably better in 1996 when he ran for the presidency, but it was, you

know, pretty close. Mr. Zhirinovsky, you know, pretty much his sort of standard percentage. Mr. Mironov has run before as well. He probably got a little less than he thought. And then there was a new person in the race, Mr. Prokhorov, who probably did a little bit better than anticipated. But the main point is that he was not potentially a serious contender in the race.

A lot of the questions have been, would this have been different had there been more of the opposition politicians in the race? If Grigory Yavlinsky had been allowed to run, for example, if someone like Vladimir Ishkov, Boris Nimsov or any of the other people who have been out there on the opposition, Mr. Limonov, Garry Kasparov, well, probably this would have just spread the field even further, it would have looked much more like the Republican candidate field that Mr. Romney is going up against right now. There would have been a whole assortment of different people, so we wouldn't have expected Mr. Putin's percentage to come down, but he would still presumably -- again, I mean, I think it's a fair assertion -- have emerged as still the most singular popular candidate, although there might have been then a question of a second round in the race.

So, what's the deal here? Now, what we've seen, however, is that a real opposition has emerged at the grassroots to Putin, so it's not the point, really, of the candidates and who is out there where we've seen real political change. What we have seen is that now something that was not evident before is that there's lots of opposition to Mr. Putin in the Russian political space, but it's at the grassroots level, it's not necessarily manifested in an individual candidate.

This might be something that we might see develop, but this is something the December parliamentary election really underscored. And the country is split politically, with a good 50 percent of the population seeming to want something else,

something that's not Mr. Putin, although they don't quite know exactly what yet. And there just isn't another candidate out there yet that is going to give Mr. Putin a run.

So, I think what we can conclude from the presidential election is that Mr. Putin's political brand is in decline. We saw that in September, we've seen it through December, and although he's managed to boost his ratings again, I think that is the general trend. People are still voting for him, but he's become tired as a politician and that's actually a pretty common thing. You might have heard me say this in other settings before, Mr. Putin has now found himself in the dilemma of every other normal politician out there: people get sick of seeing you after a period of time. You can be Tony Blair, you can be Charles de Gaulle, you can be Winston Churchill, you can be Margaret Thatcher. You can get Meryl Streep to play you in a movie later on, but eventually in your own political setting -- Meryl Streep could play Mr. Putin. Glenn Close has played a man recently, so I think maybe that's the next thing for Meryl Streep. We'll see if she can get an Oscar for that one.

But in any case, joking aside, Mr. Putin's brand has gone the way of other pretty charismatic, important politicians in the political space. He's not going to be the same politician that he was before.

He also ran the election on the past. He wasn't really running it on the future, and that's another notable point, and there's a lot of people here who have been following Russia very closely for several decades, and he was running his political campaign as if this was the 1990s. And, in fact, that was all of his reference points. He's running with a lot of political candidates, also, from the 1990s with the exception of Mr. Prokhorov. So, it's hardly really surprising based on a platform of the past and continuity that, again, he would win in this election. There was no real argument here about the future, it was really saying, we're going to continue the trajectory that we've been on for

the last 20 years. You've all done fairly well by it, so let's continue this.

Now, the results of the election now being out, we've seen protests on the street, things are going to continue. There's supposed to be another protest in the next week or so. We have the inauguration coming up. Maybe perhaps some of you -- I haven't been able to determine yet, or maybe I just missed this today, when the inauguration is supposed to be. The guess would be May 7<sup>th</sup>, which would be when Medvedev's term expires, although eh could actually, theoretically have it before then.

But Putin may calculate that the opposition numbers are dwindling. There's not so many people out there in the street. There's, again, with no clear opposition figure to coalesce it quite might be easy now to appropriate the agenda of the opposition.

The people on the streets have made it quite explicit they don't want to overthrow the system; they're not seeking violent upheaval. They want institutional change; they want some space for new politicians to emerge.

So, it looks like this might be an easy quest now to divide and conquer the opposition as we've done in the past, but what I think, you know, me and my colleagues here are trying to show -- and Cliff is going to pick up on this theme -- this is not the past. This isn't the Russia of the 1990s. It's not even the Russia of the 2000s. And what we've seen over the last several months is that Russia really has changed, that politics in Russia is now different. The population's more diverse. And when you look at some of the preliminary results across the country you see some really interesting indications of this.

And I don't know if some of you have seen this, this is the new world we're in, this is a Twitter Pic. I'm very proud of this, actually, because being in my 40s, you know, I'm not of the new Internet generation that we've seen out on the streets in

Russia, so it's not always -- if Mr. Putin's having a hard time keeping up with it, I'm having a hard time as well and I don't know how Steve and Cliff are doing this.

But this is a really great spread here from, you know, one of the many people observing this about really how the results for Mr. Putin's election were spread out across the country, and you can see right down here at the bottom, this is very tiny also, hard for those of us who are eyesight challenged as age has come on, this is Moscow and up here we have Chechnya.

So, Mr. Putin's base of support is very interesting. His highest base of support is in the North Caucasus in Chechnya, not a place that is renowned for being closely liked to Mr. Putin apart from in a rather negative sense from the 1990s, but it's the region that's most heavily dependent on subsidies from the center, and on its leadership having a close, tight relationship to the Kremlin. And the other high bases of support are similar regions in the North Caucasus and elsewhere in Russia that are heavily dependent on subsidies from the center.

And his lowest base of support is Moscow, the capital city, where it seems to be well below 50 percent based on all of the polling, and this is where the new urban middle class has emerged over the last decade.

Now, this is also a group that's really prospered under Mr. Putin. But what seems to have happened is they prospered under Putin but they've become politicized as a result of the events over the last several months. And now they're actually actively engaged in political campaigns against him.

So, the big question that we're looking forward to now over the next several months is how the political system moves forward past the presidential election where Putin is master of the Kremlin, master, perhaps, of the rest of Russia, but is not the master of Moscow. And I think this opens up an awful lot of questions that hopefully we'll



discuss over the course of the next hour or so.

And, Cliff, I'll hand it over to you here because I know you're going to pick up on some of these issues.

MR. GADDY: Thank you. In fact, I would like to talk a few minutes about the relationship between the economics and this new urban middle class.

First, however, I would like to just say a word about the views of the international business community, the investor community, towards Russia and Putin's reelection because what it gives us is a headline that the good news for this group of people is, "Business as usual." That's the optimistic conclusion of a number of investment analysts, as they look at, now, the period of unpredictability, of uncertainty about the outcome of the election and the protest is allegedly passed, and we can return to the kind of Russia and the kind of Russian economic development that we had seen in the past.

There's good reason why, as an investor, one would want to see business as usual, business as it has been in Russia over the past decade. You merely have to look at an international comparison of the performance of national stock markets across the world. I often do this kind of exercise that maybe is more effective if I had my slides and charts, but let me describe it to you.

Suppose on the day that Putin took over as president of Russia, January the 1st, 2000, you had \$100 -- or you had several hundred dollars. You invested \$100 bills in the national stock markets, in an index of various national stock markets, and just you kept one \$100 bill under your mattress and you put another in an inflation-proof U.S. bond. What would be the results? Well, now, today -- last week is when I had the results -- your inflation-proof bond would be worth \$134. In other words, you would have to have that much money in today's money to have the equivalent purchasing power of that \$100

bill in 2000. So, \$134.

If you had invested in the stock markets of the United States, United Kingdom, Japan, Germany, most other European and developed stock markets, none of them would have out performed that inflation-proof bond. None of them would be over \$134. The U.S. would be down around \$93.

So, to make money you would have had to invest it in the emerging markets. It's not a secret, everybody knows they performed better. So, you would have gone to the bricks. If you had invested in China, you would have \$200. If you had invested in India, you would have roughly \$300. If you had invested in Brazil, you would have about \$400. If you had invested in Russia, you would have over \$1,000.

And you have to keep that in mind when you think about the way people whose money is what they're really concerned about have looked at Russia over this past decade.

Now, there are very few, if any, who believe that you'll find those same kinds of returns from an investment in Russia as you did over the past ten years, but that having been said, Russia still represents an area of real promise, or at least of hope, for investors, including foreign direct investors. They basically have come to Russia, or continue to come to Russia, for two reasons, both pretty much directly connected to Russia's source of wealth, it's oil.

If you can -- if you could invest in oil companies, you would do that, of course. To the extent that you can't, you'd indirectly invest in oil by investing in something you can sell to people who make their money or get their money from oil who are on a buying spree with oil money.

And that, I think, characterizes the Russian population in general, Russian consumers, and, not least, the Russian government. Truly on a buying spree

with oil money and it is an area of promise for a lot of big United States international corporations. The U.S.-based corporations, of course, are very, very concerned about granting permanent, normal trade relation status with Russia so that they can continue to take part in this buying spree on the part of the Russian government.

That, of course -- this business as usual, that was my point -- and that, of course, is what Putin wants. That is really all that Putin wants. He wants to continue, as Fiona said, on this trajectory of the past ten years and he's convinced that he can and he has experts and groups who have drawn up plans of why that can happen.

He's ready to get back to it. He's terribly annoyed by these political protests that have gotten in the way of his plans. I don't think he's in any mood whatsoever to make concessions to the new middle class, this new urban middle class, to the protesters. Even if he were I just don't think he's capable of doing it, I don't think he has a clue of how they think and what they want.

But I am pretty convinced that they are likely to continue to annoy him greatly as they pursue their aims and therefore interfere with his program.

Now, on this question of the new urban middle class, or at least a slice of a middle class that seems to characterize the people who are most dissatisfied with what's been happening in Russia. What I'd just like briefly to do is show the connection of their status, their existence, and perhaps their future, with the economic situation that faces Russia.

Overall, the Russian economy, and that is the reason why business as usual is good news for the investment/investor class, the economy is frankly fairly robust. No economy in today's world is immune to shocks that are likely to come, but if you think about it, Russia still has the third largest foreign exchange reserves in the world after China and Japan. It has one of the lowest, if not the lowest, debt-to-GDP ratios, the thing

we're so concerned about with the failing European states, Greece and so forth. It has a very, very low debt-to-GDP ratio.

Its budget is on the verge of being balanced. It has some money still in its reserve funds that can cover a budget deficit. Not great, but better off than many, many other countries. But there is a real fragility behind all of that, below all of that, and that fragility, I think, may be most acute, most serious for this new middle class.

The new middle class, like it or not, despite all the peoples' comments about Russia being overly dependent on oil and gas and the need to diversify, et cetera, the corruption it engenders, and so forth, is simply a fact that it was oil and gas revenues that created, if you like, the new middle class, that created the preconditions for the existence of this new middle class. They are very dependent on that flow and conversely a shock to the oil and gas flow of oil and gas revenues into Russia can affect them very, very greatly.

Now, it's well known that Russia, as a nation, restored its place in the world, its independence, its sovereignty, its dignity, thanks to the oil and gas revenues. This was a priority that Putin had of paying down the debt, building up the foreign exchange reserves.

Russia as a nation regained some dignity. But Russians, as individuals, and in particular, this group of people that we characterize as the new middle class, I think also owe a status -- a new position of dignity and independence to the oil and gas boom. Russians, as individuals, really became Europeans over these past ten years thanks to that revenue.

However, right now real incomes, generally in Russia, and I think for this group as well, are nearly stagnant after a decade of very, very rapid growth. 2011 was the lowest growth of real incomes in Russia of all the post crisis years, of all the years of

the Putin tenure. It was barely above zero.

The new middle class is not prepared to cut back, scale back, obviously, and live under austerity. They continue to spend, though they're not earning as much, or at least the income growth, the earnings growth, is not continuing at the same pace. The spending pace -- personal spending, household spending, consumer spending -- is growing almost as fast as before. The explanation is they draw down on their savings and they are borrowing, they are borrowing in order to continue this consumption patten.

But look at their situation. They are earning money in a lower income -- a lower middle income country at best. Average per capita income, in dollars, at the market exchange rate -- and, by the way, that's the way to do it. The purchasing power parity sort of stuff that may be working for ordinary Russians out there in the provinces. If you want to look at the situation for this new urban middle class, don't do that. Just take their incomes and translate it at the market exchange rate into dollars and euros. They are living in a world of dollars and euros even if the prices may be denominated in rubles. I'll get to that in a second. And that's the way to understand it.

But the per capita income of the average Russian, across the country, is about \$8,000. Now, in Moscow, it's \$18,000 annual income. It's a different country. Moscow is a different country than the rest of Russia. St. Petersburg is about \$10,000.

So, they're earning money in that world, they're spending money in a Western European economy, more expensive, by the way, than the U.S.

And I want to conclude just by giving -- there's something that I play around with occasionally that I find very valuable. You're all familiar, I guess, at least by hearsay, with this *Economist* Big Mac Index, because it's a product that's sold everywhere, in all countries, and you can use that as an index, a purchasing power, parity, by looking at the relationship between the cost of a Big Mac in any country given

compared to the normal income.

Well, I have a different index that I think is more appropriate for this new urban middle class in Russia. It's called the IKEA index. And it's very handy. Just talk about a global world. If you go to IKEA, [www.ikea.com](http://www.ikea.com), the good thing about IKEA is they have all their catalogues online there and you just click on the country you want. And since IKEA has identical products in every country in the world with all of those stupid Swedish names, they're exactly the same thing, you just compare the prices.

So, what I did and I've done this for quite a while, is select a list of products, you know, representative across all the kinds of stuff they sell, take the ruble price and convert it into dollars at the exchange rate, the market exchange rate.

Compare that, then, with the American catalogue, what we pay when we go out there to College Park or wherever we go, whichever IKEA we go to. And what you find, and this has pretty much been true for quite a while, is that the Russian pays 50 percent more for the exact same product as you would pay. Fifty percent more. If it costs \$100 for us, it costs \$150 for the Russian.

My point is that -- and that -- I take that index as important because I think it symbolizes a whole range of the kind of costs, the whole range of expenditure items, that this new urban middle class, those who have enough money to purchase these kinds of things or who have enough money to travel abroad, to go on vacations to Spain or Turkey or wherever it is they're going -- they are spending money as Western Europeans would spend money. They are earning money in a Russian economy that, in general, has a lower level of income and which is extremely dependent upon these oil and gas revenues, revenues, in fact, from oil and gas exports that continue to flow into the country.

The squeeze is already on. It's been on for about four years. Incomes

have been more or less stagnant for four years and it is very likely that the situation might get tighter. And I want to point that out because I think that this really is something to keep in mind as you look forward to the future. The wealth that this group has enjoyed has, in a way, you know, been discounted -- that's something in the past. And what now matters is expectations about the future and I find no strong hope or prospects that there will be the kind of income increases, real income increases, to this group of Russians that could content them in an economic sense.

Political expectations, other expectations have been raised. There is no countervailing -- prospect of a countervailing increase in their economic status. I think it's a formula for a continued and intensified dissatisfaction and discontent that I would frankly label as the main factor affecting Russia's economic future. We can talk a little bit more about that later and maybe talk about any ideas of what Putin's program really embodies, but I wanted to underscore the economic underpinnings and factors involved with what Fiona talked about.

MS. HILL: And truth in advertising, Cliff's married to a Swede and so when he says, you know, silly Swedish names, it's not a slur against the Swedes, for all of our Swedish embassy friends who are here. Just getting nervous.

Anyway, here we are, Steve.

MR. PIFER: Thanks, Fiona. Let me talk a little bit about some implications for Russia's foreign policy and specifically for U.S.-Russia relations. And I'm not going to be able to match Cliff with the Big Mac or the IKEA index, and I don't think I'm going to be able to come up with something quite as pithy with what Fiona had, which was Vladimir Putin, the Mitt Romney of Russian politics.

But let me talk about --

MS. HILL: Did I say that?

MR. PIFER: There was an inference there. But let me offer just three considerations on what Putin's return means for Russian foreign policy.

First of all, although he was the nominal number two as prime minister the last four years, he never really left on big questions. So, it really is inconceivable that there would have been a reset in U.S.-Russia relations or a New START Treaty or Russian support in 2010 for a U.N. Security Council resolution that imposed an arms embargo on Iran if Vladimir Putin had disagreed with those actions.

So, his return, I suspect, is going to see a certain amount of consistency, continuity in Russia's strategic course. There's no reason, I would say, to think that on May 7 you see Russian strategic approach to foreign policy veering off in a new direction.

The second point is that while there may be a lot of continuity in the substance, the style and the tone of Russian foreign policy will change. It's not going to be the warm, fuzzy Dmitry Medvedev that I think leaders here in the White House and Angela Merkel and Nicolas Sarkozy have become used to dealing with. And there's a particular factor here for the United States, which is that Mr. Putin has a wariness, a skepticism about U.S. policy goals, about U.S. policies in general. And part of that goes back to his background as an officer in the KGB in his formative years when the United States was the (speaking Russian), the main opponent.

Part of it also goes back to his experience dealing with the Bush Administration from 2000 to 2008 where in Mr. Putin's narrative, and I think there is some basis for this, he extended himself in 2001 in the aftermath of 9-11 supporting military action against the Taliban, not hindering the deployment of American troops into Central Asia to support those operations, and reacting quite calmly to the Bush Administration's decision to withdraw from the Anti-Ballistic Missile Treaty.

But he then feels, later on, between 2005 and 2008, he did not see any



real effort by Washington to address what he considered Russia's main concerns: strategic arms limitation, missile defense in Europe, enlargement of NATO, or graduating Russia from Jackson-Vanik.

The reset took place after Dmitry Medvedev had become president.

Also with Mr. Putin, I think if you go back and look at the way he talks, there is sort of a conspiratorial view that he looks at -- a prism through which he views the outside world. So, for example, if you look at the way he speaks about the Rose Revolution in Georgia, the Orange Revolution in Ukraine, what happened in Tunisia and Egypt last year, these are not events -- they're not manifestations of local discontent with a stolen election or poor governance, but they seem to be part of a wider American plot, inspired, directed, funded by the United States and somehow into Russia.

And that seems a bit paranoiac, but when you read the way he talks about these, he says it so often; I think you have to come to the conclusion that he actually does attach some credibility to that.

The third set of considerations I would offer on Mr. Putin and foreign policy would be, he will be coming back to the presidency in a fairly difficult domestic context in two ways. First of all, as Fiona has described, he's not going to be engaging with the outside world with confidence that he has a solid base of domestic support at home. There is a group of opposition people that are unhappy with his leadership, and that would be one factor weighing on him.

Second, I think Cliff touched on some of the economic fragilities there. There are some difficult economic questions he's going to face. The Russian economy does need modernization. And Mr. Putin, over the course of the last four months, has made some fairly expensive campaign promises -- increasing pensions, raising wages for doctors, teachers, and others, he's announced, with some fanfare, a fairly ambitious arms

modernization program.

So, it will be a test to see whether the Russian economy can support all of that. And he may find that he has to make some difficult guns versus butter decisions.

Now, how does this figure into how he plays his foreign policy? Well, one option might be to sort of build and choose the United States (inaudible) the enemy image to sort of rally people around them. And that's a possibility. Certainly there's that history in Moscow.

But an alternative might be is, in fact, to seek a calmer foreign policy so that you could, in fact, turn your attention and focus more on the domestic challenges. And we just don't know at this point.

A couple of comments on specifically U.S.-Russia relations, and I proceed from the premise that the reset has led to a significant improvement in U.S.-Russia relations and I offer as the point of comparison, August/September 2008 when they hit their low point since 1991. And if you go back to 2008 and the aftermath -- or during the crisis and the conflict between Russia and Georgia, the U.S.-Russia relationship, at that point, was so thin that there is no evidence that concern about damage to that relationship had any impact in terms of restraining Russian behavior towards Georgia.

I think that's changed now. I'm not sure, in a hypothetical crisis between Russia and Georgia, you know, the U.S.-Russia relationship would stop that, but there would certainly be a different debate in Moscow today because the Russians do have equities in that relationship.

It's also true, though, that the low hanging fruit has been plucked, and now Washington and Moscow face some tougher questions than they had to face in 2009 and 2010. But as you look at those issues, you know, it's not clear to me that there's an

obvious reason why Vladimir Putin would want to turn the clock back to 2008 or turn the relationship upside down.

Let me comment just on a few questions. You know, arms control has been one of the success stories of the relationship. It's now fairly tightly wound up into a ball and linked, fairly heavily, to missile defense. And this is one where Mr. Putin, during the campaign, was fairly strong in terms of saying missile defense is going to be an obstacle to what we want to do. And we'll have to see how he plays that now because if Russia holds to its current position, it runs the risk of looking impotent as NATO goes ahead with its own plans without taking into account Russian concerns.

And likewise, if Russia -- I think right now Russia appears to be unready for further talks on reducing nuclear weapons, but there are a couple of questions out there. First of all, if you look at the new START Treaty, there are certain advantages that the United States has under that treaty, for example, members of non-deployed strategic warheads. That's something, I think, serious Russians worry about.

And if the ambitious arms modernization plan that was outlined in the article two weeks ago can't be met because of the other demands on the government budget, does that make the Russians more inclined to say (inaudible) we'd would like to get back into some kind of an arms control exploration.

So, there may be -- and I say "may," I'm not certain -- but there may be incentives for the Russians to engage in a more productive way on arms control, probably though not until 2013 because I think they want to see who wins our election in November first.

Second, economic relations between the United States and Russia, I thought it was interesting in an otherwise fairly hardnosed article on foreign relations, Putin, when he talked about the economic component -- investment, trade, commercial

relations between the United States and Russia said, they really aren't what they should be. It should be more, which is the same view here. You know, how do you develop those relations in a way that give some ballast to the relationship, in the same way that the economic interaction between the United States and China cushions the relationship against political problems.

And it'll be interesting to see how that develops. You know, my own sense is, that's probably not going to be changed so much as a result of U.S.-Russian interaction. It will really turn on what the Russians and what Mr. Putin do in terms of reforming the business and investment climate within Russia, creating things like rule of law, contract enforcement, reducing corruption, and such.

A third set of questions that will be on the agenda is how do the United States and Russia manage some differences. One is Iran. And I would first start by saying, in fact, the Russians have come a long way on Iran. When I was still in the U.S. Government back in the first Bush Administration, the idea that Russia would, at some point, vote to support a total arms embargo on Iran, just, you know, no one would have thought that was realistic. The Russians went that far.

But I think we're, perhaps, getting to the point where U.S. and Russian positions may diverge. And that's due to a couple of reasons, one of which is the sense of urgency. In Washington, the idea of a nuclear-armed Iran is a nightmare scenario, and just look at all the talk you've seen in the last two weeks about possible military action.

For the Russians a nuclear-armed Iran is a bad thing, they don't want to see it but they've had a relationship with Tehran since 1979 that the United States has not had and they figure that diplomatically they can manage that problem. So, there's a different sense of urgency there and they also (inaudible) interested state that they don't want to sacrifice.

Syria's a question now and probably one of the hot issues on the U.S.-Russia agenda. There are a number of reasons that are behind, I think, the Russian position. One is they look at the Middle East. They don't have many allies there. Mr. Assad is one. They're reluctant to throw him over.

Second -- and I think this is more legitimate reason -- is they're just not sure, if Assad goes down, what comes in afterwards. And I think there are actually a number of people in the West who are asking that question.

A third rationale is there's a little bit of payback in opposing the United States and Britain and France and the U.N. Security Council because there's a view in Moscow that when the Russians did not block the U.N. Security Council Resolution on Libya, the West really took that resolution and stretched it in every possible way.

So, there, I think that's going to be a difference.

And then, finally, the last of the differences, I think, that have to be watched are going to be differences regarding the post-Soviet space where Mr. Putin does not want to recreate the Soviet Union but he certainly wants to have a sphere of influence, and that means deference from neighboring states, things like, you don't join NATO, you do not join the European Union if Moscow objects. And the U.S. takes a very different view with regards to these countries, that they are independent actors, and that sets up some natural frictions there.

So, I'll just close with maybe two or three questions that may govern how the relationship goes in the next 6 to 12 months. First one we'll turn on, are the sides able to move beyond election rhetoric? And the Russians have to start moving now. I suspect that over the next five or six months you're going to see some rhetoric here in Washington in the context of our election, which we may have to move away from, too.

Second question, how do the domestic challenges affect and constrain

the foreign policy, especially in Russia, but also, perhaps, here in 2013? And then, finally, are the United States and Russia or Washington and Moscow going to be able to manage differences, particularly those differences that arise as a result of the surprise, when they're not prepared, when they get caught off guard?

So, I'll stop at that point.

MS. HILL: Thanks, Steve. And miraculously we're actually not much over our allotted time here, which is a miracle for people sitting on podiums where you tend to kind of take control and forget to shut up. So, we're now going to be able to turn things over to the rest of you. We've got until 4:30. And there are many people here who, as I've pointed out before, some of them are escaping at the back already, I guess maybe we said something or they've gone to get coffee, who knows?

MR. GADDY: They're Swedes.

MS. HILL: Right, there are those Swedes. No, our Swedish colleagues are still here. They're going out to check their IKEA prices.

But there's a lot of people here who have been watching this very closely, so we'd also encourage you to share your observations with us. Please introduce yourselves for the benefit of everyone else who is here and doesn't know you, and we're not trying to avoid questions, but we really would like to hear back from the other people about some of the things that they have observed from the election and the events leading up to it.

If nobody puts their hand up -- oh, thank you, Daniel. This is our colleague from SAIS, who's from Italy, but if you could introduce yourself for everyone as well, please, Daniel.

MR. AMORO: Daniel Amoro, Johns Hopkins Center, Transatlantic Relations.

One is a clarification from the professor about the IKEA prices. How do we explain that they're 50 percent more expensive in Russia?

And the second is a question about foreign policy. I follow your reasoning about the Arab Spring, but I ask you, how long can a secular state -- a Christian state like Russia go on with the situation of the Christians in the Islamic countries with this appeal? Because it's not only a problem of strategic, it's also a problem of -- in some ways an internal problem of the Christian Russia, if it is, in your opinion. Thank you.

MS. HILL: Thanks. Any other questions that anybody wants to raise right now?

So, Cliff. IKEA?

MR. GADDY: Oh, I don't know. I don't want to waste time on this. It's interesting. I was just interested in using it as an example of the -- how it looks from the standpoint of the consumer, but it is an interesting question and, in fact, when I accidentally showed this chart to one of my colleagues up in the economic studies, that was the first questions he asked was, you know, how do you explain the difference.

It's interesting; I've traced those prices, as I said, over time. And the Russian prices, they remain completely stable in ruble terms. And, of course, the exchange rate has remained fairly stable, so they've remained steady.

The U.S. prices have changed. They've gotten cheaper. They typically will get cheaper, some of them. But IKEA is a smart business, they know how to set prices, you know, they set them, I guess, on the basis of what consumers are willing to pay and they have kind of a monopoly position on the market. There are Russian big box imitators now, but I think IKEA still has a cache. The U.S. situation -- environment, is much more competitive, as you know, with a different profile, a different segment of the

market.

I'm no expert. I don't know.

MS. HILL: It sounds like --

MR. GADDY: IKEA, by the way, since IKEA doesn't pay bribes, it's hard to attribute it to, you know, the differences as the corruption element. I don't think so.

MS. HILL: There was that scandal that IKEA was involved in at one point --

MR. GADDY: I think they don't take bribes, unless they're very skillful about it, because they make a big deal of the fact that they'll refuse to do it.

MS. HILL: So, it sounds like it's more an issue related to demand and competition? You're going to be on the spot now. People are going to be asking you for -- you're going to have students writing from economics departments all the way and the Swedish colleagues. We have a representative, (inaudible), who's going to be running back and probably writing a letter to the head of IKEA saying, hey, how do you explain the fact that in Russia you have higher prices?

The other question on the foreign policy, I mean, I'll weigh in on this and hand it over to Steve. I haven't really seen the Russian government making an issue about the Christian population during the Arab Spring.

I mean, obviously, this is one of the reasons why the Russian government has an interest in the Palestinian issue because there is, of course, the issue of the Russian Orthodox Church and its claims, as a lot of other churches have, on both property and congregational rights in Jerusalem and at the various holy sights, and of course, Palestinian population, a large portion of that, is Christian.

But I haven't really seen that, actually, interestingly enough, play out in any major way in the stance that they have adopted on Syria. I mean, maybe somebody



else in the audience might have seen this, but it hasn't really been a factor so far.

MR. PIFER: No, I would say the same thing. There does not seem to be any evident pressure on the Russian government from constituencies within Russia on this issue. If it's being done, it's being done very quietly in ways that, you know, aren't visible to those of us who are watching from Washington.

I think the interesting observation, though, more on the internal side here, is that the damage, I think, Russia is doing to its relations with the broader Arab world where you really do have everyone sort of aligned, in the Arab world, against Assad and the Russians are sort of betting on him. And it's interesting because while the Russians sort of focus on this as an issue of dispute with the United States, my own guess is that the U.S.-Russia relationship is broad enough that it can survive that difference on Syria.

But when you look at Russian relations with the rest of the Arab world, the Syria issue is going to be a much larger question and potentially could be much more damaging to their longer interest with those countries. They're betting on the wrong horse here.

MS. HILL: That's certainly what we're hearing from our colleagues on the ground in the Middle East. Brookings has a Doha Center, a center in Qatar, where all the people are looking very closely at Arab political opinion, not just in the Gulf, but more broadly in the Middle East. And they're really seeing a backlash, an angry backlash against Russian policy and a strong feeling that both Russia and China are on the wrong side over this issue, that it's not an issue of North versus South or East versus West. It's not being looked at in Cold War terms on the ground.

There is, of course, a religious aspect to this of the Sunni versus non-Sunni leadership issue in Syria, just as we've had the reverse of this in the Gulf, but for

the most part it's being read very differently on the ground in the Gulf and in the Middle East from how it obviously is being in Moscow.

There's one domestic dimensions for the Russians, however, that isn't, as far as I can see, on the Russian Orthodox side of things. It is that there is a population, a domestic population concern because of the Cherkess, the Circassians, who are a feature of the political and ethnic makeup inside of Syria. This is the North Caucasus populations who were expelled after the various North Caucasian rebellions under the tsar, and many went off into the Ottoman Empire and now today are in Syria and Jordan. There was even, in fact, reports that some of the Cherkess, the Circassian population in Syria actually has to be returned back to Russia, which is kind of ironic after 150 years of being away.

And this actually does have a big domestic component for Russia because the ancestral lines of the Cherkess, the Circassians, are around Sochi and Southern Russia, where the 2014 Olympics are going to happen.

There's already been a pan-Cherkess movement that's been stirred up on a political front and opposition to the Olympics and to the larger development in the area, so this is obviously a bit of a nightmare from Moscow's perspective that these episodes in Syria might have a knock on effect in the North Caucasus, but that's really the only larger domestic issue that we've really seen there.

Jeff and then --

MR. GOLDSMITH: Thank you. Jeff Goldsmith, Open Society Foundations. You've spoken a lot today about the middle class, they want change, Putin, he wants stability, but what about another important group, which is the political elite? Do you see any signs in there that they are beginning to conclude that the current economic and political system is not in their long-term interest? Do you think it's possible for Putin,

even if he wanted to, to try and address some of the middle class concerns without losing the elite?

MS. HILL: Jeff, who do you think you mean by the political elite? This is one of these big questions that we always have about this. I mean, are you referring to the oligarchs? The business community at a certain level? Are you talking about the people who are in the inner circle around Putin? The people who are in the power ministries? What do you have in mind when you ask about the political elite?

MR. GOLDSMITH: I guess I would put it as the current version of Soviet nomenclature.

MS. HILL: A current version of Soviet nomenclature.

MR. GOLDSMITH: Where the people are (inaudible) system (inaudible).

MS. HILL: Well, I mean, this is a tricky question. In fact, we have someone who used to be, Andrey Illarionov, in that group, sitting towards the back, who might have fallen into that definition. So, Andrey, maybe --

MR. ILLARIONOV: (inaudible)

MS. HILL: I said in the past. In the past. Yeah, yeah, you would be. You were a presidential advisor, so I think that's kind of -- so, we'll ask you what you think as well. Because, I mean, there are different groups here. This is what we meant by Russia has become much more diverse. I think it's actually more difficult to even now pin down about who do you mean by these elites.

We had a meeting here, a roundtable, actually, just in the last couple of days where everybody was banding around the term -- they kept talking about the power elite and, you know, different elites. And actually many of these people fall into what we're calling the urban middle class here would actually fall into the old definitions of the Soviet elite -- journalists, professionals, white collar workers, university students. Those

were all under the old elite under the Soviet terms, under the Soviet definition. So, they're clearly in a different place entirely.

But if you're meaning the people round them, and there's lots of talk about basically individuals in and around the government, we have Alexei Kudrin, clearly somebody who falls under that power elite, see many out on the streets talking to the opposition, presenting a different viewpoint when Medvedev was very much the focal point of the presidency and the tandem groups around Medvedev pushing for more change. There was one of the arguments in the run up to the presidential election that if Putin did not, basically, demonstrate that he had sufficient popularity on the popular bases, it was one of the underpinnings of his role as the arbiter among these political elites, that if he was -- he demonstrated, in fact, that he had a lower percentage point, that this would really undercut his role within the system and it might lead to more demands about, well, why not have somebody else play this arbiter role.

But the main point that we -- or I and maybe Cliff and others, I mean, maybe they'd like to come in on this -- have seen, that you still have this tight, circle of people at the very top who are running this system and one way or the other, these guys are all tied together. There seems to be no incentive on their part to change this. And this is why we're seeing, really, the upsurge in opposition from the grassroots on these lower levels of people wanting to see this change.

I mean, my argument would be that I personally can't see any change unless Mr. Putin decides himself that he is going to change this and the people immediately around him. He's had four years in which he was supposedly to hand off to sharing power with Mr. Medvedev. He said this multiple times himself. But Medvedev was an integral part of the tandem. He was the new generation. He was supposed to bring modernization, innovation. He was supposed to be bringing more of a pluralism to

the system, more debate, and he was going to be the beginning of bringing more and more people into the system to broaden the space of the elite to give people more choices, and we haven't seen any evidence of this.

Cliff, do you want to pick up on this at all or Steve? Your points? I mean, I think it's a really very difficult question about, again, and it may sound like we're punting this here, about what do we mean by this elite? And certainly sitting here in Washington, D.C., here are a whole myriad of rumors of oligarchs like Mr. Prokhorov and others who were dissatisfied, who want to see something different, who were dipping their feet into the political waters.

And I think we'll hear more and more of this as we move away from the presidential election given all of the strains in the system that we're talking about here, so I think it's the time that we're going to be paying close attention to how things are going to be shaking out after this.

The big question is really whether he changes the composition of the cabinet when he gets into the presidency and whether there are any really new faces or we have talked today was Mr. Prokhorov might be found a position in the government. But is that real meaningful change? Does that mark a shift in the power elites?

I think that's a question. I don't know, Andrey, do you want to say anything on this?

MR. ILLARIONOV: Thank you. First of all, I would like to congratulate Cliff with providing wonderful ammunition for Mr. Putin's propaganda campaign about the Western conspiracy against Russia because your IKEA Index is a perfect weapon for that because Mr. Putin can say right now that even modest Swedes are able to exploit poor Russians with a 50 percent margin on their products.

So, what should we expect from all --

MR. PIFER: Good going, Cliff.

MR. ILLARIONOV: -- terrible Brits and especially Americans? So, that is why he -- but I'd like to bring one more issue in the debate that has not been mentioned, it seems to me, neither here nor in any other place before.

The legality of what has happened right now, not about the legitimacy, but about a pure legality. I understand that none of you is a legal expert, nevertheless there is some -- I mean, in a strict sense maybe you are, Fiona, but just -- I would be -- in this case --

MS. HILL: I'm looking at a lawyer sitting in the front here --

MR. ILLARIONOV: -- to hear. Because according to the Russian Constitution, as everybody knows, the Article 81 says very clearly that nobody can occupy the position more than two consecutive terms. And it is interesting that it's not only views have been expressed by politicians or some kind of observers, but also there are two decisions of the, first of all, Constitutional Code of Russia, November 5, 1998, which clearly says that two terms constitutes an upper limit for anyone to serve as a president.

The decision of Supreme Court of 2001 actually reiterates this position, which says very clear that it doesn't matter whether it is two consecutive terms or two terms, it's very clear it's the same. It's impossible to be more.

In year 2009, (inaudible) official book that is published by (inaudible) chair of the Constitutional Code says very clearly that two terms for president, it's upper limits. No more.

So, that is why the view of the specialists in constitutional law in Russia are very clear. That's finished.

What is interesting that in three more European countries we have very

similar provisions in Austria, German, and French constitutions, in all of them they have the same or very similar provisions, that is the two consecutive terms for the president and that's all.

In a discussion with the professors and specialists in constitutional law from all those countries they interpreted it as very clear, two terms, that's finished. There is no possibility to be elected for the third term regardless of whether it will be with the break or without a break.

So, my question is, it seems to me it's some kind of -- looks like a universal understanding of these constitutional provisions within Russia as well as outside Russia and we have such an interesting historical case to analyze. So, my question would be to you why it has not been so well discussed in the same kind of (inaudible) and why it's not being discussed by you, why it's not discussed everywhere?

MS. HILL: Well, I think you just put your finger on it. It's because there's a lack of constitutional legal experts, although we actually have one sitting here. We have Will Partlett, you might actually have seen some of his commentary on the website, who is actually working with us at Brookings and is actually engaged in a project here on the Russian Constitution and is actually parsing Valery Zorkin's every word and utterance since 1990. You can tell he's a busy guy because Mr. Zorkin, as you point out, has put out an awful lot.

Now, I actually remember, just on a personal basis, from the 1993 Constitution, which you may remember the whole debate yourself, there was a big debate in Russia back then as to what was going to be the model of the constitution. And France and the United States were both, at least, basal models for looking at the issue of the presidency.

And I do recall from that time those very debates about whether that was

a two term constitution, that's it, even if you left and then came back into the presidency, but I'm afraid that I'm unable to answer this last question. And I think that's exactly why you're not seeing so much of a discussion.

I'm actually going to ask Will if he has some observations. We'll see actually how much research he's been able to do over the last weeks and what conclusions he's come from. And I think we'll be able to actually put this question to quite a few other people because I'm actually not sure how many people are looking at this and I think it's actually a valid question. And obviously it's one that if there is some real basis in this, we'll hear what Will has to say, could obviously be used by the opposition and many other people in the elites that Jeff is asking about.

So, anyway, but --

MR. PIFER: Just one observation, though, I think for me, I'm not sure about for Cliff and Fiona, this is the first time I've heard it. I'm not a Russian constitutional expert, a legal expert. This is the first time I've heard that point. You have -- I have not seen this point coming out of any of the Russians who are demonstrating on this question.

So, my sense is, if it's not being raised in a significant way within Russia, you know, other countries outside are not going to challenge the question.

MR. ILLARIONOV: If I may add a word because there were several dozens of attempts to request constitution courts to comment in this particular situation in Russia, and since all of them have been rejected without any consideration by the current Constitutional Court, which is actually a good indication because it means that they do understand that those points are valid, so those who actually put those requests, they're probably right in these current political circumstances.

So, that is why, even if constitutional judges in Russia right now are



extremely shy, in any case it's an indication that they do not agree with these -- some kind of the temporal interpretation of the constitution by a few people.

MS. HILL: Will?

MR. PARTLETT: I think it's interesting that -- I hadn't actually heard that either, but that if you look, Valery Zorkin's written two pretty high-profile political articles in the last two months and he hasn't mentioned that. And if it is in his book from 2009, it's interesting that he chose to completely ignore the fact that he actually believes that there should only be a two term top to the -- but it does seem that he is aligning himself pretty closely with Mr. Putin.

Cliff and I have actually found that he and Mr. Putin have watched soccer together and that the relationship between Valery Zorkin and Putin, I think, particularly when it comes to the way that they both view federalism and a unitary state and, you know, reasserting kind of a vertical of power and legal power from the center down, they both agree very clearly that the Russian Federal Constitution should apply across the entire 14 time zones of Russia.

So, I do think, from a constitutional view, I'd think, at least with Valery Zorkin comes -- I think they're very close and I wouldn't think Valery Zorkin would ever publically, at least, say that it's unconstitutional for Putin to take up a third term.

MR. GADDY: Will, why don't you call for Medvedev's call for a Constitutional Convention that you told me about?

MR. PARTLETT: Yeah, and the other interesting legal development is that just on Monday, just after the elections, Medvedev has introduce a bill into the Duma to call a Constitutional Assembly to revise the constitution. So, there does seem to be at least some movement on constitutional political reform. And this is something that Zorkin himself had talked about in one of his articles as, you know, the idea that any changes

that take place in Russia need to be done legally, within the law, that none of this kind of extra legal action, revolution, et cetera -- it should all be done through legal channels. And, again, whether this is serious or just a blocking tactic is unclear, but I do think that, you know, there is at least some move on the legal front.

And it's interesting to see how legal elites in Russia are really backing this up. Members of the Duma and members of the federal bar in Moscow are pushing hard on this, too. So he does have a -- there seems to be a kind of -- legal elites, if we talk about different parts of the power elite in Russia, I think legal elites are playing a much bigger role, perhaps, than they ever have and they might actually be getting more - - they might be getting listened to more by the elite, by people in power in Russia, maybe, than they have in the past. And whether that will continue, I guess, is an open question.

MS. HILL: But it's not necessarily picking on the subject that you're raising here, Andrei, but I guess this is another thing for -- now that you've put all of us on alert, we'll all be brushing up on our Russian constitutionalism and trying to figure out what's happening here.

But, again, that's one of the problems. We don't have enough people, certainly here and elsewhere, to basically comment on this. And as Steve is saying, if it's not being picked up in a really major way in the Russian political sphere by the opposition, then it's a bit hard for the people. But, you know, we'll watch this issue now because you're obviously flagging this, as you usually do when something is about to come over the horizon.

Rich (inaudible) and then I'll bring it over to this lady over here.

SPEAKER: Rich (inaudible) from George Mason University. One thing that's been touched on but I think really needs to be addressed among the category of Putin's commitments before the election has to do with doing something about corruption.

And, you know, I just wonder what your sense is as to what he's going to be able to do if, in fact, it means going after interests that, up to this point, have supported him. Because some of the things that he's talked about, I think, run the risk, for him, of undermining this very carefully assembled system of economic and political influence.

Second is more of an observation. If the domestic political scene has changed radically since the last time you ran for election, I would argue the international energy situation has changed radically. And my question, I guess, would be, given the fact that you've had these shifts in the global gas market, which have undermined Russia's dominant position, perhaps, over the longer run in Europe, what about the oil sector where, Fiona, you could remember the debates we used to have about has enough investment gone in to the oil side of the Russian energy sector to take advantage of the higher prices?

MS. HILL: The lady here had a question. I'm just going to collect a couple more. Tesia? Thanks.

MS. FOX: Thank you. I'm Katie Fox from the National Democratic Institute and my question is: why do you think that the protests over Sunday's election were so much smaller than the previous ones? And also, assuming that Russia really has changed and there is a grassroots -- more of a grassroots support for reform -- how will it be manifested next? Is there going to be an economic shock or is there a political issue in the near future that you see? And how would you see Putin responding to that?

MS. HILL: Steve, do you want to comment? And then I'll -- you want to pick up on any of these?

MR. PIFER: Corruption, I think this will be more for Cliff. On the corruption point, I guess that is probably, if I look back (inaudible) when Mr. Putin became president, it was the thing I was most surprised about. Because Putin, when he came in,

talked about corruption and he seemed to have the back on us and he was going to attack it in a very serious way, and if you look over the last 11 years, I mean, there has been no effort. I mean, pretty much by anybody's measure corruption has increased tremendously.

That seems to be part of what these protests are about is just the unhappiness on the part of the urban middle class with having to deal with corruption day after day after day.

And that would be really interesting. I think it's very difficult for Mr. Putin to tackle that in a meaningful way given the group around him has benefitted from that, you know, unless he comes up with some sort of a magical scheme to say, okay, we're all going legit from now, and just draw a line. But that's awfully hard to do and it's awfully hard to see him doing it.

MS. HILL: Any thoughts on the protests and grassroots manifestation, you know, where next?

MR. PIFER: Well, I think we watch and see what happens on Saturday to see -- I mean, there was a certain calculation, which I think was a smart calculation on the part of the government back in December not to challenge the demonstrations, to let the demonstrations go ahead as long as they took place under the permitted rules. It seemed like the police had clearer instructions, be there but don't engage in anything.

And there was, perhaps, a hope there that these demonstrations would plateau and then drop out, and the government is now going to be watching very closely what happens because that's being taken as a significant metric for just how deep the dissatisfaction with Mr. Putin is.

MS. HILL: Cliff, do you want to come in on these issues and then I'll cover some of the questions on the energy? If you want to touch on that, too.

MR. GADDY: On corruption, I suppose there's so much corruption at so many different levels in Russia that you could conduct a campaign, an anticorruption campaign, that would serve your purposes, I'm saying, put yourself in Putin's shoes, without necessarily undermining, which I agree that corruption is at the heart of the whole system -- without undermining your own system.

Putin's whole -- with my colleague Barry Ickes, we describe the whole system of political economy in Russia as a rent management system, managing the oil and gas rents. And done so, we traditionally think of -- and everybody will talk about revenues, non-oil/gas revenues to the budget and spending of the budget, it's always about what we describe as that's just the formal side of things. That's the top of the iceberg that sticks above the water that you see.

What characterizes Russia, to some extent exist in any resource-abundant economy, but it's really more exaggerated in Russia than anywhere else simply because the rents are so important for that economy and because of the Soviet legacy. A lot of the rent is distributed informally. There are a whole range of ways in which it's done, excess cost, there's also kind of informal taxes where corporations are expected to put money into public projects without it being tax revenues that they have to pay. They're expected to voluntarily contribute and the Russians always call it, yeah, compulsorily voluntary contributions. And that's a well-known phenomenon.

There are certain hidden subsidies and so forth. These are, if you like, hidden rent and the management system of this, this is what keeps the whole country together and keeps the various constituencies happy. As long as the rents are growing, it's the usual story; you can parcel it out to many different ones without running into problems. When they don't grow, or even worse, when they begin to contract, then you run into real tensions and tradeoffs. You have to decide who's going to get what, and I

think that's going to be an issue, among other things, for this new middle class. Are they going to get their share?

In that sort of a situation, in particular, as the manager of the system, you have to be very concerned about whether -- about the efficiency of your distribution system. Are the goals that you really have set -- whatever they are, and we can talk about Putin's goals -- but those goals, are they being served? Are the rent -- is this flow of wealth going to the purposes you want it to go to?

And along the way, all kinds of dissipation occurs. Rents are leaking out of the system and into the pockets of various people. I think that that's been more or less accepted, again, because the rent flow has been so massive.

If you are really concerned in a tight situation about making it more efficient, an anticorruption campaign fits well into that. It's essentially saying that, there are forms of corruption by some people in the system that are not only tolerated, that's the basis of the system. There are other things you shouldn't be doing. You shouldn't be stealing from the intended purposes. It would be like tax evasion. And it is, in effect, tax evasion, just informal taxes that are being evaded. And that's been a problem. Putin's known about it. He's talked about it before, and he could get serious about it, and he wouldn't be sacrificing anybody that he really cares about, and he would be sending a message to everybody else to shape up.

So, I think to the extent that he can distinguish between these two, I can easily see him conducting kind of a brutal anticorruption campaign without really touching upon the bigger corruption, if you like, that's existing in the top circles.

MS. HILL: There's one dimension of this corruption issue that's obviously, as you're alluding to, as playing into the protests, and this is the phenomenon of raiding corporate entities below the tops of, I mean, what Jeff was referring to, these

sort of power elites where the political and economic power is fused, the kind of untouchables in the system, only touchable by people within the inner circle.

And you're really seeing in the protest movements, as, you know, we've heard in discussions with people about the successful business people who have been -- the entrepreneurs who have built up something from scratch and then it being predated upon by others within the system who see that they have had a successful operation and want to take it over. And then they actually use some of the anti-corruption campaigns -- I mean, the classic is what's happened with Sergei Magnitsky, Bill Browder, and Heritage, you know, that's got most of the attention here, but there are so many other stories about this that don't involve Western or international companies and U.S. and British and other investors, but that involve Russian businessmen who have set something up and then have had their company taken away from them and found themselves in jail accused of fraud and corruption.

And it's a lot of the people associated with them who are now protesting on the streets and asking for something different. And this is where you're getting a lot of the backlash within the system.

But as Cliff has said, this is all built into the system, and to really tackle that, that's going to be very tough because a lot of these people, the base of the support of this system, because it allows them, in fact, to carry out these raids on other peoples' business property.

But this is another example of why people are so angry. You have the petty corruption at the level of bribe-taking among the police, even the police backlash against this. You have the corruption of privileges. The whole system is built on privileges and access.

I mean, if you have something the Kremlin Property Agency that doles

out access to doctors and hospitals and cars and planes and gives people permission to drive around with a blue light on top of their car. Many of you will have seen the Blue Bucket Brigade. We talked to someone who had joined that dispute -- it was a bicycle rider, an incredibly fearless person, to ride a bicycle around Moscow who put a blue bottle cap on top of their helmet so they became the blue bottle cap brigade, to join the protest and got all kinds of praise for doing this.

I mean, the system is rotten, frankly, to the core on so many different aspects. So, once you start to really tackle it, you have to basically dismantle the whole thing, which seems somewhat unlikely, but it is a definite part of the protests.

And I think, you know, getting to your question, Katie, this is going to be really where we see how much legs these protests have, because a lot of the protests are against this kind of institutional distortion. I mean, the lack of the kind of questions of legality that Andrei was talking about at the constitution level, but really going all the way down where rules are not just not enforced, but they're used and applied against people who are otherwise law abiding citizens and who deeply resent the use and abuse of the law rather than the rule of the law.

It's all of these instances of corruption where people just find their lives upended as a result of these difficulties of just simply getting ahead. And this seems to be what the bulk of the protestors are really demanding, which is a change. And it's not just the new generation of protestors, but it's also the people who have been supporting the Communist Party, who have also been demanding more of a predictability and more of the actual enforcement of the real rules that are actually on the statute books, and actually many of the Russian Nationalists, as well, who are asking for the same kinds of issues.

So, as the system continues to rot I really think you'll see more of this



and it really will be these trigger points where people feel that the rules have not been enforced and where there's been arbitrary application or there's been deliberate distortions, because that's what really we saw in the election in December. People were angry about the fact that the system didn't play to its own rules, the rules that they actually said that they were upholding.

And even Mr. Zyuganov has actually come out with really, for him, quite strong statements in the wake of the presidential election on these topics.

It really depends on how much people get activated on this.

John, I think you've had a two finger on this point?

MR. EVANS: John Evans. I'm a Putin observer from St. Petersburg days.

I just wanted to alert people to a very interesting article that came across around 11:00 this morning on the second version of Johnson's List by John Helmer, who's a long-time observer of the business environment in Moscow. And he points out something that people have missed. Between Christmas and New Years there was an order promulgated by Putin for state organizations to report on their dealings with certain of the oligarchs. And it looks like an attempt to do an end run on Mr. Navalny's points about -- and the state organizations were, according to Helmer, to report back on their dealings under penalties of certain things happening.

So, I recommend having a look at this article. I believe it was in *The Asia Times*, but it was in the second Johnson's List from this morning. Thank you.

MS. HILL: Cliff.

MR. GADDY: I just wanted to say, yeah, the order is that all of the companies involved have to report the interest of the corporate officers of these corporations, their spouse's, their sibling's and their children, with companies -- affiliated

companies, companies that have any sort of business relationship with the main company.

And so the idea is to find out how -- you know, if these sweetheart -- allegedly -- to find out the pattern of these sweetheart deals and so forth.

Number one, like a lot of information collecting -- let me put it this way, a lot of collecting of information about business practices, financial information, and so forth, goes on in Russia. The question is, once it's collected, what happens to it? And Putin got his start in Kudrin, in Moscow, in 1996, with doing exactly that sort of a thing. That was the source of their power, really.

Second thing is that it's very interesting to note that one of the companies -- you would expect that there would be some obvious candidates to be on a list of state connected companies. Rosnefts is not among them and Putin apparently claims that he asked Mr. Cechin, who's in charge of this list, if Rosnefts would be on it and he said, no, it's not.

MS. HILL: Your last point, though, about taking up some of Mr. Navalny's points, I mean, this has also been something that we've seen repeatedly over the last several months. I mean, again getting back to Katie's question about, you know, how do things manifest themselves next.

The Kremlin has been very quick to try to pick up on many of the abuses of the system that get people angry and get them on the streets. After the Blue Bucket Brigade took off and all the protests about people with the blue flashing lights, you know, basically killing people as they're driving at great speed down the Moscow throughways, they actually did a similar thing, they asked for an order of all the people who had the blue lights and did people have an accurate, proper license for them. And then there was a lot of public display of people being chastised and punished for misappropriating a blue

light and not having the proper license for it, because it actually got people really angry.

And for a long time it looked like Navalny's blog was being followed very closely by the Kremlin and trying to pick up on some of the issues that were getting him excited and other people excited.

So, I mean, this is something that one would anticipate. If Putin is trying to pick off the agenda's of the protestors, trying to make the protests dwindle by really sort of seeming to pick up on these things that are getting people the most angry.

We saw a very similar phenomenon after the huge protest, the last set of huge protests, which was against the monetization of benefits. I mean, if you recall that, it was vast numbers of elderly ladies, you know, everybody's grandmother and, you know, aunts and everybody else on the streets protesting that. And the government was very quick to try to respond to that to diffuse this.

So, as much as they can, they will seem to appropriate those agendas. I think our question would be: is that sufficient? Because that's what they've been doing all along.

Putin has been presenting himself as the man for all seasons, the man for all candidates. He's the social Democrat, he's the Communist Party, he's the Nationalist, he's the liberal Democrat, he's the this, he's the that.

And what the protesters are about, though, is they don't really believe this and even if he does appropriate the agendas, are they still pushing out there for the real McCoy, the real candidate that picks up these interests.

So, I think that really is the test of the system now.

There was another -- Jeff, do you have a related question?

MR. GOLDSMITH: Not really.

MS. HILL: Go ahead, though.

MR. GOLDSMITH: Okay. If I could, I'd actually like to shift back a little bit to foreign policy. Steve, I think you were quite right in mentioning Iran as being one of the real potential obstacles to the maintenance of a close U.S.-Russia relationship over the coming months and I'd like to maybe throw another variable in here which is, you know, we had Mr. Netanyahu in Washington a couple of days ago and there was a lot of talk, both in his meetings with the President and then publically, about the possibility of military action against Iran, whether by Israel or by the United States.

Putin has said, you know, the consequences of that would be catastrophic, that it's something that should be avoided at all cost.

Nevertheless, it looks like we're getting closer and closer to a situation where that's, at least, a realistic possibility. So, my question then is, what would the consequences be for Russia of military action involving Iran and specifically on relations with the United States? And then, what can be done before there is a real crisis involving Iran to sort of ameliorate some of those consequences?

MR. PIFER: I think one consequence may well be, you know, if one of the after effects of that conflict is, if not a closing, but at least making transit through the Strait of Hormuz more difficult for oil, is the price of oil may go up. So, there may well be people in Moscow who say, this is actually a good thing, because the price of energy goes up, that means more money for --

MS. HILL: Back to Rich's question. We've forgotten to answer.

MR. PIFER: But I think, though, in political terms, in geopolitical terms, again, Russia's looking at unattractive options here. I mean, they don't want to see Iran with nuclear weapons, but also the military conflict I don't think advances their geopolitical interests, for a couple reasons. One is, Iran is, you know, the one country in the Persian Gulf that they have a decent relationship with. Military conflict is going to

have a negative impact on that.

But second, it's hard for me to see what Russia does, and I suspect that in the event of a conflict, you know, Russia will say some things and there will be loud protests in the U.N. Security Council, but in real terms, Russia's going to end up sitting on its hands, and that is, I think, unattractive to many in Moscow because it shows that Russia really, you know, is not at the level where it sort of can impact every major crisis, that it really is ignored that it's somewhat impotent in that kind of crisis.

But there's no real option for them to engage in this, so the Russians, I believe, don't look at a crisis, a military conflict, as something that is going to be good. Plus they also just say, you know, once that conflict begins, and even though there may be an intention either on the part of Israel or the United States to try to limit it, once you start dropping bombs it spins off in different directions and who can say where it's going to go.

So, their commentary on this, I think, reflects a genuine unease about the prospect.

MS. HILL: They could also, I mean, depending on how this evolves further in the wake of the visit here and our and the European's determination for another round of sanctions, have to recalculate the positions that they've undertaken so far, as Steve is alluding here. And I think Russia's been actually pretty consistent in many respects, its policy around its most preferred outcome is just to keep things as they are. They really do not want to have anything precipitous and when they have joined with the U.S. and with Europe in terms of a harder line, I mean, it's really because of this great fear of Israel basically doing something.

And the last time around it just seemed to be that, in fact, I mean, where Netanyahu made his own visit to Moscow behind the scenes -- it wasn't so behind the

scenes because people found out about it, but in any case, the Russians actually talked about it -- but they were clearly impressed at the time that this was a very serious.

Over the last several weeks they've been vacillating, wondering whether all this talks means this is just a bluff. I mean, Moscow is really trying to game the situation here and figuring out whether they have to try to take any action precisely because they fear all of the consequences that Steve has outlined.

They're also looking to how does everybody else react in the region. How do the Saudis react? What's the German and the other European position?

So, I think for Russia, this is a real dilemma here. They obviously do not want this scenario. They have great and, I think, justifiable concerns about it. And the impact on the energy issues, getting to Rich, it only has a very short term benefit.

I mean, I think as Cliff has, I think, made abundantly clear, the more that there's upward pressure on oil and gas, yes, that's beneficial for the Russians state budget, but it isn't beneficial overall for the Russian economy because of all the knock on effects globally. And Russia still hasn't been able to entirely capitalize on this increase in oil prices when it comes to its own gas sales. I mean, they're still trying to wrestle the Chinese to the mat about a gas price. They haven't been able to pivot, to sell oil and gas so easily to Asia as they had anticipated precisely because of these shifts in global gas markets.

And if the rise in oil prices makes the crisis in the euro zone even more acute, then that has a really serious knock on effect for Russia because most of the foreign direct investment is not just coming from Sweden, it's coming from the rest of Europe and this will really impinge on European companies.

So, getting back to that question that you'd asked, Rich, that we didn't address, this isn't a very promising picture and, as Cliff has pointed out, the position of

the opposition on the middle class is also dependent on that boost in the Russian economy, which doesn't look like it's coming either.

I mean, really, the picture, just like for the rest of us sitting here, is not that rosy for Russia, even though the economy is quite robust. There's all of these knock on effects in the domestic politics.

MR. PIFER: There is one other factor which is out there which -- and I'm not sure exactly how it plays into the calculations by the Russian government, but in Israel you have probably, what, a million plus Jews of Russian descent with the emigration wave that's taken place since 1990. That's got to have some impact, although I'm not quite sure how that plays. But presumably that group, that population, to the extent that Iran has the capability and then does retaliate against Israel, that that population is going to be at risk.

MS. HILL: Well, that relationship has shifted really dramatically over the last several years. There's a much closer relationship now, as we all know, between Russia and Israel than there was before, which has given Israel more leverage inside of Russia, but also gives Russia now much more of a stake in Israel, a very different stake from the past in the Middle East.

So, I think on all fronts this is going to be a very tricky set of developments for Moscow and Mr. Putin to handle.

Another -- the gentleman here in the purple shirt?

MR. NOTTHAM: Hi, Gary Nottham. I'm a graduate student at George Washington University. We've talked about sort of the internal business elite and the oligarchs. I'm just sort of wondering, what about that Russian Diaspora, not only in Israel but other First World nations, North America and Europe, this sort of business elite that's been living abroad for the last 10, 15 years? Is there any way to see any shifts in where

they're throwing their money? Are any of them now interested in either supporting an NGO, transparency organizations, or getting back into politics now that they're sort of seeing some winds of change? Is there a role for that sort of community with all that money to be played in Russia now that you might not have seen six months ago?

Thanks.

MS. HILL: Thanks. And then we had a last question, the gentleman at the back of the aisle.

MR. FANUSIE: Yes. My name is Yaya Fanusie. I'm the lead person for the Special Operations Division, Niger state of Africa, 2017 Project Task Force. But I'm not going to ask a question or comment dealing with that. I'm going to ask a question because I think Brookings have to do a modification when you're doing a presentation.

You guys are expert in what you're doing, but the certain question came up like power elite, political class, but because you are not a Ph.D. in political science or political economy, you do not understand. So, it looks like you -- there's a short come. So, I would suggest that when you have anything that you bring a panel -- a panelist who is an expertise in those areas so they could give a total picture, because the things that you are explaining, somebody who has a Ph.D. in political science, somebody who's studied Soviet (inaudible) and Eastern Europe, make like you are not competent. That's what I did. Okay?

So, I'm watching you here.

MS. HILL: Do you have a comment on the political elite? I think many historians say, yes, guilty for not being a PhD.

MR. FANUSIE: All you need to say, that is not your area of expertise is somebody in the audience who could do that. Thank you.

MS. HILL: Well, the political elite question, actually, as most people



sitting here will know, is actually a very complicated one in the Russian -- it doesn't take a PhD in political science to know that. The political elite, the concept of political elite in Russia has actually changed dramatically over the last several years and this is actually part of the reason why we're having, as a whole -- why Mr. Putin himself, is having a great difficulty in deciding what is happening to his country.

Just recently down at CSIS, there was a very interesting gentleman, Michal Dimetriev, who was here, many of you might have gone to listen to him, who was a social scientist from Russia and who actually said the elite in Russia is completely different now in the last ten years than how it was before.

So, the problem is one of defining who you are talking about, which is why I asked Jeff the question to say, well, who does he have in mind? Because every single person is asking a different question about who the elite is and they have something different in mind. Some people mean the Russian oligarchs. Some people actually mean the middle class. Some people mean the old Soviet nomenclature, which is what he said, which is why I pointed to Andrei Illarionov, who has left us now, but who used to be a presidential advisor.

So, in actual fact, that question of the elite is much more complicated, just to give ourselves some fairness.

But we're not Ph.Ds in political science, but we are PhDs in economics and in history, so, you know, we can't have everything, unfortunately. Just like Mr. Putin can't have everything, sadly, even at Brookings. It's not possible, but we did bring Will Partlett, who's a constitutional scholar. We didn't anticipate Andrei Illarionov's question.

MR. GADDY: I think that's a totally revolutionary idea that somebody in a Washington think tank should limit themselves to things they actually know about.

MS. HILL: We try. We try. We did try.

MR. GADDY: That's the whole point of being here, you know, you can talk about anything.

MS. HILL: We know something, we don't know everything, and that's the whole issue that we're raising here today, that sadly, even if you are the President of Russia, you cannot be omniscient and have everything that you know, just as we, cannot, at Brookings either.

But there was the question about the Russian Diaspora and the business elite. I mean, again, this is getting back to the elite question, a question of who you mean. You know, there are various oligarchs who have made themselves fixtures on the Forbes top fortune lists who have bought property in the United States, people like Yuri Milner, who are large investors in Facebook and what role they play, are the kinds of people that I was talking about, the self-made entrepreneurs on the smaller scale of people who have made businesses and have been predated upon in Russia all have moved over here.

And actually what you've started to see in the opposition is this different class of the business elite, you know, people who might not be oligarchs, billionaires, but might in fact be millionaires, are actually starting to now play a role in politics. Some of the opposition is actually getting some of its funding explicitly from these smaller business people who feel predated on by the system, who are not happy about it and would like to see a change, they want to see the enforcement of the rules, so they're actually trying to support a number of the opposition candidates.

And then, of course, we had Mr. Prokhorov explicitly jumping in to the political campaign, trying to take the helm of one of the political parties back in the December -- before the December parliamentary elections, running his own campaign as an individual candidate in the presidential election, getting 7 percent of the vote.

And a lot of these business elites are now international. There are people who have -- Israel is a classic case in point. There are a lot of Russian business elites who have businesses that are rooted in Israel, particularly in software in the high tech, who have connections back in Russia themselves.

But you were also asking a question about the Russian Diaspora and there are now various estimates about how many people have left Russia over the last decade or so, and Cliff, maybe you might like to come on this, because it comes back to this question where we really started off about this new urban middle class.

There are different figures for this, you'll hear this from different people. Some people will say more than a million Russians have emigrated during this period and then others will say that more than four million have left, clearly that's a different number.

So, there are people who have emigrated and taken up other citizenship, and they may have also handed in their Russian citizenship, there are also people who are working overseas in Europe and here in the United States. The U.S. Government, for example, gives a figure of 40,000 Russians on working visas in Silicon Valley, for example, in Palo Alto. And there are similar sorts of figures in London and in Paris and in Berlin of people who are working there, and these are not really the people who are playing politics.

The people who are out on the streets on the opposition are the same kinds of people, they decided not to leave, who wanted to stay in Russia and wanted to see things change.

And so far there seems to be some evidence of similarly elites who have been living and working and studying elsewhere who are coming back and trying to see where this movement goes. But you have a lot of different categories of people that you're talking about and Russia has a huge Diaspora now on an international level and

it's very hard to get an exact figure, contrary to the gentleman's request. No one has a good figure on this, not the World Bank, not any -- even the Russian government itself, of how many people are actually physically, permanently living overseas because many people have returned their citizenship and their passports, but they're clearly not in Russia because they're actually living and working somewhere else.

And this is going to be the challenge for the Russian government in the future is how to bring back many of these people in the Diaspora who are still nominally Russian citizens but have not been living in Russia for the past decade because they've chosen to be somewhere else.

MR. PIFER: Fiona, two points, one which Cliff is probably -- well, is a lot smarter than me on, but, you know, one indicator might be what happens with capital outflow, which I think some of the numbers show quite a bit of capital moving out of Russia over the past year. You know, what happens to that? Does that go up? Does that go down? That may be one indicator of at least how the elite and the Diaspora are thinking about Russia.

The other is just kind of an anecdote. When Dmitry Medvedev was in Silicon Valley back in 2010 and he met a number of the Russian Diaspora that were there doing high-tech projects in Silicon Valley, and what I heard was at one point he asked one of them, what would it take to get you to come back to Russia? And the response was: nothing. There is nothing that you could do.

I suspect that if Vladimir Putin had the chance to go to Silicon Valley and meet with that same group tomorrow and ask that same question, the answer would be exactly the same.

MS. HILL: Cliff? Ph.D. in economics?

Well, we'll leave it at that. And we hope that the next time we'll see you

all again. We'll certainly see you around at some of the other things and we'll try to do better next time in finding constitutional scholars and people who can represent everything.

But anyway, thank you very much for coming and joining us today.

Thanks. (Applause)

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