

## **A Conversation with Dr. Anders Aslund:**

### **Collapse, Corruption and Cooperation, Oh My!**

By Melissa Carlson

We live in a world of development and transition; external and internal relations of nations and states are shuffled and reordered as political thought and economic reform change the cards that come into play. When Dr. Anders Aslund spoke at the Marian Minor Cook Athenaeum on October 6<sup>th</sup>, he analyzed the ways in which an evolving political and economic structure has drastically changed the state of Russian affairs since the collapse of the Soviet Union in his speech *Russia's Capitalist Revolution: Why Market Reform Succeeded and Democracy Failed in Russia*. Dr. Anders Aslund is currently a senior fellow at the Peterson Institute for International Economics and adjunct professor at Georgetown University. He has made the economic and political development and transformation of Russia in the post-communist world his main area of focus. Dr. Aslund's research on Russia's economic reform and its effect on its internal organization and foreign leadership points to the steps Russia needs to take in order to ensure continual and sustainable growth.

#### **The Ability to Understand**

When asked what was the most important piece of advice he could give to aspiring international relations majors, Dr. Aslund said that it was absolutely necessary to know a lot about your specific region of interest so you can connect the problems facing that region with the whole of the situation. "I think the dangerous thing about American international relations is that there is too much theory and too little reality," said Dr. Aslund. "I think that one needs to know a lot of languages to be in the field of international relations in order to understand things. Its not enough to only read in a single language."

Dr. Aslund became interested in Russian economics and politics because his Swedish background gave him a geographic and cultural connection to Russia and the Soviet Union. "The Soviet Union was striking, interesting, and different," said Dr. Aslund, "but not so different that it was impossible to

understand.” Even after the fall of the Soviet Union Russia remained a very dynamic and complicated topic for him. Dr. Aslund said he “found it frightening how few relations Russia had because the Soviet Union was so isolated from the rest of the international order.”

### **History of Decline and Euphoria**

The end of the Cold War, the collapse of the Soviet Union, and the subsequent birth of the United States as the uni-polar power is the most important development in international relations in recent history, especially with its implications for Russia. Dr. Aslund characterized Russia’s position the moment after the collapse as being abandoned: Russia was first faced with the decision of whether or not it wanted to align itself with the West (specifically the United States), and then hit with “the stock realization that the West did not want to be a political pragmatist and leave anything to Russia.”

Dr. Aslund then referred Russia’s growth from 2000 to 2008 under the rule of Vladimir Putin. It was from “2000 to 2008 when Russia is coming back economically, but it never becomes more than 2.5 percent of the world’s GDP, which is still very small, only 1/10<sup>th</sup> of the United States in economic size.” However, even though Russia experienced slow economic growth, Dr. Aslund said that it still went through a profound euphoria for which there was no basis. The high point of the euphoria was captured in Russia’s poor management of the war in Georgia. According to Dr. Aslund, the war in Georgia proved that Russia was a very poor military power; it could only handle an extremely weak country like Georgia.

It was after this Georgian slap in the face that Russia was hit with the global financial crisis. Before the financial crisis, Russia had ten years of economic growth at a rate of seven percent each year. After the financial crisis, Russia experienced a decline of eight percent in its economic output. “Russia had thought it was a safe haven,” stated Dr. Aslund, “it did not think it would be vulnerable.” Russia’s growth rate is now at 3.5 percent per year, and it is not likely that it will soon be back at its past growth rate of seven percent.

Even though Dr. Aslund described Russia as facing a “new sense of harsher reality,” he also said that “Russia is not financially bad off; it’s just that its growth rate is much lower than it should be.”

Russia had strong macroeconomic policies before the financial crisis as well as a persistent budget surplus. Russia had established reserves, unlike most of the west. Russia is now coming to terms with its debt, and has become quite realistic and pragmatic about its role in global relations.

### **Speaking of Relations....**

When asked about Russian reform in foreign relations, Dr. Aslund stated simply “Russia basically antagonized everybody under Putin and now wants to build good and productive relations that involve everybody.” Dr. Aslund said that the main thing that improved is Russia’s relations with the United States. President Obama’s recent policy of deeper involvement with Russia has yielded substantial results, and indicates the potential for Russia to join the World Trade Organization in the near future. “Obama has had lots of contact with [President] Medvedev,” said Dr. Aslund. “[Obama] had one breakfast with Putin and wasn’t inclined to repeat that experience.”

Dr. Aslund also pointed to the fact that Russia has not only improved its relations with the United States, but also the three Baltic states, Poland, and Ukraine. However, Russia’s relations with China and Europe are still on shaky ground. “So these are the big changes,” Dr. Aslund said. “Russia is now getting more even because Russia has improved its relations, mostly with the countries it had the worst relations with, and that of course makes it easier. If you were behaving like an animal for not a very good reason it’s easy to improve the relations rather than if they have been recently good before.”

“What we are seeing in Russian foreign policy is a new pragmatism...a new country [that] has a friend and not only interests.” Dr. Aslund continued to describe Russia’s position in foreign politics by saying that “[Russians] have not found their place, but they look opportunistically and pragmatically forward for opportunities.”

### **An Authoritative Economy**

Dr. Aslund described the Russian economy as a raw materials economy dominated by state corporations and big oligarchic companies. Companies can be confiscated by the authorities or take over

by other private people at the drop of a hat, allowing for someone to lose their enterprise without being fully paid for it. As stated by Dr. Aslund, this economic structure does not allow for hardly any competition “and therefore prices are very high in Russia.” Dr. Aslund would like to see a free market in Russia so that there would be more competition and in practice market efficiency.

After describing the current state of Russian economics, Dr. Aslund reflected upon the privatization process initiated after the collapse of the Soviet Union. “The problem,” Dr. Aslund stated, “was that there was too little shock therapy.” “Shock Therapy” is a type of economic reform in which there is a sudden release of price and currency controls, withdrawal of state subsidies, and immediate trade liberalization within a country. Shock Therapy generally includes large-scale privatization of previously public owned assets.

Dr. Aslund continued, “Prices did not get evened out. The budget deficit was massive until 1998, so the only good thing that happened has been price liberalization and privatization...after 1998 there was macroeconomic stabilization, ward efficiency and growth improvement in the private sector.” Dr. Aslund said that one of the major economic issues today is that growth in the private sector has been rolled back a considerable extent. “The state organizations are the corrupt ones. It is state corporations that don’t improve efficiency.” Dr. Aslund said that two things are vital for sustained growth in the Russian economy: who has ownership over the enterprises and that the enterprises are private from the public.

### **The Two Faces of Russia**

In the eyes of Dr. Aslund simply, the Russian public is currently being pulled in many directions by two different political and economic schools of thought: Putin and state corporations on one side and Medvedev and taxes on the other. Dr. Aslund fears the fact that, so far, people have appeared to support Putin’s emphasis on state corporations. Besides the lawlessness and corruption that accompanies state corporations, Dr. Aslund said that Putin has yet to announce how he will develop the state corporation. “People don’t understand,” said Dr. Aslund. “Economic growth in Russia comes from two sources, the

first being privatization and economic stabilization and the other high oil prices in recent years.” Dr. Aslund stated that the economic growth from these two sources happened before Putin came to power, but because cause tends to come substantially before effect, the growth was experienced and seen during Putin’s term as President. “Putin has not given a contribution...but all the Russians have thought that this growth happened under Putin, and therefore they think that he was the cause...there is an intellectual confusion among the Russian population.” Putin is in favor of this confusion because it gives him public support, and thus aggravates it by every means.

### **The Main Problem: Corruption and Confused Leadership**

Dr. Aslund said that the main problem that impedes Russia’s sustainable economic and political growth is corruption. “Major change needs to be made because clearly it’s the top political personalities who are extending the corruption and are benefiting from the corruption. So you hear stories of people making a few billion dollars in a single corrupt deal. No country can run like this with corruption that is very much concentrated at the top. And obviously Putin has never sacked anybody for corruption.”

Dr. Aslund described Putin as basically corrupting the Russian political system not only because he was involved in these corrupt deals himself, but he never prosecuted anyone that was in his ‘main circle’ in the government. Dr. Aslund said that it was from this main circle that the majority of the corruption was coming.

Dr. Aslund emphasized how big of a problem this corruption was by bringing up the state of Russia’s infrastructure.”[Corruption] has put big infrastructure projects on hold because they are basically fifty percent kickbacks. And that means that Russia has no extended road network since 1997. Russia cannot build roads, it is too corrupt to build roads.”

When asked if any of this corruption ended when Putin went out of power in 2008 and Dmitri Medvedev took his place as President, Dr. Aslund painted a picture of a power dynamic between Medvedev and Putin in which Medvedev is trying to pull Russia up by its bootstraps while Putin continues to catalyze the corruption. When describing their different roles in the Russian government, Dr.

Aslund stated “President Medvedev manages the relationship with President Obama without any direct influence of Putin. Things are checked with Putin, but Putin does not negotiate directly with the Americans... So he doesn’t take on these big foreign policy issues.” However, Dr. Aslund continued to say “In turn, it is the Prime Minister (Putin) in Russia who deals with economic issues. Putin has a much bigger role in the economy and controls much more.” Even though there is a claim that Putin and Medvedev are the ‘bad cop and good cop’ of Russian politics, Dr. Aslund disagrees. Dr. Aslund points out that it is Putin who is responsible for massive high-level corruption, he himself suspected of embezzling forty to fifty million dollars. Moreover, because there has never been a detailed response to this corruption, it is clear that Putin is not a bad cop, but just a greedy politician.

However, Dr. Aslund does see an effort to end corruption in Russia. The sacking of Yury Luzhkov, the Mayor of Moscow, is an indication that the corrupt structure of Russian politics is beginning to change. “Medvedev is trying to start political change from the top,” said Dr. Aslund. “Luzhkov was the top, one of the most important political figures in Russia...after Putin he was...the most corrupt person in Russia. So this was Medvedev’s political graduation.” Dr. Aslund alluded to the fact that Medvedev’s actions are making it politically possible for corruption in Russia to end, ultimately allowing for Russia to optimistically look towards a brighter future.