



# Russia's (bad) reputation

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## Overview

Russia's bad press in the West may seem irrelevant to investment risks. The latest surge of anti-Russian sentiment among the political and chattering classes of the EU and US coincides with record portfolio and direct investment flows into Russia. But with new investment now the key to Russia's economic performance, such acute reputational problems could be damaging over time.

The negative image of Russia feeds on topical scandals, but is rooted more deeply - in a sense that today's Russia is not quite legitimate, in turn fuelling traditional Russian paranoia. The result is a mutual desire to displease, as seen in countless declarations of politicians and pundits. Fortunately, governments on both sides show signs of moving beyond this 'adolescent' phase in mutual perceptions. Broader opinion will gradually follow this lead, and Russia's image problem will ease over time.

## Core Case

Early suspension of mutual ill-regard becomes mutual ill-regard 'taught' by experience. But there are signs now of the lessons of this experience being learnt

## Assumptions and Evidence

Point and counterpoint

## Core Case

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### What is at stake given Russia's bad public image

Why worry about Russia's poor image in the West? Portfolio and strategic investment is pouring into the Russian economy regardless of the country's reputational contre-temps.

Today's low-ebb, with *The Economist's* Putin-as-petrol-nozzle-wielding-Capone cover story and dozens of damning headlines linking Putin to the assassinations of those always characterised as his 'critics', does not seem to be correlated with any variations in investor risk appetite. And this market indifference is not new. Investors also shrugged off a previous nadir two years ago, when Yukos was impounded by the tax police, gas deliveries through Ukraine briefly halted, and Russian security services proved unable to prevent a violent, tragic end to the hostage-taking raid on the Beslan school by Chechen fighters. At that time, Putin suffered comparisons to Saddam and Hitler on the op-ed pages of newspapers widely read by investors (a discouraging sign for the writers of those columns about their ability to influence readers).

But might the cumulative effect of negative characterisation, the continual drip-dripping insinuation that Russia deserves pariah status, tell over time? As it is, some conservative companies prefer to work through intermediaries when business takes them to Russia, and some individual Western investors wonder privately whether their public image at home might be compromised by investment activity in Russia. And what *additional* investment flows, none of which Russia can happily spare, might be forfeited in the medium- to longer-term as a result of Russia's bad reputation? The answer seems unlikely to be: *none at all*.

Censorious, or at any rate highly charged, attitudes to modern Russia are a Cold War legacy in Europe and the US, where the hopes and fears of more than one generation have been projected onto Russia - before, during and after its Soviet period. From the perspective of other parts of the world without this emotional baggage, Russia appears as an emerging country broadly like any other, i.e., with its own variants of very familiar and common problems, as well as strengths, weaknesses, and interests. Our topic merits attention because a large part of global investment flows still originates in, or is mediated by the financial institutions of, 'old' Europe and the US.

### Mutual empathy blocked: the example of Chechnya

Rooted in the public consciousness in both the West and Russia, that Cold War legacy prevents each side from looking at the world from the other side's perspective and asking the question: *what would reasonable people (like us) do in their shoes?* Reaction to the conflict in Chechnya illustrates this inability or unwillingness, and the stalemate to which it leads.

Vladimir Putin reacts angrily and emotionally when asked by the foreign press or representatives of human rights organisations to explain Chechnya. His perspective is this: I have *international jihad on my very territory* and the only weapon I have to hand is the Russian armed forces, such as they are. Why does the West refuse to see our dilemma, especially given its own quagmire in Iraq? At times (such as after the Beslan tragedy), he appears to conclude that there can be **only one possible explanation**: the West wants a weak Russia bogged down in, and perhaps torn apart by, this guerrilla war.

Likewise, when correspondents, human rights groups, and EU delegations travel to Chechnya, they see such a morass, such civilian suffering, and such gross misconduct by the armed forces, they wonder why the Putin government can possibly be pursuing this conflict. They conclude that there can be **only one possible explanation**: Putin is a monster who must have some sort of stake in keeping the conflict going.

## The springs of mutual ill-will

'Legacy of the Cold War' may sound like a trite explanation of this problem: so let us dig a little deeper.

Around the time of the collapse of the Soviet Union, it became easier for well-meaning Westerners to look beyond the stereotype of Russians as a pack of crude shoe-banging bullies. But the scope for benevolent attitudes to Russia in Western opinion proved limited. Robert Skidelsky argued in his book *The World After Communism* (1995) that post-Soviet Russia is gripped in a vice of ill-will coming from both sides of the Western political spectrum.

By the time the Soviet system collapsed, the old (European) Left had only recently reconciled itself to the benefits of the market economy in its own countries. It painfully watches the dream of socialism with a human face, revived briefly under Gorbachev, being lost forever in a Russia embracing market capitalism. The hardship and injustices attendant on the transition are greeted with *Schadenfreude*, and the hope, whether avowed or subconscious, is that Russia will fail.

The old Right is nostalgic for the certainties of the Cold War stand-off: both the clarity it brought to the international order and the discipline it instilled in their particular societies. The old Soviet adversary was a closed and secretive country, leading to a default reliance on reductionist logic and conspiracy theory. In addition to its emotional attachment to the Russian bogey, the Right finds that habit of thought hard to give up (example: 'Putin was a KGB officer. That explains everything.')

This vice of ill-will leads to the widespread sense among Western political and chattering classes that Russia is not behaving as befits a defeated power, which should be humbly and slowly rehabilitating itself from past crimes and failings - much as Germany and Japan did after WWII.

In the area of foreign policy, that rehabilitation must mean toeing the line of the 'international community'. It follows that it is not quite legitimate for Russia to pursue an independent national interest. Most of the time, such views are barely articulated, and remain background attitudes (as in the frequently expressed concern about Russian foreign policy becoming more 'assertive'). This view of the illegitimacy of Russia's proclaimed national interest generally becomes explicit only in dramatic contexts such as the gruesomeness of Chechnya or (especially) as regards Russia's relations with other former Soviet countries. Here, Russia's status as the former imperial oppressor ensures a cloud of suspicion over any pursuit by Russia of its interest or of influence.

For Russia, of course, the proposition that it cannot act in its national interest is preposterous. What has changed in recent years is a sense of that national interest once again becoming sharply distinct from, if not at odds with, the West.

As the Soviet Union declined and fell, it was of course easy to find Russians bitter about that collapse and convinced that it was the fruit of a Western conspiracy. But back in that first hopeful blush of the new era, there were many other Russians willing to suspend such Soviet-inculcated habits of mind. Western political culture and prosperity were now to be admired and emulated. For a time - roughly coinciding with President Yeltsin's first term (1991-6) - this attitude also informed the foreign policy of the Russian government, which sought to align itself internationally with the US and EU to ensure a supportive external environment for the country's difficult internal transformation.

That very difficulty - reflected in the hardships and ugly abuses of the 1990s in Russia - partly accounts for the reversion to mutual alienation between Russian and Western opinion. Western revulsion at much of what went on in Russia during those years was rarely mitigated by an understanding of the enormity of the task of getting out of the Soviet system. Superficial

understanding of that reality was not limited to Western pundits. Russian intellectuals too, and with much less excuse, showed themselves to be painfully naive and unprepared.

But the main cause of the decline in mutual esteem stems from attitudes towards more recent developments in Russia.

Western opinion is critical of corruption under Putin. There is no doubt about its epidemic proportions. And some of the worst excesses of the 1990s - such as government officials gorging themselves on public assets - have not been stamped out. But anyone who knows, or investigates impartially, what happened in Russia in the 1990s could not say that those were more honest times.

Likewise, the West harps on about Putin rolling back democracy. To be sure, democracy has a long way to go in Russia. But anyone who knows, or investigates impartially, what happened in Russia in the 1990s could not say those were more democratic times. There was one signal democratic moment: the collapse of the Soviet system's legitimacy as the unintended result of Gorbachev's effort to build a better socialism, and the popular expression of the rejection of that system through the votes for Yeltsin in 1989-91. (Ukraine had to wait until November 2004 for a similar moment.) The rest of the 1990s was no more democratic than now.

So from inside Russia the unfavourable Western comparison of the present situation with the 'hopeful' 1990s cannot be regarded as constructive or objective. An obvious deduction is that there must be an unstated, real reason for the gale of criticism against Russia - namely, that unlike the 1990s, Russia is following its own national interest rather than trying to please the US and EU as an end in itself. Incidentally, it is not lost on the Russian public that Western opinion labels 'democrats' those (few) Russian politicians who position themselves as pro-Western.

## Governments vs pundits

This is probably a maturing process: mutual hopes gave way to mutual incomprehension, now moving in turn to a degree of mutual indifference, at least on Russia's part.

During the phase of mutual incomprehension seen in recent years, Russia's role has seemed like that of the stereotypical adolescent who may not yet have perfect judgement but no longer pays much attention to parental guidance, however well-meant. Thus 'teenage' Russia escapes Western understanding but not criticism, while regarding its erstwhile guide as an annoying hypocrite that does not understand the nature of Russia's own problems.

Such frictions could cause damage over time - particularly, and as we argued at the outset, in the intangible and unquantifiable form of foregone investment flows. In our view, however, that danger will be avoided. For although the 'adolescent' phase may last a while yet, already an encouraging contrast is visible between governments on the one hand, and the political and chattering classes (reflecting wider public opinion) on the other.

Mutual distrust and dislike still rule the roost in legislatures - from the US Congress (especially now as controlled by the Democratic Party) via the European Parliament in Strasbourg to the State Duma in Moscow. But the corresponding executive branches are much more realistic and constructive. The approach now establishing itself at the inter-governmental level combines recognition that interests will sometimes (perhaps often) diverge with efforts to manage differences, identify common interests and opportunities for practical cooperation. In a revealing exchange with Western Russia-watchers in September 2006, President Putin portrayed himself as getting ahead in this sense of domestic anti-American public opinion.

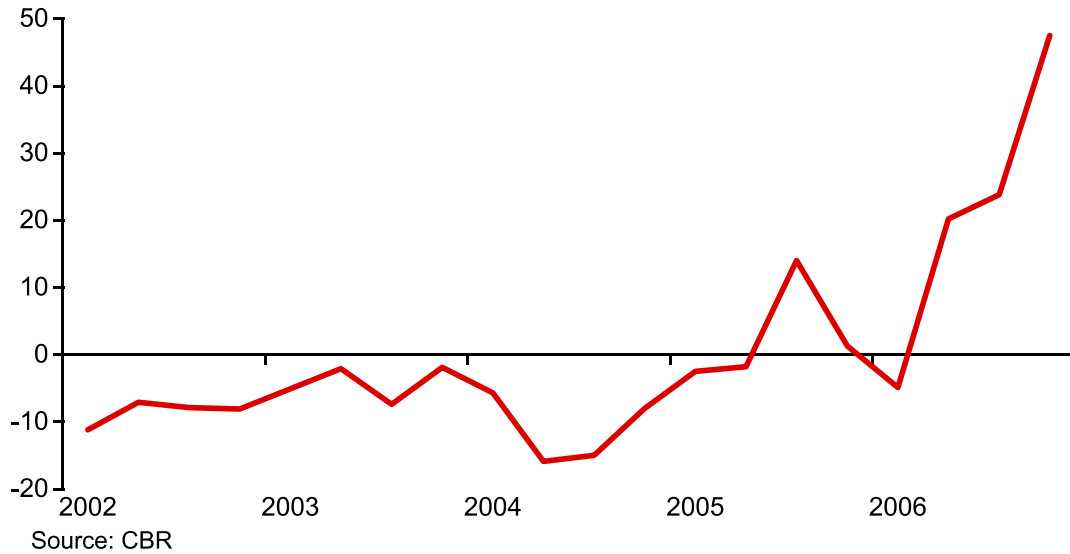
## Assumptions and Evidence

The following charts and texts illustrate the themes and support the arguments set out in the preceding essay

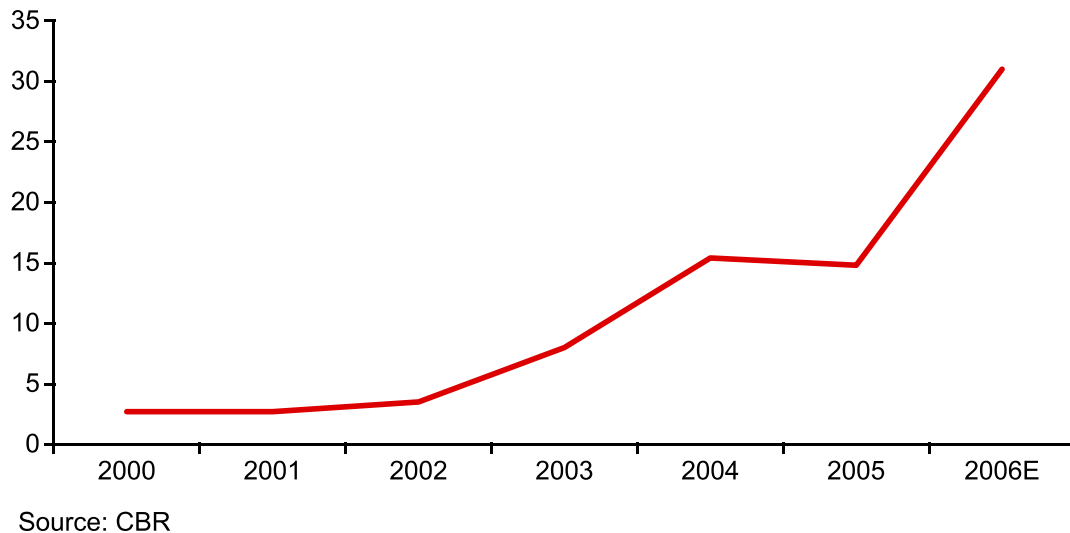
### Follow the money

Investor indifference to Russia's bad reputation in the West is suggested by the surging capital inflows shown in the two charts below. But this data may obscure the potential for still stronger inflows if the country had a more positive image.

Capital flow: Net private capital flows to Russia (\$bn)



Capital flow: FDI into Russia (\$bn)



## Russia is not 'normal'

The present atmosphere: disenchantment, disapproval...

**From 'Russia: An Abnormal Country' (Professor Steven Rosefielde, European Journal of Comparative Economics, 2005):**

*(Professors) Andrei Shleifer and Daniel Treisman...contend that Russia has become a 'normal country'.... But the contention that consumer demand governs household supply under the rule of law, and people's preferences govern public choice is wrong, as are assertions that the Kremlin eschews authoritarianism.... Nor is it likely that Russia is favorably positioned to be as efficient and just as the developed West in the foreseeable future.*

**'The Litvinenko Affair', The Economist 16 December, 2007:**

*It would not be fair to conclude from any of this that the Kremlin is guilty as charged. But [the Litvinenko case] amounts to yet another sign that the hopes entertained in the West about Mr Putin when he first took office - that he actually meant what he then said about democracy, and that under his rule Russia could conceivably become a 'normal' country - were misplaced. There have been many such signs...*

## Glib Western criticism, teflon Russian response

**Freedom House Annual Global Survey of Political Rights and Civil Liberties 2007:**

*Russia... serves as a model for authoritarian-minded leaders in the region and elsewhere.... Russia has...gone out of its way to support the region's autocrats and to oppose efforts by the United Nations and other bodies to condemn or impose sanctions on dictatorships with records of blatant human rights abuse.*

[Scores run from 1=best to 7=worst]

RF score for 2006: 6 for political rights; 5 for civil liberties: 'not free'

US score for 2006: 1 for political rights; 1 for civil liberties: 'free'

**Ella Pamfilova, Russian government ombudsman for civil society and human rights**

*[Freedom House's] shallow and off-the-top-of-their heads conclusions cannot be taken seriously. And what's worse is that reports of this kind actually make it harder for our bureaucrats to be serious about their work defending rights in our country.*

Source: *Kommersant*, 2 February 2007

**Public Chamber Member, lawyer, Anatoly Kucherena, announcing the creation of a Russia-based organisation to monitor freedom of speech and fundamental human rights in the US, Europe and other western nations**

*We are used to hearing criticism targeting mainly only Russia and remarks pointing to shortcomings in our country. Why not carry out measurements on the problem of human rights and fundamental freedoms in the US and Europe?*

*They want to help us resolve most problems related to human rights. We are ready for cooperation. Let them come here, interact with us and share their experience.*

Source: *Moscow News*, 2 February 2007

### **The Council of Europe's Group of States Against Corruption ('GRECO') - yet another stick for Russia's back**

*Corruption is a big problem in Russia. It spoils our image, casting a shadow on relations with us. The main point is that it is a serious obstacle to the development of our national economy. It will be very useful for us to listen to what others have to say about the malfunctioning of our anti-corruption instruments.*

*But it is easy to predict that as a new member [of GRECO], Russia will be assailed with a tornado of claims and reproaches. Corruption offers a good excuse to criticise Russia for its drawbacks, troubles and problems once again. GRECO is most likely to be the place where Russia is bound to be lambasted. This is a source of serious concern against the background of the foreign media's massive campaign to accuse Russia of creating a new global threat and of other sins, both real and far-fetched.*

*They will bark at us, we will snap back - what is the point of it all? A search for mutual understanding and constructive cooperation would be much more helpful.*

Source: *RIA Novosti*, political commentary by Andrey Vavra, 31 January 2007

### **Legitimacy of Russia's national interests: Cheney vs Putin**

#### **US Vice President Dick Cheney, address in Vilnius, 4 May, 2006:**

*[I]n Russia today, opponents of reform are seeking to reverse the gains of the last decade. In many areas of civil society - from religion and the news media, to advocacy groups and political parties - the government has unfairly and improperly restricted the rights of her people. Other actions by the Russian government have been counterproductive, and could begin to affect relations with other countries. No legitimate interest is served when oil and gas become tools of intimidation or blackmail, either by supply manipulation or attempts to monopolize transportation. And no one can justify actions that undermine the territorial integrity of a neighbor, or interfere with democratic movements.*

*Russia has a choice to make. And there is no question that a return to democratic reform in Russia will generate further success for its people...*

*None of us [sic] believes that Russia is fated to become an enemy....*

#### **Putin's 'state of the nation' address, 10 May 2006:**

*By no means everybody has dispensed with the stereotypes of Cold War thinking and prejudices left over from the era of global confrontation. They haven't been able to, regardless of the fundamental changes that have occurred. And that also seriously inhibits the search for appropriate and collective solutions to common problems....*

*Our defence expenditures, as a percent of GDP, are just slightly less than... France's or the UK's.... [In absolute numbers, of course] they are two times smaller.... [And the US defence expenditures] are nearly 25 times greater than in Russia. As they say, one's home is one's castle, so: good for them....*

*But that doesn't mean that we oughtn't to build our own house, making it strong and reliable, because we watch what's happening in the world. We really do watch what is happening! As the saying goes: 'Mr. Wolf knows whom to eat.' He eats, but he doesn't listen. And, to all appearances, he is not interested in listening.*

[Applause]

Source: [www.kremlin.ru](http://www.kremlin.ru)

## Governments vs pundits

**Putin's exchange with Andrew Kuchins (Carnegie Endowment for International Peace), Valday Discussion Club, Novo-Ogaryova (Moscow region), September 2006**

*KUCHINS: I am worried about the long-term development of US-Russian relations...The image of the US in the Russian media is such that...if Russian national TV networks were my only source of information I should suppose that the US is an unfriendly country, even an enemy. But I know that this is not your policy, and that you support improved and constructive relations between our countries. How would you explain this divergence...and what can be done to correct the situation?*

*PUTIN: The press reflects public opinion - as it must do if it is to command the interest of its audience...The press doesn't have to concern itself about the future of international relations and US-Russian relations: but that is my job. So the divergence you mention certainly exists. But I find it perplexing - and sometimes vexing - that our US partners don't make the same distinction as you or pretend not to notice that we are doing out best to nurture and improve bilateral relations.*

**Putin's state of the nation address, 18 April 2002:**

*In today's world, no one has it in for us. Nobody wants or needs to be enemies with us. But nobody holds a brief for us either. No one in particular should be counted on to do us any favours. We will have, ourselves, to fight for our place in the sun.*

Source: [www.kremlin.ru](http://www.kremlin.ru)