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A Year for Determining The Course

By Konstantin Sonin

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Gazprom's conflict with Ukraine demonstrates once more that 2005 may be termed The Year the Course Was Determined. If there were still lingering doubts as to where the Kremlin was leading the country, then 2005 largely removed them.

First, a massive nationalization of big business took place, including Gazprom, Sibneft and AvtoVAZ. To me, this nationalization was connected with a false understanding of the "well-being of the state." The distrust of market institutions and of elections, so evident in President Vladimir Putin and others in the Kremlin, is nothing particularly exotic. Most Russians share very similar feelings. Another explanation for this course is that it can be enormously profitable for those who set it. For example, one of the most influential economists in Moscow believes that Alrosa will soon buy Norilsk Nickel -- not because a plan is set for the nationalization of industry, but simply because once a lucrative scheme has been tried (in the Sibneft case, a private company was bought with the help of state funds), the people who got away with it simply can't stop. In any event, the course toward dismantling the market in 2005 was entirely clear. That its real basis is record high oil prices is something that bothers only professional economists.

Second, the Kremlin's course on the internal political front also became clear. Despite the president's high ratings, battle was waged all year against both the opposition and anything that even vaguely resembled such. The absence of any politically significant figures in the government means that Putin will likely try to stay on for a third term. In 2005, United Russia turned away from any notions of independence: All the "victories" in the regional elections came from co-opting potential winners into the party. There is no reason to assume that these people will retain any loyalty to the current leadership if things sour economically. If this happens, the basis for the political course will be support for the comfortably-off elite -- in other words, once again, high oil prices.

Third, 2005 saw the delineation of the foreign policy course, that of an energy superpower whose chief geopolitical weapon will be its mineral and fossil fuel reserves. The great to-do around Ukrainian gas imports has been, possibly, a test of strength: How will the Europeans react to an ongoing adjustment of gas prices based on the internal political situation in the buyer country? The danger here is not even so much that in becoming an energy superpower Russia risks uniting the whole world against it.

No, the real risk, as with the other two elements of the state's course, is that here again, everything depends on the price of oil.

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