

WHY RUSSIA'S UNFINISHED DEMOCRACY IS BAD FOR BUSINESS

SARAH E. MENDELSON

Sarah E. Mendelson is Senior Fellow in the Russia and Eurasia Program at the Center for Strategic and International Studies in Washington DC. She is co-editor of *The Power and Limits of NGOs* (Columbia University Press, 2002).

Multiple threats to democracy and human rights in Russia have increased in the last several years. These have generally been viewed as disappointing but not terribly relevant to the business community. The distance many business leaders have put between themselves and these issues was made stark at a luncheon a few years ago in Washington. At an event to meet the heads of a prominent Russian business association (a group that included Duma deputies), a distinguished member of the audience (with great concern in his voice) asked what they made of the then-recent crackdown on NTV. After a pause, a rather hesitant response came: We focus on business-issues related to the media do not concern us. This view was echoed more recently again in Washington when the head of yet another prominent business association declared to a rather surprised audience of Russia experts that, as far as he knew, there were no problems with independent media in Russia—everything was going well.

Hopefully, these views are not representative of most people engaged in business. Many inside and outside Russia have, however, assessed the economic transition as distinct and even disconnected from the political transition. And they have viewed it very positively. As U.S. energy companies increase investment in Russia, some experts predict this dynamic will intensify.

That approach is very shortsighted. The unfinished business of Russia's political trajectory is in fact very bad for business.

Threats to democracy are most fundamentally about threats to the rule of law. The rule of man may work for those looking to make a fast buck. Serious investors everywhere seek value and stability, and they find the core aspects of democracy—and especially the rule of law—are critical to business. Simply put, the rule of law makes business happy—not the rule of man.



In the past few years, the rule of man, or what some are calling “Russian roulette,” has taken on a special meaning. In the summer of 2003, the roulette wheel stopped on Yukos, and so more people in the business community have been exposed to “the game” than previously. No one organization has amassed an index, catalogue or map of how many times, in how many variations or locations this game has been played, but many of us have been watching it closely for several years.

We have seen countless individuals (in many cases, colleagues) investigated, intimidated, interrogated, accused of treason, sometimes jailed, sometimes beaten by federal and local authorities, and in a few cases, killed. In addition to journalists, this has happened to environmentalists, entrepreneurs, human rights and labor activists, political party activists, students and scholars—Russians as well as Americans and Europeans. Visas have been revoked or denied. Tax police have dropped by unannounced.

Registration papers have somehow been lost. Sometimes the harassment is quite subtle; sometimes it turns violent. Now, what has been true for many with modest means has been clearly made relevant for those with access to billions of dollars.

To be clear, obviously, this has affected a minority of Russians and visitors to Russia. There is a need, however, not to minimize what it means, and especially what it means for business.

Battle of the networks

What exactly is going on? We are witnessing a battle of the networks. For several decades now, groups of people inside Russia have been linking up with groups of people outside Russia with the overall goal of embedding Russia in the larger Euro-Atlantic community. After the collapse of the Soviet Union, these networks widened and deepened, cutting across almost every sector, almost every issue one can think of (though, there are some notable exceptions in the defense realm). Russians, if they want to be, are now part of international networks dealing with small business development, judicial reform, the fashion industry, health

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issues, environmental issues, and human rights—business as usual, if you will, in the twenty-first century. For the sake of argument, let's call these the liberal internationalist networks, though not everyone in them is either liberal or interna-

tionalist. They simply are part of the globalized, connected, world.

There are competing networks filled with people who do not share and even reject this ideal of Russia embedded in liberal internationalist institutions and embracing their norms, who view with suspicion opportunities to freely interact with counterparts from other countries, and letting their work force log on to the Internet. Let's call these the illiberal nationalist networks. Although efforts are not always well coordinated, at a minimum, these illiberal networks make the conditions under which internationalist norms and networks function inside Russia more difficult and often hostile.

Not everyone in the illiberal nationalist networks is by any means a despot, and they are by no means all local all the time. Many have dined at fashionable tables in New York, London and Hong Kong. This is because many of them have access to resources: they work in the Prosecutor General's office, various federal ministries and the FSB, and they are invited abroad to make speeches, to travel to conferences, to engage. Many in these illiberal networks may or may not be nostalgic for the Soviet era, but they are on occasion deeply threatened by what is very clearly a post-Soviet development of porous borders and foreign influence. Whether by design or by default, they seek to push back these liberal internationalist networks, even as the internationalists reach out to connect with them.

Since the late 1990s, a central issue that seems to have emboldened the illiberal networks involved shoring up a weakened Russian state (creating a "vertical power" structure), which has often had the effect of rolling back or attempting to manage the internationalists. It should be noted that many inside and outside Russia, and especially those in the business community, welcomed the sober strengthening of the "vertical" after the boozy Yeltsin years—except when things get too vertical, that is to say, too authoritarian.

When this happens, the battle of the networks is played out as norms competition. Residual Soviet-era legacies and

norms compete directly and are often more robust than Russia's new norms and institutions, those associated with democracy. The norms competition is particularly acute on issues having to do with rules: does one follow the rule of law or the rule of man?

Norms competition

That the political and social transition in Russia is not yet over should not be especially surprising. But just how unfinished is it, and when will it be over? No one can answer that question definitively, but one way to get a sense of where we are in 2003 is to consider how Russians feel about a variety of issues related to the transition based on public opinion surveys.¹

One measure is how Russians think about democracy versus authoritarian forms of government, and especially how young people think about these issues. Any one question is a crude measurement, but this one can be easily compared with responses from societies the world over because it comes from the "World Values" surveys.

Bottom line: in 2002 and 2003, more Russians consider "authoritarian rule is preferable to a democratic form of government" than think "democracy is always the preferred form of governance." In national samples, a little over one-third preferred autocracy and less than one-third preferred democracy. By comparison, the mean of African countries participating in the World Values surveys was a 12 percent preference for autocracy with 69 percent preferring democracy.²

The findings look a bit grimmer when one considers the very large number who register as indifferent or find it hard to say what form of governance they want for Russia. Even in the younger generations (under 39), roughly one-third fall into these categories. They hold the key to Russia's future, and they are not sure what sort of future they want.

What is to be done?

From a variety of different perspectives, the transition in Russia is not nearly

over.³ Based on our data, Russia in 2003 looks to be composed of roughly one-third democrats, one-third autocrats and one-third that are up for grabs. We cannot assume that the older generation will just die out and be replaced by young democrats.

Against this background, imagine the surprise of those working hard on this unfinished business of Russian democracy, when not long ago, the Bush administration made it known that it was time to end its support. Specifically, the administration has directed the USAID Mission in Russia to plan for "graduation." No specific date has been set, but there is talk of 2006 or 2007. This has also meant steep reductions for FY2004 funds and most likely for FY2005 funds, and then an end altogether to funds that help economic reform, small business, education, health, the environment, the political process, and human rights.

This sounds like a story of strange political bedfellows when one considers the illiberal networks buzzing away in

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Russia. Judging from statements made by many in the Putin administration, they would like nothing better than for the United States to declare victory and end foreign assistance to Russia. The Bush administration may be unwittingly abetting this perspective.

The people in Russia happiest about such a U.S. policy shift will be exactly those who do not want to see Russia develop rule of law, a robust independent media, free and fair elections, representative unions, a reformed army and police, a decent health care system that addresses the growing HIV/AIDS crisis, and any of the other dozen institutions that will be necessary for Russia to be a real partner to the United States, and a place where capital-foreign and domes-

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tic-finds a good home. This alone should give serious investors pause. Western and Russian business have financial interests in seeing democracy firmly take hold in Russia. The internationalist networks in Russia are stronger than they were 10 years ago, thanks in no small part to external assistance, but the threats from the nationalist networks seem to grow stronger every day.

The Bush administration ought to rethink the idea of abandoning Russian democrats, for that is how colleagues in Russia see this policy shift. It might be more likely to do so if the message were to come from the business community. It is in U.S. business and security interests to stay engaged, and business ought to let Congress know they understand this.

Corporations have a potentially enormous role to play in helping increase the demand for democracy in Russia among the one-third of the population that are currently ambivalent. To date, they have been reluctant to take on issues that the Kremlin might find “edgy” (their word, not mine) such as the need for critical media or human rights. This again is a

American philanthropy has an important role to play in supporting (but not controlling) groups that monitor human rights abuses and work to establish the rule of law. Foundations should continue to support cultural work, such as “tracing heritage through historical research,” as one indigenous donor does. History is a living thing in Russia, however, and perhaps they should also be focusing on large-scale destalinization efforts.

For those companies that would like more direct involvement in supporting democratic development, there is also work to be done. They can help train democratic activists in social marketing. They can help stimulate demand for the rule of law and other institutions by helping design and paying for innovative advertising, much like the Ad Council does in the United States. They can support the development of a democracy index that maps this battle of the networks throughout

shortsighted strategy: there is no way to fight corruption in the modern era without independent media and without laws enforced. Russian and

Russia. The index can be used by businesses to assess where inside Russia conditions are fertile or hostile to the rule of law, and where investment should follow.

Russian laws, like any country's laws, will not be enforced without public demand. Media has a role in stimulating or—as seems to be the case currently with encouragement from the state—suppressing this demand. Business has an interest in seeing Russians increase their demand for the protection of their rights—whether it is the right to own property or the rights of small business—that backbone of the middle class in most societies, or freedom from arbitrary arrest.

The alternative is that business will continue with a business-as-usual approach

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and try to convince investors that the rule of man is not that bad. Investors will then be making bets that the Russian roulette wheel will not stop on them. That may sound to some more like gambling than investing. ■

¹ In 2001, 2002 and 2003 the author and Theodore P. Gerber, a sociologist from the University of Wisconsin, wrote and oversaw a series of surveys on how Russians think about democracy, human rights and a variety of related policy issues. The Russian survey company VTsIOM conducted the national surveys using random sampling techniques and face-to-face interviews. Sample sizes were generally 2400. On findings see for example, Theodore P. Gerber and Sarah E. Mendelson “Russia's Military Malaise,” *Financial Times*, September 11, 2002; Theodore P. Gerber and Sarah E. Mendelson, “Russian Public Opinion on Human Rights and the War in Chechnya,” *Post-Soviet Affairs*, Vol 18, No. 4. (Winter 2002), pp. 271-305. The data men-

tioned below draw on presentations that the author and Gerber made in spring and summer 2003.

² See survey results at <http://www.afrobarometer.org/survey1.html> (based on surveys conducted 1999-2001.)

³ Other research and surveys also measure Russia's weak support and backsliding in many aspects of democratic development. See for example *Nations in Transition 2002* (Freedom House); *Views of a Changing World*, June 2003, The Pew Global Attitudes Project.