

# Putin's *Silovarchs*

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In the late 1990s, many Russians believed their government had been captured by a small group of business magnates known as “the oligarchs”. The most flamboyant, Boris Berezovsky, claimed in 1996 that seven bankers controlled fifty percent of the Russian economy. Having acquired massive oil and metals enterprises in rigged privatizations, these tycoons exploited Yeltsin’s ill-health to meddle in politics and lobby their interests. Two served briefly in government. Another, Mikhail Khodorkovsky, summed up the conventional wisdom of the time in a 1997 interview: “Politics is the most lucrative field of business in Russia. And it will be that way forever.”<sup>1</sup>

A decade later, most of the original oligarchs have been tripping over each other in their haste to leave the political stage, jettisoning properties as they go. From exile in London, Berezovsky announced in February he was liquidating his last Russian assets. A

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<sup>1</sup> Quoted in Andrei Piontkovsky, “Modern-Day Rasputin,” *The Moscow Times*, 12 November, 1997.

fellow media magnate, Vladimir Gusinsky, long ago surrendered his television station to the state-controlled gas company Gazprom and now divides his time between Israel and the US. Khodorkovsky is in a Siberian jail, serving an eight-year sentence for fraud and tax evasion. Roman Abramovich, Berezovsky's former partner, spends much of his time in London, where he bought the Chelsea soccer club in 2003. Rather than exile him to Siberia, the Kremlin merely insists he serve as governor of the depressed Arctic outpost of Chukotka—a sign Russia's leaders have a sense of humor, albeit of a dark kind. Only two of the original group continue to hang on by their fingernails. Vladimir Potanin, having agreed to sell an engineering company and oil field back to the state, has not yet been squeezed out of metals giant Norilsk Nickel, although rumors of a state takeover surface periodically. And Mikhail Fridman still controls the fifth largest bank, Alfabank, as well as a stake in the oil company TNK-BP, having paid an extra \$250 million last year to settle a tax claim.

In the space vacated by the departing oligarchs, a new business elite has sprung up. Yeltsin's accidental billionaires have given way to a previously little-known cohort of executives, most from the network of security service and law enforcement veterans known as the *siloviki* who form the backbone of President Putin's administration. Five such Kremlin associates now lead companies whose combined assets in 2005 equaled more than one third of GDP. Lesser siloviki serve on many company boards. In short, industrial and financial capital has fused with secret police networks to produce a new political and economic order. Combining the words "silovik" and "oligarchy", one might refer to this as *silovarchy*.

The change is not absolute and might reverse. Many politically-cooperative private tycoons continue to make money, with the implicit backing of the Kremlin. Some prominent state sector executives, such as UES chairman Anatoli Chubais, do not have security service backgrounds. Nevertheless, with silovarchs now controlling the commanding heights of the Russian economy, the security forces' takeover of corporate boardrooms is coming to define Putin's regime.

If silovarchy survives, it will probably develop according to a logic common to such systems. Silovarchies—states in which veterans of the security services or armed forces dominate both politics and big business—have existed in various countries, including South Korea and Indonesia. They differ from ordinary oligarchies in that silovarchs can deploy intelligence networks, state prosecutors, and armed force to intimidate or expropriate business rivals. While their economic performance may be either good or bad, the temptation to use secret service tools and techniques predisposes such regimes toward authoritarian politics. As the inner circle of silovarchs enrich themselves, they become hostages of the ir politicized enforcement apparatus, which rivals might use to expropriate them if they step down. As a result, silovarchies often face severe succession crises.

## General directors

There is nothing new about former KGB officers going into business. In fact, hundreds resigned or went into the so-called “active reserve” in the 1990s to work in major corporations. Khodorkovsky's Yukos itself employed a former chairman of the Russian Federation KGB, who by 2004 appeared on *Forbes'* list of the 100 richest Russians.

What is unprecedented is the way political and economic decisionmaking at the highest level are dominated today by an organized network of siloviki, personally linked to former spy and KGB lieutenant-colonel Vladimir Putin. Silovarchs now occupy key positions in the oil, gas, defense, transport, and nuclear power sectors. Aircraft building and metals industries are thought close behind.

Second only to Putin is the president's longtime friend and adviser, **Igor Sechin**, who currently serves as deputy head of staff, supervising the flow of documents and the president's schedule. Like Putin and many other Kremlin insiders, Sechin was born in St Petersburg and graduated from Leningrad State University, where he studied French and Portuguese. Although his biography on the Kremlin website does not mention the security organs, Sechin served in the mid-1980s as a military interpreter in Mozambique and Angola, which would have been unusual without some intelligence background. In the early 1990s, he worked for St Petersburg mayor Anatoli Sobchak along with Putin, whom he followed to Moscow in 1996. In 2004, the state-owned oil company Rosneft elected Sechin chairman of its board. Rosneft was then the country's sixth largest oil producer, but after swallowing the main production unit of Khodorkovsky's Yukos in 2004 it jumped to second place. According to the newspaper *Kommersant*, owned by a businessman loyal to the Kremlin, Sechin recently appointed the 25-year-old son of FSB chief Nikolai Patrushev as his personal adviser in Rosneft; the young Patrushev is himself an FSB captain who had been working on the oil sector.<sup>2</sup>

**Viktor Ivanov** is also a longtime Putin associate. His biography records a more than 20-year career in the Soviet KGB and Russian FSB, ending as deputy director.

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<sup>2</sup> Elena Kisileva, Dmitri Butrin, and Mikhail Fishman, "Rosneft vo vtorom pokolenii [Rosneft in the second generation]," *Kommersant*, No.170, 13 September, 2006. See also Miriam Elder, "Patrushev's Son Joins the Ranks of Rosneft," *The Moscow Times*, 14 September, 2006, p.4.

Ivanov spent a year in the late 1980s “providing international assistance” to the Soviet-backed government of Afghanistan. He retired with the rank of colonel in 1994, and worked along with Putin and Sechin in St Petersburg’s city hall, later coming to Moscow, where he is now an aide to the president, responsible for personnel. Simultaneously, he chairs the boards of Almaz-Antei, a conglomerate of more than 40 defense companies, and Aeroflot, the national airline, formerly controlled by Berezovsky.

**Sergei Chemezov**, the general director of Russia’s arms exporting monopoly, Rosoboronexport, studied at the Armed Forces’ General Staff Academy and has the rank of lieutenant-general. He met Putin in the mid-1980s when the latter was stationed as a spy in Dresden. Chemezov, employed at a Soviet industrial association, lived in the same building and socialized with Putin and his wife Lyudmila. On behalf of Rosoboronexport, Chemezov took over the country’s largest automobile company, Avtovaz, in 2005 and assigned a fellow General Staff Academy graduate, Igor Yesipovsky, to run it. The new executives flew in hundreds of shock troops to fight the criminal gangs stealing cars for black market sales. There has been talk of merging two other automobile companies, GAZ and KAMAZ, with Avtovaz. In mid-2006, Chemezov was negotiating to buy the world’s largest titanium producer, VSMPO-Avisma, as well as considering takeovers of two St Petersburg military shipyards and four jet engine manufacturers.<sup>3</sup>

Not all the heads of silovarch companies themselves come from the security organs or armed forces. **Alexei Miller**, the chairman of Gazprom, studied economics in St Petersburg, where he also worked with Putin in the mayor’s office. It might seem odd to include Miller among the security professionals. Still, Gazprom clearly belongs in the silovarch empire. Putin takes a personal interest in its affairs, often demonstrating

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<sup>3</sup> Anna Smolchenko, “Arms Trader Eyes Jet Engines,” *The Moscow Times*, May 23, 2006, p.7.

detailed knowledge of the firm's operations and finances. He also assigned his close St Petersburg associate, vice-premier Dmitri Medvedev, to chair Gazprom's board. Three of the 17 members of its management committee are from the security services, according to their biographies on the company website. One served in the Leningrad KGB at the same time as Putin. A fourth is reported to be a sub-lieutenant in the FSB reserves.

Since 2000, Gazprom has become an all-purpose vehicle for Kremlin business. Its subsidiary Gazprom-Media absorbed the assets taken from Gusinsky, including the NTV television station. Two of the five Gazprom-Media board members are from the security organs, according to their official biographies; one of these is also on the board of NTV. In 2005, Gazprom bought a controlling stake in the oil company Sibneft from Abramovich, quickly renaming it Gazpromneft and moving the headquarters to Putin's hometown of St Petersburg. It also acquired a controlling stake in the heavy machinery company OMZ. Besides this, the Gazprom empire includes stakes in 17 commercial banks. According to one high Kremlin official, it plans to acquire assets in the atomic energy sector.

**Vladimir Yakunin**, president of the state-owned Russian Railways company, also met Putin in St Petersburg in the early 1990s. An engineer specializing in ballistic missiles, Yakunin headed the international department of a Leningrad physics institute, from where he was appointed in 1985 to the Soviet Union's UN mission. Although his official biography does not mention intelligence work, this diplomatic posting and Yakunin's close ties to key siloviki have invited speculation. In the mid-1990s, Yakunin headed a business association in St Petersburg and had a dacha near to Putin's. After Putin's election, Yakunin worked in the Transport Ministry, before managing Russian

Railways. Among the silovarchs, he is one of the most ideological, calling for closer ties between the Slavic nations and a revival of Orthodox Christian values. He chairs the council of trustees of an organization called the Center for the National Glory of Russia, and has been dubbed by Russian journalists the “Orthodox Secret Policeman”. Current rumors suggest Putin may soon bring Yakunin into the government, and perhaps even considers him a possible successor.

Many less well-known former KGB officers work in other businesses. The executive director of oil company Slavneft served as an intelligence agent abroad, according to the company’s website. A vice-president of the diamond company Alrosa also reports a 20-year career in the security organs. The FSB’s current head of economic security serves on the board of the country’s largest shipping company, Sovcomflot. The silovarchs are connected to numerous siloviki in Putin’s administration. Among these, vice-premier and defense minister Sergei Ivanov and customs chief Andrei Belyaninov both served as foreign intelligence officers, according to their government biographies. Prime minister Mikhail Fradkov worked as a diplomat. FSB director Nikolai Patrushev and Interior Minister Rashid Nurgaliev are both KGB career officers, as is Viktor Cherkesov, director of the federal anti-drug service.

## Oligarchs and silovarchs

Most Russian silovarchs would indignantly reject comparisons to the oligarchs they are displacing. Berezovsky, Khodorkovsky, and others were fast-witted and sometimes unscrupulous middlemen who found ways to turn connections into cash in the economic

**Table 1: From oligarchs to silovarchs**

<b>Oligarchs</b>	<b>Key oligarch-controlled companies, c. 1996</b>	<b>Key oligarch-controlled companies, c. 2006</b>	<b>Key silovarch-controlled companies, c.2006</b>	<b>Silovarchs</b>
<b>Boris Berezovsky and Roman Abramovich</b>	<i>Avtovaz, Aeroflot, ORT, Sibneft</i>		<i>Aeroflot, Almaz-Antei</i>	<b>Viktor Ivanov</b>
<b>Vladimir Gusinsky</b>	<i>NTV</i>		Rosoboronexport, <i>Avtovaz</i>	<b>Sergei Chemezov</b>
<b>Rem Vyakhirev</b>	<i>Gazprom</i>		<i>Gazprom, Sibneft, NTV, OMZ</i>	<b>Alexei Miller</b>
<b>Mikhail Khodorkovsky</b>	<i>Yukos (including Yuganskneftegaz)</i>		<i>Rosneft, Yuganskneftegaz</i>	<b>Igor Sechin</b>
<b>Vladimir Potanin</b>	Norilsk Nickel, Silovye Mashiny	Norilsk Nickel	Russian Railroads	<b>Vladimir Yakunin</b>
<b>Mikhail Fridman</b>	Alfabank, TNK	Alfabank, TNK-BP		

Source: Company websites and annual reports. Italics indicate companies transferred from oligarchs to silovarchs. Sibneft has been renamed Gazpromneft.



turmoil of the early 1990s. Then, in dubious privatizations that they helped organize, they leveraged this cash into stakes in the country's vast resource wealth.<sup>4</sup> By contrast, the silovarchs have been re-nationalizing firms. The oligarchs owned billion-dollar properties outright; the silovarchs mostly just control companies through positions in management or on supervisory boards. Indeed, the siloviki see their mission as precisely to fix the problems the oligarchs created—to restore respect for law enforcement, enhance presidential powers, and clean up the media, political parties, and business circles, which they believe the private magnates corrupted.

When asked last September about Kremlin officials moonlighting in business, President Putin responded with a convincing show of bemusement: “It’s not that people work at the same time in the Kremlin or the government and in some companies. They do not work there... They only represent the interests of the state in particular companies where the state owns shares... There is nothing here that contradicts our legislation... I don’t know what can concern anyone in that respect.”<sup>5</sup>

On the surface, the two groups look quite different. Leading oligarchs seemed to relish the image of bare-knuckled robber barons, building capitalism one takeover at a time. They favored a weak but open political system, in which their wealth could buy media coverage, political parties, and high officials as needed. The siloviki emphasize hierarchical loyalty, national interest, and self-restraint. They see themselves as disciplined professionals, chess players thinking several steps ahead, tough enough to live with dark secrets. Their aim is not to rebuild Soviet institutions, which they recognize had

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<sup>4</sup> For an account of the oligarchs’ rise, see David Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, 2002, Public Affairs.

<sup>5</sup> Meeting with Western scholars, President’s residence at Novo-Ogorevo, 9 September, 2006, author’s recording.

rotted by the end, but to restore order. Politically, that means to them averting the state's decay into ethnic fiefdoms. Economically, it means protecting the national wealth from swindlers and investing it in projects to develop the raw materials and industrial sectors simultaneously. Foreign investors are welcome, but as junior partners. Technocrats are kept in the cabinet to provide macroeconomic stability and credibility with the West.

The image of the siloviki as selfless crusaders for order, rooting out corruption, is getting harder to sell to the Russian public. According to polls of the independent Levada Center, in December 2005 only 24 percent of respondents thought order had increased in recent years, and 68 percent thought the country had become less orderly. The share saying stealing and corruption had increased under Putin tripled from 15 percent in September 2002 to 45 percent in October 2005. During the same period, the share saying corruption had decreased fell from 20 to 10 percent.

Some differences from the oligarchs may be mostly a matter of timing. Many oligarchs also began by controlling cash flows or advising directors of large state enterprises. Berezosvky started out working with state-owned Avtovaz, and later helped manage state-owned Aeroflot. Only after accumulating capital from such activities were they ready to buy privatized properties. Many observers expect the silovarchs will at least partly re-privatize the companies repossessed from the oligarchs, and end up holding shares themselves. State-owned Rosneft, having re-nationalized Yukos' Yuganskneftegaz unit, recently sold \$10.4 billion worth of shares back to private investors in one of the largest IPOs ever. It is expected to sell more shares in coming months. Getting rich is certainly not the silovarchs' only goal; on the contrary, many seem genuinely preoccupied with rebuilding an effective state. The problem is that this project is already

failing. The Russian crime rate was 20 percent higher in 2005 than in 2000, and violence has been spreading from Chechnya to other republics in the North Caucasus. As failures become more visible, the goals of self-protection and enrichment will be all that remain.

Even the way political observers discuss the Kremlin elite is starting to sound familiar. Under Yeltsin, the leading cabal of Kremlin-connected oligarchs and administration officials was known as *Semya*—“the family”. These days, Putin’s network of silovarchs is referred to as *Korporatsia*—“the corporation”. Despite the appearance of war between Putin and the oligarchs, some speculate that a limited alliance actually unites “the corporation” and “the family”. The cordial relations between Putin and Abramovich, along with the unexpectedly high \$13.1 billion that Gazprom paid for Abramovich’s Sibneft, suggest to some the two groups have at least certain interests in common.

## History lessons

If one rejects the notion that Russia’s silovarchs are selfless public servants, there are still reasons to expect silovarchy, if it survives, to develop differently from the oligarchy of the 1990s. The two elites bring different resources and skills to the competition for wealth and power, which will affect their economic and political strategies. To see how, it helps to consider the history of silovarchies in other parts of the world. Two cases offer interesting analogies to Putin’s regime—South Korea in 1961-79 under General Park Chung Hee, and Indonesia in 1965-98 under General Suharto.

Of course, there are differences between two Asian ex-colonies in the 1960s and a postcommunist nuclear power in the 21<sup>st</sup> century. While Korea and Indonesia needed to

industrialize rapidly—a task possible within a militarized economy, with repressed labor and forced savings—Russia seeks a place in the global information economy. Both Park and Suharto took power in military coups, whereas Putin arrived there constitutionally.

Still, there are parallels. Like Putin, both Park and Suharto came to office after periods of disorder and polarized politics. Each promised to reduce corruption; neither succeeded. Both built up and relied on repressive secret services. The Korean CIA penetrated society with networks of informers, collecting compromising materials on members of the elite. In Indonesia, a variety of intelligence agencies and special forces were used to intimidate labor activists, eliminate criminal bosses, and terrorize potential separatists.

Under Park's predecessor, influential businessmen had exploited government weakness to enrich themselves through low-price privatizations. Park began by jailing 20 leading Korean oligarchs, but then struck deals with them, permitting most to keep their property in return for political loyalty and investments in the domestic economy. The government monitored and directed private business, but military officers did not usually run companies themselves, although Park did assign one trusted general to build an internationally competitive steel industry from scratch. Under Suharto, hundreds of army officers partnered with the ethnic Chinese entrepreneurs that dominated Indonesian commerce. Suharto assigned generals to manage state corporations in charge of food supplies, trade, and oil and gas. General Ibnu Sutowo, Indonesia's most colorful silovarch, built the national oil company Pertamina into a diversified conglomerate during the oil boom after 1973, but almost sank it under \$10 billion of bad debt. Army technocrats formed a catch-all political bloc, Golkar, to mobilize voters, not unlike

Putin's United Russia Party. In both countries—as under Putin so far—state intervention was combined with orthodox macroeconomic policies that kept inflation low, budget deficits small, and exchange rates reasonably competitive.

The logic of silovarchy suggests a mixed expectation about economic performance. On one hand, the silovarchs' unfair advantages should scare investors away from their rivals and weaken competition. The Kremlin magnates can monitor their competitors' phone calls, blackmail them with secrets from the files, harass them with tax inspectors, or send troops to arrest them in their corporate jets. (The oligarchs also bought intelligence and are accused of paying police to frame rivals, but their efforts look like schoolboy pranks beside those of the professionals. No 1990s oligarch could have organized the kind of coordinated assault that left the main unit of Khodorkovsky's Yukos on the books of Sechin's Rosneft and its previous owner in jail.) Able to lobby from inside for state favors, silovarchs face little pressure to increase productivity. With key sectors controlled from the Kremlin, development plans might in theory be better coordinated. But the record of central planning in Russia is not encouraging.

On the other hand, given the corrupt and disorderly environment of the late Yeltsin years, fusing economic and political power might have some benefits. If venal bureaucrats are discouraging private investment, investors might do better teaming up with those at the top of the law enforcement pyramid. At least their partners in uniform should deter predators lower down the food chain. If silovarchs want to obtain hard currency, competition in export markets might partly compensate for weak domestic competition. Much depends on whether Russia's silovarchs choose to harness the entrepreneurial talent evident in the country's top companies, or instead make business

decisions themselves. In both Korea and Indonesia, most financial generals left major business judgments to the professionals. Those that did try to pass as entrepreneurs—such as Sutowo—did not usually do well.

So far, international investors have focused mostly on the positive. Foreign investment inflows increased steadily from \$11 billion in 2000 to \$54 billion in 2005, according to official statistics, and silovarch-associated companies have had some of the biggest stock market gains. Sibneft's share price rose eight percent in the six months before Gazprom took it over, but 59 percent in the six months following the takeover.

Silovarchies elsewhere have ranged from development miracles to economic disasters. Nigeria's military rulers in the mid-1990s did more to develop the Swiss economy than their own, where per capita income shrank. By contrast, between 1960 and 1994 South Korea was the third fastest-growing country for which data are available, and Indonesia was the fourteenth, growing at more than twice the world average. Despite widespread corruption, both countries built internationally competitive manufacturing sectors, attracted foreign investment, and managed to deregulate markets in the 1980s, catalyzing even faster development. Economically, silovarchies are not doomed to fail.

Politically, oligarchies seem suited to weak democratic orders. In some, tycoons and politicians check each other, while in others economic lobbies capture the state. In silovarchies, the leaders' ready access to tools of surveillance and intimidation predispose them to gradually tighten administrative control. Both the Korean and Indonesian regimes evolved into increasingly harsh and personalistic autocracies. Limited to two terms, Park changed the constitution in 1969 to permit a third—something Putin regularly denies considering. Three years later, Park declared martial law, dissolved parliament, imposed

strict censorship, and suspended political parties. His new constitution replaced direct presidential elections with an electoral college, permitted Park to succeed himself indefinitely, and let him appoint one third of the parliament's members. In Indonesia, an insecure military government developed into a patrimonial dictatorship. Suharto's technocrats engaged in blatant vote-rigging and intimidation to ensure large Golkar victories, and forced opposition parties to amalgamate. Critical newspapers were banned.

As repression increases, divisions often emerge among the silovarchs. Some are simple turf battles between different agencies or forces. Others reflect conflicting economic interests of silovarchs. A third division pits the more acquisitive generals against purists who fear unrestrained corruption and self-enrichment are eroding esprit de corps. In Indonesia in 1980, some retired generals joined leading intellectuals to petition Suharto to resign. Finally, silovarchs often split on the question of succession.

All four divisions may appear in Russia. Tensions between the FSB and other branches could become salient, as could splits between former spies and domestic intelligence agents. Putin's corporation draws narrowly on a small group of his mid-level FSB acquaintances from St Petersburg and his German posting, reportedly arousing resentment among higher-placed siloviki. The military has been largely left out and may sometime seek its own share. Divergent economic interests already divide oil and gas silovarchs, who hope to partner with Western firms, from arms and nuclear fuel exporters, who might like to sell to Third World clients even if this offends Washington. Steel industry silovarchs would probably benefit from WTO membership, but those in the automobile sector fear lower tariffs. Oil producers would like new pipeline construction, but not Yakunin of Russian Railways; as of 2004, 14 percent of oil exports were shipped

in railway containers.<sup>6</sup> Some silovarchs are more ideologically motivated, emphasizing nationalist themes; others are more pragmatic. Although the succession struggle remains mostly hidden, factional splits will surface as the 2008 election approaches.

By shutting out authentic political expression or competition for office, silovarchies tend to push politics into the streets. Since Kiev's "Orange Revolution" in 2004, the Kremlin has seemed nervous about a possible reenactment. Global experience suggests that volatile mass protests are not avoidable hazards—but inevitable consequences—of such regimes. Indonesian students staged major demonstrations in 1973-4, 1978, and 1987, and Muslims protested in 1984. In South Korea, large student rallies occurred almost every other year in the 1960s and continued in the early 1970s despite harsh crackdowns.

Like many authoritarian orders, silovarchies lack a safe way to change leaders. As incumbents build the state into a politicized instrument of repression, it becomes increasingly dangerous to hand over the controls. Incumbents fear losing the property they have acquired, while emerging divisions erode trust. The preeminent leader becomes vital to keep factions cooperating and faces pressure not to step down. But the longer he stays, the more he and his associates incriminate themselves, and the greater the risk of prosecution if he leaves office.

Consequently, silovarch leaders often overstay their welcome and are either assassinated or chased out by rioting crowds. General Park was shot by his own secret police chief, whom he had ordered to crush worker protests. An assassin's stray bullet had killed his wife five years before. Suharto was driven out by demonstrations during

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<sup>6</sup> US Department of Energy, Energy Information Administration, *Country Analysis Briefs: Russia*, January 2006, p.5.



the 1998 financial crisis. He suffered two strokes, which kept prosecutors from trying him for corruption. His son Tommy, unlucky to be in good health, is serving a 15-year jail term for ordering the killing of a judge. Leaders of silovarchies seldom enjoy a peaceful old age.

## Guarding the guardians

The greatest challenge for Putin's associates is to find a way to enjoy their gains securely without fear of prosecution. Many are in their forties or fifties, and so need to think at least 20 years ahead. This is not a trivial problem.

One obvious strategy is to stay in office. At present, few doubt Putin could get the constitution amended to allow him additional terms. With real disposable income up 11 percent a year on average since 2000, he remains genuinely popular and could probably get reelected without trouble. Circling the wagons in the Kremlin would mean some cooling of relations with the West. But Western democracies have dealt pragmatically with many unapologetic dictators, not to mention the communist autocrats in Beijing. Giving up on Western respectability would liberate Russia to improve ties with China, India, and developing countries unpopular with Washington, although maneuvering between the two probably maximizes bargaining power.

The real drawbacks of this approach would materialize later. If the economy falters, public discontent will exacerbate splits within the ruling group. In reaction, Putin would probably centralize power still further, tightening the screws on opposition and expanding censorship. Such strategies, by shielding the regime from public opinion, render street protests, when they do erupt, increasingly unpredictable. Ultimately, Putin

would face the twin dangers of being swept away by demonstrations, like Suharto, or receiving a bullet from a friend, like Park, if fellow silovarchs decide he is leading them to disaster. Kremlin insiders know few militarized regimes last long in countries at Russia's level of development, especially those with highly educated populations and no imminent external threat. If they think they can preserve their gains and security after leaving office, a timely departure will look to them more attractive.

But how can a silovarch in retirement defend his property? How to avoid a successor—or successor's successor—doing to Putin and his allies what they did to Khodorkovsky? Silovarchs might try to protect themselves in two ways.

One is to choose a successor who is vulnerable. Compromising materials—*kompromat*—have been used to discredit or blackmail political opponents since the start of competitive politics in Russia. The security services, with their informers, electronic surveillance, and well-stocked files, have a comparative advantage in this. If Russia's next president knows any attempt to prosecute leading silovarchs or reform the FSB will prompt a deluge of incriminating press leaks, he will think twice. From this perspective, a successor from outside Russian politics and business, like Garry Kasparov, would alarm the silovarchs more than even a harsh critic of Putin thought to have skeletons in his closet, like former premier Mikhail Kasyanov. The logical—although unlikely—endpoint would be for Putin to move down the street to the Lubyanka in 2008 as FSB director. However, such arrangements based on mutual deterrence can collapse if some independent journalist exposes the secrets of one side, undermining the balance. Thus, a natural complement of this approach is state or silovarch control over the press and tight monitoring to prevent unauthorized disclosures.

The second self-defense strategy—the most compatible with democracy—is for silovarchs to metamorphose into international businessmen. By diversifying into the global economy, mixing their shares with those of Western investors, attracting Western politicians onto their boards, and trading Russian properties for Western ones, they could make it hard for a successor regime to prosecute them for corruption or expropriate their assets without international scandal. In this, the silovarchs have learned much from the oligarchs. Those prosecuting Yukos have had to bone up on Texan legal procedures. Any who targeted Abramovich would quickly discover that freezing a British soccer team is harder than freezing a Swiss bank account.

Thus, Rosneft's IPO aimed to create an international support group for the firm. After investing hundreds of millions of dollars in it, three global oil companies—BP, China's CNPC, and Malaysia's Petronas—all have an interest in Rosneft's continuing health. Similarly, Gazprom now permits foreigners to hold its shares directly. Putin invited former US commerce secretary Donald Evans to serve on Rosneft's board. Evans declined, but former German Chancellor Gerhard Schroeder accepted a job on a Gazprom pipeline subsidiary, despite criticism at home. Meanwhile, Gazprom is aggressively seeking assets in Europe. Such moves have obvious geopolitical significance as well as a straightforward commercial rationale. But they also help interweave silovarch companies into international business networks, complicating any asset seizures by future Russian governments. An apt culmination of this strategy would be for Putin to head Gazprom after leaving office.

Western policy towards Russia will have to recognize these realities. At present, the silovarchs' most likely choice in 2008 is to try to get a trusted successor elected and

protect themselves with a combination of *kompromat* and global diversification. But they must remain confident that Russian politics will not lurch out of control and doors to the West will remain open. The Kremlin's concentration of power has prompted an understandable desire among Western policymakers to discourage backsliding from democracy. However, most gestures Western governments could make would both fail to achieve results and reduce the appeal to Kremlin insiders of even a partially democratic handover. With a federal budget surplus of 7.5 percent of GDP last year and more than \$250 billion in reserves, Russia does not need foreign aid. Further delaying WTO entry would hurt some silovarchs and benefit others. Excluding Russia from the G8 or other symbolic snubs would irritate national pride, prompting Russians to rally behind Putin. Travel bans on leading silovarchs would reduce their hopes of integrating into the West, increasing the attraction of staying in office. Perhaps most idealistic of all is the suggestion the West should help groups hoping to repeat Kiev's "Orange Revolution" in Moscow. If, against all odds, mass demonstrations did transfer power to a convinced democrat, one would still need to consider what would happen the morning after. Unlike in Ukraine, the security services would probably not split. Russia would face a continuing crisis as the FSB and its silovarch leaders sabotaged the new president's ability to govern. Democratic euphoria can fade rapidly when the economy crashes.

Although not morally appealing, the most promising path toward authentic democracy in Russia involves the cooptation of leading siloviki into the international business world. As Russia's companies become truly global, tied into multinational networks of assets and share ownership, Putin's silovarchs may no longer need to control police and the media to defend their gains. They may come to see their own interest in a

more predictable legal mechanism for securing property rights. Even if Putin's team leaves power, that does not guarantee its successors will be more democratic. Other factions—military or populist—may be waiting to claim their own cut of the country's resource wealth. But if Putin's silovarchs do not leave, the pressures on them to tighten political control will only increase. One must hope the more technocratic and modern among them—including Putin himself—are confident enough to take this gamble.