Russia today finds itself in what some must see as an ironic situation. During Stalin’s reign, he did everything he could to isolate the Soviet Union from the capitalist world. He did this for security reasons but also because he felt that if the centrally planned Soviet system could isolate itself from the business cycle fluctuations of the capitalist world, it might be able to escape the global depression which he assumed would come as it indeed did in the late 1920’s and early 1930’s. To his credit, his strategy worked for a time and the USSR’s GDP grew at a very impressive rate while the rest of the world saw its GDP drop sharply. The contrast between economic growth in the USSR and the depression in the rest of the world was striking and caused enormous self doubt among those who believed in the market and capitalist systems.

By the 1970s when Leonid Brezhnev became General Secretary, this economic isolation no longer seemed to be working, especially as what came to be known as globalization began to take shape. Gorbachev seemed to recognize this as well as reflected by his policies of perestroika and glasnost. It was Putin however, who seemed to be the most eager to involve Russia in the globalization process. It was his good luck that when he came to power, energy prices were at their low of about $10-15 a barrel. As the holder of the world’s largest reserves of natural gas as well very large holdings of petroleum, Russia and Putin found themselves to be among the world’s prime beneficiaries as energy prices topped out at $147 a barrel in the summer of 2008. Globalization certainly seemed to be working.

By the summer of 2007, underpinned by these ever higher energy prices, the Russian GDP was averaging a growth rate of 7-8% a year, a sharp contrast from the pre Putin years when the GDP under Yeltsin was dropping at rates as high as 14% a year. Under Putin, almost overnight, Russia found itself with a strong ruble and the world’s second largest holdings of convertible currencies. Given that its treasury had nearly run out of convertible currency in 1998, this was a remarkable turnaround and it is easy to understand why the Russian public associated this improvement in Russia’s financial standing with Putin and his embrace of globalization and why Putin’s public opinion ratings hit 70 and sometimes 80%.

Putin himself came to believe in his abilities and predicted that Russia would soon become equally important if not more important than the US as the world’s financial center. As such the ruble would rival if not overtake the dollar as the world currency standard and the cumulative value of Gazprom’s stock, which at the time was almost $350 billion would soon reach 1 trillion dollars making Gazprom the corporation with the highest capitalized value in the world.

Adding to his hubris, Putin flaunted the fact that Germany was dependent on Russia and Gazprom for over 40% of its natural gas. For Russia and its newly enhanced economic and by extension political power, this was globalization at its best.

That globalization can have an equally if not more explosive downside seems to have caught Russia and Putin by surprise. Putin himself has turned out to be one of Russia’s worst enemies when he began to attack the head of Mechel, a Russian company, which some took to be the prelude to a general assault on the Russian corporate community. Nor did it help that at about the same time, Russia began to attack Georgia. All of this triggered a selloff in the Russian stock market and the withdrawal of at least some $57 billion (some say as much as $230 billion) from the Russian economy. As a result, the RTS index of Russian stocks fell 60% (by the end of 2008 the RTS was down 80%) and Gazprom which had become the world’s second largest corporation according to its capitalized value, had fallen to the world’s eighth largest corporation. (By early 2009, it had fallen to 33rd place). A drop of this magnitude was bound to have a widespread impact and hit many of the siloviki (law and order types) that had been put in positions of power by Putin. There are rumors that it has also hit Putin and Medvedev as well since they were said to have become large holders of Gazprom stock.

A brief word about Russian foreign policy, particularly Russian-US relations. This relationship between the two superpowers has not been particularly warm. Yet it would undoubtedly have been much worse had it not been for the unusually close personal relationship that developed between President Putin and President Bush. As strange as it
may seem, Bush seemed to have a closer relationship with Putin than with any other world leader and the same would seem to hold for Putin and his relationship with Bush. I have had a chance to meet with Putin five times and each time he brings up Bush in the most complimentary way. I have also met with Bush and he had similarly nice things to say about Putin. Their body language when they are together is almost embarrassingly close. The point is that were it not for this relationship, it is more than likely that the Russian-US relationship would be much worse. The question therefore is what should we expect now that Bush is out of office and it is Medvedev who is Russia’s president. Even though the new US Vice President, Joe Biden has said it is necessary to push the “reset” button on the Russian-US relationship, it is hard to see how Obama and or Putin and Medvedev will be able to establish anything close to what existed between Putin and Bush. If nothing else, Russians, particularly those who have served in the KGB, are noted for their racism. But unlike what happened during the Bush Administration, the Obama Administration’s policies are likely to be less threatening to Russia, yet the personal chemistry between Obama and Putin, and Medvedev and Obama, will be much cooler. It will be fascinating to see which combination produces the most cooperation between both countries.