

EBRD chief economist says democracy trumps populism.

Sergei Guriev, chief economist of the European Bank for Reconstruction and Development, spoke on the theme of 'The Political Economy of Reform in Europe and its Neighbourhood' at an AEJ meeting on 17 January. Dr Guriev linked the rise of nationalism and populism in western countries with 'reform reversal' in some post-communist countries. Typically, populist government benefit corrupt elites he argued. They remove political checks and do not create free markets and democracy; whereas states which consolidate democracy do well. In other words 'democracies do reform.' Dr Guriev short on-the-record remarks prompted these personal reflections from AEJ member Anthony Robinson, a former East Europe Editor of the Financial Times.

Anthony Robinson:

All human institutions, by definition, are imperfect. Some more than others, depending usually on the quality of leadership. Most try to hide their blemishes from outside criticism. Some use violence. Others spend heavily on PR so smells are disguised by perfume.

Even so, it is somewhat dispiriting to find that even one of the most successful of recently created international institutions, the European Bank for Reconstruction and Development (EBRD) insists that its officials should not speak ill of any shareholder or member country, even when its largest client, Russia, and some others, have gone rogue on the bank's basic principles - to promote both the market economy and democracy.

Fortunately the EBRD's chief economist, Sergei Guriev, is a man brought up in the Aesopian traditions of the Russian empire. So although he spoke largely off the record to Wednesday's AEJ audience of active, semi-retired, and aspiring young journalists he managed to shed much light on both the institution which he honourably serves – and the disparate collection of former Soviet states and newer clients, in Turkey and North Africa, which the bank was set up to serve.

What follows therefore is not a verbatim report, but personal impressions and thoughts which linger after nearly two hours of intense question and answer.

Brain-child of French socialist intellectual Jacques Attali, the EBRD was set up in London when the Cold War, even history itself, was said to be over. Building democracy and the market economy to underpin it were seen as umbilically, even axiomatically, linked.

Over the last 27 years the economic and social transformation of the former Soviet world has been extraordinary. Militarised basket case economies have been converted into thriving consumer societies. But the 2007 US sub-prime crisis and the global banking melt-down led to a decade of low growth, high unemployment and rising inequality which severely dented belief in the link between the capitalist system and democracy.

The ease with which dirty money and criminal activities have been whitewashed and transformed into luxury properties, trophy assets and social respectability through London and other western financial centres confirmed old Soviet ideas about the hypocrisy of the "so-called democracies" amongst the former Soviet new-rich.

The result - populist reactions both in the West, ranging from Brexit to Trump, and in the East where populist governments in Poland, Hungary and elsewhere are challenging "the liberal consensus."

Russia's illegal annexation of Crimea and "little green man" invasion of eastern Ukraine in 2014, causing the death of over 10,000 people and widespread destruction, coupled with the destruction of an over-flying Malaysian Airlines plane full of civilian passengers, finally led to an appropriate western political and military reaction, singularly absent after the earlier Russian invasion of Georgia.

Awakening recognition of the need to strengthen military defences was accompanied by dawning recognition of the need to re-assert some basic ethical as well as practical reforms in the financial and wider economic system dependent on open markets and encourage real not mere tick-box compliance with basic principles.

A key element of this reaction was the EBRD's decision to suspend further loans and assistance to Russia, until then the largest single recipient of EBRD assistance, with projects amounting to one third of the Bank's current total portfolio of operations worth around Euro42bn.

The ball remains in the Russian court. The minimum requirement for a resumption of business, and the relaxation of other sanctions imposed by EU countries and the US, remains full compliance with the Minsk accords. This requires both the return of control over Ukraine's eastern border to Kiev and credible signs of Moscow's willingness to negotiate some kind of special status for Crimea. Don't hold your breath.

Russian governments have a long tradition of blaming others for Russia's ills. But the sheer size and scope of the EBRD's pre-Crimea involvement in Russia undermines President Putin's constant complaints that the West failed to help Russia recover from 70 years of self-inflicted communism and merely encircled the motherland with enemies by expanding Nato to former Warsaw Pact members.

Such grumbling ignores not only the willingness of foreign investors to invest and transfer technology and skills, often encouraged by the EBRD, but also the fact that the Baltic States, Poland and others clamoured to gain the collective protection offered by Nato, and EU membership. They were not forced into Nato as they were into the Warsaw Pact. A big difference.

It is an ill wind that blows nobody any good. Cutting spending on Russian projects enabled the EBRD to funnel more funds to other emerging markets, especially Turkey, Poland and Egypt, and also provide some Euro485m to support projects in "temporary recipient Greece." EBRD funding has also co-financed vital sewerage, transport and other assistance to refugees from the Syrian wars in neighbouring Jordan and Turkey.

Sadly, one of the unintended consequences of blocking new projects in Russia has been to hurt precisely those entrepreneurial, often young, Russian businessmen who, cut off from the EBRD and by a string of spectacular Russian bank failures, now find that one of their few remaining sources of venture capital is Sberbank, state-owned but run by veteran liberal German Greff.

For men like German Greff and former finance Minister Alexei Kudrin, long standing links and friendship with the younger Vladimir Putin, mean that they are still able to press for "liberal" economic reforms, even though in practice these continue to be blocked by the crony capitalist oligarchs linked to the "siloviki" security force types who really call the shots in the Kremlin.

Turkey is another EBRD client-member which has been backsliding from its former enthusiasm for market reform and democracy, but still retains access to the EBRD. As with Kazakhstan, which also pursues economic reforms while maintaining an autocratic regime, the EBRD is holding its nose in the hope that by continuing to invest and support small and medium private enterprises and market reforms it can still support the growth of "civil society" and the middle class needed to sustain any effective democracy.

Central Asia has long been a focus of EBRD hopes and aspirations, blocked for so long by tyrants such as the late President Islam Karimov of Uzbekistan. Karimov's successor, his former prime minister Shavkat Mirziyoyev,, has been making encouraging noises about democracy and market reforms. Some view him as a potential Central Asian Gorbachev, that is to say a man prepared to risk reform but not to shoot people in the streets if they go too far – as Karimov did in the Uzbek provincial town of Andijan in 2005 and President Maduro is doing to keep power in Venezuela. These are still early days and the jury is still out.

Significantly, however. the smooth transition of power in Uzbekistan so far, may help ease the succession question next door in Kazakhstan where an ageing Nursultan Nazarbayev, who switched seamlessly from party boss of the Kazakh Soviet Socialist Republic to President of the newly sovereign state of Kazakhstan in 1991, and has overwhelmingly won “elections ” ever since. Nazarbayev is widely seen as the most successful authoritarian moderniser in Central Asia, but is now 78 years old, with no clear succession path mapped out.

The lack of open political institutions, especially a clear succession process for the transfer of power, is one of the key factors which discourages foreign investment in Central Asia and Russia. Even China is wary of the unpredictability of post-Putin Russia, concentrating investment on projects which supply Russian oil, gas and minerals to China itself.

The fact that Uzbekistan, with a higher and potentially more volatile population brutally suppressed for decades, seems to have pulled off a peaceful leadership transition appears however to have opened up the formerly taboo question of “who and what next” in neighbouring Kazakhstan.

Uzbekistan with its gold, cotton and other resources had a GDP higher than Kazakhstan when the Soviet Union collapsed and was expected to emerge as the new leader in central Asia. Today, thanks largely to Nazarbayev's canny leadership and ability to attract massive foreign investment, especially into world class oil, gas and mining projects, Kazakh per capita incomes are five times higher than un-reformed post-Soviet Uzbekistan. The EBRD has been one of the biggest foreign investor sand supporters of Kazakhstan's growth with stability policy.

The EBRD's appointment two years ago of Sergei Guriev, a brilliant, young Russian economist with strong reformist credentials and insider's knowledge of how post-Soviet societies operate, appears to have been part of the Bank's re-assertion of fundamental democratic principles in response to the invasion of Ukraine and other hostile moves, including a massive Russian re-armament programme. It is important to remember that, despite the Bank's European moniker, the USA is actually its biggest single shareholder.

Guriev was born on the fringes of the old Russian and Soviet Empires in Vladikavkaz, capital of North Ossetia, and grew up amidst the wreckage of the Soviet Union whose collapse caused immense misery for millions but also created high hopes and huge possibilities for a better future.

The Czars founded Vladikavkaz as a fortress to control the restive Caucasian tribesmen they colonised without ever absorbing. Centuries later, one of Putin's first acts as President was to renew a savage war with neighbouring Chechnya to demonstrate that Russia was no longer in retreat. In 2008 the Russian tanks which invaded Georgia did so through the rough tunnel which connects Russian North Ossetia with Georgian South Ossetia under the Caucasus mountains.

Guriev has his own personal track record. He fell foul of Putin's wrath in 2013 after protesting against yet another rigged show trial to keep fallen oligarch Mikhail Khodorkovsky in jail.

Khodorkovsky, by no means a saint, managed to acquire control of a bunch of old fashioned, polluting Soviet era oil fields in the anarchic Yeltsin years. By introducing western management and technology he created the Yukos oil company.

In 2003 Exxon and Chevron competed to offer some \$10bn for a minority 25% stake in Yukos, valuing the company at \$40bn. Before the deal could be done Putin ordered Khodorkovsky to be pulled from his plane while re-fuelling at Novosibirsk. He spent the next decade in jail – before unexpectedly being released by Putin as a “goodwill gesture” just before the Sochi Winter Olympics.

Putin asserted the primacy of politics while Yukos, instead of becoming a powerful, Russian-controlled global company with minority US shareholders ended up in the hands of an arch Kremlin oligarch, the former military intelligence man, Igor Sechin. Under his control Yukos is currently investing \$5bn into Venezuela. Good luck with that one, Igor.

Facing arrest and worse, Guriev self-exiled - first to an academic post at Sciences-Po in Paris and since 2015 to the EBRD in London. Barred from returning on his Russian passport he now has an international diplomatic passport which allows him to visit the skeleton EBRD staff in Russia who still manage the pre-existing portfolio of EBRD assets.

Guriev takes wider advantage of his EBRD role to speak out clearly also on the ethical weaknesses in the capitalist system revealed over the last decade by the chicanery of banksters and a high-tech globalism which has enormously enriched a tiny fraction of the world’s super rich but left an estimated 70% of households feeling relatively poorer and aggrieved.

Above all, his is a clear voice warning not to heed the siren calls of populists who, he believes, essentially want to close borders, bribe or censor opponents and heap blame on minorities to enrich themselves and their oligarch supporters. Sadly, those often poorer and less educated people who are most tempted, he warns, are precisely those likely to be most hurt by the sort of crony capitalism which is likely to result, and of which the EBRD sees itself as the sworn enemy.