

Vladimir Putin looks like a man trying to hide his own incompetence

Was 2014 the year that all President Putin's chickens came home to roost?

By Charles Crawford

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Vladimir Putin's long annual press conference today has been followed around the world with keen interest, with the gap between Putin's high political ratings and the **plunging rouble** expanding alarmingly. Experts are aghast at **Russia's** economic woes. How can a huge country with so much potential be faltering so badly?

Russia has surged ahead since the end of the Cold War by accepting post-Soviet international borders, finally joining the modern world economy and joining in many European integration processes. But those gains require commitment to ever more sophisticated rules and transparency that set limits on policy options. Under Putin's leadership Russia in 2014 has given the strong impression that it sees any such limits as weakness, and no longer wants that basic deal.

Unfortunately for the Kremlin, its assertive stance has collided this year with the fast-accumulating consequences of Russia's own bad policies: systemic corruption, weak property rights and unwise over-reliance on high energy prices. Prospects for medium-term growth were already uncertain before the oil price started to tumble, wrecking Russia's state budget calculations.

Western leaders may shrink from confronting Vladimir Putin in person. But the Kremlin can't intimidate the planet's anonymous, restless international financial markets: they are voting down Russia's credibility. Sharp-toothed Western financial sanctions prompted by the Kremlin's illegal foreign territory-grabs earlier this year have reinforced a sense of crisis.

President Putin today had three options.

The first (and arguably best for Russia's long-term prospects) was to send a clear signal of edging back from the self-destructive policies of 2014 to re-normalise relations with Ukraine and the EU/USA, with some specific ideas on de-escalating the crisis and working in good faith with Kiev and European partners to strike a new comprehensive deal both for Ukraine and wider European security. That would have risked looking like an embarrassing policy retreat in the face of Western pressure, but with nimble diplomacy and

a new sense of mutual good will the focus could be quickly turned to the positive results of restoring normal relationships.

Or he could have adopted a brazen "the worse the better" stance, wrapped in patriotic bluster that Western governments are declaring economic war against Russia in a clumsy lunge at "regime change", in effect calling the West's bluff on sanctions and Ukraine ("If we go down, we'll drag you deep down with us!")

What he in fact gave us was a rambling but more or less balanced Micawberish ploy to buy time. President Putin insisted that in a couple of year's time Russia's economy would be back on track for good growth, with "life itself" helping Russia take much-needed tough decisions to diversify its economy. He talked up market mechanisms as the right way to proceed, albeit with far too many musty, needy exhortations of reforms that "had" to happen to be convincing. His headline-catching invitation to meet oil oligarch Vladimir Yevtushenkov showed that his own instincts for running Russia are still all about private power-deals, not building a society run by open rules. On the foreign policy front President Putin made the familiar claims that Western partners never listen to Russia, and that Russia is merely defending its reasonable national interests in the face of Nato "expansion". In one bizarre but revealing passage he said that Western governments did not merely want the Russian bear to sit quietly eating honey: they were bent on taking away its claws and fangs and leaving it stuffed. He slyly hinted at sundry conspiracies (eg by the USA and Saudi Arabia to depress the oil price to hurt Russia), but repeated that he looked for political solutions in Ukraine in pragmatic partnership with others.

In short, President Putin clearly had an eye on market reactions and made sure that his overall tone was firm, confident but broadly responsible and non-confrontational.

Even though some experts say that Russia's economic "fundamentals" are now undervalued, it's not easy to see why this steady-as-she-goes Putin presentation should restore Russia's economic policy credibility. There are just too many real-life problems begetting new problems. Russia's huge corporations are struggling to finance their operations and pay back foreign debts. Russia's own banks are unsure how far to trust each other, so lending costs are soaring. Russia has big reserves, but it's spending them. Today as President Putin spoke, news came that more big Western companies are suspending sales to Russia.

Western governments and the world's financial markets are likely to see this marathon press conference as Kremlin strategic improvisation, which, given

the dynamic problems Russia now faces, looks like indecision, insincerity or simply incompetence. Above all, the President offered no obvious way to start to get quickly into a virtuous cycle of improvements on the ground in Ukraine leading to parallel easing of sanctions.

It all boils down to that eternal key factor of diplomacy: psychology. How to restore trust once it is lost? When a relationship falters, who moves first to make amends? In particular, how do Western governments and President Putin alike now move to different, calmer positions that respect key positions of principle on both sides but explore creative options for pragmatic win-win outcomes? Today's dreary press conference did not help find answers.

Thanks to the Kremlin's many miscalculations in 2014, Russia will pay a staggering cost in lost growth in the years to come. But if a blundering Russia soon edges towards defaulting on its foreign debt obligations or concludes that it has little to lose by playing fast and loose with vital European security rules, is that Russia's problem or our problem?