

News Analysis: Elected Governors To Benefit Investors

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The pending bill reintroducing gubernatorial elections may loosen the top-down political system and inject a fair amount of rivalry among regional powerhouses, but it could be investors who gain from that future thaw.

Provided that the vote is fair, elected governors will enjoy popular support that will make them less prone to dismissal at the Kremlin's will — and therefore bring more predictability.

"Investors would feel more comfortable," said Yevgeny Minchenko, general director of the International Institute of Political Expertise, a think tank.

In another upside, political competition could prompt investment to come in faster, said Viktor Sedov, president of the U.S.-Russia Center for Entrepreneurship.

"The key is to have real elections of a governor so that a person can achieve a clean

and graceful victory," he said.

However, the bill reserves the president's right to dismiss a governor on account of "loss of confidence," an option that could keep investors guessing whether to open a plant, car dealership or other business, should the new governor appear critical of the Kremlin.

The possibility of governors having a rough ride with the Kremlin is increased by the determination of the federal government — in a separate pending bill — to relax the rules for registering political parties. Prime Minister Vladimir Putin recently dropped the phrase that "apparently" even the hitherto ill-starred liberal opposition Party of People's Freedom, known as Parnas, could finally clear the hurdle.

The gubernatorial elections bill would make it easy for parties to nominate candidates for governor.

Minchenko made two observations on the prospect of rebellious governors.

There have been examples where opposition governors morphed into Kremlin loyalists, he said. Second, the president will exercise restraint in sacking popularly elected governors.

Investors could sometimes require studies of a local governor's business allegiances to understand his or her prospects for staying in office, said a person who ran for governor in one of the Volga River regions about a decade ago. If governors don't have close links to any regional business groups, they likely won't last long, the person said, requesting anonymity because of the complex political situation in his region.

Some big businesses like oil and gas companies don't have to worry about the legislative change, said Alexei Skopin, professor of regional economy at the Higher School of Economics, a state university. They make their deals on the federal level and usually work with a major state-controlled partner.

But regional politics affects major international retail chains such as the Ikea furniture stores and other foreign investors that may look to build local plants to manufacture dairy products, high-tech equipment or building supplies. It took the intervention of the federal government for Ikea stores to open in Samara and Ufa after the retailer complained about corruption in 2009.

The first gubernatorial elections could take place in the Samara region, where incumbent Governor Vladimir Artyakov's term expires in August. He has been governor since 2007 and already announced his intention to run for the job.

The gubernatorial elections bill is likely to take effect in May, but will require additional legislation on the regional level to detail the rules.

The Kremlin appointed Rustem Khamitov to replace Murtaza Rakhimov as president of Bashkiria, whose capital is Ufa, in summer 2010.

Some see the proposal to elect governors again as a nonevent.

Under the bill, the president will still wield considerable influence over governors, including

the threat of dismissal, said Dieter Wermuth, chief economist at Wermuth Asset Management.

"The centralization of power in the offices of the president and prime minister will continue to dominate Russian politics for the foreseeable future," he said.

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