

CHAPTER I

INTRODUCTION

A. Problem Background

Russian Federation was a part of the unitary states of Soviet Union. Nowadays, Russia has a strong economic growth. This condition is different from several years ago when the Russia's economic depressed in 1990s decade. This economic depression was a Soviet Union legacy. All of Soviet Union's debts became Russia's responsibility, although only a half of Soviet Union's areas became Russia Federation. Russian Federation was one and the only heir of Soviet Union, which inherited the Soviet Union image as superpower country and also the debts. This matter brought a torment for Russia's people. In the beginning of transition era, they were burdened by Soviet's debts which they did not know how to pay it.

In communist glory, Soviet Union was very totalitarian. All of unitary states were dictated and controlled by central government. The Russian people could not do anything out of government instruction. Soviet at that time also was isolated and the Russian people were under pressured with that system.

On March 11, 1985¹, Mikhail Gorbachev was elected to be a General Secretary of Communism Party of Soviet Union. Finally, the enlightener had come. In June 1987, Gorbachev introduced two new systems which are used in governmental system of Soviet Union, namely Perestroika and Glasnost. That systems were estimated as a new step for Soviet to begin an openness in economic and political system. the Russian people were very welcome with that systems and Gorbachev was success in introducing and implementing the openness in this ex-communist country.

The enthusiastic of Russian people in Gorbachev system was caused by the historical background that there were restraint of Russian rights. With perestroika and glasnost, the Russian people felt free and brought a desire to independent of each unitary states. This case was unpredictable for Gorbachev. In the beginning, Gorbachev introduced the systems to bring prosperity for all of the unitary states of Soviet Union, but the Russian people had different thinking with him. Each of unitary states asked independency to get the prosperity and freedom.

The economic condition became worse, this was indicated by over implementation of Gorbachev system. Many demonstrations appeared to demand the independency of unitary states of Soviet Union that brought unstability of economic and political in Soviet. The Oppositions appeared to carry out a coup d'etat in August 1991, but Boris Yeltsin saved him. The coup d'etat failed, but it did not return the Gorbachev image.

¹ Prof. Miriam Budiardjo. *Dasar-Dasar Ilmu Politik, Edisi Revisi*. Jakarta: PT. Gramedia Pustaka Utama, 2008. Pg. 148.

The image of Gorbachev faded and he was shoved out side of political stage in Soviet. On December 24, 1991, the Secretary general of United Nations informed that the Russian Federation continues the membership of the Soviet Union in all organs UN, including membership in the UN Security Council. Finally, President Gorbachev resigned on December 25, 1991 and the Soviet Union officially ceased to exist on December 26, 1991². This step was taken by him because he was not supported by Russian people to handle the economic problem in Soviet.

Boris Yeltsin took the chance with the last coup d'etat action. He became famous and got many supporters. Therefore, on June 12, 1991, he was elected as the leader of the Russian Soviet Federated Socialist Republic.³ The 'New Russia' under Yeltsin still learned how to make 'a good governance' for Russia. Boris Yeltsin had dream to bring Russia into a glory. Russian Federation was born with the economic problem legacy from Soviet Union era.

This condition triggered Yeltsin to handle economic problem in Russia. Yeltsin needed a solution to solve the economic problem, and he chose to use instant way. He thought Russian people in dying, therefore it was emergency to be implemented. Debts repaying also was a reason why Yeltsin wanted to use instant way in economic solving problem in Russia.

As a new country which was the lack of ability and experience, yeltsin asked IMF suggestion in handling the domestic problems in Russia, especially economic

² *Soviet Communist Party Gives Up Monopoly on Political Power*. Accessed on February 5, 2012. Available on <http://www.history.com/this-day-in-history/soviet-communist-party-gives-up-monopoly-on-political-power>

³ *The Moscow Times. Boris Yeltsin; Government*. Accessed on February 6, 2012. Available on http://www.themoscowtimes.com/mt_profile/boris_yeltsin/433796.html

problem. IMF appeared as a 'guardian angel' for Yeltsin and brought solution for Russia's problem. Yeltsin was suggested to use the IMF formula by implementation of 'Shock Therapy' program in Russia. In June 1992⁴, Yeltsin started to bring the shock therapy program in Russia.

Yeltsin applied opened-market economic system. This was advised by his Prime Minister Yegor Gaidar. They chose western economic system to stimulate Russia's economy by privatization of state assets.

Yeltsin adjusted the economic system which was based on market mechanism as realization of IMF formula. The formula suggested by IMF were tight budget policy and reduction state planning budget, and also limitation of government roles in economic growth system.

That was difficult for Russia as a new country. The Russia's condition did not show the progression, even the Russia's economy became worst. Russia was in stagnation and no progression. The Russian people were in depth misery. The number of poverty and hunger increased, but Yeltsin was still in his way to use IMF formula as solution.

Yeltsin Indifferent about economic structure and political development in Russia appeared the complicated situation. Many chaos appeared as the effect of unbalancing state condition. Economic problem that had appeared in the beginning of Russian Federation forming became worse with the bad arrangement of economic and political system, which were unsuitable and hastiness.

⁴ Prof. Miriam Budiardjo. *Op. Cit.*, Pg. 151.

State corporations changed into private corporations, as the result of privatization system implementation. On the other side, the new corporation not yet existed. The stagnation of economy happened again and forced Russia getting loans from IMF to handle the economic problem.

Corruption worsened the economic problem, but the government could not do anything because they were lack of power. Yeltsin decided to rely on the foreign funds as one and the only resource to help Russia's crisis. The privatization did by Yeltsin result in the state could not produce anymore and there was the lack of foreign exchange reserves. All of important sectors, especially oil corporations, were privatized. When the domestic situation in turmoil, the investor affraid with his money, and they brought his capital out from Russia, so that was happened capital flight.

Yeltsin was very straigh in his effort to recover the economic of Russia, but he overlooked the political system of Russia. The impact is many corruption practices appeared. The ellipse people of Russia; oligarchs, appeared to take charge of state and state assets.

The economic depression which is happened in Russia under Yeltsin era could not be seperated with the Chechnya War. The state buded was focused in military sector to fund the war that was happened in December 1994. The state was in great deficit from that war and it attacked the economic growth in Russia.

In May 1996, Yeltsin and the leader of the Chechen resistance, signed a ceasefire agreement in Kremlin.⁵ But the agreement was not obey by Chechen.

⁵ Leon Aron. *Russia's Revolution; Essays 1989-2006*. Washington.D.C: The AEI Press, 2007.Pg. 254.

Therefore, in 1998, the war was happened again. Chechen restarted the war by attacking the motorcade of Russian a top officer. The government totally focused in this war and surely prepared the weapons and the other war needs to win this war.

The peak of economic crisis in Russia was attacked in 1998. At that time, Yeltsin' shine and health decreased. Russia was in a destroy gate. It was caused by the implementation of economic changing rapidly. This transition era was also followed by political messes. Russia did not show the economic growth. The inflation increased sharply, the poverty existed everywhere, and corruption dominated.

Russia was in dying and could not repay the debts. The state was in stagnation, there was no progress. The Russian people did not believe with the government ability anymore, it faded away. The oppositiosn appeared in this situation and they led the turmoil and forced Yeltsin to resign. Yeltsin was sick, he could not did anything, moreover handled the situation.

Finally, Yeltsin realized his uncapability to be the leader of Russia. Therefore, On 31 December 1999, Yeltsin unexpectedly resigned and he appointed Vladimir Putin to become acting President of the Russian Federation for months.⁶ Putin run his function well and got support from society. Untill in next election, Putin became one of president candidate, and he won. He got big support from the Russian people in his efforts to recover the Russia's condition.

⁶ *Vladimir Putin*. Accessed on January 23, 2012. Available on http://en.wikipedia.org/wiki/Vlaimir_Putin

Putin decided to change the Russia's economic direction. Putin disagreed with the Yeltsin system, therefore he rejected the implementation of IMF formula in his government system.

B. Research Question

Based on the background mentioned in the previous sub chapter, a question is put forward, on "Why did Vladimir Putin reject the implementation of IMF formula that had been done by Yeltsin in handling the Russia's economic problem ?"

C. Purpose of the Research

1. To understand Putin's reason in rejecting the IMF formula.
2. To understand and explain the strategy of Vladimir Putin in recovering the economic problem in Russia that was appeared in Yeltsin era.

D. Theoretical Framework

The writer wishes to explain the above problems by using theory. Theory is an abstraction that represents an object, characters of an object, or a certain phenomenon.⁷ One of its functions is to organize ideas, perception, and symbols in the form of classification and generalization.⁸

⁷ Mochtar Mas'ood, *Hubungan Internasional Disiplin dan Metodologi*, Jakarta: LP3ES, 1990, pg. 109

⁸ *Ibid*, pg. 111

Theory helps us explain and predict a phenomenon. According to McCain and Segal, theory is a series of related statements consisting of (1) sentences introducing terms that refer to the basic concepts, (2) sentences relating the basic concepts, (3) sentences relating several theoretical statements with groups of probable empirical analysis on the object (hypothesis).⁹

Writer chooses Leadership theory as the best and suitable theory in explaining and describing the problems. The definition and kinds of Leadership will be explained as follows.

1. Theory of Leadership

Leader is people who has the mandate and traits, attitudes, and good style to take care of and manage other people. Leadership involves influencing the process in determining the objectives, motivate followers to achieve the goals of behavior, affect to improve the group and its culture. while the power is the ability to influence others to do what the other side wants. Leadership theory comes into basis why a person appointed as a leader among other things. According to Ordway Tead in his book "The Art of Leadership", Leadership is the activity of influencing people to cooperate toward some goal which they come to find desirable.

Leadership tends to individual capability, namely leading ability, relations quality or interaction between leader and follower in certain situation. Leadership depends on inner resources to get goals. Most of Leadership definitions give assumption that leadership relates to the process which was done by someone to press his influence

⁹ *Ibid*, pg. 219

for another person in guiding, structuring, giving facility in activity and relation in a group or organization.¹⁰

a) Individual Characteristic/ Style approach

This explains that someone can be a leader if he has style that is needed by a leader, even his parent was not a leader before. It is based on the owning of style by a leader.

According to Kurt Lewin , leadership style divided into three, namely:¹¹

- **Authoritarian Style**

Authoritarian leaders, also known as autocratic leaders, provide clear expectations for what needs to be done, when it should be done, and how it should be done. There is also a clear division between the leader and the followers. Authoritarian leaders make decisions independently with little or no input from the rest of the group.

Researchers found that decision-making was less creative under authoritarian leadership. Lewin also found that it is more difficult to move from an authoritarian style to a democratic style than vice versa. Abuse of this style is usually viewed as controlling, bossy, and dictatorial.

¹⁰ Gary Yukl. *Kepemimpinan Dalam Organisasi; Edisi Indonesia*. Indonesia: PT. Indeks, 2005. Pg. 3

¹¹ *Lewin's Leadership Styles*. Accessed on February 17, 2012. Available on <http://psychology.about.com/od/leadership/a/leadstyles.htm>

Authoritarian leadership is best applied to situations where there is little time for group decision-making or where the leader is the most knowledgeable member of the group.

- **Democratic Style**

This is generally the most effective leadership style. Democratic leaders offer guidance to group members, but they also participate in the group and allow input from other group members. In Lewin's study, children in this group were less productive than the members of the authoritarian group, but their contributions were of a much higher quality. Participative leaders encourage group members to participate, but retain the final say over the decision-making process. Group members feel engaged in the process and are more motivated and creative.

- **Laissez Faire Style**

This style is also known as the "hands-off" style. It is one in which the manager provides little or no direction and gives employees as much freedom as possible. All authority or power is given to the employees and they must determine goals, make decisions, and resolve problems on their own.

Based on the style approach, Putin has a leadership style which tends to authoritarian, with the result, Russia's condition is more arranged because only in one hand that the power is centralized. This Authoritarian style of Putin was needed to run the economic development.

2. Theory of Economic Nationalism

This theory was introduced by Frederick List. List's critique of the political use of free trade agendas by the strong chimes with current understandings of the promotion of neoliberalism as a deliberate tactic by the powerful core states in the west to protect and promote their interests. But on the other hand, List was above everything else a nationalist and not an internationalist. List emphasize this theory is different with liberalism and socialism.

According to List, economies are "national" and government's must decide what is best for the nation in competition with other rival national political economies and what is best for the nation might not be what is best for individuals. The interests of the individual were less important than those of the nation, and the government had to intervene to guide and lead based on long term national interests, though not intervene in daily economis as over regulation was also seen as a problem for List. The key was strategic intervention.

A person may possess wealth, i.e. exchangeable value; if, however, he does not possess the power of producing objects of more value than he consumes, he will become poorer. A person may be poor; however, if he possesses the power of producing a larger amount of valuable articles than he consumes, he becomes rich. (List, 1841: 133).¹²

List explains that productive powers consist of three types of capital: the capital of nature (or natural capital), the capital of matter (or material capital) and

¹² David Levi Faur, *Friedrich List and The Political Economy of The Nation-State*. Review of International Political Economy, Department of Political Science, University of Haifa: 1997, Pg. 157.

the capital of mind (or mental capital). The capital of nature comprises land, sea, rivers and mineral resources. The capital of matter comprises all objects, such as machines, utensils and raw materials, that are used directly or indirectly in the production process. Finally, the capital of mind includes skills, training, industry, enterprise, armies, naval power and government.¹³

Friedrich List has never been able to grasp the difference between labour as a producer of something useful, a use-value, and labour as a producer of exchange-value, a specific social form of wealth. According to Ben Selwyne, Listians aspire to democratic and liberal and those they assert are required for high-speed catch-up development authoritarian.

The analysis focuses on List's critique of Smith, the use of free trade as a political tool, and the origins of his statist response. The paper will return to the relationship between authoritarianism and state-led development in the concluding section. State-led development instead appears to be much more mainstream in promoting growth and development. All governments intervene in the economy to some extent or another and provide obstacles to truly free trade.

Based on this theory, Putin tried to led Russian Federation in handling the economic problem by put forward the nation interest than the indivisual interest. He also opposed to continue the Yeltsin' program - the imlementation of IMF formula in Russia.

¹³ *Ibid.*

E. Hypothesis

- Putin rejected the IMF formula because he found some mistakes in the implementation of IMF formula in Russia by Yeltsin which brought the deeper misery for Russian people.
- Putin decided to handle Russia's economic problem by recovery the political first and the economic next that is by developing the new economic institutions.

F. Method of the Research

The writer uses a common method to sustain and arrange the data. Therefore, the library research method is used in order to explain the problems and verify the hypothesis based on empirical reality. By using qualitative research, the writer also gets the secondary data.

The sources of information are collected from references in the forms of books, encyclopedia, newspapers, magazine, and journals. In addition, the internet media is valuable resources used in order to obtain data, reports, surveys, because updated information related to the topic is only available through the internet media. From these sources, the research is elaborated and analyzed.

G. Range of the Research

It is important to draw limitation. This helps writer explore and analyze the data, to prevent the subject from being expanded and thus keeping the focus of the

discussion on track. In this research, the writer focuses the discussion from the case of the economic crisis of Russia in Yeltsin era and the recovering in putin era. The data in years before and after are used to support this research.

H. System of Writing

The outline of this thesis is as described as followed:

CHAPTER I explains about the Problem Background, Research Question, Purpose of Research, Theoretical Framework, Hypothesis, Method of Research, Range of Research, and the System of Writing.

CHAPTER II describes about the conditions Russia a moment before' and pasca Soviet Union because of inheritence from the collapsing of Soviet Union economic.

CHAPTER III explains about the Yeltsin action to arrange the Russia's economic sistem become capitalism without considering the condition of Russia's political at that time.

CHAPTER IV is the answer part of the Research Question which discusses Putin Rejected IMF formula because it could not make Russia prosperous and Putin want to develop Russia by his own way.

CHAPTER V is the end of the research which contains the conclusion and suggestion.