

April 2, 2009,
London

Meeting with Students and Staff of the London School of Economics and Political Science

PRESIDENT OF RUSSIA DMITRY MEDVEDEV:

Dear friends and colleagues,

I want to thank you for your invitation to speak at one of the world's leading schools of economics.

You said just now that hundreds of Russian students have received undergraduate and post-graduate degrees at your school. We genuinely welcome this, because the many graduates of your school working in our country, and in other countries around the world, are top-class specialists and very highly sought-after.

As my country's political leader, as President, and as a lawyer, I am very impressed by your school's motto: to understand the causes of things. This approach can be applied in all situations, and especially at times like these, times of crisis.

All of you are probably asking yourselves the perfectly fair question: do the 20 world leaders gathered here in London to decide the fate of the world economy and look for ways out of the crisis understand the causes of things?

I do not know how well we managed to sort out all of the different issues, but we certainly tried our best, and we did so in complete sincerity. We realise that we all share responsibility for the future.

Nearly everyone who spoke at the G20 summit's conclusion today said that, yes, things are difficult at the moment, and yes, there will be more difficulties ahead. We do not know how deep the crisis will go, how much farther we will continue to fall, and it is still not completely clear whether or not we have found all the right instruments to have an impact on the situation. Though as I said, we did try, and I hope that many of the things we settled on will work. But one thing that is clear is that twenty, twenty five years ago, it would have been hard to imagine that the leaders of such different countries with such different economies and historical and political traditions could get together so rapidly and make concrete decisions. It took a long time to reach the Bretton Woods agreements – several decades following the start of the Great Depression. We should not let this dampen our ardour. What we are doing shows that we have at least learned to work fast, and are listening to each other, meeting, discussing the issues, and trying to take decisions.

We made a number of decisions today. They are set out in this declaration. I will not tire you by listing them all. I just want to say that we agreed to carry out major crisis management programmes to stimulate the economy, and replenish the International Monetary Fund's resources by a record amount in order to assist and support countries and their populations affected by the crisis, and this will go hand-in-hand with serious reform of the international financial organisations themselves. The total amount of this additional aid, as stated in the declaration, comes to \$1.1 trillion, and this is a lot of money.

We agreed to draw up new rules for regulating financial markets. This work will be coordinated by the Council for Financial Stability, the body that has been set up to replace the Financial Stability Forum, and in which all of the G20 countries will be represented. We wanted to see these steps go ahead, and it is good that this decision has been taken. We also agreed on stimulating economic growth - clean and effective growth based on 'green' technology.

Of course, each country has its own particular focus points and priorities. The declaration does not reflect all of these nuances, but as the G20 leaders said at the end of the meeting, this is probably not the most important thing. What is more important is that we reached a consensus, and we can now work within the understanding we have reached on ways to overcome the difficulties the world economic and financial system is encountering today.

Another important issue that we discussed was developing the currency system. I just want to say a few words about this matter. First, we take the view that, as a result of a natural trend and also due to the serious instability that continues on the currency markets today, regional currencies are becoming increasingly influential in the global economy.

Second, the countries whose currencies are most widely used in international settlements do not take enough economic responsibility for the situation and the macroeconomic indicators in their own countries, as the crisis has demonstrated in full measure.

Third, we think that, whatever the costs and the differing attitudes, establishing the euro as the European currency has proven quite a positive experiment overall.

Based on these considerations, we support the establishment of strong regional currencies and the emergence of new reserve currencies. At the same time, one possible option in the future could also be the emergence of a supranational currency, based on the special drawing rights [SDR], for example, which operate under the IMF's aegis.

Our declaration does not contain any specific references to these matters, but paragraph 12 does state that this issue – the issue of monetary policy, credit policy – should be a focus of our attention. And the different parties will make all necessary efforts to improve policy in this area. This was our proposal, and I think it signals progress in the direction I spoke of just now. We have absolutely no intention of trying to dismantle the existing institutions, of course. On the contrary, we need to guarantee their operation and protect them as best as we can. But we also need to assess what has been done so far to develop the world currency system, and think about its future. This is the point of our proposal.

Coming back to the issue of responsibility, I want to stress that in our view, we have already seen the end of the old model, the old paradigm of responsibility, in which the state took care of security, business dealt with purely economic matters, and civil society was responsible for moral issues. The current crisis has shown that this kind of division does not always work. In normal life, all of these issues should be interlinked, otherwise the economy loses all moral sense and ultimately, despite short-lived growth periods, we all face a very serious crisis.

As I understand it, business is not just about seeking profit. I think that you would all agree with me that business is also about the voluntary responsibility that businesses take upon themselves. I think you would agree with me too that in many countries, some businesses have not been up to the task, and have not been morally prepared for their responsibilities. The pursuit of ever-greater profits eclipsed reality. Money became the sole criteria for measuring success in life, and replaced all moral notions. The result was that it became common practice to underestimate risks and overestimate revenue. And not only did auditing companies and ratings agencies not fulfil their intended purpose and put a stop to these destructive practices, but in many cases only further encouraged them.

This is something we all witnessed. Before I became involved in politics, when I was working in business, in the legal business, I remember my contacts with the auditing companies. I will not go into all the details. You all have an idea of what gets discussed during such discussions and what decisions often result.

A big gap emerged between the real considerations that should have been taken into account and the desire to make money. Unfortunately, it was those who by their status and purpose should have been most conservative, the financial institutions, who took the biggest risks and showed the greatest lack of responsibility.

Some countries are looking in the other direction now, tempted to bring everything under the state's care, or even quite simply under state ownership. A number of countries have already started taking such steps. I want to say frankly that we do not seek such solutions.

It is true that Russia still has a fair few assets under state ownership. And we cannot rule out the need for the state to intervene in the event of dramatic change in the economy. But I want to make it clear that it is my firm conviction that state support should be only temporary, and this includes state support in the form of participating in this or that company's capital. This is all the more so as there are strict limits on how much support we can provide using taxpayers' money.

Another temptation arising out of or in response to the crisis is that of building all kinds of walls and barriers around national markets. Protectionism was one of the main issues on our agenda, and is also reflected in the declaration. Of course you, as people with knowledge of the subject, will ask to what degree do we need to protect our national economies? Everyone faces this question today – businesspeople, and political leaders. The answer is simple and in form is the same for all: we need to protect our national economies only against unfair competition. In Russia we will try to do this as carefully and effectively as possible. But at the same time, should we try to stop businesses from moving production to where it is more profitable? On the whole, I do not think we should. But I think that in this area we need to come up with some rules that are at once modern, complete, and that also have a moral dimension. We also need to ask ourselves, should we restrict banks from lending to companies in other countries? These kinds of restrictions are appearing all over the place now, but I think this is also not the right response and is a reaction to the paradoxes that the crisis has brought to the fore.

But the banking supervisory bodies should work and cooperate with each other in such a way as to assuage concerns about the fate of such investment, and ensure that it does not turn into pure and simple capital flight.

In other words, what we need in today's situation are rules for a fair and honest competition without the use of illicit moves. As for the doping effect obtained through protectionist measures, it is short-lived and ultimately can cause the same kinds of problems as those that face athletes who have come to rely on drugs for their performance. This concerns protectionism not just in trade, but also in other areas no less important for development. I am referring here to measures such as restricting access to technology, business assets, or imposing excessive restrictions on labour migration.

Dear colleagues, I think it would also be useful to say a few words about what we plan to do to overcome this crisis. As you know, we have approved special programmes and decisions in Russia. Of course, only the public themselves, only our citizens, will be able to assess their effectiveness, and only after a certain time. But to sum up our plans, overall, we will not change our priorities and will continue working towards the long-term strategic objectives that we set. We will increase labour productivity and increase production, and we will do this primarily through the use of innovation.

Of course, we also need to focus on helping people who the crisis has left in a difficult situation. This was also reflected in the declaration we have just adopted. This includes the most vulnerable groups of people – pensioners, large families, people with limited opportunity for finding employment, disabled people. It also includes people who believed in their government's economic policy and took out mortgages, only to then lose their jobs, and people who have been laid off or forced to take unpaid leave. Considerable state funds are being allocated to assist these people. We are raising pensions and benefits,

restructuring mortgage loans, carrying out employment and re-training programmes, and improving employment opportunities for specific individuals.

The third important area we are working on right now is mending our financial system's shortcomings. We have to make sure our financial system meets today's demands. We did not manage to correct it before now, and so today we have to put in place the mechanisms that will enable it to work in other situations, mechanisms that will be suitable for dealing with various difficulties, including with 'toxic assets'. We will need to make use of various means in order to achieve this.

We have come to the conclusion that banks today are readier to find solutions to their borrowers' problems, in the current situation at least. We are therefore making additional funds available to top up the capital of our commercial banks. This will give them the extra liquidity they need to carry out their charter functions. We are doing this through co-financing with the private shareholders. In other words, state funds are being added to private investment. And of course we will also partially compensate the current fall in foreign consumer demand, linked to the Russian economy's excessive dependence on exports.

The reserves we built up during the preceding years are helping us now to carry out this work. At the same time, sad though it is to say, we forecast a budget deficit this year. We have already included it in our calculations. It could exceed 8% of GDP. In this situation, we are working hard on restructuring budget expenditures planned for the following years. But at the same time, we are making efforts not to reduce funding for social programmes.

I want to say a few words about a subject that is not directly related to the crisis but does have a direct bearing on ensuring security in the world, and in Europe in particular. A while ago, we proposed the idea of a new agreement on security in Europe. Our view is that there should be equal security guarantees for all people living in the entire area of Europe, from the Atlantic, and right across the territory of our country, the Russian Federation too.

The question is how to achieve this. Various organisations are involved in this issue today. They include NATO, the OSCE, the European Union, and organisations that have emerged in the post-Soviet area, such as the Collective Security Treaty Organisation. Overall, they are working quite effectively. But the problem is that each of these organisations works on only fragments of security, and in some cases, because on some issues we fail to listen to each other properly, we have ended up with situations reminiscent of the Cold War.

This is very sad, because the nature of the relations between Russia and Europe, the degree of interdependence, the interpenetration of our countries, and quite simply our history, all show that we need to live in full contact with each other, and we need to develop together. Russia is not the Soviet Union and not even a post-Soviet state. Our country has been developing for 17 years now as a modern state with a market economy. We have our national interests of course, and we try to defend them. But our choice is no different to that of European countries. We are all following the same development road. We therefore hope for close and equal partnership in all areas. This is why I come back to the issue of security.

The question of European security also brings us to a more specific but still very important issue, that of guaranteeing energy security. I must say here that we are not satisfied with the situation in this area. The events in January and the problems with gas transit via Ukraine showed that the current framework of agreements is not working. In some cases, individual countries are not involved at all. Russia, for example, is not taking part in the Energy Charter because it thinks that this document protects above all the consumer countries but does not take into account the interests of the energy producing countries.

Our conclusion in this situation is simple – we need to draft new agreements. I spoke about this during the discussions with my colleagues in Germany and here in Britain. We will most likely draw up and circulate a document on this subject very soon, which could, if not replace certain agreements, at least help ensure their implementation. Incidentally, we drafted the relevant decisions in this area three years ago, during the G8 summit in St Petersburg.

In conclusion, I want to say that for you who are students, this is the happiest time of all. Like anyone who has been a student and then taught in a university, I genuinely envy you. I feel something special whenever I enter a lecture theatre, because I still remember the days when I lectured at St Petersburg University. I wish you great success. I hope that you will gain excellent knowledge and skills that you will be able to put into practice, and that in your future work you will be able to prevent crises like the one that has swept the world today.

I just want to add a couple more words. I want to quote one of the founders of the London School of Economics, the famous playwright Bernard Shaw. You no doubt know these words. I like them very much too. "People are always blaming their circumstances for what they are. I do not believe in circumstances! The people who get on in this world are the people who get up and look for the circumstances they want, and if they cannot find them, make them!" These are wonderful words. Thank you.

QUESTION (*Retranslated from Russian*): Thank you for mentioning the security issue. I wanted to raise precisely this question. Much has been said about the OSCE, about NATO and Russia. How do you view NATO's development? What are your thoughts on this issue?

DMITRY MEDVEDEV: I think that NATO has a deserved place in the security system in the world and in Europe. It is the strongest military-political organisation in the world today, and it has had quite comfortable conditions for development over these last years. Earlier, when the Warsaw Pact was still in existence, NATO and the Warsaw Pact were opponents, to put it mildly, adversaries, and development was of a very different kind. NATO's development has changed since then. But at the same time, as I see it, and I ask my colleagues who are involved in the organisation's development not to take offence, the

Russian Federation finds some of the processes underway in NATO to be excessive. At least, we do not always understand why the urgent need to accept as NATO members countries that are not at all ready for membership, creating tension with other countries. After all, any military bloc exists as a means to defend this or that group of countries. But when a military bloc expands, the countries outside the bloc cannot help but feel tenser and ask themselves if this expansion is not directed against them, all the more so when you look at the past history of cooperation between the two blocs.

I think that NATO, like any other organisation, should be as responsible as possible in taking these kinds of decisions, act according to the principle of not causing damage, and think also about the future of relations within NATO itself, because taking on new members also means new obligations and new difficulties. I will not go into the specifics here, but it is by no means easy to talk with all of the new NATO members. I will not divide the organisation's members into 'senior' and 'junior' groups, or talk about the contradictions that exist, though, as I said, it is easy for me to share my thoughts on this subject. I think that in this respect, NATO needs to think above all about how to maintain its internal unity and solidarity, and not create problems for itself or worsen relations with its neighbours, including neighbours such as Russia. All of these consequences should be studied before decisions to expand the bloc are made. I said this quite frankly yesterday to my new colleague, President of the United States Barack Obama.

QUESTION (*Retranslated from Russian*): Thank you, Mr President, for your very interesting speech. I am interested in the new European security organisation you are proposing. Do you think it should replace the existing organisations?

DMITRY MEDVEDEV: That is a very good question. Thank you, colleague, for this question.

When I first put forward this idea, almost a year ago now, during my visit to Germany, I also tried to define for myself what form this could take. No organisation is perfect, and there is no organisation that unites all of us. This is a real problem. Incidentally, this was all before the crisis began. We were aware that the problem was one of our relations with each other. This was before the economic crisis, and before the August crisis in the Caucasus, but we already felt that there were problems. As I see it then, we should not see the conclusion of a new treaty as leading to the replacement of existing organisations with new ones. The organisations that already exist should be maintained, and what's more, they should take part in drafting the new treaty, which should be a universal agreement.

If you ask me why not just use the OSCE as a platform, I would say that the problem here is that the OSCE has travelled a long way since the Conference on Security and Cooperation in Europe in Helsinki in 1975, at a time when the two blocs were locked in fierce confrontation. It deals with quite specific matters, and not always effectively. There is therefore the desire to create something new, but that would at the same time build on past traditions. I think this should above all be a platform that would enable NATO members, and European countries that are not NATO members, to discuss all the different issues together, including economic security, energy security, military security, political issues, whatever issues. And at the same time, it should be able to take relatively binding decisions. The question would be how to coordinate these decisions with the other organisations, and this is something we could reflect on.

One hundred years ago, an organisation like the UN seemed inconceivable, though the system of international law began to take shape from the mid-nineteenth century. But our predecessors did establish the United Nations, and for all the imperfections of its different sections and mechanisms, it is the one universal organisation that helps us to resolve a huge number of issues. The same applies to Europe: I think that if we could agree on the basic principles we could establish an effective organisation.

QUESTION (*Retranslated from Russian*): My question concerns the economic crisis. Much has been said about increasing the state's role in the economy. Does Russia's past as a country with a command economy make it easier or harder to increase state participation in the country's economic life?

DMITRY MEDVEDEV: That is an excellent question. We do indeed have experience in a state-run planned economy. I think that this does make it easier. I began my professional career during the market economy period, but I remember quite well the rules that were in place before. I know very well the problems that existed, the flaws of the planned economy, the difficulties people had living and working within that system. Experience is the most invaluable resource any person has, and so I think this experience is a plus. If anyone wants to have a taste of it, try reading the political economy textbooks of the time, and of course Karl Marx's immortal teachings.

QUESTION (*Retranslated from Russian*): Mr President, you have no doubt noticed that around 80 percent of those present are listening through translation. How do you explain the fact that the Russian language is not being used as actively today? What future do you see for the Russian language and culture in Europe?

DMITRY MEDVEDEV: I think that we are partially to blame for the fact that not everyone here understands Russian. But, speaking seriously, the extent to which Russian or any other language is used depends on the closeness of business and cultural ties.

I think we have an opportunity now to make far more rapid progress in this area. At any rate, there are no obstacles in the way.

QUESTION (*Retranslated from Russian*): Thank you, Mr President, for your interesting speech. During the Bush Administration, the U.S. missile defence issue caused serious problems for relations between Russia and the USA. Do you think that the Obama Administration has brought any change? Do you think this programme will continue, and if it does not continue, what will be Russia's response? Will you still go ahead with plans to spend billions on modernising Russia's army?

DMITRY MEDVEDEV: I think the plans to deploy new missile defences and the radars that go with them were mistakes in the particular way in which they were being implemented. This mistake is on the previous U.S. administration's conscience. Many of my European colleagues share this view. But this is not the issue. Missile defences are a form of defensive measure designed to protect against the threats coming from countries with unstable regimes, or countries that want to join the nuclear club but so far have not been able to do so.

In my view, all defensive measures of this kind should be carried out as a joint effort. We proposed to the Americans building a global missile defence system, of which the Russian missile defence system would be a part, and we offered the use of our radar stations. We were told, "no, there's no need. We have already agreed with two countries (and other countries were not even informed), and everything will be fine. We will deploy our interceptors and set up the radar, and everything will work". But this system cannot protect against all threats. It is also very close to our territory, and of course this does not make us happy. The assurances we were given that we would be allowed access to the system, if the countries hosting the components give their consent, of course, did not satisfy us. We therefore had no choice but to decide on measures in response. I certainly do not want to have to go ahead and implement these measures, and I think there are good chances that I will not have to.

I discussed this subject with the President of the United States. I can say at the very least that the United States is ready to listen to our views today. They do not cut us off and tell us that the matter is settled and there is nothing to discuss. I think therefore that if we make an effort on both sides, we will find a way out of this unpleasant situation.

As for modernising the armed forces, what country is not undertaking such modernisation? We cannot remain with the Soviet-era armed forces. Britain is modernising its armed forces, and the NATO countries are all doing the same. This is a normal process. Under no circumstance should we do any sabre-rattling, flex our muscles, put on a show, because this is usually counterproductive. Those who do not show off their muscles but who clearly are in good shape are the ones who earn the most respect. We will therefore work on modernising our armed forces of course. At any rate, this is something I will be working on, as Commander in Chief.

QUESTION (*Retranslated from Russian*): I am from Georgia. You mentioned the crisis in the Caucasus, in my country. My question stems from this. Will you admit the mistakes that were made with regard to Georgia, and how will you go about improving relations with Georgia, if indeed you plan to do so at all?

DMITRY MEDVEDEV: I will give you a frank and honest answer, explaining the situation as I see it. First, I think that the dramatic events that took place do not reflect the deep-rooted friendship that has long existed between the Russian and Georgian peoples. And nor do they reflect the historic decisions of the eighteenth and nineteenth centuries, when Russia helped in the formation of the Georgian state. To be quite frank with you, the Georgian leadership bears full responsibility for everything that happened. That is my open and direct view.

Furthermore, when I became President of the Russian Federation, I met with Mr Saakashvili and said to him that we are ready to help restore Georgia's territorial integrity, but that Georgia would have to take the right line of behaviour, because, I think you all realise that military action never helps to make a country stronger. In the end, many people ended up paying for the mistakes of one man.

We would like to have good and friendly relations with Georgia. I say again that we have much love and appreciation for the Georgian people. I do not want to have any dealings with President Saakashvili and I will not have contact with him. But if democratic processes bring new people to power in Georgia, we are ready to discuss all subjects.

QUESTION (*Retranslated from Russian*): Mr President, in a few weeks you will celebrate one year in office. My question is, during this first year, how much time did you devote to domestic issues, and how much to foreign policy? As you can see, my question is also hinting at the division of responsibilities between you and Vladimir Putin.

DMITRY MEDVEDEV: First of all, it makes me happy that I am not the only one to remember this date. I have done easier jobs, to be honest, though I must say that working as the President is certainly an interesting job.

It is interesting because you have to decide issues that no one else can decide. This requires you to mobilise all your inner resources to the maximum and make decisions in the most complex situations, and sometimes in very unexpected and even dramatic circumstances.

As for the division of responsibilities, everything is very simple and I have already answered this question in the past. The President of the Russian Federation is the head of state and is responsible for domestic and foreign policy. The President decides on all of the key issues and bears the ultimate responsibility for everything that takes place – including for the economic crisis and other events, such as the events of last August.

Regarding Vladimir Putin, he is my colleague and we have good and friendly relations. I worked in his team when he was President. Now he is Prime Minister. This is also a very difficult job, especially in a time of economic crisis. The Government bears the main responsibility for dealing with economic matters. It is responsible for organising the country's domestic life. Our Constitution and our Law on the Government state that there are ministries that come under the Government's responsibility, and there are also ministries that come under the Government's and the President's responsibility. These are the law enforcement and security ministries: the Defence Ministry, Ministry of the Interior, secret services, the Emergency Situations Ministry and others. I am therefore in constant contact with the Government. Everything else belongs to the realm

of subjective perceptions. I think that so far we are performing well as a team, and this is exactly what we wanted when we decided on this way of organising our work.

QUESTION (*Retranslated from Russian*): Mr President, did the protests that took place on Trafalgar Square affect you in any way? Did they have any influence on you, on the summit's work, or on your meeting with Mr Obama?

DMITRY MEDVEDEV: I think the issue is one of what form the protests take. I do not like it when banks are vandalised. I grew up in a country that has seen many revolutions, and I am very reluctant towards them. But overall, people should have the right to protest, including the right to protest against the government, and against the decisions made at summits such as this one. Ultimately, the issue is just one of what forms these protests take. I think that not everything went so well in this respect here in London, not to mention that in one instance they led to tragic events.

But nevertheless, the summit itself was very well organised. I want to thank the British government and Prime Minister Gordon Brown, my colleague, for providing us with excellent conditions for our work. This made it possible to adopt not an empty declaration, but a full-fledged document of real substance. I take this opportunity here and now to thank my colleagues who were involved in this work. (Speaking English) Maybe one question in Russian?

QUESTION: Thank you very much for coming here and saying so much of interest. My question concerns domestic matters, since it is in Russian. [President of Chechnya] Ramzan Kadyrov recently announced the end of the counter-terrorist operations in Chechnya. I want to know, have these operations really ended, and how stable is the situation in the republic?

DMITRY MEDVEDEV: Yes, this is indeed a domestic matter, but it also has an international dimension, because everything that has happened in Chechnya over the last 10-15 years has not been just our problem. Unfortunately, we encountered there problems that other countries went on to encounter later in other places.

I will not go back over the whole history of the counter-terrorist operations in Chechnya. Like any fight against terrorism, these were dramatic operations, serious, and there were victims. The situation has changed in Chechnya today. I was there not so long ago to take a look at the situation, and I noticed how much construction is underway. When people start building things it means that they are ready inside for peaceful life. People running around with guns in the forests are not about to build anything. They have other values. So this is just one small sign of change.

I think that the time is right now to lift the counter-terrorist operation regime. This does not mean that the Interior Ministry troops will not remain in service there and will not carry out individual elements of counter-terrorist operations. If something happens, of course action will be required. But overall, the situation is ready for the counter-terrorist operation regime to be lifted soon. This will give the republic the chance to develop external economic relations, open up to air traffic, and simply make life more normal, freer and more civilised. This is something we can but welcome. But given that the situation in the Caucasus nevertheless remains complicated, as I have already said personally, we will continue to monitor the situation there, and if any problems emerge, we will have to take firm and effective action.