



RUSSIA in GLOBAL AFFAIRS

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FOREIGN AFFAIRS

Editorial Office:
11 Mokhovaya St., Bldg. 3B,
Moscow 103873, Russia
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fax: +7 (495) 937-7611
e-mail: info@globalaffairs.ru
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Circulation
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tel.: 7 (495) 937-7611
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Russian Edition

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Crisis as a Catalyst

Fyodor Lukyanov, Editor-in-Chief

The global economic crisis remains the focus of everyone's attention, but the panic of late last year has given way to a sober analysis. The world has not been turned upside down and the problems caused by the crisis have only become catalysts of processes that had begun to take shape long before the autumn of 2008.

The contributors to this issue are trying to understand how the changes in the economic situation could affect Russia's development prospects.

Dmitry Furman discusses the now popular subject of the prospects for the liberalization of Russian politics.

Russian history has many examples of cyclical changes from harsh to soft regimes and vice versa. But as long as the impulse for change comes from the top rather than reflecting the demands of society, there will be no chance for a real democratic system in Russia.

Alexander Auzan believes that the crisis has put an end to the era of a tacit social contract that has existed in

Russia de facto since the early 2000s, set up according to the formula "well-being in exchange for civil rights."

The active participation of civil society in efforts to overcome economic problems is a guarantee of the country's further development. **Dmitry Badovsky**

views the prospects for Russia's modernization in light of a deepening decline. **Vladimir Shveitser**

analyzes the transformation of the party system in post-Soviet Russia and concludes that the present model is vulnerable, especially amid economic problems.

The chairman of Russia's

Constitutional Court, **Valery Zorkin**,

draws the readers' attention to legal challenges caused by the global crisis.

He warns about a threat to the civil, and especially social, rights of man, whose importance is usually underestimated.

Vladislav Inozemtsev warns against overestimating the scale of the global changes. In his view the leading Western economies, above all the United States, are capable of coping with the present

situation, so there are no grounds to compare the present developments with the Great Depression.

Sergei Karaganov writes about the “unfinished history” of the 20th century. He argues that the page of the Cold War has never been turned, which prevents moving forward to meet the real dangers of the new century. Russia and the West need a new start. **Dennis Kredler** proposes discussing close integration between Russia and the European Union. **Mikhail Troitsky** analyzes the influence of “frozen conflicts” on Russian-U.S. relations and the prospects for U.S. policy. **Hansjörg Haber** calls for co-operation in stabilizing the situation in the zone of confrontation in the Caucasus. **Alexander Lukin** emphasizes the need for reinforcing the Asian vector of Russian foreign policy. He argues that

Moscow, throughout the post-Soviet years, has put too much focus on its relations with the West, while overlooking processes that are unfolding east of its borders. **Sergei Luzyanin** discusses the role of the Shanghai Cooperation Organization (SCO) in Russian foreign policy. He believes that the SCO has a great potential for development and is becoming quite an influential regional organization.

Vassily Belozyorov warns about potential conflicts that may stem from the competition for water resources. This problem is particularly acute in Central Asia. **Jahangir Karami** offers an Iranian view of problems in the region. **Alexander Ignatenko** analyzes U.S. policy vis-à-vis the Islamic world, pointing out that a majority of the problems has been caused by Washington’s policy over the last few

Two-Headed Russia



“There is no doubt that Russian President Dmitry Medvedev wants Russia to become a free country ruled by law. One would be a naïve cynic – and cynics are often naïve – to think that a person could say “Freedom is better than not being free,” while actually thinking “Isn’t it clever of me to deceive these fools?””

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The New Liberalism: A Scenario with Variations

Transition to democracy is up to society, not government

Dmitry Furman

There is no doubt that Russian President Dmitry Medvedev wants Russia to become a free country ruled by law. One would be a naïve cynic – and cynics are often naïve – to think that a person could say “Freedom is better than not being free,” while actually thinking “Isn’t it clever of me to deceive these fools?”

It is something else that people always want many different things; their desires may run counter to each another and freedom may be far from the strongest among them. However, let us imagine that the president is indeed full of resolve to put the country on the track towards greater freedom. This is easy to imagine; all the more so because his pro-democratic, legitimacy-related aspirations may stand in accordance with his other natural desires, such as independent actions, real rather than formal personal power, respect and popularity. Many people now dream of a thaw after “Putin’s freeze.”

This is an ideal, liberal scenario, so let us analyze it in more detail.

FROM PERIODS TO COMMAS

The whole story begins with certain phrases (which have already been spoken) and symbolic gestures that place Medvedev, the president, some distance away from his predecessor Vladimir Putin, who left Russia somewhat frost-bitten before he became prime minister. The economic crisis deepens and Medvedev mildly criticizes the government for

Dmitry Furman is a professor and senior researcher at the Institute of European Studies at the Russian Academy of Sciences. He has a Doctorate in History. This article was originally published in Russian in *Nezavisimaya Gazeta*.

bureaucratic methods and insufficiently energetic steps amid extreme conditions (this has already happened). Polls show a flagging trust in the prime minister (which has happened as well). Medvedev makes a number of statements, saying that the scale of this crisis stems in some measure from previous mistakes, uttering phrases like “the mistakes we made earlier.” Yet everyone understands who is actually meant by “we.” The president’s rating begins to climb above that of the prime minister, who suddenly turns up “in charge of crisis management” (this has not happened yet, although it is quite likely).

This is not all that important in itself, but it has a symbolic significance. Everyone is waiting for the climax of the story. As a man of good morals, the president understands he owes much to the prime minister, who was his predecessor, but he also understands the government’s flaws, his personal responsibility to the people and the interests of the state, which prevail over his personal feelings. Time passes and Putin steps down as prime minister with honors (what he will do next is a big headache for Russia, but we can think up something). And then it turns out that the people really do not care, the top bureaucracy has been longing to see this, and the liberals are walking on air. The West is also satisfied and it hopes that the thaw will bring about a *détente*. After meeting with Medvedev, U.S. President Barack Obama says that he looked into the Russian president’s eyes and realized that he was a genuine democrat seeking an all-round modernization of his great country. And as for Abkhazia and South Ossetia, we will sort it out somehow...

The next event is the resignation of the most odious and anecdotal figures of the outgoing era (“Putin’s vegetables”) and people “with up-to-date thinking and perfect knowledge of the economy” are appointed to a number of top positions. And if there are any signs that the country is emerging from the crisis (because any crisis comes to an end sooner or later), public opinion will naturally link these signs to Putin’s resignation and to the new appointments. Russian television (its top executives may be replaced or left where they are – they know how to trim the sails) starts churning out shows deriding the system of the recent past. It may even show the best of the satirical *Kukly (Puppets)* program, including the notorious scene that portrayed Putin as Little Zaches, which destroyed the old NTV channel. A movie based on Vladimir Sorokin’s

novel, *The Day of the Oprichnik*, is tremendously successful. Then Medvedev is overwhelmingly re-elected – for a six-year term this time – in 2012. And the rank-and-file say things like “Thank God we’re past Putin’s era now,” or “we didn’t know much, did we?” or “I never voted for Putin.”

Does this scenario seem realistic? No doubt it will require hard work for it to become possible and involve quite a number of psychological and political difficulties, and yet I think it is quite feasible. It intertwines two storylines and both of them are quite “normal” – they have been replayed in history numerous times.

The first storyline implies that the ruler discards the people who propelled him or her to the throne, and who may think that the ruler should be grateful and obedient for ages. For instance, Empress Anne got rid of her top supporters immediately. All Soviet leaders from Josef Stalin to Mikhail Gorbachev acted in much the same way. And Putin got rid of Boris Berezovsky as early as he could do so.

The second storyline depicts a liberalization that comes about after the ruler, whose rigidity (or toughness) everyone eventually grew tired of, has exited the scene – like when Alexander I ascended to the throne after Paul I, and Alexander II after Nicholas I. The two storylines often merge into one. A ruler gets rid of the people who propelled him to power and becomes popular by introducing liberalization measures (Khrushchev, Gorbachev). Chances abound to watch one more movie contrived along this scenario.

When you develop a script, though, it is easy to put a period, write “The End” and bring the story to a satisfying conclusion – the victory of democratic forces over reactionaries. But in actual history, periods turn into commas and storylines smoothly continue to develop or gradually evolve into something different. So let us look at how they could develop.

EVERYTHING IS PREDICTABLE

Initially, liberalization may be accompanied by a growth in both the president’s popularity and his personal (not formal) power, but later inevitable problems will spring up since no kind of liberalization can be kept at a level where it would be completely harmless. Just press your finger against a liberal’s mouth and he will start gnawing your arm. You are

sure to hear claims about “slandorous concoctions,” “irresponsible demagogy” and “attempts to speak ill of all our achievements.” Others will say it is necessary to sort out the Yukos case (although Yukos has already been taken apart and it would do no good to stir around in old ashes). And others may even bring up the beginning of the second Chechen war, and this is something totally out of place.

Liberals are not the only social force; society has elements of every description. There are Tatars, Chechens and Ingushes; communists, patriots and even National Bolsheviks. Someone will eventually start claiming that “there was much more order during Putin’s rein.” And the president will have to say to them: “You don’t want a return of the recent past, do you?” And then to others: “You surely don’t want a return to the 1990s, do you?” This in itself is an unpleasant and dangerous thing if you consider that 2018 is looming on the far-distant horizon. The president has immeasurable opportunities. He can stop rocking the boat and see to it that a person he trusts completely is elected in 2018. (Moreover, he could even amend the Constitution and stand for re-election several more times.) But for this to become possible, he would have to tighten control over society again and to “freeze” it a little. He would be pushed to do so by natural human and political instincts – any man tries to win the game he is involved in and to keep control over the situation. And, as it always happens, ideal considerations would fully coincide with these measures – one cannot allow “irresponsible demagogues” to dictate politics, or moreover to grab control of the country.

Yet this would mean that nothing has changed in the country; that we continue to live under an authoritarian regime that shoots through all the periods of “thawing” and “freezing” – in the Tsarist and Soviet eras alike. All of this was splendidly described by the 19th century satirical writer Mikhail Saltykov-Shchedrin.

UNCONVENTIONAL CASES

The first step, insufficient but absolutely necessary, towards resolving the pressing problem of society’s transition to democracy is to defeat the supreme power through elections. However, you cannot demand that the president prepare his own defeat. The best one can expect of a president who craves democracy and lawfulness is that he will not overstep certain

barriers in the struggle with his opponents; for instance, he will not forge the results of the vote, not cut off his opponents from the mass media or accuse them of tax evasion at the first signs of opposition on their part.

Such was Gorbachev – a normal man who did not want to be defeated. He fought to the end and clutched at the illusion of possible victory. But even when faced with the threat of losing power and the collapse of the state, he did not do the things that his instincts and common sense called for, but ran counter to his ideal objectives or the norms he had set for himself. This is a very rare occurrence and, as shown by Gorbachev's own experience and the experience of post-Gorbachev developments, this is not nearly enough for a successful transition to democracy.

The whole story is bigger than electing someone other than the person who is already in power or someone handpicked by the state helmsman in 2012, 2018 or 2024. The crux of the matter is that the winner should not affirm his rights to power the way Boris Yeltsin and Vladimir Putin did. We must ensure that the road is open for a fair contest for power under unified rules, make sure that the victors and losers change places at the steering wheel, and must see to it that the process is not blocked immediately. This is what happened in Belarus, where Alexander Lukashenko came to power through a fair democratic election. He decided right away, however, that he would never let anything like that happen again. To prevent this, the winner must have at least some commitment to legal and democratic values in the first place, and there has to be a strong opposition that can prevent his illegitimate grasp on power if his commitment proves insufficient. It is much better when a person like this does not win overwhelmingly and the supporters of the old powers do not vanish by immediately going over to serve the victor. Meanwhile, it is precisely this situation that is even more difficult to imagine in Russia than a triumphant victory of a new Yeltsin of some kind.

BETTER LATER, BUT STILL BETTER

It is not all that difficult to understand all of this. Still, understanding something when you are sitting quietly in your office is one thing, but it is something else all together when you find yourself in the vortex of political struggle. While it is extremely difficult to demand of a ruler that

he not step over the legal boundaries in struggling with the enemy, even at moments when defeat is breathing down his neck, it is far more difficult to demand that he know in advance that he must lose in the end and that he foster the enemy with own hands – an enemy who will win, although in a way not conducive to staying afloat... The latter is totally inconceivable. A politician who realizes this objective and tries to solve it in earnest would be the greatest personality. As for the president, there are no grounds whatsoever to rank him among the greatest people, provided all the respect he commands.

That is why we must realize with full clarity that a liberal scenario is fairly realistic, yet it is not the one that will help Russia resolve its main task of the day – the transition to democracy. One can even say this scenario is not directly related to it. Transition to democracy cannot be the main business or task of the government. It is a huge task for society and it can only be settled through a crisis (a profound political crisis, not the current economic one) and by a swooping leap across an abyss. The president's liberal aspirations and steps can facilitate the resolution of this task in the future, but can do nothing more than that. Perhaps it is best not to try to solve it at once. We have done this twice and both times to no avail. A third attempt should be made at a later time, but it should be successful so that we could avoid another demoralizing fiasco. Yet we must develop an understanding of the importance of resolving this task now; an understanding of its essence and of the huge difficulty it poses.

Chances for a Reset in Russian Politics

How economic crisis will change
the Russian political landscape

Dmitry Badovsky

The thesis that the “bottom” of the economic crisis may be close at hand has become very popular in recent statements by Russian politicians, who also tend to add that its consequences will be felt for another three years.

Supposedly, the crisis will peter out by 2012, that is, as if by a lucky coincidence, exactly by the moment when Russian citizens have to go to the polls to elect the president. Under the recently approved amendments to the Constitution, citizens and the political elite will elect the new head of state for six years, instead of four, as was the case before.

But this is not about a mere coincidence of the crisis timeframe with the election cycle. From the economic point of view, the crisis is unprecedented, and nobody can forecast precisely when it might end, either in the Russian or world economy. The thing is that Russian elites increasingly view the crisis and the prospects for pulling out of it as a serious challenge and a political project, albeit with unclear parameters but, in any event, with very significant consequences.

THE MAIN POLITICAL PRIZE OF THE CRISIS

The issue of the development of the political situation in Russia from the point of view of the political setup and the future of the government remains as pressing as it was before the crisis. It has been clear that as President Dmitry Medvedev’s term in office is running out day by day, the countdown to the event called “the next presidential election” where Vladimir Putin would be able to run again, will be clicking increasingly louder.

Dmitry Badovsky is deputy director of the Institute of Social Systems of Moscow State University, and member of Russia’s Public Chamber.

A partial Constitutional reform, carried out to increase the term of office for the State Duma and the president, has not changed the setup: rather, it has only made the countdown louder. The onset of the economic crisis has introduced certain new circumstances and inputs in the 2012 problem, which are just beginning to affect the strategy of behavior of the main influential groups and political leaders.

The first thing the crisis did politically was to raise the inevitable and crucial question for the 2012 elections, namely “Who has defeated the crisis?” Earlier, this circumstance was not factored in the calculations of the main contenders, who might only talk about “stability,” “further steady development,” “higher standards of living,” “strengthening positions in the world” – in short, the promises or objectives whose political capital has much depreciated since.

The coveted new large political super-prize for victory over the crisis will be influencing not only the logic of actions, but also the psychology of political leaders’ behavior. The already started discussions about how large the current crisis is or how it can be overcome clearly indicate what the unfolding struggle is about.

The idea that the current crisis is purely economic and does not affect the groundwork of the socio-political system highlights the anti-crisis policy of the Russian government and the prime minister, as well as the economic indicators Russia will post in overcoming the crisis. A broader outlook for the current crisis, with prospects for economic restructuring, social modernization, and political innovations, draws one’s attention to presidential powers and Medvedev’s policy to fight corruption, improve the judicial system, and develop civil society institutions.

The person who will win the 2012 election will simultaneously be hailed as “the victor over the crisis,” with all political advantage it packs and resource for further actions.

This point is extremely significant, because the second new and important input of the crisis is that a change in the setup of forces in the economy, partial re-division of property and the reshuffle of political elites is objectively becoming a key process for the next few years. The normalization and re-capitalization of the strategic assets of the national economy will take some time, and this time can conveniently match the announced three-year period before the end of the crisis. Then, as

the country is pulling out of the crisis and during the period of the six-year presidency, a new “agenda” will be set, including new privatization, the formation of a new durable structure of property in the economy and its new image or, rather, a collective portrait of these proprietors.

Undoubtedly, this process will heavily involve politics and reshuffles in political elites. For example, regional Russian elites are incurring potentially the largest crisis-incurred losses, aside from companies and prominent business leaders.

The unequivocal and reiterative statements by the federal authorities about the poor effectiveness of regional leaders in fighting the crisis, along with increasingly frequent resignations by regional leaders is a clear signal of what level within the authorities has been assigned to bear the main political and personal responsibility for the crisis.

The current crisis has brought the principles of the existence of regional elites and the federal center’s regional policy to a certain landmark, which might put an end to the rather extended period of their existence. It has been dragging on since the beginning of the 1990s, despite the seemingly varied and significant turns of events in subsequent years. At that time, the bargaining between regional elites and the federal center along the lines “effectiveness and stability in exchange for political loyalty, de-centralization and economic resources” was usually successful, although sometimes it ended up in claims for sovereignty or, worse, separatism, as in the case with ethnic republics. The default of 1998 consolidated part of regional elites who aspired to establish their own control over the federal government. The necessity to counterbalance the situation not only resulted in Vladimir Putin’s coming to power, but also pre-determined the main guidelines and elements of his program to build the so-called vertical of power in the “zero years,” i.e. the first decade of the new millennium: from federal control over inter-budgetary relations and the fight against secessionist trends to the re-distribution of government powers in favor of the federal center, and, lastly, the cancellation of direct gubernatorial elections.

However, the bargaining continued to remain the framework for all possible changes in relations between the federal and regional elites. Regional elites kept swapping their political loyalty and making concessions by yielding some of their powers to Moscow for the opportunity to

remain in office and draw economic and administrative annuity from their respective provinces. The recent “fat years” contributed to the success of this strategy, mostly free of conflicts, when a surplus of resources and opportunities to develop them provided for co-existence on more or less amicable terms.

And again, the economic crisis and the ensuing shortage of funds has changed the situation. Unlike the late 1990s, regional elites have no serious opportunities to pursue a political or economic game of their own, which is the main achievement of the centralization policy in the “zero years.” The federal authorities therefore can either impose the main “tax” of political costs on regional elites during the crisis and then return to the previous relations, or renounce the present model of “federalism of intra-elite bargaining” in favor of some new principles of regional policy.

Conceivably, the leader who will claim “victory over the crisis” will have a resource for reconfiguring the political and economic setup in the country.

THE FATE OF THE TANDEM

The question about the victory and victor in the crisis lends a new tonality to the discussion about what will happen to the political model of the “tandemocracy” of President Dmitry Medvedev and Prime Minister Vladimir Putin, which has formed after the 2008 presidential election.

As the new political model began to function, it was generally assumed that Putin was still undecided on whether the political system he had built and the team he had formed would be able to work effectively without his direct supervision and “manual control.” In short, he was not certain if he would have to seek another presidential term.

To keep this option open, Putin became prime minister and leader of the United Russia party. This also gave him room for maneuver and political initiative. During Medvedev’s term in office, Putin could have more insight into the situation, and convert his premiership and party chairmanship into an instrument to implement one of the three possible scenarios.

The first scenario envisions Putin’s role as a protector and a “safety mechanism” for Medvedev. He will gradually introduce him to the

ins and outs of presidency and transfer to him, step by step, an increasingly large volume of real powers and functions. After completing this “gradual succession” program and Medvedev’s re-election in 2012, he may resign the post of prime minister but remain the leader of the ruling party.

Under the second scenario, things may take a turn for the worse within the next few years, and it will become clear that the risks inherent in the poorly controlled system are too great, while external challenges and socio-economic threats are considerable. In that event, the post of prime minister makes a good floor for Putin’s comeback as president, who might even return early, in case of contingency.

The third scenario suggests that the system of de-centralization and power-sharing between Medvedev and Putin will prove effective and help forge a consensus among elites and the public that this new form of government in Russia should acquire legislative underpinning, perhaps, by partial Constitutional reform (which would include not only the already adopted amendments but also certain additional specifications of the power-sharing system). It would not imply permanent diarchy or transfer to a parliamentary republic but, rather, a full-fledged institutionalization of a sort of “French model” of the balance of forces, powers and responsibilities between the presidential and government powers, with reliance on parliament and the system of political parties.

Today, a year since President Medvedev taking office and forming a tandem with Putin, none of these scenarios can be discarded, but, at the same time, none is given a final preference.

One might say the Medvedev-Putin tandem started up and covered the first 100 meters of the track, but the finish line is yet far off, especially because we do not know what distance they are running. The economic crisis is an extra complication in this situation: perhaps, they are not just runners but decathlon competitors facing shotput, pole-vaulting, and javelin throwing, in addition to hurdling.

There is no complete clarity, and on top of that, new uncertainties have emerged.

On the other hand, one might be reasonably certain that the scenario options will exist until a principled political decision has been made on who will run in the 2012 presidential polls: Dmitry Medvedev or

Vladimir Putin. The decision should be due before early 2011 and the start of preparations for the parliament election campaign.

But for now, the tandem situation will be quite stable. It will be developing under the pre-set and easily seen rules. There is a rather clear-cut division of the spheres of influence and areas of activities between the president and the prime minister. Each has the right of initiatives and the right of priority in governance and decision-making in his respective field.

However, a sort of a “tandem veto system” has been formed as well: Putin can block any presidential initiative, while Medvedev, as the head of state, can scrap any actions by the parliament or government, on the strength of his Constitutional powers.

The parties do not abuse their “veto powers,” because only the two of them within this model will always have a controlling stake in the political system. This means that the “two keys” principle will be applied to the broadest possible range of powers of the president and the prime minister: consent of both is essential on key decisions or their implementation. Hence the rules of the games in the “power tandem” system are so arranged that the point of balance, at least in the absence of force majeure, is reached not through the maximum weakening or strengthening of one of the diarchy partners but through parity between them, which provides, among other things, for curbing the ambitions of the teams lined up behind each leader.

On top of that (perhaps, this is the key point), neither President Medvedev, nor Prime Minister Putin are interested in any weakening, belittling or discrediting the very institution of presidential power in Russia. For the incumbent president, it is more than obvious. For Putin, it is logical, too, because the prospect of his return to the office of president cannot be ruled out.

What the ongoing economic crisis makes inevitable (given the above new main prize of “victory over the crisis” in the 2012 polls) is that the “tandemocracy” system is unlikely to survive after Medvedev’s present term.

In the long run, it will remain a purely interim form either before backtracking to the old mono-centrist and personality model of monopolistic presidential power, or before an accelerated transfer to a new

stage, including Constitutional changes in the system of power balance and power-sharing between the branches of power in Russia.

The development of the situation under the second option would imply that the Russian political elite is ready to give up for good the model of a political mono-centrist, super-presidential republic, in order to keep their positions and stability for a long while. They would wish to eradicate the fundamental problem of complete change of government in the present system – the necessity to carry the risks of possible monopoly over power by one person, regardless of who he is.

If the present tandem eventually achieves greater institutional certainty for the political system, it will be one of the main positive achievements of Medvedev's presidency, especially because the political system, most likely, should become more complex and less unequivocal in institutional terms, if we mean a large-scale socio-economic modernization of the country and a more sophisticated structure of society and social interests.

PROBLEMS OF THE NEW “PUBLIC ACCORD”

In the evaluation of the prospects for political processes in Russia in the next few years, an increasingly important role is played by not so much the political process within elites, its ramified scenarios and “road maps,” as the dynamics of social processes amidst the crisis.

Today, the discussion that any society has a private public accord (which finds itself under threat in the conditions of collapse of the world economy) is gaining momentum and topicality. The future will depend both on the force of the economic blow delivered at a given country but, mostly, on the nature of its political system and specifics of this very public accord.

The Russian political model of the “zero years” has never been tested by economic crises or downturns before, although it did function under quite low prices of oil and a low volume of annuity, quite similar to what we have at present. In other words, the most important thing for its political stability is an upward trend or its absence, not the economic situation at any given point. It is not about a snapshot of current problems or achievements, but a positive or negative image of the future. Hence, the legitimacy here largely depends on the ability to sustain economic growth rates.

It does not imply complete dependence on the factor of growing welfare; there are other points here, which might have even more significance. Alongside the flourishing price situation, the Russian political system of the “zero years” model was functioning quite successfully, resting upon the high popularity of the incumbent government. Both factors are significant, but popularity is of primary importance and plays a large role.

The ratings of the top authority have essentially been (both during Putin’s presidency and the current “tandemocracy”) the ratings of expectations and hope. Today, despite the dramatic fall in the indices of citizens’ opinions of the socio-economic situation, the level of confidence in the government is still high. To be more precise, it is high in a new way, because the ratings are still based on expectations and hope, but the novelty is that the government now must ensure the least painful way of pulling out of the crisis.

In addition, the government would be expected to secure a fair anti-crisis strategy and its effectiveness. The margin of political strength and stability of ratings are determined not by the intensity of economic problems, but the perception by the nation of whether or not the anti-crisis strategy is fair. A protest can flare up if this bid for justness is ignored. As for economic problems, the state is rather expected not to interfere with people’s efforts to survive.

This situation is quite traditional for the modern Russian society, because the requirements for order and justice in people’s mentality have played and continue to play the leading role. At the turn of the 1990s, it was obvious because of the war in Chechnya, the threats to the country’s integrity and the prevailing public resentment of the results of the “decade of privatization and reforms” as unfair. The “public accord” at the turn of the 1990s and the “zero years” was made between a large part of the population and the top authorities in circumvention of a considerable portion of elites, so that the top officials, backed by the masses and high ratings could act in their own right to “restrain the modern aristocracy.” This explains the overly positive attitude by the larger portion of the public to the infringement upon the rights of regional elites or oligarchs.

An addendum to the “public accord” covering better welfare, made during the late “fat years,” was certainly motivated by an exchange of

political rights for a better standard of living. This is not surprising. Given a very low level of confidence in market institutions and economic and political competition in the Russian society, the main demand to top government has been a paternalistic attitude, providing for a large public share in annuity and its subsequent distribution in the society. This would prevent the elites from limiting “ordinary people’s” access to the deriving of profit from annuity flows. Whether or not this situation has changed much during the crisis is a big question.

However, there is a factor that can considerably influence the social dynamics and sentiments; this is the factor of time. Nearly all sociological polls show that the society is ready for a crisis lasting another year or so. There is a certain margin of strength of government reserve funds, accumulated reserves and adaptation of households to tide Russia over this period.

The prospect of “a three-year crisis” until 2012, though viewed by the authorities as a benchmark of political strategies, would seem a very bad scenario, from the point of view of economic and social costs.

In effect, the hidden hope for “a short-term crisis” still prevails in the public mind and the outlook cultivated by elites. If these hopes come true, the post-crisis Russia of 2010-2011 will differ little from what we saw just before 2007-2008.

In the political sense, the country, led by the incumbent authorities to the victory over the crisis, will be preparing for relatively quiet elections. It is important that the very issue of the main candidate to the presidential post in 2012 will be addressed outside the framework of the crisis. The theme of modernization and other novelties will continue to be topical, but these will again be implemented amidst the titanic struggle against the inertial “let-everything-run-its-natural-course” logic, and in the nearly same configuration of political, clan and group social interests we have now.

In these conditions, it is the possibility of a longer and deeper crisis that increasingly becomes the decisive factor in further development of the situation in the country and its sharp turns. An infinite duration of the crisis is the worst hitch for both elites and the population. If the “long crisis” in Russia not only becomes a reality but also sours the mood of the elites and the population, it may bring about a

“radical turn” in the socio-political situation and actions by various political players.

In that event, a dramatic change in the political agenda and economic policy, as well as a reshuffle of elites will become possible. Early federal elections cannot be ruled out, either. And then the victory will go to a political force or a leader that will come forward to state their position precisely at the moment when the hand of the barometer of public and elite’s sentiment inclines towards the segment marked “severe and drawn-out crisis.”

Dynamics of a Social Contract

Critical Trends in Russia's Modernization

Alexander Auzan

A number of events in 2008, including the outbreak of the global and Russian economic crisis, the war with Georgia and amendments to the Constitution, have had a dramatic impact on the status and dynamics of the core of the institutional environment – informal rules at a high level. In order to assess these changes, one should first characterize the general context of the fifteen-year drift of Russia's constitutional institutions and then explain how conditions have changed and how the choice of values impacts the real prospects for Russian modernization and what kind it will be.

CONSTITUTIONAL INSTITUTIONS: AVAILABILITY AND DEMAND

A social contract is not a swap of liabilities; it is an exchange of expectations concerning rights and freedoms and it is rarely formally expressed. A social contract regulates informal rules at a very high level; the ones economists call supra-constitutional rules. A country may have a perfect constitution, but when formal rules clash with informal ones, the latter often triumph. As a result, whether or not a constitution will work depends on whether there is a consensus under the social contract.

Alexander Auzan is a professor at the Department of Economics at Moscow State University, President of the National Project Institute (NPI) - Social Contract, and a member of the board of the Institute of Contemporary Development. He has a Doctorate in Economics. This article was originally published in Russian in 2009 in the book “*The Strategy of Social and Economic Development: Aftermath of the Crisis*” by the Institute of Contemporary Development.

What is Russia's 1993 Constitution? It is the product of a compromise that was reached during a severe crisis bordering on civil war. It was adopted in a state of emergency and could not be the result of a social contract. However, several provisions in it were the result of compromises. For example, the Constitution includes values – goodness and justice – that we inherited from our ancestors. It also contains provisions for several institutions based on individual freedom, institutions of a social state, and institutions of the division of powers. This means that an attempt was made when drafting the Constitution to take account of the track Russia was moving along, as well as an attempt to leave this track and formulate a new proposal for democratic statehood.

Now we move over to the demand. It is important to remember that all well-established democracies today have passed through the stage of eligibility democracy, or limited voting rights, as the right to vote spread gradually among the citizens. None of the unstable democracies today have passed through the eligibility phase.

How can this be explained from the economic angle? Research shows that demand for democracy varies from one country to another depending on two factors: the level of material security and education. Why? Because democracy is a complicated and expensive thing, a kind of luxury item; and participation in its institutions demands much time and intellectual effort.

And what happens when demand for democracy is low? The 1993 Constitution provides for a democratic method of decision-making. If a person has a below average income and if that person makes a small contribution to the formation of the state budget, then he thinks it is rational to demand assistance from the state – that is, the citizens make a decision that someone should pay for public goods, thereby apportioning all responsibility to others instead of shouldering the burden themselves.

The seesaw starts to move in this situation – populist proposals alternate with bribing the electorate with monetary disbursements. Just imagine: a person who has never learned to drive gets a car as a present. Then it is quite appropriate for him to bargain away the car for a promise that the buyer will take him in that car into a bright future. In other words, this situation suggests either populist promises or the selling of votes. All systems of this kind suffer such illnesses.

All further logic of the development of Russian democracy after 1993 is an attempt to react to the low demand for democracy and the seesaw emerging from this situation. A number of solutions were possible for Russia in the past fifteen years, but the country experienced two constitutional crises: proposals to amend the Constitution in 1995-1996 and 2007-2008 and the ensuing public debates. Remarkably, the aftereffects of the latter crisis are still lingering. Also, Russia has seen two systemic crises over this time – the financial default of 1998 and the Yukos case, rigged elections and a turn towards totalitarianism in 2003. How is this related to the problem of demand for democracy?

The 1995-1996 crisis was successfully resolved. The Constitution was preserved thanks to interference by the oligarchs, for which they would receive compensation in the form of shares-for-loans auctions. Thus the second option – investment in the election system – was chosen then. That decision was not the best possible one for two reasons. First, Russia had to pay for it with the 1998 default. It is important that the default was not a regular financial crisis that Russia would have emerged from by devaluating the ruble. In 1998, Russia faced for the first time clashing interests between two oligarchic cartels – the natural monopolies and banks. The latter feared devaluation, while the natural monopolies would benefit from it. The way out of the situation was to declare a default, to annul financial obligations, and to send the system of contracts down the drain.

Did the country have any other ways to bypass those crises? Russia's case history provided evidence of a typical politically-oriented privatization. However, since the 1993 Constitution contained a compromise between liberal values and the socially-oriented state, it would have been much more appropriate to choose the social option – by keeping a high level of education and wealth as the foundation of a broad demand for democracy.

The 1998 crisis fueled a conflict between demand for and supply of democracy, and there was a struggle between monetary and administrative resources to influence democracy. Neither system is ideal for democracy, but monetary resources struggled in their own circle, while administrative resources acted as a monopoly. This brought to life a system of authoritarian government and managed democracy.

It was a reaction to the low demand for democracy that predestined a poor balance of forces. The supply of democracy decreased and continues to move downwards. Meanwhile, the supply of democracy is a factor of demand (in this context, the ten items for the development of democracy that President Dmitry Medvedev laid out in his state-of-the-nation address in 2008 are quite symbolic as they signal a departure from the position that produced the poor balance). If people do not know how to drive cars, this does not mean that motorcycles or bicycles cannot be used. Similarly, the presence of problems in the national constitutional system does not mean there can be no local self-government. The U.S. experienced very much the same situation in the second half of the 19th century when the rich influenced national elections, but the Americans did not concede the election of judges and sheriffs because demand for such elections had grown substantially by that time and it continued to grow afterwards as well.

Strange as it may seem, managed democracy has grown into a major problem for the Russian government, as this type of democracy eliminates, among other things, the separation of powers. Feedback does not work in this situation, while serious reforms or transfers of power become extremely problematic. It is enough to look at how the crisis of clashes between the elites of 1999-2000 was untangled. The losers secured for themselves governors' positions and a faction in the State Duma. When there is no separation of powers, there are no "branches" on which various elitist groups can "nest."

A constitutional crisis took shape in 2007, marked by minimal demand for political institutions. There were personal guarantees in that situation, but the issuer of guarantees entitled by the Constitution had to leave the post. This is not a system of coordinates in which tasks are resolved. That was how Russia got a construct in which the shell remained in place and the president left but remained on the scene. The Russian Constitution remained unchanged in 2007 too, but the 2008 global financial crisis changed the conditions for making the choice.

In the summer of 2008, Russia passed a fork in the road that could have led to modernization. That turn seems to be no less important than the fork Russia passed in 2003-2004. This time it was another fork and yet another missed opportunity. Was there a real opportunity for mod-

ernization or were the signs of the thaw Russia saw in the spring nothing more than wandering lanterns?

THE EROSION OF THE RULES AND THE CHOICE OF VALUES

Let us now compare 2003 and 2008. The first division of Russia's assets had been completed by 2003 and Russia had found itself at a fork in the road. Models built by Martin McGuire and Mancur Olson back in the 1980s show how the social contract is made. The state takes on the role of a "stationary bandit," while the interest groups that are using the country split the assets. After the major assets are divided up, there is a question whether to launch a new division of property or try to devise a new system of rules so as to make the divided assets work. This question persisted in 2000 through 2002, but with the seizure of Yukos and the 2003 parliamentary elections the problem was resolved – not in favor of the new system of rules. The same McGuire-Olson models show that new rules are accepted only if no new "hungry" groups laying claims to big assets emerge. But they did emerge, and the game continued in a new cycle that ended in 2006-2007, after which Russia found itself at the same road fork.

The political construct that emerged in April and May 2008 showed that the problem had been acknowledged. While the Putin government was rounding up the division of assets, the Medvedev administration was building an agenda aimed at fixing the existing ownership rights. There were apparent signs that some were demanding a change in the rules, but the cycle flopped again. Why? Was it because new "hungry" groups emerged? Not likely. I daresay the causes were different.

In 2007, the crisis surrounding a third Putin term and amendments to the Constitution ended in favor of the Constitution. I think this came about because the domineering groups thought it was important to maintain the capitalization of their assets in Russia and – above all – abroad; the groups needed to integrate into transnational projects. By the summer 2008 all of this had lost its importance – the global crisis exploded and foreign assets could lose their capitalization regardless of whether or not Russia observed the rules. The redistribution game in favor of the rules of asset operation was not given up – it moved into new territory. It turned out that one could play this game in the internation-

al arena and continue to accumulate assets amid the erosion of the economic rules on the international market and the political institutions of the post-Yalta system.

One can hardly claim that the situation was designed by the Russian authorities – they have always upheld the post-Yalta system (this holds little promise of success, though, as too much has changed in the world in the more than 60 years since World War II). The West was the primary eroding power – Belgrade, Iraq and Kosovo had set a precedent for not playing by the rules. And what could work well amid a total absence of rules? – Russian bureaucratic capital, of course. These conditions were its natural environment, since a game without rules is a Russian national sport. This makes it clear why the domineering groups discarded the idea of a demand for lawfulness.

And why did the people at the bottom fully accept it? Opinion polls show that a very powerful patriotic consolidation of society took place during and after the Georgian war. In 2003, freedom as a value, which had played the central role in the 1990s (in spite of causing intense debate), gave way to the value of stability. As a result, an authoritarian regime was set up (reaction often comes after revolutions, and reactionaries have their own positive functions when they have to restore law and order).

What happened next? Stability began to ebb away. First, problems emerged with keeping inflation under control, then the level of savings started falling in Russia in February and March 2008 for the first time in eight years. While previously the public would save eagerly in the anticipation of stability, now they sensed the beginning of a departure from it – even before the blows of the global crisis, and a demand for other values emerged. Opinion polls showed quite distinctly that the value which had been second in importance – justice – was now foremost in people's minds. Notably, back in 2003 it had become handy in manipulations surrounding the Yukos case and parliamentary elections. It appears that the demand for justice stands close to the demand for lawfulness (understood in this case as equality before the law) made by business and domineering groups. However, justice lost the competition – the choice was made in favor of the idea of a great power.

This is what really requires a thorough analysis. A patriotic consolidation on the scale that was seen in August 2008 had never been regis-

tered since the start of sociological polls in Russia. What does this choice mean? It really creates the basis for a change in the situation and influences the social contract. I will try to offer some analysis of how it can affect changes in internal relations and the prospects for modernization.

There is a well-known phrase by the political philosopher Nikolai Berdyaev: “From February to October 1917, all the parties and ideas imaginable marched past the eyes of an astounded Russian. And what did he choose? The same thing that he had before – a tsar and great power.” This seems to have worked again: Russia elected a tsar in 2003 and state power in 2008.

Ethnologists and sociologists are right in saying that there is no longer any peasant community or a large patriarchal family in Russia. However, there are other institutions capable of relaying the tradition – cultural ones. Yuri Lotman, in his article *The Contract and the Committing of Oneself as Archetypical Models of Culture*, wrote that, unlike Western culture, Russian culture relies not on a social contract, but on personal commitment. It is true that modernization is pulling the social contract into Russian culture, but there is also the relaying of an archetype tradition through cultural institutions, above all, language. Let us take as an example the Russian word *gosudarstvo*, which means “the state.” Its meaning embraces not only the establishment and the government, but also the entire country. Hence, there is the general belief that the state can and must do everything. I think this is precisely a manifestation of the archetype of “committing oneself” as relayed by language. The notion of a great power as the highest value has several quite unexpected consequences: first, it alienates people from the state; second, there is a need to compensate for this alienation in an outward expansion of influence; and, third, it establishes limits for modernization.

About a year ago I came up with a somewhat debatable hypothesis that ethnic stereotypes are balanced by national values. The state is a sort of a conservation agent, a typical traditional value. Generally speaking, the state is perceived as a value only by new ethnoses that have survived an existential crisis and have faced the prospects of destruction. The Great Russian ethnos went through this ordeal too, but that was in the distant past, during the Mongol yoke when *The Tale of the Downfall of*

Russia was written. From that perspective, the emergence of this value was natural then.

There are unexpected results when one regards the state as a value, not as an instrument. If the state is an instrument, it is natural to adjust it to the requirements of social evolution; and if it is a value, it is unchangeable. Paradoxically, this results in the alienation of society from the state and historical evolution has shown this to be true many times.

In this context it is useful to look at the expectations that people may have regarding the state's behavior.

Let us take the attitude towards prisoners or bushrangers, for instance. Russians have treated them with mercy for centuries. If people in the U.S. find out that someone has escaped from jail, they take up guns and hunt the fugitives. In Siberia, people would leave milk and bread on their window sills for escaped convicts in the 19th century, because they realized that the prisoners would most likely not be guilty of anything.

Or look at the way people treat delation – Europeans view it as a way to defend their civil rights, but it is morally banned in Russia. Arseny Roginsky, a member of the Memorial Human Rights Center, says that no more than 6 percent of the arrests during the Great Purges of the late 1930s were made upon delation, even though Stalin demanded that the NKVD raise “the level of popular support.”

“Nihilism towards the law,” which is often described as being typical of Russians, does not reject the law as such; it disregards the norms promulgated by the authorities.

However, there is a reverse side too. And that is what people expect from the state.

First, the people have a permanent apprehension of possible expropriation. The presence of a vertical contract makes the ruler disinterested in seeing his subjects attain the maximum affluence, as this will strengthen their negotiating power and protest potential (political scientists call this De Tocqueville's law), and that is why confiscation reforms are needed from time to time.

Second, embezzlement of state property is permitted. Here is a quotation from the Russian historian Yevgeny Tarle, who cited an anecdote from the economic rise of the 1880s. “A person comes to a high-ranking

official and says: ‘I’ll give you three thousand rubles and not a single living creature will know about it.’ ‘Give me five thousand and feel free to tell anyone you like about it,’ the official says.” The current climate in Russia is no different. There are heaps of compromising documents on every official. So what? No one expects the authorities to stop stealing — let them stay away from killing. This is how a negative social contract emerges: the state assumes tax evasion by the people and the people assume embezzlement by state officials.

Naturally, efficiency and morality do not suit this kind of social contract very much; so the only positive vector is external expansion.

It is quite understandable why expansion suits the elites. But why does it suit the masses? The reason is that compensatory mechanisms become helpful here: expanding space while slowing down time produces a certain balance and provides some great emotional sensations. Also, expanding space increases the costs of control over every single unit in it, while pressure on these units decreases. Former competitors are included in the system of the rules that can be controlled by the empire.

Yet more important shifts occur at the level of values. A feeling of affiliation with a great power makes up for the absence of human dignity inside the country. Furthermore, it generates a feeling described by the Russian word *volya*, which means “free will” and “free expanse” at the same time — a value-related notion, but not the equivalent of freedom. *Volya* only involves freedom in space, a possibility of escape into the expanse.

Finally, linking authoritarianism with expansion creates harmony and positive expectations — an anticipation that the empire will get down to the business of modernization. The Russian poet Alexander Pushkin described this hope as “The government is the only European in Russia.”

INSTITUTIONAL TRAPS OF MOBILIZATION MODERNIZATION

Let us return to the prospects for modernization, as hopes for it may grow both with the public at large and in the rhetoric of state leaders — even in a global crisis.

What kind of modernization can there be given the choice of values like this? This is a modernization through mobilization that Russia has gone through many times. All these instances have had similar trajecto-

ries — a breakthrough with the aid of mobilization, the undermining of human resources and demobilization.

Here is where the problem of the “track” comes out into the open. A country makes a jump, hits the ceiling and falls down. The result gained is the same as in evolutionary development — not very good, but not very bad either. The problem is it is achieved through huge losses and disillusionment.

Now let us look at the mechanisms used to keep up this trajectory, taking the economy first. When the state fights for modernization, it uses its competitive advantages, since it is an organization that has relative advantages in the use of force — and this is a real advantage. But how can it be used in the economy? You can modernize it by way of mobilization — by relocating funds, people and property. Such methods prove efficacious at times.

This mechanism actually fuses state power and property that can yield positive results at some stages of development. The problem is what will happen in the future. Such a fusion implemented in the institutions of serfdom and tsarist autocracy made it possible to achieve a breakthrough through redistribution. But eventually it would undermine the human resource — the most flexible and hence the most vital element of the “breakthrough.”

Supersoft budgetary restrictions related to the fusion of state power and property make efficiency inaccessible in principle and the overuse of resources inevitable. This situation produces short-term growth and a mid-term decline, plus a need for demobilization. The latter can take various forms. Yuri Lotman was right in pointing out that Russia absorbed the idea of a social contract along with European culture. As the Russian nobility received their freedom in 1762, then it was important to free the serfs as well, albeit in 1861. The post-Stalin era saw several demobilization steps, as well. First, prisoners were released from labor camps, then the nomenclature was freed from the repressive mechanism, and finally passports were handed to farmers, which gave them a considerable reserve of freedom.

Each new step towards demobilization is accompanied by attempts — sometimes successful — to carry out a social and cultural modernization of the country. But why do efforts to go from demobilization to a differ-

ent mechanism of development – that is, efforts to pull oneself out of the track and change the trajectory – always fail?

First, public action during periods of liberalization or democratization proves to be dramatically insufficient. The accumulation of social capital (i.e. the fostering of the norms of mutual trust) falls during reforms. This trust has a group structure based on isolated small clubs. Small groups that start to engage in the redistribution instead of the production of public goods rise faster than others. Broader groups spring out of negative stimuli, which intensify the growth of mafias or state machinery.

Second, accumulation of trust relies on values, but the search for new values is always accompanied by fake substitutions. A new state model is placed on the old pedestal – now it is Soviet power and then it is democracy. The form in which the state becomes a value does not matter. Democracy is not a value, it is an instrument. You can develop democracy somehow only if you understand this.

The state brought to the level of value attempts to formulate modernization objectives, and this explains why it succeeds in attaining not only extensive results along the way of modernization, but intensive ones, as well. All economists share an axiom suggesting that creative labor cannot be controlled. The fear of death is not decisive here – it is the factor of ideology that matters. Douglass North showed in his book “Institutions, Institutional Change and Economic Performance” that ideology is an institution of short-term or mid-term utilization. While the accepted set of values continues working, the well-known economic laws can be encroached on and a country can float against the tide.

Where does state power retrieve values from that form the ideology of mobilization? Remember that values are products of a nation as an active living organism. But in this case there is no active nation; there is an active state power. Where should it take values from? It should borrow them, and such borrowings may differ considerably: the modernizations carried out by Peter the Great and Josef Stalin differ greatly.

What did Peter do? When he saw the Netherlands, he realized that Russia badly needed Dutch practices. Peter found that they were com-

plementary, and he solved the task in a radical move – by “stealing” Europe. He simply wedded Russia and Europe by inviting Europeans, and Peter himself married Martha Skavronska, who would become Empress Catherine I. This was an attempt to bring in modernization values. Some of them were actually introduced, like the values of European-style civility, education and work ethic. Yet this “marriage” turned out to be unsuccessful.

Russia still has a complementary relationship with Europe and a conflict of values, and this conflict is rooted in what Russia had during Peter the Great’s rule. Why? Because a child was born in that marriage, and this child was the great Russian culture. This culture had a carrier – the intelligentsia. Russian culture is both a matter of national pride and recognition. But it would be too far-fetched to claim that it is a value that governs behavior in Russia. Culture as such contains values, including some of them copied from Mother Europe. The closer people stand to culture, the bigger the measure in which they become the carriers of these values. In the meantime, the latter do not match the values of mass groups. Here is where the spiritual field splits.

And what about Soviet modernization? This was a marriage to Europe without a bride. It consisted in taking over European ideology, an alternative system of socialist values (social justice, universal education, international solidarity) and concluding a marriage amid complaints about the absence of a European proletariat that would be the most desired party in that marriage contract. And what happened to these values next? They worked for some time, yet the value of state power – Soviet power – remained dominant.

The achievements of that modernization were manifest in the general literacy of the population and a rise in the level of education, which produced a phenomenon that Alexander Solzhenitsyn labeled as *obrazovanshchina* (pseudo-intelligentsia).

The problem, however, is not confined to the quality of this product. The problem lies in a new split in the spiritual field. It differs from the previous one in that the educated community now has a restricted frame for conduct, as loyalty becomes very important – hence the problem of external emigration (to foreign countries) and “internal” immigration (within oneself). Yet the most deplorable fact is that when yet another

demobilization occurs, it turns out that this class feels awful in conditions of freedom.

* * *

Modernization through mobilization is a probable (especially if the global crisis brings about fragmentation and protectionist wars) but not an inescapable option. Shifts in the structure of the social contract persist and they may alter the terms for the choice of a strategy.

The formula of Putin's social contract suggesting "stability for political freedoms" that has been observed for the past five years can scarcely be renewed. The projected duration of the crisis leaves little hope for a restoration of stability and people's economic affluence within a time-frame acceptable to broad sections of the population. The spilling of the crisis from the banking and financial sectors over to the real sector and prospects for an outbreak of a social crisis will most likely eliminate some essential attributes of the previous formula, including the "virtual" and "tax-free" relationship between the state and the people. An urgent restoration of institutional mechanisms of interaction with various sections of society will be needed. The distribution of the crisis' costs will raise the demand for justice and solidarity as potential values of a new social contract. A new hypothetical formula – "a just order in exchange for taxes and civil involvement" – may considerably increase the likelihood of an institutional modernization.

Power and Parties in Post-Soviet Russia

What is Russia's multiparty political system?

Vladimir Shveitser

At the turn of the 1980s, Russia saw prospects for evolution of its public and political development from an authoritarian to a democratic society along market economy lines. Historical experience shows such fundamental changes require a political setup where a multi-party system has a special place and significance. It is quite natural that the establishment of a multi-party system, an entirely new vector for Russia, inevitably encountered both objective and subjective difficulties. Two decades of this controversial process give an opportunity to judge its first results, as well as various circumstances that have facilitated or hindered the advance of Russian political history to new frontiers.

POLITICAL PLURALISM OF LATER *PERESTROIKA*

The evolution from a one- to a multi-party system which reflects different opinions in broad public circles began during the last phase of the existence of the Soviet Union. It turned out then that the political vanguard in the person of the Communist Party of the Soviet Union (CPSU) was unable to handle the problems that overwhelmed the country in the 1980s. The crises in all spheres of life of the Soviet society, which suddenly shed its veneer of prosperity, were eroding the population's belief in the "leading role" of the CPSU, forcing the party to continuously re-adjust itself to new situations. The replacement of three

Vladimir Shveitser is a chief researcher of the Institute of Europe, the Russian Academy of Sciences; a deputy chairman of the Scientific Council of the "Parties and Political Systems of the 21st century." He holds a Doctorate in Economics.

secretary generals (from November 1982 to March 1985) surprisingly coincided with three basic trends in the then Communist leadership: the trend for reform as seen by security agencies, personified by Yuri Andropov, the trend for conservatism (Konstantin Chernenko), and the trend for democratic reforms (Mikhail Gorbachev). The years 1985-1990 showed inconsistencies in the policies of the “architect of *pere-stroika*,” his veering from one extreme to another, and his lack of a close-knit team of like-minded people, which intensified centrifugal trends within the CPSU.

The appearance of Boris Yeltsin in the political arena only seemed like the birth of a lone hero. In actual fact, his personal courage in confronting conservatives from the Politburo reflected the resentment many Communists of lower and medium levels felt towards everything labeled as “stagnation phenomena,” which lingered even after the reformists came to power. On the other hand, the existence of the Conservative group led by Yegor Ligachev and Ivan Polozkov was not merely a reflection of personal ambitions of the provincial officialdom, opposed to Gorbachev.

Along with the distinct erosion of the CPSU ranks, there emerged another layer of fledgling political activity. Non-CSPU members – in the first place creative intellectuals and researchers – were becoming increasingly active in large industrial centers of Russia, tending to group at informal public-discussion clubs. It is these activists who raised for the first time the issue of setting up Western-type political associations, other than the CSPU: social-democratic, liberal-conservative, national and religious ones.

The years 1989-1991 became a period of turbulent political activity. The new system of election to the USSR Supreme Soviet and to the legislature of the Russian Soviet Federative Socialist Republic (RSFSR) within the Soviet Union made it possible to nominate non-Communist candidates and even outspoken critics of the CPSU’s course. The Inter-Regional Deputies’ Group of the USSR Congress of People’s Deputies and the Democratic Russia organization, which emerged in the course of elections to the RSFSR Supreme Soviet and which included many members of unofficial associations, could have become a prototype of a powerful political force that would rival the CSPU in Russia and even in the whole of the Soviet Union in the struggle for power.

The activity of democracy-minded deputies at the above legislative bodies contributed to the legitimization of the multi-party system. In March 1990, the 3rd Congress of USSR People's Deputies amended Article 6 of the USSR Constitution, abolishing the CPSU's political monopoly on power, and Article 51 which now declared the Soviet citizens' right to set up political parties. In October 1990, the newly adopted law *On Public Associations* set the guidelines for legal regulation of political activities. It allowed political parties to participate in the work of legislative and executive bodies. Beginning from January 1, 1991, the above law became effective, which gave an impulse towards formalizing the multi-party system.

In the last year of the Soviet Union's existence, those who called themselves democrats failed to unite and establish one political party. The death in December 1989 of Andrei Sakharov, the moral leader of new forces, and Boris Yeltsin's de-facto refusal to head Democratic Russia reduced the latter to an odd mix of small groups led by increasingly ambitious politicians. Yeltsin believed that he had come to power in Russia (initially as chairman of the RSFSR Supreme Soviet and later, following the June 12, 1991 elections as Russian president) as a sort of national leader, rather than as a representative of the broad circles of the democratic public opposed to the CPSU. Characteristically, Yeltsin, when announcing his withdrawal from the Communist Party at the 19th CPSU conference (in July 1990), explained the move not so much by his disagreement with its policy, as by his new supra-party functions as chairman of the RSFSR Supreme Soviet. One of his first executive orders in the capacity of the RSFSR president (July 1, 1991) banned all political activities at organizations and enterprises and thus nipped in the bud the consolidation of potential members of Democratic Russia. On the other hand, CPSU grassroots organizations that operated at places of residence remained intact and later served as groundwork for the new Communist Party of the Russian Federation.

Yeltsin's move to suspend the CPSU's activity following an abortive coup attempt in August 1991 and subsequent legal proceedings against it obviously did not contribute to the strengthening of the multi-party system in Russia. It created a precedent for similar moves against any political opponents of the powers-that-be. Those who were ready to join in

the development of the political system on the wave of the amazing political activity of the population in 1989-1991, apparently changed their mind and had to consider their safety instead. On the other hand, the Russian president and his motley milieu promptly turned into a top state elite in the new conditions. This transformation did not require a political victory at elections or efforts from parties led by pro-Yeltsin officials. The government of Yegor Gaidar, formed in the autumn of 1991, mostly comprised not party leaders but bureaucrats close to Yeltsin. As a result, Russia began the year 1992 – the first year of its existence as an independent state – with the legislative and executive bodies formed in the last years of the former public-political and socio-economic system.

CHAOTIC MULTI-PARTY SYSTEM OF THE 1990s

The economic and political upheavals in Russia in 1992-1993 set a poor groundwork for parties' activities. On the one hand, many deputies of the Supreme Soviet of the Russian Federation used their official capacity to enlist support in their respective constituencies. They set up parties, whose names included such words as "democracy," "socialism" and "people" in various combinations, and the ever-present word "Russia." But it soon became clear that those parties were like houses of cards, unable to withstand even a moderate wind of political struggle. In essence, the so-called "parties" were run by aides of parliament deputies; the aides hoped to secure a good position in the legislature in the foreseeable future, with the strategic aim of making a career in the executive branch of power.

The permanent conflicts between Boris Yeltsin and his associates, on the one hand, and the increasingly fragmented Supreme Soviet, on the other, slowed down and weakened the formation of a normal, by European standards, system of political parties in Russia. Supreme Soviet deputies, in contrast to their original ideological and political positions, steadily adopted tough opposition tactics in the struggle against the powers-that-be. The Russian president increasingly felt the hostile attitude of a majority of the parties represented in the Supreme Soviet. This strengthened his dislike of parties as such and of their participation in government bodies in the federal center and the provinces.

After winning nationwide support in a referendum in April 1993, Yeltsin came to believe once and for all that the parliament should be treated as a rubber stamp for decisions made by executive bodies. Another reason for this opinion of the president and his team was that the democracy-minded camp, which had thrown its weight behind Yeltsin a few years before, was in a sorry state: the internal power struggle in it undermined the reputation of democrats in society. The economic chaos of the early 1990s delivered a still harder blow at this reputation: a majority of Yeltsin's former electorate associated the chaos with the notion "democrat" which sounded amorphous to most Russian citizens.

The "hot autumn" of 1993 became a landmark in the establishment of a multi-party system in Russia. The authorities, within a span of several months, organized elections to a new kind of parliament, the State Duma; they also hastily drew a new Constitution and adopted it through a plebiscite, which coincided in time with the parliamentary election. The new Fundamental Law obviously restricted the powers of the legislative branch, and immensely strengthened the executive branch, in particular, the presidential powers. Feeling inferior, the State Duma, already in the first term of office (1993-1995), passed a law on public associations in a bid to regulate the political process, as participants in the political process were only vaguely outlined in the 1993 Constitution.

The law, which became effective in May 1995, introduced the legal notion "political public association;" it set parameters for registering these associations and named conditions for their participation in politics in the event of threats to the state's integrity or in cases of inciting social, racial, ethnic or religious strife. Certain restrictions were imposed on legitimate participants in the political process. They were not allowed to draw funds from abroad, although the possibility of membership in international political associations was not denied to them. It should be noted that the above law never regulated the problem of funding associations inside Russia. Later, this created many problems for the activities of many political parties. In addition, the law did not spell out the difference between "political public associations" and "political parties." This circumstance played a role in the substitution of the development of a multi-party system with the courting of the electorate, which is necessarily limited by election cycles. Personal blocs were set up to secure their leaders'

winning coveted seats in parliament. The blocs, whose number exceeded that of parties, tended to emphasize the personal charisma of leaders on the party lists – who often were not career politicians – rather than the ideological essence of the movement they represented.

The 1993, 1995, and 1999 elections to the State Duma showed definite, quite tangible tendencies of voters' electoral behavior. Part of them, 20 to 25 percent, remained loyal to the Communist Party of the Russian Federation (KPRF). They regarded it as not only the defender of economic and social rights of the low-income groups of the population, obviously infringed upon by the authorities, but also as the successor to the CPSU, on which they pinned hopes for at least partial reanimation of the Soviet system. After impressive electoral success of the Liberal Democratic Party (LDPR) at the 1993 election (when it garnered 22.9 percent of votes), the support for Vladimir Zhirinovskiy's party fell dramatically to 11.2 percent in 1995 and a mere 6 percent in 1999. Initially the only party that appealed to nationalist sentiments among part of the electorate, later it had to give way to others, as other political exponents of nationalist positions entered the political arena. In all, these parties gathered about 20 percent of votes. Taking into account small anti-Yeltsin parties, the protesting, pro-Communist and nationalist electorate made up at least half of all voters in Russia at elections in the 1990s.

In these conditions, the powers-that-be, understanding that parties play a special role not only at parliamentary, regional or local elections, but largely determine voters' preferences at presidential elections, attempted to shape a Russian version of a "party of power." But since Yeltsin originally placed himself above parties, the leadership of such a party had to go to a close associate of his. Neither Sergei Filatov, nor Alexander Yakovlev succeeded in forming a "party of power" in the period between the 1993 and 1995 elections. Nor was State Duma chairman Ivan Rybkin able to set up a leftist party in support of the presidential policy, especially as he relied on an insignificant part of the provincial elite that was close to the authorities. Prime Minister Victor Chernomyrdin's taking up the role of leader of the "party of power" looked more promising in terms of electoral prospects. However, his Our Home Is Russia party, which came up with an unimpressive 10 percent

of votes in 1995, was unable to even clear the 5-percent barrier in 1999 to secure seats at the State Duma.

The situation was even worse in the second half of the 1990s for those who might be termed as a camp of “critical solidarity” with the authorities. Such figures as Yegor Gaidar, Grigory Yavlinsky, Irina Khakamada, Boris Nemtsov and Sergei Shakhrai, sponsored by Russian oligarchs, while remaining loyal to market economy principles and democratic development, failed to find a mutually acceptable conceptual basis for forming a united party. It happened not only because of their orientation towards different electoral trends, mostly in large industrial centers, but also because of their excessive personal ambitions and their striving to sideline their colleagues in ideologically close political forces from leadership in the future party.

The search for a new version of a “party of power” was caused by inevitable preparations for a presidential changeover. Initially, Yevgeny Primakov was proposed for the post as the most acceptable statesman not only for the Moscow and St. Petersburg elites, but also for part of the provincial establishment. The Fatherland – All Russia bloc was fashioned for the future president. But Yeltsin’s closest milieu and he himself believed that the former prime minister would not be loyal in his new capacity to the ailing president and his family. On the advice of Yeltsin’s close associates, Vladimir Putin was appointed prime minister, the last in Yeltsin’s era. In the first months of 2000, he became acting president. The newly formed Yedinstvo bloc was to provide electoral support to him by lauding the success of Putin’s anti-terrorist operation in Chechnya and measures to overcome the consequences of the August 1998 financial default. As for the disunited pro-market democrats, they ran for the 1999 elections separately. The results of the December 19, 1999 elections showed a new electoral trend. Voters actively (23.5 percent) supported the newcomer – Yedinstvo, which was largely due to Putin’s effectively taking the helm. Another candidate for being a “party of power” – Fatherland – All Russia, led by the Primakov-Luzhkov tandem, looked less impressive with 13.3 percent of votes. The KPRF held its ground with some 25 percent. The results of Yabloko (some 6 percent) and the Union of Right Forces (8.5 percent), which enjoyed the support of the bulk of oligarchs at the time, were less than modest.

A large part of Russia's political elite regarded the chaotic multiparty system of the 1990s as a consequence of unresolved problems of various kinds. On the surface, this manifested itself in barely concealed displeasure with the country's top executive post being held by a person who was unable – physically, intellectually, or organizationally – to form a stable structure of government. Therefore, the new Russian president and his closest associates objectively had to resolve the issue of adequacy of the whole legislative-executive system and determine the role and place of Russian parties in it.

PARTIES IN THE PYRAMID OF POWER IN THE EARLY 21ST CENTURY

It might seem at first glance that Putin's eight years in office changed dramatically the Russian system of political parties. In actual fact, however, he only gave an impetus to the trends that had begun to shape during the time of his predecessor. The instability of the domestic political and socio-economic situation of the 1990s, coupled with a tentative and fluctuating foreign policy, had certain influence upon the sluggish development of political parties in Russia. The stabilization of economic development in "Putin's era" which improved the socio-economic position of the wealthy group of the population, which made life easier for the middle class, and which preserved "the threshold of survivability" for the low-income strata – this and many other factors enabled the authorities to reform the political system without major obstacles from various opposition groups.

The power pyramid, which shaped in Yeltsin's time, had the president on the top and was framed with the presidential administration, a generator of new ideas. The latter were implemented at the government level and endorsed – though not without occasional setbacks – at the Duma (i.e. at the purely party level). The whole power vertical was brought to its optimal shape during "Putin's era." Careful selection of personnel for executive posts, based on clannishness (half-forgotten since Leonid Brezhnev's era), personal friendly ties, and professional corporativity, fastened by oligarchic capital (a practice surviving since Yeltsin's time), helped to form a modernized power vertical.

The party component, foremost the State Duma, could not become an obstacle during Putin's first term in office, while during the second term it

gradually turned into a support — though not the major one — of the executive branch. Under Yeltsin, the political setup comprised parties that supported the government, critically or otherwise, but still they consolidated around it, while the opposition was an indispensable element. Putin's eight years ended up with unconditional hegemony of absolute supporters of the regime, with a slight admixture of loyal opposition. The KPRF held the opposition role fast, but, valuing the benevolence of the authorities, it did not wish to make any resolute moves to take out the criticism of the government beyond parliament. The LDPR, thanks to its leader's efforts, took the position of "critical solidarity," held by democrats in the 1990s. The pro-presidential majority was represented by United Russia, which absorbed the now defunct Yedinstvo and Fatherland — All Russia.

As for critics of the authorities, such as the Union of Right Forces (SPS) and Yabloko, the elections in 1999, 2003, and 2007 showed a steady decrease in their influence on the Russian electorate. The SPS, which earlier leaned onto the middle class and a few Russian oligarchs, gradually lost the trust of this group of voters — especially business people in the center and the provinces — who preferred to deal with protégés of the "party of power."

Yabloko's constant veering between the interests of the "intelligentsia in worn-out shoes" [the term was coined by Dmitry Rogozin who referred to the part of society that was hit particularly hard by the reforms — Ed.] and the wealthy business community undermined the party's influence on groups of voters who were potential opponents to the authorities. Human rights campaigning, Yabloko's hobby-horse, gradually lost its significance in the eyes of voters after the end of hostilities in Chechnya. Both parties — due to a persistent conflict between their leaderships — never succeeded in resolving the problem of consolidation at parliamentary or presidential elections. In addition, the authorities skillfully chipped off the SPS and Yabloko those functionaries who were ready to cooperate with the ruling regime in line with the classical principle coined by Russian 19th-century playwright Alexander Ostrovsky in one of his plays: "Truth is good, but happiness is better." These efforts have been crowned by the formation (already under the new president) of a semi-tame party, the Right Cause, where conformists from the defunct SPS play first fiddle.

The 2003-2007 elections to the State Duma, despite all, possibly justified, doubts regarding the vote-count accuracy, showed that in the conditions of stabilization of the socio-economic situation in Russia and its foreign policy voters tend to back the authorities or those who have government support. Putin's broadly publicized solidarity with United Russia, which not only presented itself as a party of efficient managers but which was in fact such a party during the stabilization period, and the full identification of United Russia and local authorities enabled the party to secure a relative and later an absolute majority of mandates in the State Duma. Thus, the State Duma acquired the quality of a driving belt of the executive branch and effectively removed the conflict between the two branches of power, which had been permanently on the agenda in Yeltsin's time.

The presidential administration also successfully implemented a project for creating another pro-Kremlin party, Just Russia, led by the speaker of the Federation Council (the upper house of the Russian parliament) Sergei Mironov, who is very loyal to the president. Just Russia is an amazing mix of former nationalists from the Rodina party, ex-Communists from the Party of Pensioners, and members of Mironov's former Party of Life, which had a rather vague ideology. The hybrid posed as a Russian version of social democracy and gained support in the Socialist International and other European reformist organizations.

Candidates and even whole parties that the Russian authorities viewed as suspicious were barred from elections. During election campaigns, the mass media, controlled by the government, regulated the presentation of promotional materials of political parties that were critical of the incumbent regime. Not all parties enjoyed equal conditions when organizing pre-election rallies or marches. Law-enforcement bodies nipped in the bud the actions of the opposition which, in their very partial view, violated Russian laws. Rulings by courts of any level were overwhelmingly against the political opposition.

Prohibitive or, at best, restrictive practices with regard to parties that had not vowed their allegiance to the authorities, were based on the law on political parties, passed by the State Duma in 2002 and later repeatedly amended. In defiance of the universally accepted democratic norms, the law set a minimum number of party members (it amounts to

45,000 at present) and obliged parties to have branches in more than a half of the administrative entities of the Russian Federation.

Biased checks into compliance with these criteria let the authorities influence the legitimacy of parties that could, at least theoretically, rival pro-Kremlin parties. Another difference from the European legislation on political parties was the abolition, under a pretext of combating separatism, of the institution of regional parties, which could rival federal parties at local government bodies. In contrast with the Western European political practice, the Russian authorities did not allow parties to be set up along confessional or professional lines. Political activity was banned at enterprises and colleges. On the whole, the law on political parties obviously limited opportunities for Russian citizens to set up political parties that would express public sentiments.

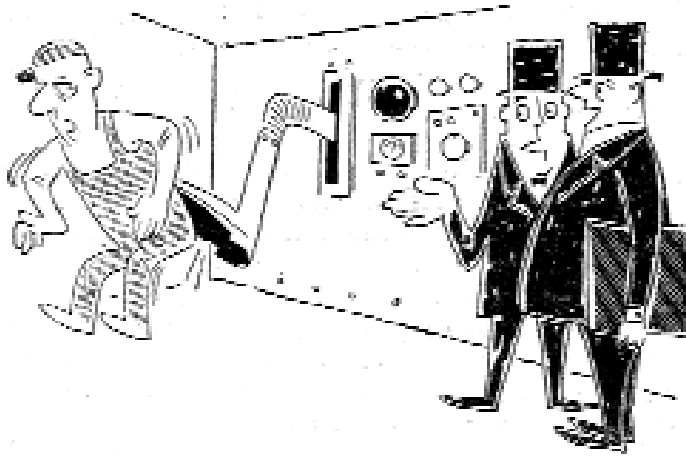
The partly artificial and partly natural decrease in the number of political parties in Russia in the first decade of the 21st century has necessitated limited mutual integration between party leaders and top state officials. The 2008 presidential election has brought about two equally powerful figures in the Russian political hierarchy, namely Putin and Dmitry Medvedev. This factor has somewhat loosened the rigid structure of a “presidential republic,” set up back in Yeltsin’s times. While the president (Medvedev in this case) has kept his reputation of neutrality, despite formal invitations from United Russia, Putin has developed his own know-how – quasi-party membership: he has agreed to become United Russia chairman without becoming its formal member. This situation, unprecedented in European political practice, is explained by a desire to have political support for a possible comeback to the top state post and by a fear of being identified with the party, whose functionaries, primarily at the regional and local levels, may become involved in high-profile corruption scandals.

The above suggests the conclusion that the Russian authorities need these pseudo-parties to keep up a semblance of democratic respectability. The authorities do not wish to fully distance themselves from the party system in the hope that loyal parties would be a sort of “safety cushion” in the event of a dramatic worsening of the social and economic situation. Thus the parties would channel the spontaneous discontent of the population into moderate parliamentary activity. The

authorities believe that this strategy can work in the center, where political activity developed at the turn of the 1990s. Of no less importance are political party “safeguards” in regions, where local leaders of the “party of power” have to answer to the population. Their role is akin to that of a lightning rod – they must deflect spontaneous public protests. To create a semblance of parties’ participation in forming local government bodies, winners of local elections are now allowed to propose candidates for governors.

Reviewing possible scenarios of responses by the “party of power” to spontaneous discontent of the population during acute stages of the economic crisis, one cannot rule out a possible split of United Russia and Just Russia into smaller parties, which the authorities may have failed to foresee. The oligarchic triumvirate – state officials, business people (both from the private and public sectors) and security agencies are unlikely to fully coordinate their positions in a critical situation. At dramatic turns of the crisis, individual members of this triumvirate may leave it and propose to the population their own vision of ways to overcome the crisis, posing as new leaders within the narrow spectrum of parties. But this development would be just one step away from the collapse of the entire power vertical, built by the authorities with so much effort. Therefore the political elite close to the Kremlin would try – if there is enough time for that, of course – to find a compromise solution to reform this power vertical and prevent its dismantling.

The Breath of the Crisis



– Here is the best example of how automation works at our factory.
Urzica magazine (Romania), 1961

“*The crisis has exposed the costs and practical consequences of the doctrines that interpreted the right as a “pure” form, separate from its content, and ignored the inter-relationship between jurisprudence and economics as applied sciences. In effect, this ignores the systemic approach as the methodological basis of professionalism.*”

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The Global Crisis, Law and Human Rights

Ways to overcome general mistrust

Valery Zorkin

In December 2008, the world marked the 60th anniversary of the adoption of the Universal Declaration of Human Rights. In this universal international act, the signatories coordinated, systematized and proclaimed the basic rights and freedoms to which every resident of our planet should be entitled.

At the jubilee plenary session of the UN General Assembly, devoted to the 60th anniversary of the document, UN Secretary General Ban Ki-moon called this document – drawn in the period of terrible devastation and deprivations after World War II and Holocaust – a reflection of humanity’s striving for prosperity, respect for everybody’s dignity and peaceful coexistence.

“We’ve come a long way since the adoption of the Declaration. But we must also acknowledge that we have not yet lived up to its vision,” Ban Ki-moon noted. He drew attention to gross violations of human rights the world over, acute food shortages and the global financial crisis which have a very adverse impact on people’s opportunities to implement their rights, including the right to development.

CRISIS - RELATED THREATS

Many experts have good reasons to claim that the world financial and economic crisis will bring new challenges and threats. They predict a rapid increase in flows of illegal migrants from African states to Europe. The crisis threatens to terminate humanitarian programs of food and medical assistance to starving people and victims of regional conflicts.

Valery Zorkin is Chairman of the Constitutional Court of the Russian Federation.

The growth of illegal migration is always accompanied by an expansion of human trafficking, which can assume the most inhuman forms during recession.

Also, the crisis is expected to aggravate all territorial, ethnic and religious conflicts in regions that experience acute food and water shortages.

An increase in the crime rate is inevitable in EU countries, the Commonwealth of Independent States and the U.S. Obviously, some people, who became accustomed to a certain level of comfort during the period of economic upturn, will attempt to keep it by deriving the necessary material and financial resources illegally.

The emerging problems are international. They require the development and launching of new “critical technologies” in politics, economics and law. It is for this reason that Russia proposes amending the global financial architecture, revising the role of existing international institutions, and creating new ones. This should include adequate legal regulation, based on a harmonized system of international and national standards of activity by the participants in financial markets.

The rearrangement of the financial architecture will require fundamentally new legal solutions, many of which might be unpopular with the public. Many habitual legal and economic categories will make us look at them from the position of the protection of human rights.

Economists believe that the world crisis is, above all, a result of the violation of economic laws. But it also shows a distortion of the principles of law in the legislation that regulates the economy and in law enforcement practices in the financial and economic spheres. In the first place, this concerns the inadequate realization of formal equality (or legal justice) and the ensuing legal equivalent – universal imperatives of law. A consistent use of these universal regulatory principles makes an economy legitimate. Apparently, legislators could not provide proper bills in advance (including measures of responsibility) which might be effective in such crises. For their part, politicians, economists and lawyers did not act professionally enough to foresee and prevent the current crisis.

From the legal point of view, a real threat of a financial-economic pandemic stems from various digressions from the principle of the supremacy of law in the economy in certain states and at the global level.

Among such digressions are ineffective regulatory enactments, unprofessional and illegitimate actions by officials, statesmen and corporations, including dubious and illegal financial pyramids, both national and transnational ones. All those things put together resulted in a situation where legal principles were not properly applied to economic and financial regulation, while the rights and obligations of economic agents, countries and international financial institutions were distorted.

Of special concern is the provision of citizens' socio-economic rights. In crisis conditions, the government's political or economic decisions are unlikely to satisfy all groups of the population. The authorities are expected to guarantee a reasonable balance and proportion between the measures to pull the country out of the crisis and stabilize finance and the economy, on the one hand, and the fundamental rights and freedoms of citizens fixed in the Universal Declaration of Human Rights and national Constitutions, on the other.

The crisis has exposed the ineffectiveness of the classic liberal doctrine of law, which proclaims a formal equality between the deed and the retribution in the face of freedom that is universal for all. In social relations, this does not suggest any legal adjustment for social or biological differences in people as subjects of law. This doctrine also provides groundwork for the idea that social rights are not the rights in the strict sense of the word, while a welfare policy can be viewed as the assistance the states provides to the poor at the expense of the rich, or as charity, based on political expediency.

Meanwhile, formal equality, in its two aspects – as equalizing justice and distributing justice – implies that the original actual inequality should be overcome by creating equal startup opportunities in using the benefits of rights and freedoms. This idea finds increasing understanding in the conditions of modern global processes, when it has become clear that the traditional, or liberal rights guaranteed to the man, are insufficient for realizing his capabilities as an intelligent being with free will.

According to the idea of the Russian Constitution, the welfare policy, based on the principle of a social state, is not random charity, motivated by compassion for the unprotected strata of the population. It is a constitutional and legal obligation of the state to guarantee and protect the social rights as fundamental and inalienable rights, which conforms

to the crucial principle of distributing (or proportionate) justice. It suggests legal universality and formal equality.

Proceeding from this standpoint, society (in the person of the state), by using proper compensatory mechanisms, provides for its weakest members equal startup opportunities in realizing their basic rights and freedoms. This activity envisions, if need be, a legal restriction of stronger members of the society (for example, by means of taxes), but it should not be arbitrary, dictated only by considerations of political expediency or the moral feeling of compassion and mutual assistance.

Otherwise, the advantage of the stronger will increase not through their own efforts, enterprise, talents or services, but due to the resources they inherit (the effect of accrued advantage). This distorts the idea of distributing justice and equalizing justice, i.e. the general legal equality, as the fundamental principle of legal regulation. Eventually, society finds itself in an “inequality trap.” This kind of regulation does not guarantee an effective protection of people’s interests, nor can it secure the survival and development of the civilization.

The present constitutional-legal doctrine and practice must interpret and realize the principle of legal equality as applied to the sphere of social rights, while taking into account specific social conditions, challenges and threats.

The interpretation of provisions on a social state, equality before the law, and justice (equalizing and distributing) in regulation and in ensuring and protecting social rights, enabled the Russian Constitutional Court to work out legal positions that have a considerable significance for legislative regulation of public relations in the field of social protection and uniform welfare policy.

IN DEFENSE OF THE SYSTEMIC APPROACH

A tense situation requires the use of adequate legal methods and proves the invalidity of a formalistic (rooted in legal positivism) interpretation of law which identifies law with legislation. Historical experience shows that in practice this interpretation generates a belief that any executive order by the government becomes law. In the regulation of the economy, such negligence of the principles of law leads to voluntarism.

The crisis has exposed the costs and practical consequences of doctrines that interpret law as a “pure” form, separate from its content, and that ignore the inter-relationship between jurisprudence and economics as applied sciences. These doctrines ignore a systemic approach as a methodological basis of professionalism.

There are professional frameworks that should be respected. Going beyond these frameworks is an enjoyable hobby for amateurs. A professional – an economist or a lawyer – rejects amateurishness and appreciates high professional competence. But let us imagine that a volcano has begun to erupt and that you live in Pompeii, right below this volcano. You are feeling tremors and realize that something is affecting your personal fate and the fate of the town you love. Alarmed, you ask around what is happening. But they tell you: “This is not your business: this particular problem is within the competence of volcanologists.”

There are world processes that have certain dynamics. One might claim they are cyclic, and describe particular cycles. Some believe that everything obeys the cyclic law. But there are others who believe in the great novelty delivered by history. Personally, I am inclined to support the second outlook, with its belief in heralding and the truth. It is this outlook that I regard as scientifically valid and consonant with the feeling of the great truth inherent in a believer.

But no matter what processes we consider, they have a rhythm, where calm is replaced by anxiety, and stability by upheavals. A Chinese proverb says, “God forbid to live in a time of change.” But everyone has his own time. Some are destined to live in the age of changes, in “fateful minutes,” as Fyodor Tyutchev, a famous Russian poet and politician, used to say.

An age of stability is characterized by certain divisions between the prerogatives of various professions, whereas instability lends a very different quality to this division.

The jurisprudence of the age of instability and the jurisprudence of the age of stability have different approaches to the problem of professional competence. If a lawyer monitoring compliance with legal norms at an acute phase of a transitional period stops being aware that he is dealing with a certain process and thus ceases to be a lawyer. He becomes a useless pedant, incapable of helping people to resolve their problems, ease

the upheavals, charm the chaos, and quell the spirit of discord which flared up in people's minds and hearts. One might recall the well-known utopian novel *The Glass Bead Game* by Hermann Hesse, in which he grotesquely depicts the lifestyle of a caste of refined professionals.

We can love law and even worship it. But we must always keep in mind that law is for man and not man for the law. If acute processes are unfolding in the world, our approach to legal norms and mechanisms should take account of these processes and consider them as a context for our legislative action, at the very least. And the best approach would be to include the process itself in the dialectics of law-making.

The instability amid which we are to administer law was generated by the world financial crisis. It has made us adjust our professional self-awareness. Can we now draw a reasonable and functionally justified borderline between the professional and the human, between the conceptual and the systemic, between the particular and the general, and between the corporate and the world outlook?

OVERCOMING THE CRISIS OF TRUST

The current world financial crisis has got a name: a crisis of trust. This literally means the depositor's lack of trust in the bank. No banker can run his business in conditions when all depositors are demanding the return of their money at the same time. If someone spreads the rumor (false, but nevertheless convincing) that this or that bank will go bankrupt tomorrow, it will indeed go bankrupt. Such is the literal sense of the crisis. But we can hardly be content with such a narrow definition of trust.

Globalization encourages formal – although quite legal – trust. Imagine that a group of strangers at the other end of the world issue shares. There are rating agencies, whose professional duty is to give an objective evaluation. And we have to put our trust in these rating agencies. We do not know the people who float shares; we do not know their human or professional qualities. But we assume there is an agency which does have this information, and that it will share its knowledge with us. This belief creates global integration. The man begins to feel at ease at any point of the globe. The world is becoming uniform in a dangerous way and is expanding fantastically, promising entirely new opportunities.

And then suddenly it turns out that you should not trust the rating agencies. Who should people trust then? Those whom they know personally, of course: their acquaintances, friends, and their reality, which immediately shrinks from universal to narrowly regional. We no longer trust the banks put on top by some abstract ratings. We simply trust our acquaintance working in a small and, possibly, not the best of banks, whom we know in and out. We can no longer trust formal things —only concrete ones.

The financial crisis has convinced those people who took globalization as a simple and unidirectional process that it is not that simple and univocal. It will be quite lamentable, if, having been disappointed in the financial, legal and other maxims of globalization, humanity renounces the idea of rapprochement, symphony and mutual enrichment, and if people again start carving up the world into small and smelly shacks. It will happen for sure if we do not learn to understand the essence of the process. And it will certainly affect everything related to law. Law is a live super-complex system, sensitive to culture and religion, politics and economy, social life and technical progress. Any other understanding of law turns us — the people responsible for humanity's trust in this institution — into dogmatic priests, incapable of keeping the fire burning in lamps.

If globalization continues, constitutional and national law will eventually merge into a synthesis with all-humanity law. If globalization collapses, the particular will prevail over the general, and the national, over the universal. Sooner or later, it will evolve into an entirely new system of international institutions: such calls have already been voiced — along with statements about the UN's obsolescence and the need to arrange the world along the Congress of Vienna principles.

A careful monitoring of these calls and appeals to Realpolitik cannot but suggest a crisis of trust in all and sundry who brought about the concrete crisis of trust in finance. The human world is much more complex than people believed it was, when they assumed that money was a universal measure for all, the ultimate regulator and the equivalent of global power.

Alan Greenspan repented of giving too much significance to market regulators. But why then do we not see repentance in those who talked about alternative simplified globalization, which would eventually smooth over the difference between the individual and the universal, on

which our culture in general and the philosophy of law are based? And it is the philosophy of law that gives a world outlook, and in this sense it is a strategic doctrine of all legal practice.

Either – or... Either we give up globalization altogether... But what then? Will the legal norms not undergo fundamental changes in that event? Will the entire hierarchy of the universal and the national (i.e. the particular) not reconfigure? Will this transformation not affect the individual as the particular? This cannot but happen in the lamentable case in question.

Let us carry through the logic of those who are calling for a new Congress of Vienna, and ask ourselves: What do human rights and UN declarations have to do with this sad scenario, which has not yet taken us by the throat? If the Congress of Vienna prevails, not only the existing institutions and globalization but also international law will collapse. Whatever might replace it is going to be entirely different. If this quality change is delayed, the “club law” will hold sway amidst the ruins of the undermined trust of the world, with all the ensuing catastrophic consequences.

But where is the alternative? It is definitely not in our rejecting upheavals or troubles generated by mistrust, which has come to us definitely not from finance as such (I am sure of it) but from the depths of politics and culture.

The alternative is in making the globalization model more sophisticated, turning it from standardization into something entirely different – into a complex, multi-dimensional phenomenon, rich in content and capable of restoring trust in all spheres of human life: politics and culture, religion and philosophy, finance and law.

Having realized the danger of simplifications that prevail today, we will be able to arrive at a new, more adequate understanding of the ratio between the individual (the special) and the universal. This will help us attain a new cultural and, consequently, legal synthesis.

If we do not want the world to fall into an abyss, all our legal actions, while remaining professional, must also be philosophical-lawful and, therefore, have something of a world outlook.

Then we will drive the demon of mistrust out of various spheres of our life and will build a truly humanistic, open, and integral world for the new generations.

A Not-So-Great Depression

An Attempt at a Positive Outlook

Vladislav Inozemtsev

The most fitting word to describe the past few months is “panic.” Economists have been scaring the world with the financial crisis, citing convincing arguments that it can only be compared to the Great Depression, which had such a severe impact that the U.S. economy only saw an upturn at the end of the 1930s, while Europe – completely “derailed” – headed straight for a world war.

In my opinion there are two reasons behind this approach.

First, there have been no serious economic crises in developed countries for more than a quarter of a century, so many experts have nothing to compare the current upheavals with.

Second, the scope of financial meltdown, corporate losses and government bailouts seems so overwhelming that one can hardly believe in the ordinariness of what is happening.

In this article I will try to show that the current economic depression is not “great” at all, and that the global economy will soon recover.

SOME COMPARISONS

The events that began in the autumn of 2007 in the U.S. and Great Britain had become a full-blown financial crisis by 2009. Banks and other lending institutions around the globe have seen total losses of more than \$7.4 trillion.

The general depreciation of wealth (i.e. the value of assets and securities) has neared \$50 trillion. A majority of developed countries have

Vladislav Inozemtsev is director of the Center for Post-Industrial Studies and head of the modernizatsya.ru project (<http://www.modernizatsya.ru>). He has a PhD in Economics.

experienced slower GDP growth rates and consensus projections for 2009 envision steep declines in the United States, Europe, Japan and Russia. This is all true. Yet is this situation really similar to what was taking place during the years of the Great Depression?

At that time a crisis broke out amid sweeping speculation on the stock market, sustained by an increasing number of loans bankers provided to brokerage firms. Bankers were lending brokers \$9 per \$1 of their own money (a ratio that is practically the same today). These loans swelled from \$7.6 billion in 1924 to \$26.6 billion in late 1928. It is not surprising that the U.S. stock market grew at an unnatural rate of 28% per year. At the same time, increasing industrial production was accompanied by deflation, as competition stepped up rapidly while staple goods became cheaper (for example, the price of a Ford T, the most popular car at the time, dropped from \$950 to \$290 between 1908 and 1925). Unlike today, governments practically did not interfere in the economy (the state procurements in the U.S. did not exceed 1.4% of GDP) and central banks did not print more money (all leading economies restored the gold standard in the mid-1920s, which sharply reduced the flexibility of bank regulation).

The financial system was not “generating” money from derivatives to dish it out among the public, as is the case today, but, rather, accumulated the funds of individuals and legal institutions for subsequent use in stock market speculation. Therefore, the crisis deprived companies and individuals of a considerable portion of their own money and savings, not access to new loans like what is happening today. All of this predetermined the scope of the disaster.

The crisis of 1929-1933 was much worse than the current one. Today there are “horrific” accounts about a two-fold decrease in U.S. stock indices from October 2007 to March 7-11, 2009. But in 1929, these indices were halved not in 18 months, but in two and a half months – from September 3 to November 13, 1929. In the fourth quarter of 2008, i.e. in the fifth quarter since the banking crisis began, GDP in leading countries decreased by 1%-1.2% (anticipating a 5%-7% annual contraction). But U.S. GDP had plunged 21.5% by the spring of 1931 from the early autumn of 1929.

U.S. unemployment grew from 4.7% in October 2007 to 8.5% in March 2009, while in the euro zone it increased from 7.2% to 8.5%.

However, during 18 months in the Great Depression it jumped from 4.7% to 18.4% in the U.S., while in Germany it increased from 5.2% to 26.5% from 1930-1931. U.S. unemployment is currently at 1975 levels, which is more than 1% lower than the levels of 1982-1983. Unemployment in Europe is lower than it was in the mid-1990s, which nobody viewed as a time of economic depression. U.S. GDP actually grew 1.1% in 2008, while in the euro zone it increased 0.8%. A recession is practically inevitable in 2009, but fluctuating developments in a market economy are natural, so it would be odd to view this as something completely unexpected.

There is no question that banks and financial companies have become victims of the crisis: AIG alone lost \$99.3 billion in 2008, Citigroup – \$42.8 billion, and the Royal Bank of Scotland – 24.1 billion pounds. In the first 18 months of the on-going crisis, 46 U.S. banks have gone bankrupt, whereas 615 collapsed in the first eight months of the Great Depression (from October 1929 to June 1930). Reckless lending has stopped, but payments have not, as was the case 80 years ago. Depositors have not become beggars and the Federal Reserve System has injected three times more money into the banking system than the officially-declared losses of the banking sector. The situation is better in continental Europe: in the euro zone, the banking sector reported considerable profit in 2008. Things were quite different in the 1930s.

The situation in the manufacturing sector is not as clear as it is often depicted. The slump that occurred in a majority of developed countries in October 2008-February 2009 was indeed considerable. Industrial production plunged 11.4% in Great Britain in February 2009 compared to the same month a year ago; output fell 11.8% in the U.S.; it was down 17.3% in the euro zone; 20.2%-27.1% in Malaysia, Singapore, South Korea and Taiwan and plummeted 38.4% in Japan. However, three factors need to be taken into account here.

First, the industrial sector accounts for 14%-23% of the GDP of developed countries today compared with 24%-50% during the Great Depression.

Second, retail sales in the U.S., the European Union and Japan only fell 5.2%-6.3% year-on-year, while Japan alone posted a drop in per-

sonal income. Personal income grew 3.6% in a year in the U.S. and 3.9% in the euro zone (which indicates a temporary decrease in demand as consumers are being very cautious in their spending).

And, *third*, we should not discount the economic rebound that began in February-March 2009, which I will discuss later.

For now, I will quote some preliminary results. Table 1 shows the scope of differences between the Great Depression and the current crisis. An analysis of the figures proves that comparing the two crises looks somewhat odd.

Table 1. U.S. Economic Indicators in 1929 and 2008

	September 1929- February 1931	October 2007- March 2009
Decrease in GDP, %	-21.5	-1.8
Increase in unemployment, %	+13.7	+3.8
Federal Reserve key interest rate, annual %	Lowered to 3% from 5%	Lowered to 0%-0.25% from 5.5%
Number of bankrupt banks	1,630	46
Number of corporate bankruptcies	84,765 (1930)	43,546 (2008)
Federal budget surplus/deficit, % of GDP	+0.6	-13.7

THE DEPTH OF THE CRISIS AND FIRST REACTIONS

It is well known that the crisis of 2007-2009 began in the American financial sector. Few were surprised because analysts had been talking about the unhealthy nature of expanding credit in the U.S. for a long time. The volume of government and municipal debts has grown more than 230% over the past quarter of a century, consumer loans have increased 490%, loans for the corporate sector have surged six-fold and mortgage loans have skyrocketed 8.1-fold.

U.S. banks could invest their clients' money in high-risk derivative instruments or use the money to speculate on the stock market because a provision of the Glass-Steagall Act – an act passed in 1933 that divided the spheres of responsibility between commercial and investment

banks – was dismantled and replaced with the Financial Services Modernization Act of November 12, 1999.

The current financial crisis broke out as banks began to pile up bad debts on mortgage loans, which was followed by defaults on other “securitized” bank products. Total losses at financial institutions caused by “mortgage products” alone had reached at least \$1.3 trillion by March 2009, but the burden of “toxic assets” has not shrunk much, if at all.

Let us consider the U.S. mortgage system first, which, as of July 1, 2008, was worth \$14.9 trillion. According to official statistics, every 466th house on which buyers defaulted was put up for sale in the U.S. in March, which corresponds to 0.21% of all extended loans. Another 1.76% of borrowers make late interest payments. A total of 550,000 homes were put up for sale across the U.S.; admittedly, the supply is excessive, but by no means is it an indication of the paralysis of the industry, nor does it confirm the estimates that put up to half of all mortgage loans in the subprime category.

It is more likely that the problems were caused by a dramatic devaluation of derivative instruments – the negotiable papers secured on portfolios of mortgage loans. The reason behind this is the unheard-of panic on this market. Housing prices in the 20 largest U.S. cities have dropped 29% since the fall of 2006, but the true problem is the endless resale of the same asset secured on housing, not its depreciation. In essence, the current losses are comparable with the losses of investors who put their money in hi-tech company stocks in the late 1990s, thus losing a large portion of their capital: but these are the losses of profiteers in the first place.

The fictitious nature of these losses can be seen in an analysis of the derivative market of financial instruments, which investors used to hedge from non-payments of loans or price fluctuations on commodity and stock markets. The aggregate nominal value of securities, according to the Basel-based Bank for International Settlements, amounted to \$683.7 trillion by the summer of 2008, which exceeded world GDP by 12.4 times. Some experts, citing these figures, claim that the modern financial system is not viable. But a closer look reveals that the real value of this mass of securities amounts to \$20.4 trillion, of which a large part is made up of contracts on interest rates,

exchange rates or commodity prices, thus balanced between buyers and sellers, and whose execution will not cause the whole system to collapse. “Just” \$4.32 trillion may go down the drain if stocks on leading exchanges depreciate to zero or if not a single loan provided by the world’s 50 largest banks is repaid. If governments succeed in stabilizing the banking systems, the losses will be “limited” to hundreds of billions of dollars.

Derivatives do not reflect real wealth – otherwise how could their nominal value increase by \$313.7 trillion from June 2006 to June 2008, or by world GDP six times over? The “deflation” of this market will certainly cause losses to players but it will not kill the world economy. Incidentally, who are those players? British financial institutions controlled 43% of the derivative market and U.S. institutions had another 24%. These banks have already been given more than \$2.1 trillion in assistance, so there is no reason to worry about their future.

One might continue to dwell on financial markets and losses sustained by investors, but one thing should be made clear – the modern economy is quite resistant to upheavals on financial markets. It is enough to compare several figures.

In 1929-1933, the Dow Jones index plunged 91% and real GDP contracted 29.4%. During the next big crisis in 1973-1975, the stock market plunged 56%, while GDP shrank by a mere 3.9%. In October 1987, the Dow Jones fell 25% in a single trading session, but GDP posted a year-on-year increase. In 2000-2003, stock indices in the U.S. and the European Union fell 2.2-fold to 2.9-fold, but no slump in GDP followed. The current shock is more powerful than the upheavals in the beginning of the 1980s or 2001-2003, and it has manifested itself in the manufacturing sector, but not in the same manner as in 1929-1933.

The reaction of the financial authorities in leading Western countries looks more than adequate today. According to Bloomberg, the U.S. government declared and provided \$3.8 trillion in assistance to the financial and manufacturing sectors from late 2007 to March 2009, which easily compensated banks and industrial companies for their losses. To support their economies, the governments of Great Britain, Japan, China and euro zone countries allocated \$690

billion (plus an unspecified amount from the Bank of England), \$610 billion, \$586 billion and \$380 billion, respectively. The participants in the most recent G-20 summit agreed to allocate \$1.1 trillion in assistance to the most hard-hit developing economies through the IMF and World Bank. Unlike 1929-1931, when the average customs tariff, fixed by a majority of developed nations, increased by almost 2.7-fold, none of the governments has introduced tough or all-out trade restrictions (although everybody has used them to support some affected industries).

The rapid decrease in interest rates which stimulates commercial loans and saves a great deal of money for borrowers – who can divert these funds for current investments or consumption – appears even more significant. This process has assumed an unprecedented scale in the past few months. If October 2007 is regarded as the starting point of the financial crisis, the People's Bank of China has lowered its key interest rate by almost one-third since then. In the period, the Swiss National Bank lowered its interest rate by five times, the Bank of England by 11.5 times, and the Federal Reserve System by 19 (!) times. (Only Iceland, Serbia and Russia increased their benchmark rates). The Federal Reserve lowered its interest rate to slightly more than zero for the first time ever. These measures have helped save more money in the economy than any budget injections could do, in what is the largest bid ever in history to lower interest rates.

Price drops on commodity markets, which is natural in a crisis, have helped to further decrease tensions in industrialized countries. This has made many exchange goods more affordable to industrialists, and oil and gasoline to the end consumer. Consumers in the U.S. have saved at least \$40 billion in the past 12 months due to falling gasoline prices in 2007-2009.

As a result – if one talks about leading countries, such as the U.S., Great Britain, euro zone countries and Japan – we must admit that they have been given a powerful boost: these governments injected 3%-8% of GDP in their respective economies. Some 3.5%-4.5% of GDP will be saved on debt payments, due to the decrease in interest rates; and another 1%-1.6% of GDP will be saved by falling commodity prices. The total makes up 6.5%-11% of GDP in any given

country, and this amount outweighs the production slump caused by the crisis. A majority of U.S. and European economists are ready to acknowledge that the recession will be over in the fourth quarter of 2009. I will risk being even more optimistic: the economic upturn in the U.S. will become a clear trend as early as the third quarter of 2009. The recession of 2008-2009 will not turn into a depression and will be nothing like the Great Depression.

GLOBAL MANIFESTATIONS OF THE CRISIS

Another reason for optimism is the different reactions to the financial crisis in various regions. The Soviet Union, which was curtailed off from the world economy, was the only major economy not affected by the Great Depression (if one may put it this way, given the famine and deprivations that occurred in the country at the same time). There are no such isolated countries today, but differences in the scope and intensity of the crisis are much more pronounced than in the U.S. and Europe in the early 1930s.

The crisis, as should have been expected, looks more severe in the U.S., because the volume of loans provided in that country (350%-360% of GDP), stock market capitalization (150% of GDP) and the trade deficit (\$800 billion-\$820 billion a year) were much larger than in the euro zone. U.S. unemployment grew to 8.5% from 4.7%, or an increase of 80%, in almost 18 months, while it increased by only 18% in the euro zone. Whereas 46 banks have gone bankrupt in the U.S. since September 2007, all banks have managed to keep afloat in the euro zone (despite the fact that benchmark interest rates in continental Europe are five times higher than in the U.S.). While profits at S&P 500 companies plunged by half last year, Europe's largest companies showed a mere 39% decrease in profits. Furthermore, the losses of all banks and insurance companies in the euro zone, according to the results of 2008, have not even neared 70% of the losses suffered by AIG alone, and only exceed the losses of the Royal Bank of Scotland by 50%.

This shows some obvious advantages of the continental European economic model over the Anglo-Saxon one. This conclusion was con-

firmed during the G-20 summit in London in April 2009, at which all the parties agreed with a number of European proposals, such as control over ratings agencies, greater transparency of financial institutions, restricting the activity of systemically-important hedge funds and implementing uniform standards of fiscal accountability.

Stock markets reacted differently to the crisis, but arguably, they again tested the levels at which they were in the late 1990s (whereas in a majority of developed countries in 1933 they plunged to the levels of the beginning of the century or even earlier). At the lowest point of the slump, the Dow Jones Industrial Average stood at 6,473 points in early March, which matched the level of November 1996; Britain's FTSE-100 was at 3,467 points, or 11% lower than November 1996. France's CAC-40 (2,470 points) was up 19% from its level in late 1996, while Germany's DAX (3,593 points) was up 37% from where it was in late 1996. None of the European indices has tested the lowest points hit in 2002-2003. Financial markets in emerging countries have found it much harder to withstand the crisis, shedding 65%-80% of capitalization, despite the fact that the scope of their production slump was smaller (as in China) than in industrialized countries.

Prices for real estate and fixed assets have also shown various downward trends. Where average prices fell 26% in the U.S. from October 2007 to March 2009 and 27% in Britain, they only dropped 11% in France and 6.5% in Germany. The number of new construction sites plunged 4.6-fold in the U.S. and dropped 3.9-fold in Britain, while it only fell 23% in Germany. Car manufacturers have been hit hard and this has had different repercussions around the world: car production in the U.S. fell 17.4% in 2008, whereas in Europe it only dropped 6.6% (and by a mere 2.8% in Germany). Consider that U.S. car makers received \$39 billion in assistance, while European automakers only got 7 billion euros.

Examples of this kind abound and one can sum it up with a table comparing the economic situation in the U.S. and Europe. I wish to reiterate that various rates and scopes of the crisis warrant the assumption that it will not take the "standard shape" that was characteristic of the Great Depression of the early 1930s.

Table 2. Economic Indicators in Europe and the U.S.

	October 2007	
	Euro zone/ Germany	U.S./Great Britain
GDP growth, Q3 2007, %	+2.8 / +2.8	+3.4 / +2.9
Foreign trade balance, for the last 12 mths, \$ bln	+44.5 / +263.1	-806.4 / -165.8
Unemployment, %	7.2 / 8.4	4.7 / 5.3
Federal budget deficit , % GDP	-0.9 / -0.3	-1.2 / -3.0
Central Bank key interest rate, annual %	4.0	4.75 / 5.75
Growth in retail trade, Oct. 2007, %	+2.1 / +1.9	+3.1 / +2.9
Stock market capitalization, % GDP	94 / 68	149 / 153

	March 2009	
	Euro zone/ Germany	U.S./Great Britain
GDP growth, Q1 2009, %	-5.8 / -8.2	-6.3 / -5.9
Foreign trade balance, for the last 12 mths, \$ bln	-53.8 / +250.7	-797.1 / -167.7
Unemployment, %	8.5 / 8.1	8.1 / 6.7
Federal budget deficit , % GDP	-5.3 / -3.9	-13.7 / -11.3
Central Bank key interest rate, annual %	1.25	0-0.25 / 0.5
Growth in retail trade, Feb 2009, %	-2.2 / -5.3	-6.1 / +0.4
Stock market capitalization, % GDP	77 / 52	104 / 109

Source: *The Economist*, December 15-22, 2007; April 4-10, 2009

WHAT DOES THE CRISIS HAVE IN STORE FOR US?

This is probably the key question today. Admittedly, the governments of both the leading countries and other states (such as Russia) tried for a while to shut their eyes to problems emerging in their economies. Indeed, few could anticipate the crisis in the shape it assumed, beginning in the autumn of 2007, largely because our mentality expects existing trends to continue.

U.S. economists George Akerlof and Robert Shiller noted in their new book that 49% of Americans in a 1980 poll said that a ball launched

out of a pipe bent into a semi-circle will continue to fly in an arc. Experts, too, find it difficult to assume that trends may change.

Let us recall a recent story: in the beginning of 2001, when the S&P 500 and Nasdaq stood at 1,348 and 2,617 points, respectively, 50 leading experts polled by *Business Week* magazine said that by the end of 2001 the indices would hit 1,558 and 3 583 points - i.e. they extrapolated their growth by 15% and 40%. The indices fell to 1,137 and 1,922 points respectively in one year. Nevertheless, the next year analysts again agreed that the indices would grow to 1,292 and 2,236 by year-end, or by 14% and 12% respectively. And they were wrong again, as the real indicators fell, respectively, to 880 and 1,335 points.

The mood had changed by 2003: a consensus forecast warned about a 6%-9% decline, yet the indices posted gains by year-end. In 2006, a profit growth forecast for U.S. companies in 2007 was 14%, but the real growth was 2.9%. It was assumed in 2007 that growth would be 16% the next year, but instead there was a 50% drop. Of course, specialists finally acknowledged in late 2008 that profits would shrink by another 11% in 2009.

Was it surprising then to find out in early March 2009 that Citigroup and Bank of America had posted profits in January and February 2009, although they had been in the red for the past five quarters, while the forecast for the rest of the year looks very favorable? Or that U.S. stock indices grew 22%-25% from March 9 to April 3? Or that the number of orders for the construction of new homes grew 22% in the U.S. in February 2009 from the previous month? Or that the number of bankruptcies in the U.S. has been decreasing for three consecutive months? One cannot fail to notice that oil prices have stopped falling at \$50 dollars per barrel, up 25%-28% from record lows in February 2009; that the metals market has posted a moderate growth; that the Baltic Dry index, which reflects container shipment tariffs by sea, has increased by almost 200% from November 2008 lows.

People in the most developed countries saw 2009 as the year of the true financial crisis, believing that the events preceding it were a prelude. They did not feel – nor are they feeling now – the scope of the assistance provided to their economies, while the mass media today only selects bad news or emphasizes the negative aspects in their

reporting. For example, statistics on car sales in Europe showed they fell by 18% to 968,000 vehicles in February 2009, but the reference period is February 2008. However, compared with the previous month, this indicator grew by 9,400 vehicles, or almost 1%, followed by another 8.4% hike in March. It should not be forgotten that 2007 and 2008 were unbelievably profitable years for a number of sectors worst-hit by the crisis, such as housing construction and car manufacturing. It is enough to say that in 2007, on a wave of decreasing interest rates and easy access to loans, U.S. consumer spending on cars posted a 48% increase from 1997, while in 2008 purchases returned to the level of 2000-2001, not to the 1970s.

The situation on the commodities and currency markets is not a cause for serious concern, either. Despite speculations by certain “experts” about the impending end of the dominance of the U.S. dollar, the beginning of the acute phase of the crisis showed that the U.S. greenback remains the world’s reserve currency simply because of the tremendous amount of U.S. dollar-denominated debt, so in conditions of higher risks demand for dollars is increasing. The South African rand has shed 26.9% against the U.S. dollar in the past six months, the Australian dollar has lost 32.2% and the Brazilian real and the Russian ruble have plunged by more than 33%. Even the euro has fallen more than 20% against the U.S. dollar.

The depreciation of the U.S. dollar, even if it happens, is unlikely to benefit the world, as other countries are also ready to devalue their currencies, so nobody will gain a competitive edge. Therefore the crisis will not replace the world centers of economic power, nor will it create a new world currency, and Russia, whose ruble accounts for 0.14% of global currency trading and whose combined bank assets can only match those of Spain’s Banco Bilbao Vizcaya Argentaria SA, number 30 on the list of the world’s biggest banks, will meet the new buoyant wave in the same condition it entered the crisis – an oil-and-gas economy, critically dependent on the situation on the world energy market.

* * *

A majority of economic institutions in the world today are in a sort of stupor after the powerful blow the crisis delivered in the third and fourth

quarters of 2008. But this does not imply that the post-crisis rebound will not be as surprising as the crisis. The funds injected into the economies of developed countries are so large, and the mechanisms of further injections are so elaborate, that there are no doubts that the efforts by the authorities will help restore economic growth in the U.S. and Western Europe within the next few months. One can agree with a recent statement by Edward Leamer, director of the UCLA Anderson School of Business Forecasting Unit: “We’ve frightened consumers to the point where they imagine there’s a good prospect of a Great Depression. That certainly is not in the prospect. No reputable forecaster is producing anything like a Great Depression.” Alas, this statement can hardly be applied to Russia, where experts are increasingly making the grimmest forecasts.

Global Rearrangement



“Horse Tamer” on Anichkov Bridge in St. Petersburg
by Peter Clodt

“*In the years during the first waves of the enlargement, I repeatedly asked Western experts: “Do you not understand that the large country with a great history will revive and will never agree to NATO expansion to its historical territories?” My interlocutors quietly agreed or looked away in the vain hope that the “moment of truth” would never come.*”

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The Magic Numbers of 2009

How to Finish 20th-Century History

Sergei Karaganov

When analyzing the powerful and unprecedented rapid changes in the global economy and politics a year or two ago, one could say with confidence that the political 20th century – which actually began in August 1914, not according to the calendar – had ended. Not yet.

I have already written about the coming of a “New Epoch” in various periodicals, including in this journal (see, for example: Sergei Karaganov. “A New Epoch of Confrontation.” *Russia in Global Affairs*, No. 4/2007). This New Epoch is characterized by increased tensions between Russia and the traditional (in Cold War terms) West, caused by objective changes in the alignment of forces and by Moscow’s tough and even arrogant policy of revising the model of relations with the West, which had taken shape in the years of chaos and destruction in Russia.

The growing tensions expanded into a direct confrontation when Georgia attacked South Ossetia and was defeated. This conflict has shown that, despite assurances from all parties, the Cold War has never ended. Gone are its two main causes – the threat of Communism and a systemic military confrontation – but the roots have not been pulled up and they have begun to sprout.

Sergei Karaganov is Dean of the School of International Economics and Foreign Affairs at the State University–Higher School of Economics. He is also Deputy Director of the Institute of Europe at the Russian Academy of Sciences; Chairman of the Presidium of the Council on Foreign and Defense Policy; and Chairman of the Editorial Board of *Russia in Global Affairs*. He holds a Doctorate in History.

THE MAGIC NINE

This year of 2009 is a good time for raising the issue about the completion of this unfinished war.

This year will mark 20 years since the fall of the Berlin Wall – an event that symbolized its end. This is the main anniversary in an almost magical series of anniversaries of events that have shaped the political order – or disorder – we live in today.

In 1919, the unfair Treaty of Versailles was signed, which turned Germany into a revisionist and later a revanchist state.

In 1929, a grave crisis broke out, which sharply deteriorated into inter-state rivalry.

In 1939, World War II was unleashed, which came as a logical result of the previous two events.

In 1949, NATO was founded, which caused systematic confrontation in Europe. Below, I will cite some little-known facts about the origin of this confrontation.

In that same year, the establishment of the People's Republic of China was declared. This event was taken by the West as another sign of the growing Communist threat. Half a century later, it became clear that that was the beginning of the restoration of the Middle Kingdom, a great state and one of the world leaders in the past and the future.

The year 1959 began with the seizure of Havana by Cuban guerrillas led by Fidel Castro. It was a portent of a large-scale expansion of the zone of ideological confrontation. In addition, it testified to a sharp increase in national consciousness in the Third World, which brought about the emergence of dozens of newly independent states in the world in the next few years. Not all of them proved to be viable, and this is another cause for many of the problems of today.

The year 1969 saw a brief, yet fierce, armed conflict between the Soviet Union and China over the island of Damansky. The conflict per se would have hardly been of international significance if it had not been shortly followed by a historic reconciliation between Beijing and Washington. Two years later, China received a seat on the UN Security Council and finally became an important independent factor in international politics.

In 1979, Iran was swept by an Islamic revolution, which was of momentous importance for the region and the entire Muslim world.

Also, in the same year, the Soviet Union launched its fateful invasion of Afghanistan (for more information about the events in Afghanistan see Alexander Ignatenko's article in this issue – Ed.).

The year 1989 was marked by the collapse of Communism in Europe: the coming to power of the opposition Solidarity movement in Poland; the fall of the Berlin Wall; the “Velvet Revolution” in Czechoslovakia; and the bloody finale of the Romanian leader Nicolae Ceausescu. In the same year, addressing a meeting marking the 600th anniversary of the Battle of Kosovo, Serbian leader Slobodan Milosevic presented a nationalist program which, as it was implemented, brought about upheavals in the next decade.

Finally, in 1999, the United States and European nations, euphoric with feelings of victory in the Cold War and of their rightfulness and impunity, attacked Yugoslavia. Russia's attitude towards the West underwent an important psychological change. Moscow imagined itself repeating the fate of Belgrade bombed by NATO and a process began that led to a profound estrangement between Russia and NATO.

It was the first time since World War II that one country or a group of countries in Europe attacked another European state. There had been many shameful episodes during the Cold War. For example, in the mid-1940s, a British expeditionary corps crushed the Communist guerrilla movement in Greece. In 1953, the East German authorities ordered the opening of fire at a demonstration of workers. In 1956, Soviet tanks suppressed an uprising in Budapest. In 1961, the East German authorities, acting on approval from Moscow, built the Berlin Wall. In 1968, troops from the Soviet Union and its allies invaded Czechoslovakia to put an end to the Prague Spring. Yet towns and cities had not been the targets of air strikes since World War II.

THE UNFINISHED CONFRONTATION

Now let me return to the unfinished war, the countdown to which was started by the crowds of exultant Berliners who broke through the hated wall.

The positive results of that event included, above all, the victory of personal freedom over non-freedom. Communism – the only European utopia where there was an attempt to translate it into life – sank into

nothingness. That attempt had brought about a stifling Soviet “real socialism,” which resulted in huge losses to Russians and other peoples of the Soviet Union and many other countries. An artificial economic system that did not meet human nature and needs died. The experiment was over and there was a return to a market economy.

The rapid and extensive – by two billion people – expansion of the sphere of capitalism, resulting from the collapse of the Communist model, coupled with the revolution in communications and the liberalization of world trade, brought about an unprecedented economic boom and a huge increase in people’s wellbeing. Hundreds of millions of people were lifted out of permanent hunger and the global middle class increased in number.

It seemed that liberal democracy, U.S.-European style, had finally won. But the experience of the past years has shown that this type of political and economic system has only taken root in the countries of Central and Eastern Europe. They have received huge economic aid – in exchange for part of their sovereignty.

In all probability, the new Russian elite were ready to follow the same path. In the early 1990s, much hope in Russia was pinned on close rapprochement with the West, which sounds naïve today. Russian leaders even spoke about their desire to join NATO (statements to this effect were made by Russian President Boris Yeltsin and Vice President Alexander Rutskoy) and the European Union (by Prime Minister Victor Chernomyrdin). It is difficult to say how seriously the West discussed such scenarios, but it decided against this idea. Apparently, the EU concluded that integration with Russia, which was too large and potentially independent, would be too expensive for it. In defiance of Moscow’s opinion, NATO began to expand. A historical crossroads was passed.

Germany has gained the most from the end of the Cold War, as it has achieved national unity. It has deliberately ceded part of its sovereignty to the United Europe and has become a symbol of what is best in the new European culture. Despite the growing economic might of Germany, no one is afraid of its revanchism any longer.

The integration project helped Western Europe to overcome its bloody past. It seemed that the fall of the Berlin Wall brought Immanuel Kant’s “eternal peace” to the whole of Europe and calm and prosperity

to the world. The end of the Cold War resulted in reconciliation between historical enemies – Germans and the French – and between Russians and Germans, despite their worst record of enmity in the 20th century.

However, it has turned out at the end of these crucial two decades that Europe has failed to break with its past. Instead of “the end of history,” we are witnessing the return of the old geopolitics, coupled with new and ever increasing challenges, which are not met and therefore are only piling up. Confrontation and division are re-emerging in a different form, while the removal of the military threat and systemic military confrontation – the main achievement of the 1990s – may prove to be temporary.

I repeat: the reason for this is that the Cold War in Europe, even though declared over, has actually never ended.

The Soviet Union voluntarily withdrew from Central and Eastern Europe. Despite calls from many European capitals (especially Paris and London), Moscow gave the green light to and even assisted in the reunification of Germany. It is embarrassing to admit, but the Russian political class of that time initiated the breakup of the Soviet Union and lost some historical Russian territories. This was done not only because of thoughtlessness, or because the Soviet people had lost the sense of a motherland, or because new elites wanted to come to power. The main reason was a desire to get rid of the hated Soviet Communism as soon as possible.

When giving up the empire (and even part of it which they viewed as the historical territory of their own country), the Russians hoped for the coming of a new era of a “common European home” and the creation of a “united and free Europe” (as put by George H.W. Bush). That was not only starry-eyed self-deception, as everyone predicted at the time that Europe would look like that. This is why the Kremlin believed that written guarantees of the non-expansion of Western institutions, above all NATO, were not necessary and that verbal promises from the leaders of the U.S. and Germany would suffice.

The Russians not only had borne the brunt of the Communist dictatorship, but had also done more than any other nation to put an end to it. This is why they came out of the Cold War without feeling defeated and expected an honorable peace. However, after hesitating in the first few years, the West began to behave like a winner and to view the territories from which the Soviet Union withdrew not as being abandoned

voluntarily, but as occupied and freed. NATO expansion began in 1994 and 1995. The first and the second waves of NATO enlargement had no ideological footing, but there was a desire to consolidate the booty, taking avail of the weakness and chaos in Russia.

NATO'S TRANSFORMATIONS

Attempts were made after the end of the Cold War to place the burden of universal military-political responsibility on the North Atlantic Alliance, which it was simply unable to carry. NATO was established in 1949 as an instrument to combat the Communist threat, primarily within Western countries. Initially, the alliance did not have a military vector, as no one could threaten Europe at the time.

I am not going to blame the present North Atlantic Treaty Organization for seeking to suppress internal dissent in its member countries. But it happened, and one should not forget about the suffocating atmosphere of the Cold War.

U.S. President Harry Truman sent a special message to Congress on July 25, 1949 about the need for a military aid program for Western Europe, in which he explicitly wrote that Western European nations should be equipped “in the shortest possible time, with compact and effectively trained forces capable of maintaining internal order.” In other words, they should be capable of suppressing dissent.

The U.S. was ready to use its own Armed Forces not only in case left-wing forces came to power in Western European countries, but even if there was a threat of such developments. For example, the National Security Council's Directive 5440/1 of December 1954 stated that if there were a threat of Communists coming to power in a Western European country or if they had already done so, the U.S. must carry out political, economic and clandestine operations to stop that threat and even take military actions if the situation required.

Naturally Soviet archives, still not fully declassified, contained similar instructions, as well. The Soviet system, which was much tougher politically and much less effective economically, repeatedly used military force to suppress dissent and demands for more freedom.

Originally, the North Atlantic bloc was not a military-political organization but only a political alliance with very vague security guarantees.

Isolationists in the U.S. Congress took care of that 60 years ago, as they did not wish to tie up U.S. hands. The famous Article 5 of the North Atlantic Treaty provides no automatic guarantees. It states: “The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense [...] will assist the Party or Parties so attacked by taking forthwith, individually and in concert with the other Parties, such action as it deems necessary [...].” The wording is more than vague.

The alliance began to focus on military deterrence only a year or two after its establishment. Soviet leader Joseph Stalin can rightfully be called the “godfather” of NATO’s militarization and the formation of its military wing. Either due to his frequent geostrategic thoughtlessness, or his desire to divert an alleged Western military threat away from the Soviet Union, the Soviet leader gave the green light to Kim Il Sung’s attack against South Korea in the summer of 1950. The West was seized with panic, while advocates of NATO’s militarization were exultant. The readiness of the United States and its allies to increase defense spending rose steeply, and Turkey and Greece expressed their desire to join the alliance. An agreement was reached on the establishment of united armed forces and the position of an Allied Supreme Commander with broad powers and a headquarters consisting of representatives of all member countries.

Alfred Gruenther, who served as Supreme Allied Commander in Europe from 1953-1956, recalled at secret hearings that NATO had existed only on paper for more than a year and no one had lifted a finger to do anything about it. Member countries kept reducing their defense spending. So, he went on, the Soviets saved us from all of that.

The alliance found itself in a similar situation 20 years ago, when the disappearance of the Warsaw Pact and the Soviet Union deprived NATO not only of ideological and political, but also of military logic. It was impossible to portray the new Russia as a threat, while dissolving the alliance, which had demonstrated its usefulness and which had gained strong intellectual and bureaucratic momentum, was the last thing the West wanted to do. In addition, there was a great triumphalist charge. At

first, a reasonable goal was found: “Get out of the area [of responsibility] or die,” meaning make NATO into an instrument for countering new threats in cooperation with Russia and other countries.

However, another approach prevailed: “Expand or die.” Washington and its allies decided to consolidate their geopolitical acquisitions in Europe by laying down the markers for a zone of their economic and political influence.

It seems that a historical bifurcation point was missed in the mid-1990s, the time when the decision was made not to get out of the area of responsibility but to expand. If the West had taken the first path, there might have been no threat of a new division of Europe, and Russia and NATO member states could have been able to jointly avert rapidly accumulating challenges. And the past 15 years would not have been lost for strengthening international security.

At first, NATO admitted new members if they met certain criteria. Later, even well-beseeming covers were given up. On the eve of the NATO 60th Anniversary Summit, held in April 2009, Albania, perhaps the most backward country in Europe but advantageously located, was admitted into the ranks of “advanced democracies.”

The division of Europe during the Cold War years was largely based on ideological and military confrontation. The geopolitical division of the continent was almost never mentioned. However, when ideology and the military threat were gone, the old geopolitics, which had been hiding behind them, came to the forefront.

The idea of admitting Russia into NATO was never taken seriously – Moscow was not considered ready for that, or because its admittance would have changed NATO beyond recognition. The latter argument is well-grounded. If Russia had joined NATO, U.S. hegemony over the organization would have been weakened, while the alliance would have become an organization of pan-European security, rather than a military geopolitical bloc of the West.

Russian protests against NATO enlargement were ignored. A weakened Moscow made a mistake by signing the Founding Act on Mutual Relations, Cooperation and Security with NATO in 1997. This document politically legitimized the bloc’s further enlargement. In exchange, Russia received the still useless Russia-NATO Council and a handful of

meaningless or already broken promises. For example, elements of the missile defense system, which Washington plans to build in Poland and the Czech Republic, belong to strategic forces, which is a flagrant violation of the Founding Act's spirit.

The commitment not to deploy nuclear forces on the territory of new NATO members was merely a pleasant comforter and nothing more. No one ever planned to deploy them. As for commitments not to deploy substantial conventional forces in those countries, they are simply not being met. There are plans to deploy large military bases and some are already there. On the other hand, the Founding Act does not specify the size of "substantial" forces.

ATTEMPTS TO RECREATE CONFRONTATION

In the years during the first waves of the enlargement, I repeatedly asked Western experts: "Do you not understand that the large country with a great history will revive and will never agree to NATO expansion to its historical territories?" My interlocutors quietly agreed or looked away in the vain hope that the "moment of truth" would never come and that the great country would never think of its vital interests again.

Meanwhile, NATO degraded from the anti-Communist defensive alliance of the Cold War years into an offensive union. The alliance unleashed three major wars over the last decade. NATO committed aggression against Yugoslavia and annexed Kosovo from it. The NATO leader, with a group of its allies, attacked Iraq. NATO is actually waging an offensive war far from its original area of responsibility in Afghanistan – with Russia's consent, it must be admitted. NATO's appetite is increasing. In a bid to prove its usefulness, the alliance's bureaucracy is trying to add an "energy" dimension to it, so that it could use military-political methods to ensure access to resources in other countries' territories, and even an "Arctic" dimension.

NATO expansion towards Russian borders and the inclusion in NATO of countries whose elites had historical complexes with regard to Russia because of their setbacks and defeats in previous centuries, have increased anti-Russian sentiments in the alliance. Since the number of such countries is increasing, there is growing pressure for returning the alliance to its classical task of containing Moscow.

Despite efforts to improve its image, NATO is now viewed by Russians as a much more hostile organization than it was in the previous two decades. I do not believe that NATO threatens or can threaten Russia. The North Atlantic Treaty Organization could not fight even in the past, not to mention the present, as has been graphically shown by its campaign in Afghanistan.

Politically, NATO's enlargement has become the main threat to European security. Because of this enlargement, the former confrontation between the "Old East" – the Soviet Union and its satellites – and the "Old West" is being replaced with a new one – between Russia, on the one hand, and the U.S. and some of the "New Europeans" on the other. "Old" Europe is a hostage and cannot move farther away. This new confrontation is emerging against the backdrop of a truly new and increasingly unstable and dangerous world.

The Cold War, unfinished in the minds of the political classes, including the Russian political class, has not been finished institutionally and organizationally, either. Cold War institutions, above all NATO and even the Organization for Security and Cooperation in Europe (OSCE), initially established to serve the Cold War, have been recreating confrontation again and again.

In the mid-2000s, the part of the American establishment that is not interested in the final stabilization and consolidation of Europe again began to push for NATO expansion, this time to Ukraine. To add more fuel to the division of the Old World, a decision was made to deploy elements of a missile defense system in Central Europe. Russia put up fierce resistance – above all, because it realized the vital need to stop the mechanism of resuming confrontation in Europe on new frontiers.

I do hope that Tbilisi's attack on South Ossetia and Russia's response to it will prove to be a fruitful episode in the historical perspective. The sacrifice – the Ossetians, Russians and Georgians who died in that war – may not be in vain. Russian troops gave a strong military rebuff to the logic of NATO's infinite expansion which, if not stopped, would inevitably bring about a big war – not in Georgia but around Ukraine, almost in the heart of Europe.

If the U.S. and Western Europe try to continue expanding NATO eastward, Russia will have no choice but to seek shelter behind a fence

of nuclear missiles placed on high alert and to prepare for the worst, trying to inflict maximum damage on the other party. One would have to forget about cooperation in addressing global problems then.

Any major reductions in the level of nuclear confrontation would also be impossible. (Of course, some reductions in nuclear weapons are possible and desirable even now, in conditions of uncertainty and the risk of resumed confrontation, but this would be done only to get rid of obsolete and unwanted systems and to enhance the effectiveness of the entire nuclear potential.)

I do not think that Russia will soften its approach when its muscles, enhanced by oil hormones, deflate somewhat. On the contrary, its readiness for tough counteraction could increase – especially as there will be a pretext to explain away domestic problems by an external threat. Russia will have to forget about its political and economic modernization. So, a new confrontation would be a drama for Europe, one more problem for the world and a tragedy for the Russian people.

The U.S. and its clients failed to unleash a new, albeit a caricature, Cold War after the South Ossetian episode. The continental “Old” Europeans interfered. The global economic crisis has emphasized the acuteness of the new challenges and has made squabbles and old thinking inherited from the past simply farcical.

THE PANDORA’S BOX MUST BE SHUT

Greater Europe, which includes Russia and the U.S., badly needs a new “peace treaty” and a new architecture that would draw a line not only under the Cold War, but also under World War II, which started 70 years ago – again the magic numbers of 2009. Actually, the Yalta and Potsdam Accords did not turn out to be treaties that established peace, but provisional agreements on the division of Europe.

In the larger part of Europe, World War II ended in a peace treaty. The Treaty of Rome, which established the European Economic Community – the prototype of the European Union – was actually such a treaty. Russia and the West have never concluded such a document.

The unfinished nature of the Cold War and World War II is creating a dangerous vacuum. If attempts to enlarge NATO persist, Russia may turn from a revisionist state changing the disadvantageous rules of the

game imposed on it in the 1990s into a revanchist state. The Europeans, due to their vindictiveness and greed, already made a similar mistake after World War I, when they imposed the unfair Treaty of Versailles on Germany. We must not allow such a tragic mistake to be repeated.

Russia has proposed overcoming the present situation by signing a new treaty on pan-European security. Russian President Dmitry Medvedev first expressed this idea last summer. The proposed treaty, or rather a system of accords, must finally draw a line under the horrible 20th century with its world and cold wars. Unless this page is turned, history may relapse, while joint and effective efforts to counter new threats and challenges will remain unrealistic.

Today, in the period of acute mistrust, brought about by the “New Epoch” and the exacerbation of the global economic crisis, it is not easy to speak about ideal constructs. Yet we must think about an optimal structure of relations in the Euro-Atlantic region. Otherwise, it is no use planning the creation of a new system for governing the global economy and international relations, which would involve new global actors and would be adequate to 21st-century challenges.

We need a new pan-European treaty on collective European security, signed either by individual countries, or by NATO, the EU, Russia and the Collective Security Treaty Organization. All countries that are not included in the current security systems would be able to join in the treaty and receive multilateral guarantees. NATO enlargement would be frozen *de facto*.

The OSCE would be transformed into an Organization for Collective Security and Cooperation in Europe (OCSCE) and would acquire new functions, including military-political ones, while it would not have Cold War genes. The future treaty must reiterate the provisions of the Helsinki Final Act on the inviolability of the borders in order to prevent the further fragmentation of states or their reunification with the use of force. Kosovo, South Ossetia and Abkhazia must become the last states that broke away through force. This “Pandora’s box” must be shut, at least in Europe.

If things go as far as the actual overcoming of the confrontation inherited from the 20th century, then one could speak about deep cuts in the nuclear arsenals of Russia and the United States and even about the coordination of their policies in the military-strategic area. Also, their

cooperation in crisis situations, like that in Afghanistan, or in countering the proliferation of weapons of mass destruction would become much more profound.

This is the Euro-Atlantic part of the proposed system, which must necessarily include the U.S.

In Europe proper, a collective security treaty must be supplemented with a treaty establishing a Union of Europe – a union between Russia and the EU on the basis of a common economic space, a common energy sector with cross-owned companies producing, transporting and distributing energy, a common visa-free zone, and coordinated Russian and EU policies in the international arena.

Of course, there is a geopolitical factor in relations between the European Union and Russia, and the element of competition and even occasional rivalry in them is still strong. But unlike NATO, the EU was not created for confrontation. The main goals behind the European integration project were overcoming the legacy of wars and state nationalism and strengthening the economic efficiency and welfare of Europe. The absence of a genetic code of confrontation explains why Russian-EU relations have a powerful potential for cooperation and rapprochement.

A pan-European architecture could be complemented with “tripartite” interaction between China, Russia and the United States, proposed by influential Chinese theorists (instead of the former confrontational “triangular” interaction), in addressing the world’s greatest problems. The Shanghai Cooperation Organization should be enlarged, involving in its work the U.S. and the EU, at least as observers.

Special note must be given to a new system for governing the global economy and finance, whose creation would be even more difficult if the problems surviving from the former confrontation are not solved.

One can invent many other options.

They may seem to be starry-eyed dreams. But if we do not set strategic goals for ourselves, at least intellectually, we will be doomed to follow behind events, which will likely be increasingly tragic. To move forward, we must finish the “unfinished war.” And then, perhaps, in 2014 or at least in 2019, when we will mark the 100th anniversary of the beginning of World War I or the signing of the Treaty of Versailles, we will finally bid farewell to the horrible history of the 20th century.

Russia to Reinforce the Asian Vector

Some Priorities of Russian Foreign Policy after the Crisis

Alexander Lukin

Russia's military action in support of South Ossetia and the global economic crisis have created a new international situation. Moscow's response to Georgia's actions in South Ossetia marked a departure from its practices of the 1990s, when it had to abide by the rules of the game that were incompatible with Russia's vital national interests. The world crisis has undermined credibility of not only the foreign-policy patterns of the West but also of its economic models. The world has turned its eyes to alternative paths for modernization and national success, followed by some countries and regions, for example, China, India and Southeast Asia (Indonesia, Malaysia). The emerging paradigm can be described as genuine multipolarity – meaning not only the plurality of political centers of power, but also the plurality of development models.

A world of true multipolarity offers new opportunities, but it is fraught with dangers. The opportunities stem from the growing realization that the globalization of the world means the globalization of problems, many of which cannot be solved now unless all powerful states and forces pool their efforts. If centers of influence fail to find common ground and work out common rules for international behavior, they risk dividing the world into hostile and competing regions and thus recreating the situation that earlier provoked the two world wars.

Alexander Lukin is the Director of the Center for East Asian and SCO Studies at the Moscow State Institute of International Relations (MGIMO).

“THE GROUP OF TWO”

Two U.S. foreign-policy pundits, Zbigniew Brzezinski and Henry Kissinger, have recently come out with programs for solving global problems in the new situation. In fact, they have proposed to the newly elected U.S. president, Barack Obama, changing the U.S. foreign policy. The positions of the two policymakers do not fully coincide; yet they agree on one thing: a stable future of the world depends on whether or not the United States and China are able to put aside their differences and launch constructive cooperation between themselves.

Brzezinski, who served as United States National Security Advisor to President Jimmy Carter from 1977 to 1981, published an article, “The Group of Two that could change the world,” in *The Financial Times* on January 13, 2009, in which he called for establishing a U.S.-Chinese strategic union or, at least, very close cooperation. According to the author, rapprochement with China would help the U.S. solve many international problems facing it. Brzezinski believes that China could promote the solution to the North Korean nuclear issue and help Washington cope with the global crisis. Also, China could be a direct participant in the dialogue with Iran and a mediator in the Indo-Pakistani conflict, and even become actively involved in the Middle East settlement. Brzezinski invited China to cooperate with the U.S. in coping with climate change, in creating a larger standby UN peacekeeping force for deployment in failed states, and in consolidating the nuclear non-proliferation regime by encouraging states to adopt the zero-nuclear weapons option. In conclusion, Brzezinski proposed expanding the current Group of Eight to a G14 or G16, including China and other major states in it, and creating an informal G2 of the U.S. and China, paralleling relations between them with Europe and Japan.

Henry Kissinger, who served as National Security Advisor and as Secretary of State in the Richard Nixon administration (1969-1974) and who was the architect of the U.S. policy of opening to China in the early 1970s, responded in his article “The World Must Forge a New Order or Retreat to Chaos” in *The Independent* on January 20, 2009. At a time when the crisis has undermined many people’s faith in

American political recipes and in the Washington project for a global economic system, Kissinger has called for more modesty in U.S. conduct. He believes this modesty will help increase American influence in the world where “every country will have to reassess its own contribution to the prevailing crisis.” At the same time, “each will be obliged to face the reality that its dilemmas can be mastered only by common action.” In this situation, the U.S. needs to “modify the righteousness that has characterized too many American attitudes, especially since the collapse of the Soviet Union. [...] The result was ... an insistent kind of consultation by which nations were invited to prove their fitness to enter the international system by conforming to American prescriptions.”

According to Kissinger, the new role of the United States is to “shape the common concern of most countries and all major ones regarding the economic crisis, together with a common fear of jihadist terrorism, into a strategy.” Kissinger names China as the main (and the only one mentioned in the article) object of historical compromise, relations with whom need to be taken to a new level. “What kind of global economic order arises will depend importantly on how China and America deal with each other over the next few years,” he writes. “A frustrated China may take another look at an exclusive regional Asian structure, for which the nucleus already exists in the ASEAN-plus-three concept,” while “if protectionism grows in America or if China comes to be seen as a long-term adversary,” the world could be divided into competing regional units with dangerous long-term consequences. Kissinger proposes that the new generation of leaders shape Sino-American relations “into a design for a common destiny, much as was done with trans-Atlantic relations in the postwar period.”

The two veteran policymakers build their reasoning on different logic. Kissinger follows up on his own geopolitical concepts, while Brzezinski apparently remains committed to the dominating dream of his life – creating a widest possible anti-Russian coalition. Yet, for various reasons, there is much in common in their recommendations.

First, it is the understanding that the foreign policy pursued by the previous administration failed and that it needs to be changed.

Second, it is the awareness of the growing role of alternative models, including the Chinese one. Western economists have dubbed it Beijing Consensus, by analogy with the Washington Consensus, to which it is an alternative.

And third, it is the recognition of China's increased role in world politics, which is based on its real economic achievements and on expectations that China will be able to overcome the crisis with fewer losses than many other major economies. The latter statement rests on serious grounds.

CHINA AND THE CRISIS

Like all countries with an export-oriented economy, China has been seriously hit by the crisis. The decline in foreign demand for Chinese goods has dealt a serious blow to its economy as its uniquely high growth rate was largely due to exports, which accounted for about 40 percent of GDP. It was the essence of the economic breakthrough planned by Deng Xiaoping in the late 1970s. The plan worked properly until the end of 2008, but now it needs to be adjusted.

The crisis has affected the more developed regions of China, especially its southern coast, to which major countries of the world for decades moved their industrial production, reserving for themselves the role of service and finance centers. Millions of people from China's inland rural areas moved to those regions in search of jobs. Now, local enterprises are closing, and people have to return to their native places, where there are no jobs and where they are not welcome. According to official figures, the number of these new unemployed has reached 11 million people, while unofficial figures estimate their number at 20 million.

The Chinese authorities are aware of the danger posed by this situation and from the very beginning of the crisis they have been working on measures to cope with it. The positive balance of trade, which China has enjoyed for many years, has enabled it to accumulate huge hard currency reserves of about U.S. \$2 trillion, of which about \$700 billion (\$696 billion as of the end of 2008) are kept in U.S. Treasury bonds. These reserves can be used to support anti-crisis measures.

Interestingly, these funds are not decreasing, despite the decline in exports. One of the reasons is a decline in imports, which is accom-

panying the export slump. According to official figures, Chinese exports fell by 17.5 percent in January 2009, compared with January last year, but imports fell by as much as 43.1 percent. As a result, the trade balance ended up with a surplus of \$39.1 billion.

Last autumn, the Chinese government announced that it would spend 4 trillion yuan (about 586 billion dollars) on anti-crisis measures within the next two years. These funds will be spent on the development of infrastructure, including airports, railways, subways in large cities, nuclear power plants, etc., as well as on public health, education, housing subsidies, and social benefits, in particular unemployment benefits. The government had long planned an accelerated development of the social sphere, which was neglected during the years of reforms, and the crisis has only given a boost to these plans. The increased spending on social programs, in particular on health and education, is intended to cause the Chinese to stop saving money for a rainy day and to spend more instead, thus stimulating economic growth.

China's legislature, the National People's Congress (NPC), approved this plan in March 2009. Addressing the Congress, the Premier of the State Council, Wen Jiabao, set the goal of maintaining the economic growth rate at 8 percent. China had long planned to slow down its growth, which was overheating the economy, but the fall from 13 percent in 2007 to 6.8 percent in the fourth quarter of 2008 was too great and could bring about social instability.

To all appearances, this plan has already begun to yield results. In January 2009, banks issued loans to the tune of \$237 billion, which is 101 percent more than in the same period last year. Infrastructure projects have begun to be implemented, among them the construction of housing in Shanghai and Shaanxi Province, and railways in the province of Shandong.

Nevertheless, some economists criticized the government plan, arguing that the infrastructure was already in normal condition, so its development could not produce the desired effect. They proposed stimulating domestic demand as an alternative to foreign demand. As a result, a 10-point state program has been adopted to stimulate domestic consumption. The program provides for raising the mini-

mum purchasing grain prices, increasing government allocations for the purchase of equipment, raising the subsistence level, raising pensions for former employees of state-owned enterprises, and other social benefits. In addition, on December 1, 2008, the government starting selling consumer electronics in rural areas at a 13-percent discount subsidized from the state budget. Following the example of some East Asian states, the administrations of some Chinese cities and provinces have begun to distribute consumer vouchers among the population (e.g., vouchers for purchases for the Chinese New Year, for travel, etc.).

While addressing social problems, Beijing does not forget about the future. The government seeks to take advantage of the fall in the prices of basic natural resources, which China lacks, to build up their strategic reserves for a new economic growth. Thus, in early February Beijing announced the construction of eight storage facilities for strategic oil reserves. Four of these repositories were built as of the end of 2008, and 100 million barrels of oil, purchased at reduced prices, have been pumped in there. China is actively working in Africa and the Middle East, from where it imports the bulk of its oil, and is making strategic investments in Russia.

China has given an estimated 25 billion dollars in loans to Russia's Rosneft and Transneft oil companies in exchange for oil shipments. The oil will be delivered via a newly built oil pipeline that will run from the East Siberia-Pacific Ocean pipeline. Commercially, the deal, which was finally agreed during a visit by Russian Deputy Prime Minister Igor Sechin to Beijing in February 2009, is not advantageous to China. But it is intended to help fulfill two major tasks: a strategic task (providing an additional source of oil and diversifying its import) and a social task (preventing mass unemployment at oil refineries in the north-eastern city of Daqing, where a local oil field is depleting).

Apart from raw materials, China is purchasing assets of mining companies. For example, on February 12, it was announced that the state-owned Aluminum Corporation of China (Chinalco) became the largest shareholder in the Rio Tinto British-Australian mining group. Chinalco, which already owned 9 percent of Rio Tinto shares, has bought another 18 percent of its shares, as well as bonds worth \$7.2

billion and shares in projects for mining copper, iron ore and aluminum, totaling \$12.3 billion. This was the largest investment transaction abroad for Chinese businesses. At about the same time, China Minmetals Corp announced its plans to buy Australian mining firm OZ Minerals, the world's second-largest zinc miner, for \$1.7 billion.

If Beijing has enough money to both reduce social tensions and provide raw materials for its economic growth, China will come out of the crisis a leading world economy.

PLANS AND REAL LIFE

The announcement that U.S. Secretary of State Hillary Clinton would make one of her first foreign visits to China, along with three other Asian states – Washington's traditional allies Japan and South Korea, as well as Indonesia, added fuel to discussions about a possible U.S.-Chinese union. Not everyone agrees with Brzezinski and Kissinger. A cold-headed analysis suggests the conclusion that, despite the undoubted growth of China's political and economic role in the world in the future, the emergence of a U.S.-Chinese alliance is not at all a necessity.

Naturally, Beijing welcomed the recognition of its increased international importance, especially Brzezinski's praises of the Chinese leadership's policy of building a "harmonious world." But it is difficult to imagine that Beijing, which conducts an independent foreign policy, would suddenly rush into the U.S. arms and would start solving Washington's problems around the world in exchange for hollow promises.

So far, the essence of Beijing's foreign policy has been as follows: ensuring a peaceful environment for the country, creating favorable conditions for its economic development and not interfering in international conflicts that do not directly affect its vital interests. China will undoubtedly continue to play a positive role as mediator (rather than a conduit of U.S. interests) in addressing the North Korean nuclear problem. China's interdependence with America (the U.S. market has great influence on the Chinese economy, while much of China's hard currency reserves has been invested in U.S. Treasuries) will make Beijing a constructive partner in overcoming the global

financial crisis. Yet, it is highly unlikely that China will intervene in the Indo-Pakistani, or the more so the Arab-Israeli, conflict, particularly as an American agent or ally. Beijing will unlikely send large forces to remote troubled areas (small Chinese peacekeeping forces already operate under UN programs).

A U.S. attempt to establish a union with China would immediately draw fire from human rights activists, supporters of Taiwan's and Tibet's independence, and other anti-Chinese groups in the U.S. itself. Washington's NATO partners and other allies (for example, Japan) would not approve of its too close rapprochement with Beijing, either. The U.S. would be accused of wishing to sacrifice the ideals of democracy for the sake of dividing the world with the largest authoritarian regime. The creation of NATO after World War II was aimed at containing the totalitarian Soviet Union and proliferating democracy in Europe, whereas an alliance with China suggests something quite different. Finally, geopolitically, a U.S. shift towards China would create favorable conditions for the fulfillment of a daydream of many politicians in Moscow: the separation of Europe from the U.S., its rapprochement with Russia, and the creation of a Europe from the Atlantic to the Pacific Ocean. Realistically minded policymakers in Washington are unlikely to be delighted by the prospect.

In general, the idea of a U.S.-Chinese alliance is unfeasible, but it may be useful for sounding out the Chinese position and gaining some concessions from other interested parties. For example, speculation about a U.S. rapprochement with China may serve as a lever of influence on Russia.

Nevertheless, a certain shift in Washington from the ideologization of its foreign policy to pragmatism would inevitably lead to closer cooperation with China. Circles close to the administration are actively discussing the idea of establishing a U.S.-Chinese cooperation commission, to be led by Vice President Joseph Biden and Premier Wen Jiabao (similar to the former U.S.-Russian Albert Gore-Victor Chernomyrdin commission). The two countries have agreed to broaden their bilateral strategic dialogue on economic issues and include security issues in it. They have also announced plans to start discussions on global warming. In addition, shortly before Clinton's

visit, they declared the resumption of consultations between their defense ministries, which had been suspended by China last year after the George W. Bush administration announced plans to sell large quantities of armaments to Taiwan.

Clinton expressed Washington's interest in working together with Beijing but played down the human rights issue, saying on the eve of her visit that pressing on the human rights issue "can't interfere with the global economic crisis, the global climate change crisis and the security crisis."

In an interview on China's Dragon TV, Clinton said: "We are truly going to rise or fall together. By continuing to support American treasury instruments, the Chinese are recognizing our interconnection." Chinese Foreign Minister Yang Jiechi was more evasive on this issue, saying only that his country would seek safe, high-value and liquid investments for its foreign currency reserves. Several days later, Wen Jiabao explained that Beijing was primarily concerned about the welfare of Chinese citizens, rather than about saving the global financial system and the U.S. economy.

Speaking upon conclusion of the Chinese parliament's session on March 13, the Chinese Premier even expressed concern about the safety of Chinese investments in the U.S. and called on the United States to "maintain their creditworthiness, keep their promise and guarantee the safety of Chinese assets." Apparently, China fears that the U.S. dollar may collapse owing to excessive budget spending in the U.S. White House Press Secretary Robert Gibbs even had to reassure Beijing, saying that investments in the U.S. are the safest in the world.

MULTILATERAL COOPERATION

Why has the development of Russia and China resulted in Moscow no longer viewed as a privileged partner of Washington? Why was democratic Russia not offered a new trans-Atlantic partnership after the breakup of the Soviet Union, which is now actually offered to authoritarian China? And how can the emerging U.S.-Chinese rapprochement affect Russian interests?

The articles by Brzezinski and Kissinger made no mention of Russia. Whereas Brzezinski apparently did not want to speak straightforwardly

about an anti-Russian nature of the proposed union, Kissinger proceeded from the real role of China in the present world. Washington, which is now seriously discussing the need for establishing cooperation on global issues with various countries, including Russia, will hardly want to build its relations with Beijing on an anti-Russian basis. China will not do it, either, as it views Russia as an important partner in many areas. Yet, this factor is no reason for complacency.

Considering the possible U.S.-Chinese rapprochement, Russia will have to act in two areas simultaneously: to actively look for points of mutual understanding with Washington and, regardless of this, develop cooperation with China, both on a bilateral and a multilateral basis. It also needs to intensify its bilateral and multilateral relations with non-Western parts of the world.

Russia now has stable political and economic contacts with states in South and East Asia, even with those that are U.S. allies (Japan and South Korea). It has built a system of bilateral exchanges with India and China and has given more emphasis to its relations with Latin American countries.

In these circumstances, Russia should focus its efforts on enhancing its role in such organizations and groups as the Shanghai Cooperation Organization, RIC (Russia-India-China), BRIC (Brazil-Russia-India-China), the ASEAN Regional Forum (ARF), the Asia-Pacific Economic Cooperation (APEC), and the six-party talks on the North Korean nuclear problem (especially in the working group on security in Northeast Asia). These organizations and groups must become an essential structural element in a world of real multipolarity.

SCO AND BRIC – ALTERNATIVES ON THE RISE
The *Shanghai Cooperation Organization* (SCO), officially established in 2001, has now become an influential regional structure. A conference on Afghanistan, held under its aegis in Moscow in March 2009, was attended by representatives of several international organizations. This was an indication that problems of the region cannot be effectively solved without the SCO.

The significance of the SCO for Russia is that it was the first platform for harmonizing Russian-Chinese interests and approaches, especially in Central Asia, within the frameworks of an international

organization that does not include Western countries. This platform is highly important also as a basis for deeper cooperation with other non-Western actors, above all India which has observer status in the SCO. Characteristically, the first official summit of the BRIC will be held later this year after the completion of a meeting of the SCO Council of Heads of State in Russia's Yekaterinburg.

Unlike the RIC and BRIC, the SCO is a full-fledged international organization, and it is in Russia's interests to prevent its becoming yet another discussion forum. To this end, SCO institutions, especially the Secretariat, must be developed more actively and given more powers, so that institutional logic would let them show greater initiative.

Another way to strengthen the SCO is the development of real multilateral economic cooperation among its members, which now is actually non-existent. Such cooperation can provide a basis for the organization's stable operation and create an alternative to foreign forces' plans with regard to Central Asia. A SCO Energy Club could play a special role in harmonizing interests between the world's largest energy-producing, transit and consuming countries from among SCO members and observers. The club's establishment was declared more than two years ago, but it has never started operating.

The **BRIC** or BRICs is an example of an idea turned reality. The term was coined by Jim O'Neill, global economist at Goldman Sachs, to refer to the fast-growing economies of Brazil, Russia, India and China. The aggregate economic might of the four countries may soon surpass that of the West. According to the International Monetary Fund, the total share of the BRICs in world GDP has been growing fast: from 8 percent in 2000 to 12 percent in 2007. The Goldman Sachs report, entitled "*Dreaming With BRICs: The Path to 2050*," said that economically the four nations complement each other very well: China and India have strong light industries, while Russia and Brazil can become the main suppliers of raw materials for them. At first, however, all these considerations were purely theoretical.

Unexpectedly for many, the four countries accepted O'Neill's term and decided that they really had common interests and reasons to coordinate their efforts. In May 2008, Russia's Yekaterinburg hosted the first meeting of the BRIC foreign ministers, while the first

meeting of the BRIC finance ministers was held in November in Sao Paulo, Brazil. The forums discussed various international issues, including joint efforts to overcome the crisis. The top leaders of the four nations met for the first time on the margin of a G8 summit in July 2008 in Japan. And in late November, Russian President Dmitry Medvedev, while on a visit to Rio de Janeiro, for the first time announced plans to hold a BRIC summit in Russia in July 2009.

The BRICs have all chances to become the most influential of all the international associations that include Russia, as it is a center for harmonizing the interests of major non-Western centers of the multipolar world. An evolution of the BRIC structure into an alternative to the G8 would meet Russian interests (as well as the interests of India, China and other large countries not included in Western structures).

First, such a project, as distinct from a possible expansion of the G8 to a G20, would not look like the inclusion of developing countries by “seniors” in an already existing structure at their own discretion, but would be a new influential platform for discussing global development issues. Its members, which have been kept in the backyard of the G8, would be able to set the rules in the new organization independently. That would show genuine multipolarity, as well as the limited influence of the Western center; and in case a G20 is created, that would help BRIC members to join it on basically new terms.

Second, Russia – as the only state that is a member of both the G8 and the BRICs – would find itself in a uniquely advantageous position of coordinator and mediator between Western and non-Western centers of a multipolar world.

Transforming the BRICs into an alternative to the G8 requires taking the following measures, using the experience of cooperation within the RIC:

- intensifying the agenda;
- working towards the institutionalization of the BRICs and the creation of a formal mechanism for negotiations and discussions (regular meetings of the heads of state, ministers, etc.), with a view to establishing an international organization in the future;
- considering a possible expansion of the BRICs by including states that usually participate in meetings on the margins of G8 summits and

that represent various parts of the world (Mexico, Egypt, Indonesia, South Africa).

The agenda of discussions should include pressing issues of today's world: the reform of international institutions, international security issues, including energy security, and climate change. Particular importance should be attached to the search for ways to overcome the global financial crisis. In this context, discussions within the BRIC format could naturally include subjects like comparative analysis of development models in various participating states (and other non-Western models), their positive and negative aspects in light of the present crisis (for example, the Chinese export model and the Indian model which is more oriented to domestic consumption), as well as sharing experiences of anti-crisis management.

The operation of the BRICs as an emerging international structure must be provided with scientific and expert support, and Track II interaction within the BRICs must be developed. Most appropriate in this context was an initiative to establish a Public Forum in the BRICs. This forum could find it useful to use the experience of the creation of the SCO Forum.

ASEAN AND EAC – THE NEXT FRONTIER

States of East and Central Asia represented in the SCO were the first frontier in the development of Russia's relations with the non-Western world within the framework of the multipolarity movement. The Association of Southeast Asian Nations (ASEAN) is the next frontier. Russia established relations with ASEAN more than twenty years ago, yet they have not been developing very intensively. Moscow's passivity was coupled with fears in some ASEAN member countries with regard to Russia's role in the area of ASEAN's operation. Some ASEAN states still believe that Russia does not belong to their region but is a global power opposed to America, while the principle of the development of regional cooperation with no superpowers involved does not provide for active roles either from Russia or the United States. Without saying this directly, ASEAN cites Russia's insufficient economic role in the region as a pretext for checking the establishment of partner relations with Russia.

Recent years have seen more activity on Russia's part. It seeks to implement and broaden the accords reached at the first ASEAN-Russia summit held in December 2005 in Kuala Lumpur. The accords include a political declaration of the leaders, a comprehensive program of action for the period ending in 2015, and an intergovernmental agreement on cooperation in economy and development.

At the same time, Moscow acknowledges that the level of its economic cooperation with ASEAN countries is inadmissibly low. Three years after its signing, the intergovernmental agreement still remains ineffective. Russia's trade with ASEAN countries stood at only 7 billion dollars in 2007, while Russia's share in the total trade of ASEAN members was a mere 0.3 percent. Compare it with Chinese-ASEAN trade which reached 190 billion dollars in the same year. As with the SCO, the expansion of Russia's trade and economic cooperation with ASEAN is an important strategic goal, because this is the only way to increase the region's interest in Moscow's active participation.

The insufficient intensity of relations between the two parties is also due to the passivity of the Association itself. Perhaps, this passivity stems from the aforementioned attitude to Russia and from fears that the level of relations with it may be higher than the level of relations with the United States, which have been deteriorating of late (for example, an ASEAN-U.S. summit has never been held). The greatest skepticism about Russia's role in the region comes from states that have the closest ties with Washington – namely, Singapore and Indonesia. Interestingly, no one objects to Russia's active role in the ASEAN Regional Forum (ARF), which also involves the U.S., yet the issue of Russia's presence in the planned East Asia Community (EAC), which will not include the United States, is still in limbo – despite Moscow's repeatedly reiterated interest in the EAC and despite the participation of the then-president Vladimir Putin in the first East Asia Summit (2005) as a guest.

The following factors can help create favorable conditions for Russia's more active involvement in cooperation with ASEAN. The Cold War has long ended; the Soviet Union has disappeared from the map of the world, and its successor Russia poses no threat to anyone. Its resources and ambitions are much less than those of the Soviet

Union, and it does not seek world domination; so there is no reason to bracket it with the United States. At the same time, Russia's Far East is an integral part of East Asia, and Russia, unlike the U.S., is a regional power that has every legitimate reason to participate in the processes going on there. The positions of the United States and Russia in the region are different; therefore, the level of their participation in regional affairs can be different, as well.

There are also some geopolitical arguments that could be interesting to regional partners. Both Russia and the ASEAN states actively maintain constructive and friendly relations with growing and strengthening China. The consolidation of political and economic ties between Russia and ASEAN could prevent their cooperation with China from becoming overly lop-sided. Some countries, for example, Japan and South Korea, have already understood this.

SCO-2009: Development Problems

Methodology, Economy, Security

Sergei Luzyanin

On the eve of the Shanghai Cooperation Organization's summit, due to open on June 15, 2009 in Yekaterinburg, issues of security and economic cooperation in Eurasia are objectively coming to the fore. The West is again resuming old discussions about a new "Asian NATO," "subversive" Chinese stratagems vis-à-vis Central Asia and Russia, and other possible developments, including the impact of the crisis on the SCO.

Of the very long list of issues on the agenda, let me focus on seven major points in this article: 1) the notion of "SCO space" and its interpretation; 2) the influence of the global financial crisis on this organization and measures to counter the crisis; 3) the security agenda of the SCO; 4) the Afghan issue and its impact on regional security; 5) the state of Central Asian economies; 6) new accents in the "Energy Club" concept; and 7) the role of the institution of observers.

INTERPRETATIONS OF THE "SCO SPACE" CONCEPT

The present expert discourse names Central Asia as the SCO's main geographical target area, which is understandable and absolutely right. The Shanghai Five, the SCO's predecessor, was founded in 1996 by Russia, China and its Central Asian neighbors Kazakhstan, Tajikistan and Kyrgyzstan. In 2001, the Shanghai Five was reorganized into the

Sergei Luzyanin is deputy director of the Institute of Far Eastern Studies; head of the Center for North-East Asian and SCO Studies, Russian Academy of Sciences; professor at the Moscow State Institute for International Relations (MGIMO). He holds a Doctorate in History.

SCO after the organization was joined by Uzbekistan which has no border with China. The SCO's key programs for security (struggle against "three evils" – separatism, religious extremism, and terrorism) and economic and humanitarian cooperation are largely connected with this region.

The SCO's Central Asian dimension is very special: four states in the region are subjects of economic and security policies in their relations with Russia and China and, simultaneously, objects of Russian-Chinese initiatives. This object/subject nature of relations stems, on the one hand, from the independent status of new states in the region, which emerged after 1991 and which have a right to independent foreign policy, and on the other hand, from the difference between their economic and political potentials as compared with Russia and China. The economic superiority of the latter two countries (especially China) allows Beijing and Moscow to regularly initiate various projects in the region, targeted largely at Central Asian markets and territories.

This dimension has been codified in SCO legal documents and will remain the main determining factor for a long time yet.

At the same time, the SCO is shaping a new dimension targeted at a broader geopolitical (Eurasian) context. It is based on an existing SCO institution – namely, the system of observer states (India, Pakistan, Iran and Mongolia). The Eurasian dimension involves mainly long-term projects and the organization's possible future enlargement with regard to both full members and observers.

The Eurasian dimension can be structured as a system of three interacting vectors. These include a Caspian vector, which suggests the SCO's active cooperation in energy and transport with Turkmenistan and Iran (as an observer) and, possibly, with Azerbaijan. The main feature of this vector is high competitive capacity with regard to Western energy projects (for example, the Baku-Tbilisi-Ceyhan oil pipeline). Therefore, the SCO has the biggest chances in this vector with Turkmenistan.

Another vector is South Asia (Afghanistan-Pakistan-India), which is based on the well-established political format of tripartite cooperation within RIC (Russia-India-China). Also, a good groundwork has been laid in the SCO members' bilateral relations with India in trade, economy,

humanitarian issues, and long-term energy and transport projects. The main impediment to the development of this SCO vector is Afghanistan.

The third vector is East Asia – Russia, China, Mongolia, the Korean Peninsula (North and South Korea), Japan, and the Association of Southeast Asian Nations (ASEAN). This vector can embrace the whole spectrum of energy interaction, investment and technological exchanges, and trade.

Both dimensions – Central Asian (narrow) and Eurasian (wide) – do not contradict but rather supplement each other, as they are parts of the SCO's long-term development strategy. At the same time, such a structure gives the SCO advantages over the Eurasian Economic Community (EurAsEC) and the Collective Security Treaty Organization (CSTO), which focus solely on the Central Asian region.

SCO ECONOMIC AGENDA AND THE GLOBAL FINANCIAL CRISIS

The world crisis has put issues of economic security and survivability on the top of the SCO agenda. All the six SCO members have worked out special programs for overcoming its aftermath and allocated large sums of money for them. The anti-crisis measures include: austerity policy, support for the banking and financial sector, stimulation of domestic demand, job creation, and the organization of community services to reduce social tensions in society.

At the same time, the SCO has not worked out a common anti-crisis program. SCO foreign-trade and foreign-economic ministers discussed the need for such a program in Beijing on September 24-25, 2008, but failed to reach a consensus. The SCO Heads of Government Council (HGC), which met in Kazakhstan's capital Astana on October 30, 2008, made no mention of ways to overcome the crisis and its aftermath in its joint communiqué, either. The Council's decisions focused on cooperation in the following areas:

- creating stable and predictable conditions for mutual trade and investment, and strengthening market mechanisms;
- increasing energy efficiency, developing green energy technologies, using renewable energy sources, and ensuring energy security;
- introducing innovative technologies;

- promoting transport projects;
- deepening interaction in customs control;
- developing cooperation in healthcare, particularly in the prevention, diagnosis and treatment of infectious diseases.

The HGC endorsed an updated edition of the Plan of Action for implementing the Program for Multilateral Trade and Economic Cooperation of the SCO Member States (adopted in 2003 for the period ending in 2020).

SCO experts have formulated five major proposals to minimize the crisis aftermath: 1) establishing an anti-crisis SCO Fund with a common program of action of the six member states; 2) founding a SCO Bank that would unite state and private commercial banks; 3) switching to settlements in national currencies under individual interstate SCO projects; 4) involving the SCO Business Council and the SCO Interbank Association on a larger scale in the implementation of projects provided for by the Plan; and 5) increasing the coordination of efforts among the SCO members on a bilateral basis to work out anti-crisis measures.

SCO SECURITY AGENDA

The SCO holds that challenges and threats, both internal (Central Asian) and external (Afghan-Pakistani), will grow increasingly complicated and differentiated. The spectrum and types of challenges increase particularly in the field of the so-called non-traditional threats, ranging from cross-border crime and drug trafficking to natural disasters, water and energy problems, and environmental and food security.

The SCO relies on the experience of its Regional Anti-Terrorist Center, headquartered in Tashkent, Uzbekistan, and on the successful experience of military and anti-terrorism exercises, held by the SCO from 2002 to 2008 in various formats.

The above suggests that a) the SCO will increase its military and anti-terrorism efforts, while preserving its main feature – the absence of bloc-type and military-political components (such as NATO or the CSTO); b) the universal nature of the organization, as an organization of strategic partnership, will be preserved; and c) a dichotomy security system may be created in Central Asia with the SCO's help, in which the primary role would be assigned to the CSTO, especially considering the

recent establishment of the Collective Rapid Response Forces. The SCO does not have permanent collective defense forces.

Apart from the SCO and the CSTO, the region is covered by NATO programs (Partnership for Peace and others) and special programs of the Organization for Security and Cooperation in Europe (OSCE). The situation in this field is due to the following factors:

- SCO and CSTO security projects in the region are competitors to NATO projects;
- all structures are related to the Afghan security problem. Some of them are involved in Afghanistan directly (the operation of U.S.-led coalition troops), while others have indirect relation (the CSTO and the SCO, which acknowledge the presence of a complex Afghan threat);
- multilateral organizations (the CSTO and the SCO) do not impede but, on the contrary, encourage the development of bilateral relations of neighboring member states with Afghanistan.

The path to an effective future for the SCO lies in the development of a common strategy that would embrace all areas specified in the SCO Charter (political, economic, humanitarian and defense) on a mutually advantageous and multilateral basis.

In October 2007, the SCO signed an agreement with the Collective Security Treaty Organization. Prior to that, the two organizations had not had any joint documents on interaction and cooperation. Characteristically, both alliances held parallel military exercises in 2007 – “Frontier” (CSTO) and “Peace Mission” (SCO).

Specifics of CSTO-SCO Interaction

- Legal basis: “Memorandum of Understanding Between the Secretariat of the Collective Security Treaty Organization and the Secretariat of the Shanghai Cooperation Organization” of 2007;
- Forms of interaction: consultations and information exchanges;
- Reciprocal invitations to each other’s events;
- Joint cooperation programs embracing major areas of the two organizations’ activities;
- Deeper equitable cooperation between the SCO and CSTO Secretariats after the status of the SCO Secretary General was raised to Chief Executive Officer in 2007;

- The elaboration (at expert level) of the issue of the need to intensify interaction between the anti-terrorist structures of the SCO, the CSTO and the Anti-Terrorist Center of the Commonwealth of Independent States with a view to broadening exchanges of operational and analytical information.

THE AFGHAN ISSUE

The problem of Afghanistan is old and well known to Russia and its partners in the SCO. Today, new accents have appeared in approaches to this problem. The “Plan of Action of the Shanghai Cooperation Organization Member States and the Islamic Republic of Afghanistan on combating terrorism, illicit drug trafficking and organized crime,” signed on March 27, 2009 in Moscow, provides for practical interaction between the parties in combating terrorism in the following areas: “conducting joint operations to counter terrorist threats; involving Afghanistan, in a phased manner, in the SCO-wide collaboration in fighting terrorism in the region; [...] inviting relevant Afghan bodies to take part in joint law enforcement exercises carried out by the Member States.” The Statement, the Declaration and other documents of a special conference on Afghanistan, held in Moscow under the SCO auspices, express the organization’s support for the efforts of the Afghan government and international organizations and forces – the United Nations, the CIS, the CSTO, the OSCE, NATO and the Conference on Interaction and Confidence-Building Measures in Asia (CICA) – to resolve the Afghan problem.

The SCO strictly abides by its strategic policy of non-interference in the military-political sphere of Afghan affairs. However, considering the results of the Moscow conference and other new developments (for example, the improvement of the U.S.-Russian dialogue under President Barack Obama, and the opening of cargo transit for Afghanistan via Russia and other SCO members), tactics are obviously changing towards broadening the field of cooperation between the SCO and the CSTO, on the one hand, and NATO and other Western security projects, on the other.

THE STATE OF CENTRAL ASIAN SCO ECONOMIES

Among the SCO’s Central Asian members, **Kazakhstan** saw the greatest fall in GDP growth rates in 2008 to a mere 2.7 percent. Formally,

Kazakhstan posted single-digit inflation – 9.5 percent, but given the inflation rate in the previous year (2007) which amounted to 18.8 percent, this indicator was also among the lowest. Industrial output in 2008 rose by only 2.1 percent. The share of unprofitable enterprises (according to fiscal reports) was 36 percent. Stock quotations at the Kazakhstan Stock Exchange in 2008 fell by 66 percent. The target for national budget revenues was met by only 99.5 percent. The government allocated U.S. \$10 billion for anti-crisis measures. The 2009 budget was adopted with a 4.76-billion-dollar deficit.

The situation in **Tajikistan** is much worse, although formal figures may give a better impression. Inflation in 2008 exceeded 20 percent. National debts increased by 247 million dollars (almost by 20 percent) over the year. Tajikistan has almost no international reserves – they stand at less than \$200 million. Private remittances from Tajik migrant workers in Russia fell last year by 40 percent, or by two billion dollars.

Russia continues to be a reliable pillar of the Tajik economy. It has been the only country to build a large hydroelectric power station in Tajikistan since it gained independence – not the Rogun power plant, whose construction has been dragging on since 1976, but Sangtuda-1 (670 MW capacity). For comparison: Sangtuda-2, being built by Iran, will have a capacity of 220 MW. The first phase of Sangtuda-1 was put into operation in January 2008; the second phase in June, and the third in November.

The situation in two other Central Asian countries, **Kyrgyzstan** and **Uzbekistan**, is difficult, too. They are faced with a prospect of soaring unemployment and a decrease of industrial production. In agriculture, harvests have been consistently falling (raw cotton production in Uzbekistan in 2008 was about 300,000 tons less than in 2007, while grain output decreased by 100,000 tons).

NEW ACCENTS IN THE “ENERGY CLUB” CONCEPT

The current crisis has not taken off the agenda plans to establish a SCO Energy Club. The growing energy shortage is a weak point of the Chinese economy. Energy cooperation among Russia, Central Asian countries and China could be equally advantageous to all participants in

the project (including Turkmenistan which is not a SCO member). The idea of creating a SCO Energy Club was put forward by then-Russian President Vladimir Putin in December 2006. The Energy Club concept has at least four dimensions: a) global; b) regional/Eurasian (Russia, China and four Central Asian countries); c) sub-regional/Central Asia (Kazakhstan, Tajikistan, Uzbekistan and Kyrgyzstan); and d) national (the development of national energy models by the six SCO members). For the time being, priority is given to the regional/Eurasian dimension. A global format is a longer-term prospect, although some of its elements are already seen in the implementation of Russia's energy security concept (for example, the decisions of the G8 summit in St. Petersburg) and in the difficult dialogue between Russia and the European Union on the Energy Charter. The Energy Club would enable the SCO members to build a self-sufficient energy structure ("producer- supplier-customer") in the Eurasian space, would essentially enrich the SCO general development strategy, and introduce new resources of influence into the traditional spheres of security and economic and humanitarian cooperation.

The Club activity suggests broad and transparent cooperation not only among the SCO members but also between them and observer countries, as well as with a large number of non-state actors (private energy companies, etc.). A more flexible version of the Energy Club, rid of the political ballast, would make it possible to involve in energy cooperation such countries as gas-rich Turkmenistan (considering the position of the new Turkmen leadership), Azerbaijan and others. Theoretically, this approach enables negotiations with the GUAM (Georgia, Ukraine, Azerbaijan and Moldova) and other organizations.

The regional and sub-regional formats provide for a broader interpretation of the Energy Club's territorial frameworks, including the territories of the observer countries – Iran, India, Pakistan and Mongolia. The proposal by Kazakhstan President Nursultan Nazarbayev to establish an Asian energy market, and Iranian President Mahmoud Ahmadinejad's statement that his country could serve as a platform for SCO energy ministers' meetings with a view to studying possible regional cooperation in the exploration, extraction, transportation and refining of oil and gas expand the contours and potentialities of the Energy Club idea. The Asian energy market concept, as a kind of philosophy of

energy interaction in Eurasia, can develop in parallel with the Energy Club project or can organically absorb it. There is no contradiction here; on the contrary, both approaches can serve as a prototype for some Eurasian Energy Charter, akin to the European document.

The SCO energy space is characterized by the following special features and potentialities:

- The absence of third countries on energy transport routes;
- An organic geo-economic combination of groups of energy producers/exporters (Russia, Kazakhstan and Uzbekistan) and consumers/importers (China, Kyrgyzstan and Tajikistan). Taking into account the observer countries, one could speak about interaction between an axis of energy producers (Russia-Kazakhstan-Uzbekistan-Iran) and an axis of consumers (China-Tajikistan-Kyrgyzstan-India-Pakistan-Mongolia). The implementation of the first and, especially, the second model (together with the observers) would make the SCO a self-sufficient energy system both regionally and globally. To these two axes, one should add an axis of transporting countries. Interaction between these three axes (in gas, oil, nuclear power, and electricity supply) at its initial stage will apparently focus on the development of a common policy with regard to prices (taking into account world energy prices and long-term agreements), supply routes, and the volume of sales. Unlike OPEC, the SCO Energy Club would unite producers, transporters, and consumers of energy resources, which would make it possible, already at the initial stage, to implement a strategy of comparative advantages;
- The possibility of supplementing the SCO energy project with an integration project, namely a SCO free trade zone. However, energy interaction, due to greater mutual interest of the participants in it, is expected to develop faster than integration processes;
- The SCO Energy Club can become an effective regulator of energy conflicts in Central Asia, especially between Uzbekistan and Tajikistan, and between Uzbekistan and Kyrgyzstan over the supply of Uzbek gas and electricity in exchange for water supplies from Kyrgyzstan and Tajikistan. Unfortunately, plans by Central Asian states and EurAsEC members to create water consortia do not help to reduce tensions.

There are objective difficulties in the way of the Energy Club project,

stemming primarily from the different sizes of SCO economies and the clashes of interests between energy producers and consumers. Within both groups (producers and consumers), there always exists competition, for example among Russia, Kazakhstan and Iran for oil and gas markets or among major energy importers, such as India and China, for sources, routes and amounts of energy supply. However, this tendency can be overcome within the Energy Club frameworks. In particular, the huge Chinese market is capable of absorbing any amounts of oil and gas offered by Russia, Kazakhstan and Iran.

Although Turkmenistan is not a member or observer of the SCO, an agreement to build a Caspian gas pipeline, signed by Russia, Kazakhstan and Turkmenistan on December 17, 2007, also works for the Energy Club idea, even though indirectly. Moscow and Astana would like to involve Ashgabat in SCO activities even as an observer – that would enable Russia and Kazakhstan to promote this and other gas projects more efficiently. Such a possibility is not ruled out, considering the “democratic” behavior of the new Turkmen leader.

THE ROLE OF OBSERVERS

Cooperation among SCO observers (Iran, India, Pakistan and Mongolia) is obviously deepening. These countries are highly interested in the development of cooperation with the SCO in energy, transport, investment, technological exchanges, and other areas. Some observer states (Pakistan and Iran) have repeatedly declared their desire to join the SCO as full members.

The SCO leadership takes an individual approach to observer countries on membership prospects. Priority with regard to possible admission to the SCO is given to the less troubled countries – Mongolia and India. Considering the unresolved nuclear problem in Iran and the aggravation of the political crisis in Pakistan, Tehran and Islamabad are not yet considered as candidates for full membership.

At the same time, preparations are under way for the establishment of an institution of “dialogue partners.” Belarus and Sri Lanka have already applied for dialogue partner status, while Turkey and Japan have asked for documents on this project.

Thus, the implementation of the SCO project is both a serious challenge to Russia and, at the same time, a chance to use collective

Peace and Cooperation in Central Eurasia

An Iranian Outlook

Jahangir Karami

Central Eurasia, especially the part located between Iran and Russia, is facing many problems at the moment. The region's future is challenged by economic problems, poverty, ethnic and religious conflicts, intervention by great powers and a lack of any general arrangements for solving these problems. Most of them could be resolved using regional mechanisms and thus have a positive impact on resolving other problems as well. Addressing such an important agenda requires cooperation from all the countries in the region, however Iran and Russia could be most effective in this regard, by providing conditions for regional peace through dialogue and cooperation.

Achieving stability in Central Eurasia has a promising history with 15 years of coexistence and cooperation among Iran, Russia and other countries in the region. This article will attempt to analyze the possibilities and opportunities for attaining peace and cooperation in the region from a "social-constructivist" approach. In fact, it offers an Iranian scholar's outlook on how this issue is understood in Iran – by the government, academic quarters and society.

MUTUAL UNDERSTANDING AND COOPERATION

Political science provides many theories for the analysis and explanation of international realities, phenomena and problems. Many theories have offered solutions to conflicts and crises from the pre-

Jahangir Karami is an assistant professor of Russian Studies at the University of Tehran.

scriptive and normative approaches. For example, from a realist's point of view the only way towards peace and cooperation is a "balance of power." Liberals point out common ideas and goals and relevant institutions as necessary conditions. From their point of view democracy within states is the key to resolving conflicts. Theoreticians of the "foreign policy school" consider domestic factors at the individual, group, organizational, social and national levels; they also regard regional and global constituents as effective factors. From the post-modernist approach, specifically discourse analysis, there may be different discourses coming from different layers of power. In each period of history one of them is dominant and forms a foreign policy. Therefore, peace and cooperation are transitory, but the hegemony of peace discourse can have a positive effect on other countries.

In the latest theory of international relations, constructivists emphasize the significance inter-subjective comprehension of other states as the main factor in international politics. [Through inter-subjective perception people form shared meanings used in their interactions with each other and as an everyday resource to interpret the social and cultural life. Inter-subjectivity emphasizes that shared cognition and consensus is essential in the shaping of our ideas and relations. — Ed]. From the constructivist point of view, states have a historical social identity and interact in a way that helps them reach understanding of each other.

A state may develop an inter-subjective understanding of another state as a source of threat, hostility and insecurity, or, alternatively, regard it as a friend. The inter-subjective understanding may regard the other power's growth as a mounting threat, or it may regard it as an ordinary thing. Mutual understanding forms a comprehension of mutual security either according to a competitive (Hobbesian) or cooperative (Kantian) model. Therefore, although the historical and social identity of states may prepare the ground for competition or cooperation, current interaction affects mutual understanding and redefines the states' identity and interests. The relations between states in each period develop according to one of the two models — cooperation or competition.

TWO DECADES OF COMMON EXPERIENCE
AND UNDERSTANDING IN CENTRAL EURASIA

Iran and Russia have ancient deep-rooted identities and their interaction in different periods of history has helped them develop different understandings of each other. From the second half of the 16th century until the end of the 17th century, that is, for 150 years, their interaction was marked by cooperation. But from the 18th century until the end of the 20th century, the two countries experienced both warm and cold wars, and their understanding of each other would fall under the notions of threat and hostility.

The year 1989 should be regarded as the start of a new era in relations between the two countries. Both Iran after the Islamic revolution and Russia after the collapse of the Soviet Union were transformed and gained new identities. The two countries started a new interaction with new identities in the 1990s. Today, Tehran and Moscow cooperate peacefully in different spheres, observing the UN Charter principles and the interests of other states. The cooperation involves bilateral issues and regional matters in Central Asia, the Caspian region and the Caucasus.

This interaction has acquired a new dimension which can be described using such terms as “friendship,” “common interests” and “essential cooperation.” Mutual understanding has provided a basis for mutual help and has shaped positive bilateral relations. The growing level of this interaction is confirmed by both political analysts and state officials of the two countries.

Unfortunately, this mutual understanding and cooperation has not embraced the entire region and has not culminated in any kind of cooperative structure of Iran, Russia and other countries of the region. The two countries have so far been unable to establish mechanisms for institutionalizing these achievements, yet it is still possible to find a solution to this issue.

After 1992, Iran and Russia gradually reached an understanding of mutual interests in Central Asia, the Caspian region and the Caucasus that formed a basis for their cooperation in these regions. Such factors as the growing influence of Western powers and their allies (Turkey, Israel, Saudi Arabia and Pakistan), the permeation of existing regional crises

into the territories of the two countries and the atmosphere created by the 1989 agreement have culminated in expanding cooperation.

Cooperation projects have helped to alleviate pessimism in relations between Iran and Russia. There is a new generation of managers and officials with cooperation experience that can be used as a pattern by their colleagues and the next generation. Cooperation makes representatives of the two countries learn each other's language more seriously and creates increased interest in the two nations.

In contrast to the Yeltsin era, Russia today pursues an independent foreign policy at a global level. Iran's and Russia's independent activities on the international stage and a series of global interactions are a factor that helps counterbalance U.S. unilateralism. The independent policies of Russia, Iran and other countries, particularly the new emerging economies, contribute to the diversification of the international system, promotion of national sovereignty and respect for the principles of international law, such as the non-use of force and non-intervention.

A strong Russia enjoying the power of self-defense can act more effectively in restricting NATO's influence. This is a significant issue for Iran. Together with new emerging powers like China, India and Brazil, which are seeking independent action, an independent and powerful Russia and an independent and powerful Iran could create a basis for synergy in the international system.

At the regional level the two countries can enjoy more positive cooperation. Iran and Russia have the capacity to create effective institutions in Central Asia and in the Caucasus in order to solve problems related to development, security and cooperation in these regions. Such institutions could take steps towards economic, cultural and political integration. As an Islamic country with a progressive political system, Iran can effectively replace patterns propagating hostility towards Russia.

The two countries showed concern over the Nagorno-Karabakh crisis and Iran acted as mediator in it. Tehran and Moscow held a series of meetings beginning in 1994 on the civil war in Tajikistan, which eventually resulted in reconciliation and an end to the crisis in 1996. Their cooperation in supporting the Afghan Northern

Alliance in 1996-2001 also helped form strong resistance to the Taliban offensive.

Tehran and Moscow realize that extremist ethnic and religious movements operating in the regions located between Russia and Iran might endanger their interests. That is why they regard each other as colleagues and have tried to resolve problems through joint efforts.

After the collapse of the Soviet Union, Moscow had a negative view of Iranian activities in Central Asia. But this view changed due to Iran's pragmatic policy and to close cooperation between the two countries on some issues, including the Tajik crisis.

The civil war in Tajikistan was in fact a battle between Islamists and democrats on the one hand, and Communists on the other. The Communists, with support from Russia and Uzbekistan, seized power and the opposition withdrew to the Afghan borders and killed several Russian soldiers in a series of military operations. For Moscow, maintaining the former Soviet border was essential: if Tajikistan were lost, it would mean that the southern border would be open. Therefore, solving the problem by diplomatic means became a major task for Moscow. In autumn 1994, a ceasefire agreement was signed in Tehran between the parties engaged in the Tajik civil war. Tajik President Emomali Rakhmonov and leader of the opposition Islamic Renaissance Party of Tajikistan Abdullah Nuri were invited to Tehran the next year, where they signed an agreement on a peaceful resolution to the conflict. They agreed to maintain the ceasefire and set up a council to solve the problems. Finally, in 1997, the Tajik government and the opposition forces reached a final agreement on this regard.

Iran's mediatory role in reconciling the hostile groups in Tajikistan increased the country's overall significance and position in creating peace and stability in the region. Russians became aware of Iran's positive role. Importantly, Iran acted as a mediator in the Tajik conflict while Russia supported the Tajik government. Russian forces were officially present in that country. By convincing the Islamist opposition to reconcile with the Russia-backed government, Iran played a difficult and important role. Unfortunately, the problem was resolved for the benefit of the Dushanbe government and Russia's regional position.

In another instance cooperation between Iran and Russia involved the resolution of the Afghan issue. After the Taliban seized power in 1996, Iran and Russia supported the Northern Alliance. In the same year, the Iranian foreign minister, in emphasizing the warm relations between the two countries, called for closer cooperation in resolving the Afghan issue and Russian foreign minister Yevgeny Primakov visited Tehran. As a radical group, the Taliban were regarded as a threat to the security of both Iran and Russia. So Tehran and Moscow decided to confront the Taliban together. Moreover, both countries were facing the problem of drug trafficking from Afghanistan. Tehran and Moscow signed an agreement to combat drug smuggling.

The next years saw an increase in cooperation between the two countries in that sphere. The U.S. eventually overthrew the Taliban with Iranian assistance and with the support of Russian forces. After defeating the Taliban, it was expected that Moscow would show sensitivity towards the presence of U.S. and other Western countries in Afghanistan and Central Asia and turn towards India, China and Iran in order to form a kind of balance against the West.

In recent years, notwithstanding that the two states do not regard each other as rivals or threats, their cooperation at the regional level has been less pronounced than was expected and has taken the form of sustainable implicit arrangements. For instance, in Central Asia Russia did not welcome Iran's membership in the Shanghai Cooperation Organization. Iran only succeeded in being accepted as an observer member in July 2005 with the assistance of smaller countries like Tajikistan and Kyrgyzstan. From the Russian point of view, Iran can give a different meaning and direction to this organization due to its specific foreign policy, especially as regards the U.S. and the West. On the other hand, Iran's non-involvement may limit the organization's capacity for reaching a common stance on security.

Furthermore, Russia seeks to maintain its influence in the CIS, including countries in Central Asia and the Caucasus, and regards it as a basic priority. For this purpose Russia has such mechanisms as the CIS. So generally speaking, Russia wants the CIS out of the others' control. However, Russia is gradually losing its influence in the region. While Georgia and Azerbaijan are getting closer to the West

and Turkey, Central Asia is very likely to become increasingly close to China. Right now there is already a considerable presence of Chinese and Koreans in Kazakhstan and Chinese energy pipelines will reach the Caspian Sea in the next two years. In these circumstances Russia will not have any better option than Iran.

The Caucasus has always had a special significance for both Iran and Russia. Back in the 18th and the 19th centuries, most rivalries (called “the great game” that involved the Ottoman Empire, Iran, Russia and Britain) took place in that region. The Caucasus is a mixture of different ethnic groups, with eight autonomous republics located in the north, and three independent and four autonomous republics in the south. Its proximity to the Black Sea is of critical importance to Russia (especially given its present relations with Ukraine, NATO expansion and the growing influence of other Western institutions). For Iran, neighboring the insecure Caucasus region, which is bogged down in ethnic conflicts and identity problems, creates certain concern. Iran and Russia are sensitive to the ethnic crises in the region, including Nagorno-Karabakh, and regard them as a threat to their national security and their regional influence, but they have pursued different policies in that regard.

Moscow, which has a special relation with Armenia and military bases in that country and enjoys broad influence in Azerbaijan, and both of these countries are dependent on Russia in different spheres, uses various tools in order to sustain its influence in the region. Until 2007, Russia maintained military bases in Georgia and rented the Qabala radar base in Azerbaijan. Russia also has broad relations with regional ethnic groups, including Abkhazians, Ossetians and Ajars, and has been supporting them against central governments.

Another issue is the presence of foreign powers in the region, and Georgia’s and Azerbaijan’s growing relations with NATO, which is causing concern in Iran and Russia. Unfortunately, the two countries have not been successful in reaching cooperation in confronting these developments.

In late April 2005, Russia proposed establishing a new defense formation, specifically a rapid reaction force in the Caspian, which was welcomed by Iran. The force was apparently intended not just to

repulse terrorist threats, but also to oppose the Western military presence in the Caspian. In fact, Moscow's proposal was triggered by U.S. Secretary of Defense Donald Rumsfeld's visit to Baku on April 12-13. Immediately after his visit local media claimed that Washington intended to build major bases, extensive radar and air-defense facilities in Azerbaijan from which to attack Iran or from which a sophisticated radar network and a tripartite military bloc, including Azerbaijan, Kazakhstan and Turkmenistan, could be built. "Azeri-American plans aim to further develop the Operation Caspian Watch plan, whose purpose is to help the Azerbaijani navy defend its coastal and offshore oil platforms that Iran has previously threatened and to enhance Azerbaijan's participation in NATO's Partnership for Peace." While the Russian-Iranian gambit is clearly intended to counter Washington and NATO, it also indicates a significant modification of Iran's stated policy of opposing the militarization of the Caspian.

The idea to demilitarize the Caspian Sea region was propounded by Iran during a visit by Iranian Supreme Leader Ayatollah Khamenei in 2002. Later, in 2005, Russian President Vladimir Putin suggested that all the coastal countries of the Caspian Sea, including Iran, form an organization to preserve peace, order and security in the Caspian region. While Putin's idea of a new organization was focused on maintaining peace, Iran considered the economic growth and development of the region, as well.

Russia's proposal regarding military activity in the Caspian Sea consisted of two points. First, Russia suggested that a formula to maintain the military forces of the littoral states be included in a Caspian constitution and proposed establishing a military formation around the Caspian Sea that would be at an adequate and reasonable level. Second, Russia proposed that Caspian Sea resources be used solely for peaceful purposes and the use of force or military threats be forbidden. Today some of the coastal countries are moving towards a demilitarization of the Caspian, while others, which have a large military force, are seeking the maximum use of the Caspian. As for Iran, it should adopt a clear policy with regard to the demilitarization of the Caspian Sea, but it should be considered that from Iran's point of view, the demilitarization of the region will deprive it of any defense capability.

Russia has at least 105 warships in the Caspian Sea, most of which come from its Black Sea Fleet which was transformed after several disputes with Ukraine over the Crimea. So Russia is the naval superpower on the Caspian Sea. Iran, Kazakhstan, Azerbaijan and Turkmenistan lag far behind. Iran put the reinforcement of its military force on the agenda in 1998 and since then it has established two bases in Anzali and Chalous. The eastern part of the Caspian Sea is patrolled by the Iranian Revolutionary Guards and the western part, by the Iranian Navy. The chief commander of the Iranian Navy issued a warning to potential “enemies” that every hostile plan would be confronted by the Iranian army and said that only the five littoral states have the right to determine the Caspian Sea’s legal regime.

Russia’s proposal to the Caspian littoral states to create a multinational rapid reaction force was fueled by yet another consideration: the Caspian region has turned into a crossroads for terrorists based in Iraq, Afghanistan, Pakistan and other countries in the region. Using the disarranged state institutions of the Caspian littoral countries, terrorist paramilitary groups penetrate – through secret and sometimes visible channels – to Kazakhstan, Russia and the Caucasus.

The Caspian Sea issue is a multifaceted and complicated one and even though Iran and Russia agree on some points, such as the non-presence of non-littoral countries, preventing energy pipelines from going through Turkey and the establishment of a new legal regime for the Caspian Sea, they disagree on other points. In Iran’s opinion, the Russian-Kazakh agreement of July 1998 and the Russian-Azerbaijani agreement on dividing the Caspian Sea run counter to the understanding reached previously by the two countries. These agreements keep pressure on Iran to reach agreements with neighboring countries.

Despite the agreement on preventing East-West energy pipelines, Iran and Russia have not reached any agreement on exploiting each other’s geographical advantages. Russia is considering emerging as a monopoly and becoming what Putin calls an “energy superpower.”

Iran started negotiations with Russia through official and non-official channels several years ago. Given the importance of the sea surface issues for Russians, Iran implicitly stated that if Iran’s inter-

ests are protected in the sea bed, it would support Russia's position concerning the sea surface. According to a letter of understanding between Iranian and Russian officials, Russia agreed that Iran should have a 20 percent share in the Caspian Sea. Also, a series of negotiations have been held at which amendments to the legal regime, including replacement of the "median line" by a "dividing line," were discussed.

As far back as 1992, former Iranian President Hashemi Rafsanjani proposed establishing an organization of the Caspian littoral states at a meeting of Caspian leaders in Tehran. Although the idea was generally accepted and preparations for establishing a Secretariat were launched, some countries – moved by greed and U.S. temptations – chose petty policies for using the Caspian's resources.

In October 1996, negotiations among the five littoral states on the Caspian's legal regime were held in Ashgabat. The representatives discussed the adoption of a Caspian legal convention that would determine the rights and obligations of the littoral countries. In addition to negotiations on the legal regime, other high-ranking meetings regarding Caspian problems were held on such issues as shipping, fishing, meteorology and marine urgency. Some countries also made proposals concerning security issues. The first significant result of these meetings was the signing of the Convention for the Protection of the Marine Environment of the Caspian Sea on October 26, 2003 in Tehran.

On October 16, 2007, Tehran hosted the second summit of Caspian Sea nations. Although the forum failed to resolve the contentious issues and showed the lack of agreement between Iran and Russia on some points, Iranian President Mahmud Ahmadinejad expressed assurance that "in these negotiations we reached final agreement on many problems and I hope that from now on, the leaders' summits will be held regularly."

Russian President Vladimir Putin said that "it is better to have more shared waters and fewer borders among the five countries. Our efforts should be aimed at cooperation and coordination in managing marine resources and sea reconstruction with due regard for environmental protection and our interests." He also reiterated that limita-

tions regarding the seabed and below the seabed should be removed. “The North Caspian has removed these limitations in line with the agreements, the South Caspian should learn from that.”

Turkmen President Gurbanguly Berdymukhammedov confirmed that the practice of unilateral actions in the Caspian Sea is unacceptable for Turkmenistan. “Primarily this concerns oil operations at sites that are not covered by agreements between the parties,” he said.

Kazakh President Nursultan Nazarbayev called for revising the existing quota system for the sturgeon fishing, which is largely a legacy of pre-1991 agreements between the Soviet Union and Iran. [Under the existing system, Iran is entitled to 45 percent and Russia to 27 percent, with the remaining 28 percent distributed among Kazakhstan, Azerbaijan and Turkmenistan. — Ed.] “These agreements should go down to history,” he said. He proposed dividing the water area into sovereign territorial sectors at least 12 nautical miles wide for each country, drawing fishing zones 12-30 nautical miles beyond the sovereign zones, and creating an open zone in the center of the sea, with freedom for shipping and negotiated national quotas for fishing.

In emphasizing the growing importance of the Caspian Sea, Azerbaijani President Ilham Aliyev pointed out that the five leaders should “consolidate understanding for providing peace and security in the Caspian.”

The Caspian summit in Tehran culminated in the adoption of a 25-point Declaration in which the parties expressed their commitment to make the Caspian “a region of peace and stability, stable economic growth and prosperity, good-neighborliness and international cooperation of the littoral states based on equal rights.” The other points included commitments to hold regular meetings of the heads of the Caspian littoral states; refrain from the use of military force in mutual relations; and abide by the principles of respect for human rights and non-interference in internal affairs.

THE NEED FOR COMMON ARRANGEMENTS

The Iranian political system defines its identity as a cultural, religious and regional one and regards domestic efficiency and independent

foreign policy to be its major priorities. Iran has sought to play an active role in the Islamic world, especially as regards cooperation in resolving regional conflicts. Among Islamic states, Iran, as a moderate country, has never supported extremism as a tool for solving problems. Iran backed Russia as an observer member of the Organization of the Islamic Conference. At the regional level, Iran maintains ties with the countries of South Asia, the Middle East, the Persian Gulf and Central Eurasia (Central Asia, the Caspian and the Caucasus). Iran's role in each of these regions depends on their significance for its national interests.

Central Eurasia is of special significance for Iran due to geographical, political and economic reasons. Iran's relations with the countries of this region have been mostly favorable, except for occasional misunderstandings. Iran is one of the important partners of these countries.

Resolving the economic, political and security problems of Central Eurasia requires the formation of broad regional structures with all the actors present in them. Iran and Russia have major roles in resolving this task. However, these two countries consider the region in different ways. Moscow regards the region as the "Near Abroad". Indeed, since the 18th century it has been Russia's so-called backyard due to its direct presence there, political and cultural influence and strong religious ties. For Iran, historical, cultural and religious ties with the region are important. Iran regards this region as a historically cultural part of ancient Iran, which is now strongly affected by both the Russian and Western cultures. Iran assumes cultural and political roles which might comprise the promotion of common interests with Russia and other countries in the region.

The development of relations between Iran, Russia and other countries of the region over the last fifteen years has provided a favorable inter-subjective context with no threats and a common understanding that all the states are interested in seeing a stable and prosperous Central Eurasia. During these years the countries of the region have learned to understand each other in a new environment. This new environment has set all these countries on a new social and political stage that has helped them redefine their identities and

national interests.

Thus the development of relations between Central Eurasian countries shows how states with different identities encounter other states in a new environment, and how they gradually develop a common understanding as a result of interaction. Central Eurasian countries have adopted new identities under the new circumstances. This approach has shaped an inter-subjective context that has laid the groundwork for cooperation and made it possible to resolve the problems through dialogue. This understanding and cooperation provide prerequisites for institution-building and establishing common economic, political and security arrangements that will set behavioral norms, rules and regimes. If such institutions are not created and such norms are not formed, relations between the countries might be endangered by uncontrollable events and incidents. Furthermore, in this case there exists a high risk of damage to the relations and emergence of an undesirable atmosphere of misunderstanding and mistrust.

What worries us at the moment is that despite the common experience of cooperation and the existence of a common inter-subjective context for upgrading the level of cooperation from bilateral ties to the regional level, no effective regional arrangements have been created so far. These arrangements may be established in Central Asia and the Caspian Sea. If such arrangements are created, the possibility for dialogue and problem solving will increase manifold.

The experience of Europe, East Asia and North America in establishing such arrangements and forming behavioral, economic, political and security norms and rules indicates that the newly-formed structures represent common interests in a way that all the countries have to behave within the framework of agreed regimes. Such regimes prevent the aggravation of problems to a critical level and help resolve them to the benefit of the engaged parties, minimizing the possibility of interference by an external power. In the absence of such regional organizations smaller countries tend to invite greater powers in order to challenge regional powers. The latest research on regional institutions and regional regimes shows that these mechanisms are critical for providing a favorable environment in which the countries may develop a common understanding of each other's policies.

* * *

In analyzing international affairs, the social-constructivist theory pays particular attention to the identity of states, their interaction and the inter-subjective understanding resulting from the experience of interaction. A common experience and an inter-subjective context help the states define their identities. A common subjective context helps create a cooperation mechanism, institutionalize it and make its behavioral regimes obligatory for all interactive parties.

Iran and Russia have acquired new identities in the course of two decades of cooperation in a new environment. The interaction between Iran and Russia and among other Central Eurasian countries takes place in a favorable inter-subjective atmosphere. However, this cooperation has remained bilateral and limited as no effective regional arrangements or institutions have been established to further cooperation, stability and security in the region. As long as this is the case, cooperation between the two countries runs the risk of damage.

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Lines of Tension



Flag of the Principality of Abkhazia (1491–1810)

“ Any path towards a resolution of the South Caucasian separatist conflicts will be painful to all the parties involved – the unrecognized entities, “parent” states and mediators. To alleviate the pain, a set of guiding principles is necessary to agree upon by at least some of the major actors. It is unlikely that any better principle can be found than that of precedent. ”

Accepting the Inevitable?

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Accepting the Inevitable?

U.S. Stakes in the Future of Unrecognized States in the South Caucasus

Mikhail Troitsky

The U.S. approach to the unrecognized states in the South Caucasus was summed up by U.S. Vice President Joseph Biden at the Munich Security Conference on February 7, 2009. He said that the “United States will not recognize Abkhazia and South Ossetia as independent states.” Indeed, U.S. policy towards Abkhazia, South Ossetia and Nagorny Karabakh is nuanced and is shaped by a mixture of ideological, geopolitical and domestic factors. This article analyzes the sources of U.S. policy and prospects for a lasting solution to the problem of unrecognized states in the South Caucasus given the conflicting views of major powers in that region.

WHY ENGAGE IN THE SOUTH CAUCASUS?

America’s stake in the future of Abkhazia, South Ossetia and Nagorny Karabakh hinges on Washington’s broader policy priorities in the South Caucasus. In their statements, high-ranking U.S. officials have mentioned a number of U.S. policy goals that have a bearing on the unrecognized entities of the South Caucasus. Promoting transit routes that would bypass Russia became a major U.S. priority in the mid-1990s. Washington has repeatedly stated that it supports the diversification of energy transit routes and, more generally, of the transport infrastructure in Eurasia. This effectively meant creating alternative transit ways bypassing Russia’s territory. For example, the U.S. government strongly promoted the Baku-Tbilisi-Ceyhan oil pipeline

Mikhail Troitsky is an associate professor and deputy dean of the School of Political Affairs of Moscow State Institute of International Relations (MGIMO).

which has become a major outlet for the oil produced by Azerbaijan and Kazakhstan on the Caspian shelf.

Another important U.S. policy goal that has gained salience in the aftermath of the September 11, 2001 attacks on New York City and Washington, is combating terrorism and denying potential terrorists of an opportunity to have a safe haven in any region of the world. In October 2001, the United States began cooperating with Tbilisi on combating the extremist Muslim elements that were based in the Pankisi Gorge. The Gorge had provided shelter to the Chechen militants fighting with the Russian troops in Chechnya since the early 1990s. By requesting U.S. assistance in resolving the Pankisi Gorge problem in October 2001, Georgian President Eduard Shevardnadze demonstrated commitment to security cooperation with Washington and gave a start to the U.S.-Georgia alliance relationship that was further enhanced by his successor Mikheil Saakashvili. Georgian troops were deployed in Iraq from August 2003 until August 2008 to support U.S. operations in that country. With the number of Georgian military personnel reaching 2,000 by the time of their withdrawal in the wake of Georgia's armed confrontation with Russia, Georgia was the second largest contributor to allied forces in Iraq among non-NATO nations.

U.S. policy in the South Caucasus has been affected by two powerful domestic interest groups – the Armenian lobby, which prevented Washington from developing relations with Armenia's rival – Azerbaijan – in 1991-1994, and transnational energy corporations that grew increasingly interested in the Azeri and Kazakh oil and natural gas after the breakup of the Soviet Union. Eventually, the latter groups made sure that the United States normalized relations with Azerbaijan and supported the Contract of the Century – the 1994 deal to develop Azeri oil by an international consortium involving – among others – Britain's BP, America's Amoco and Russia's Lukoil.

On the “ideological front,” starting from 2003 the Bush administration consistently presented Georgia as a showcase of democratic transformation and Washington's important ally in the global fight against terrorism. The U.S. officials made repeated statements that Georgia was a democracy stronghold in the South Caucasus, a society

which had successfully removed authoritarian rulers and had firmly allied with the U.S. As a flip side, America's international prestige of a supporter of Georgia's democratic transformation became dependent on the outcome of the domestic reform and external policies pursued by Georgian President Mikheil Saakashvili.

The United States also sought to ensure that no other great power be able to decisively influence the internal developments in the region and its external ties. This primarily concerned Russia with which the United States was engaged – for the most part of the 2000s – in a thinly veiled rivalry over the influence on the three South Caucasian republics. At the same time, in the wake of the August 2008 war in South Ossetia, Washington worked to avoid resumption of armed hostilities around the Caucasian unrecognized states. A renewed armed clash after August 2008 would be considered a failure of U.S. diplomacy because Washington gave assurances that it deplored the use of force and, in any case, would have never approved of such measure by the Georgian leadership. A new attempt by Tbilisi to get hold of South Ossetia or Abkhazia would also cast doubt on America as an effective mediator in the region.

Finally, the U.S. sought to maintain the interest of South Caucasian states in cooperating with or acceding to NATO. NATO's cohesion and credibility depend on the presence of states willing to be admitted to or engage with the Alliance. While Georgia's chances for admittance to NATO began to be seriously considered even before 2007, Azerbaijan remained cautious not to irritate Russia by intensifying dialogue with NATO. Armenia, as a member of the Collective Security Treaty Organization led by Russia, received close attention by NATO and U.S. representatives who encouraged Yerevan to rethink its defense commitments and turn towards NATO.

U.S. policy towards the South Caucasian unrecognized entities has been developing against the backdrop of important external factors, both of geopolitical and ideological nature. First of all, U.S.-Russia rivalry in the post-Soviet space accelerated in the wake of the "colored" revolutions of 2003-2004 in Georgia and Ukraine. Each side seeks to draw the countries that are balancing between Moscow and Washington (such as Azerbaijan) and disengage the states that ally

with the rival power, from it (such as Armenia or Uzbekistan). Russian and U.S. security and trade institutions compete in demonstrating that their projects are the most attractive and therefore should be chosen by countries that have not yet defined their alignment.

As a primary indication of the competition, Moscow and Washington have engaged in the negative imaging of each other. The U.S. administration has been casting Russia as a consolidating autocracy – economically successful (at least before the onset of the world economic meltdown in the autumn of 2008) and therefore dangerous for the “free world.” Moscow responded by denouncing the U.S. ambition to keep up a unipolar world order and promote America’s parochial security agenda with little regard for other countries’ concerns. Russia has been looking forward to a demise of U.S. global positions, including collapse of the U.S. dollar, defection of allies, and growing domestic discontent with the costs of being the world hegemon.

Both Moscow and Washington believed that sheer power, as an ability to influence the developments in a particular region, is convertible to economic gains, since potential investors seek stability and would rely on protection by the most powerful actor in the region. For the United States this meant that Washington had to confirm its credibility as a defender of Tbilisi – if the U.S. wanted to promote foreign investment in Georgia as a means of Georgia’s economic recovery. Furthermore, should the U.S.-championed economic and political reforms in Georgia succeed, a potent example may be set that a small state can reap substantial economic and political benefits from following America’s advice and firmly allying with the United States.

Against this strategic backdrop, since 2003-2004, U.S. policy towards the South Caucasian unrecognized entities has been driven by a number of important imperatives. First, Washington needs to maintain its credibility as a power that enjoys the right of veto over any potential resolution of the problem of unrecognized states. Second, America’s ability to influence the fate of the South Caucasian unrecognized states is regarded by U.S. policymakers as a sign of Washington’s overall influence in the region. Third, the U.S. seeks to prove that increased economic interactions and the liberal economic

regime are the best stimuli for a political unity or reintegration. If Georgia proves to be an economic success story, it would significantly increase the chances that the breakaway territories will opt for rejoining it. Also, it would confirm the claim that economic progress is a powerful cure for political and ethnic divisions.

One strategic goal of the United States is indeed to bring Georgia closer to or admit it to NATO. This cannot be achieved without a final settlement of the problem of the separatist enclaves. Both Tbilisi and Washington would prefer to see Abkhazia and South Ossetia reintegrated into Georgia. Yet, given the difficulty of negotiations and of a forced reintegration in the aftermath of the August 2008 war, the United States may instead favor a declaration by Tbilisi that would formally exempt the two breakaway republics from Tbilisi's control and yet leave the reintegration option open for any time in the future. (Such a compromise decision was made by the Federal Republic of Germany after Germany's division: it acknowledged the loss of the eastern Länder and yet provided by the Basic Law that they can return to the FRG at any time in the future.)

PRE-WAR POLICY CHANGES

A shift in Washington's policy towards Georgia's breakaway regions occurred in late 2007-early 2008. Before, the United States presumed that time was on the side of Georgia and regarded it as an important ally of the United States in the South Caucasus and in Eurasia in general. America was backing Tbilisi mainly by diplomatic means. Washington verbally supported Georgia's territorial integrity and approved of Tbilisi's efforts to change the status quo in negotiations on the status of Abkhazia and South Ossetia and on the presence of the Russian peacekeeping corps which ensured the de-facto independence of the two entities. Specifically, Washington proposed that the UN Security Council adopt a resolution demanding that the Russian peacekeepers in the conflict zones be replaced by an international contingent. At the same time, the American intermediaries realized that:

- a dramatic change in the status quo in the conflict zones, such as the withdrawal of the Russian contingent, may result in resumed

fighting, potential civilian casualties and massive refugee flows;

- although the conflict between Tbilisi and the capitals of Abkhazia and South Ossetia was primarily rooted in historical rivalries and ethnic animosities, it had a significant economic dimension. The choice between alliance with Moscow or reconciliation with Tbilisi by Abkhazia and South Ossetia depended on which side could best protect the economic interests of their ruling elites. Friendship with Russia posed no threat to the assets and the enrichment schemes deployed by Tskhinval and Sukhumi, while the Georgian government would certainly attempt to expropriate these assets and close the customs loopholes that secured profits from trade with Russia for the breakaway republics. A marked change of the situation required massive investment flows to Abkhazia and South Ossetia that would provide their leaders with new sources of income. That was the only way to achieve economic and, eventually, political disentanglement of Abkhazia and South Ossetia from Russia.

As a result, until 2008, the United States was cautious not to ruin the arrangements that ensured stability – although imperfect – in the conflict zones. However, it was clear to Washington that it lacked the incentives that could bring Abkhazia and South Ossetia back into Georgia. U.S. Deputy Assistant Secretary of State for European and Eurasian Affairs Matthew Bryza acknowledged in early 2008 that the United States was not able to commit enough financial resources – either as government aid or private investments – to “buy out” South Ossetia and Abkhazia from Russia. Nothing but a massive financial windfall – conditioned on Georgia’s reunification – could give Tbilisi a hope of peacefully restoring its sovereignty over the breakaway republics. Of course, the money could only come from a such powerful supporter and sponsor as the United States.

With the lack of financial and diplomatic means, changing the situation required other instruments. To implement the strategic goal of reintegrating Abkhazia and South Ossetia, the Georgian government, supported by the U.S., chose the tactics of military force. The United States helped improve the combat capabilities of the Georgian armed forces – first, through the Train and Equip program (2002-2004) and then through the Sustainment and Stability Operations Program

(Phases 1 and 2). These initiatives provided the Georgian government with about 100 million dollars for enhancing its army's counterterrorism capabilities and preparing Georgian units for operations in Iraq. However, these efforts fell short of making the Georgian armed forces ready for a massive military campaign against Abkhazia or South Ossetia. In order to keep that option open, Tbilisi had to dramatically raise its defense budget to almost 30 percent of the country's GDP by 2008.

Debate on whether the United States encouraged or acquiesced with Tbilisi's plans to invade South Ossetia in August 2008 continues unabated. There is little evidence that Washington could officially approve of such action if consulted by Georgian President Mikheil Saakashvili. Yet it is clear that the April 2008 Bucharest Summit Declaration set a timeline for Tbilisi to resolve its internal territorial problems. Under a strong influence by the U.S., which was widely reported in the media, the leaders of NATO countries asserted that Georgia (and Ukraine) "will become members of NATO" and announced that a further decision on the prospects for Georgia's (and Ukraine's) NATO membership would be made at the December 2008 meeting of NATO foreign ministers. The next step could have been granting a Membership Action Plan to Georgia. In any case, the Bucharest declaration clearly implied that Tbilisi had several remaining months of 2008 to achieve a decisive progress in the reunification as a precondition for joining NATO. Tbilisi took the Bucharest message as a green light for dealing with the breakaway regions as it wished. In their turn, American policymakers, knowing the situation on the ground, could have little doubt that Tbilisi would choose to resort to military force.

The Ossetia war of August 2008 demonstrated that even if the Bush administration did not give President Saakashvili an official green light, the United States was ready to back Tbilisi diplomatically and, possibly, militarily during the conflict. According to some Russian military experts, the air defense capabilities available to the Georgian armed forces were insufficient to shoot down three Russian combat aircraft. This could be accomplished with the help of the U.S. or NATO AWACS planes which were present in or near the Georgian airspace.

The shift in the U.S. views on the timeframe and suitable means to resolve Georgia's territorial problems reflected a broader change in Washington's policy in the post-Soviet space that occurred by the end of President George W. Bush's second term in office. The United States was more prepared to take risks than in the 1990s and early 2000s. At that time, American strategy mostly relied on soft power (educational projects, economic aid, diplomacy, etc.). The U.S. avoided overdramatizing security challenges in the Russian neighborhood and casting them in the ideological terms of a "struggle between the forces of democracy and the autocratic regime."

By the end of this decade, Russia, which sought to counterbalance America's influence, also learned to employ soft power in the form of financial aid, state loans, discounted arms supplies and diplomatic support to the incumbent regimes in the neighboring countries. When the limits of American soft power in the Russian neighborhood were exhausted, the U.S. resorted to more energetic ways of changing the status quo in the short term. Support for an accelerated transition of power from less democratic leaders to more "liberal" politicians – who strongly relied on the American backing – became Washington's favored instrument. Now the United States sought to dramatize and accelerate the choices that their potential allies were expected to make. Serbia in 2000-2001, Georgia in 2003-2004 and Ukraine in 2004-2005 were all "prompted" to make a dramatic choice. Yet they responded to that choice in different ways: whereas the leaders of Serbia and Ukraine could not fully align with the United States due to the strong resistance of powerful political groups at home, Georgia, where the voice of any opposition to the incumbent president was effectively silenced, chose to pursue the risky course of antagonizing Russia – its powerful neighbor in the post-Soviet space which was at loggerheads with the United States.

As for the Nagorny Karabakh conflict, the United States has been engaged in mediation since 1997 as a co-chair of the Minsk Group created under the auspices of the Organization for Security and Cooperation in Europe (OSCE). Since 2006, Washington has undertaken several unilateral attempts to organize Armenian-Azerbaijani summits to discuss the prospects for resolving the conflict behind

closed doors. The United States has been closely following Russia's mediation initiatives and on several occasions prevented Moscow from reaping the benefits of the main mediator, even though such action showed little promise of substantial progress. Washington sought to raise the profile of public diplomacy in Armenian-Azerbaijani relations and to foster exchanges between the two states at the grassroots level. However, this approach has yielded limited results so far, because the level of inter-ethnic tensions remains very high and each side considers a favorable resolution of the Karabakh dispute to be a matter of principle. In addition, Azerbaijani and Armenian positions are supported within the United States by different lobbies, each of which would press the administration hard to undermine the resolution of the Karabakh dispute that it will consider to be disadvantageous. At the same time, any settlement would require concessions from the sides and will give ample food for speculation about who lost more.

Remarkably, U.S. and Russian attempts to outmaneuver each other in conflict mediation were also typical of the Transnistrian conflict. In Transnistria, Washington made sure that no agreement that was mediated exclusively by Russia was implemented. U.S. diplomats sought to demonstrate that Moscow alone was not in the position to effectively influence the conflicting parties and sponsor a final settlement. The best-known episode of this kind occurred in October 2003 when the U.S. and the EU blocked the agreement mediated by Russia. Multiple accounts of the situation suggested that Moldovan President Vladimir Voronin turned down the final document after telephone conversations with EU and U.S. politicians. In all likelihood, he was convinced by Western diplomats that time was on his side: with the eventual accession of Romania into the EU and Moldovan citizens given an opportunity to obtain Romanian passports, the Transnistrians could be expected to happily rejoin Moldova.

THE POWER OF THE PRECEDENT

Any path towards a resolution of the South Caucasian separatist conflicts will be painful to all the parties involved – the unrecognized entities, “parent” states and mediators. To alleviate the pain, a set of guid-

ing principles is necessary to agree upon by at least some of the major actors. It is unlikely that any better principle can be found than that of precedent. What is needed is common interpretation of the past experience of secessionist conflicts.

It may be suggested that the guiding principle for the settlement of particular conflicts in the South Caucasus can be an “index of inevitability.” This index could be estimated against several criteria that could be agreed upon by the parties. The criteria could include, for example:

- ***the nature of dividing lines.*** As a rule, inter-ethnic hostilities are more difficult to manage than political disagreements or differences over the distribution of resources among the regions of an ethnically homogeneous country;

- ***the history of controversies that gave rise to a secessionist movement.*** The need for separation becomes more convincing if made on the grounds of a long-time oppression of an ethnic or religious minority by the ruling elite;

- ***legal grounds for self-determination.*** These can include the conditions on which the secessionist regions entered the “parent” country, or any legal norms related to the possibility of separation;

- ***the demographic dynamics in the conflict zone.*** It gets ever more difficult to prevent secession driven by an ethnic group which constitutes a majority of the population in a given area, wishes to secede and is growing at a faster rate than other ethnic groups that may be opposed to secession.

- ***refugees.*** Refugees’ rights to return to the abandoned land and take part in deciding the future of the seceding area usually become a major stumbling block in a conflict. Restitution of property to the refugees and acknowledging their right to vote on the status of their (former) land are usually non-starters for a separatist government. And yet accommodation of refugee demands is often made by mediators and broader international community as a pre-requisite to recognition.

- ***ability of the unrecognized entities to maintain security and implement democratic norms on its territory.*** As indicated by a number of observers, the quality of governance in breakaway territories becomes an increasingly powerful argument of the separatist authorities seeking recognition.

When applying these criteria to determine what kind of settlement is

“inevitable,” mediators should also strive to minimize the total cost of human suffering as a result of the conflict and the proposed settlement. It may be argued that the United States has employed the “inevitability” argument when promoting particular options of resolving secessionist conflicts after the end of the Cold War. In the case of Bosnia, Washington assumed that the high level of inter-ethnic hostilities in the former Yugoslavia excluded an opportunity for return to an integrated state. At the same time, allowing an extreme fragmentation of Yugoslavia was not an option either because in that case the dividing lines would have deepened while fighting could resume at any moment. These circumstances apparently played a significant role in the shaping of U.S. position on the future of Bosnia. Bosnia was kept as an integral state (although a loose federation), the irredentist movements of the Bosnian Serbs and Croats were quenched, and the attempts by some Bosnian Muslim fighters to describe their struggle in terms of religious jihad were cut short.

In Somalia, the potent forces of disintegration ruined all hopes not only of retaining the country’s territorial integrity, but of providing even a minimal level of human security – alleviating starvation and pacifying rampant warlords. On top of that, the presence of U.S. peacekeeping troops in the remote African land was difficult to justify in the eyes of the American public. As a result, Washington opted out of Somalia in 1993-1994 and limited its attempts at projecting influence on this country to supporting the movements that opposed the most radical elements. Even the grave threat that Somalia-based pirates pose to commercial navigation has so far not compelled the United States and its allies to seek authorization for a ground operation to eliminate the pirates’ bases.

In Kosovo, the decision on the inevitability of secession was evidently made by Washington and most EU capitals against the backdrop of years of inter-ethnic strife and the demographic dynamics that favored the ethnic Albanian population of Kosovo. Whether human suffering in this case can be minimized depends on the ability of the Kosovo authorities to protect the rights of the Serbian minority in Kosovo and handle the return of refugees. Although it remains unclear whether the Serbian enclaves in Kosovo can be made physically safe, Kosovo has set a pow-

erful precedent which can be useful in defining “inevitable” outcomes for Abkhazia, South Ossetia and Nagorny Karabakh.

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U.S. policy towards the South Caucasian unrecognized states has been aimed at supporting Georgia as a major U.S. ally in the region, diminishing Russia’s leverage on the South Caucasian republics, and developing energy transportation routes to bypass Russia. Washington’s mediation efforts in Georgia, Armenia and Azerbaijan were part of a broader strategy that involved other economic and diplomatic projects.

The United States worked to support the political forces in the Transcaucasian republics which did not have to fear “colored” revolutions because Moscow was commonly seen in Armenia and Azerbaijan as a bulwark against popular uprisings that shattered Georgian and Ukrainian regimes in 2003 and 2004, respectively. However, such U.S. policy has yielded but limited results in Azerbaijan, where President Ilham Aliyev reserved his office for life at the end of 2008, and in Armenia, where opposition lost in the presidential elections in February 2008.

In an attempt to consolidate its influence, Washington has been promoting cooperation of regional states with NATO as an alternative to their membership in Russia-led institutions. This primarily concerns Armenia which continues to suffer from geographic isolation and has poor relations with three of its four neighbors – Azerbaijan, Georgia and Turkey. However, Yerevan has refrained from switching alliances while Baku has been cautious to maintain a “non-aligned” status with regard to NATO or the Collective Security Treaty Organization. The United States also sought to mediate other conflicts in the region, including the most controversial Turkish-Armenian relationship. Washington regarded alleviating tensions between Ankara and Yerevan as a pre-condition for a potential change in Armenia’s political orientation.

For all its interest in the South Caucasus, the United States was not prepared to seriously commit itself to the defense of the Transcaucasian republics. Apart from moral support, Georgia did not receive the material backing it expected from Washington during the military confrontation with Russia over South Ossetia in August 2008. As long as U.S. President Barack Obama is intent on pursuing a more

pragmatic foreign policy than his predecessor, who considered supporting Georgian President Mikheil Saakashvili to be a matter of principle, American stakes in the future of Abkhazia and South Ossetia may decrease. However, even if the ideological component of U.S. policy in the South Caucasus becomes less pronounced, Washington's material interests will persist in America's support of Georgia. Whether such support will continue to cause strong Russian-U.S. differences over membership of the regional states in multilateral structures depends on how deep the reassessment (if any) of the relationship between Moscow and Washington will be in 2009.

The current economic turmoil has somewhat soothed U.S.-Russian contradictions on security matters as each side has been keen to win the image of a responsible stakeholder in the global security – which is currently tested by far more serious matters than tug-of-war in the South Caucasus. Should the missile defense dispute between Moscow and Washington turn out to be manageable against the background of growing cooperation on Afghanistan, the gaps in Russian and U.S. approaches to the security of countries surrounding Russia may be bridged. An additional factor that may ease up tensions in the Caucasus and elsewhere around Russia is the turn of Georgian leadership to a less provocative approach towards both Moscow and Washington.

The two earlier rounds of U.S.-Russian rapprochement – under Presidents Yeltsin and Clinton in the early 1990s and under Presidents Putin and Bush in the early 2000s – were the result of difficult compromises when each side chose to drift away from what it previously considered matters of principle. However, in both cases the thaw proved to be short-lived. The challenges to U.S.-Russian relations currently faced by Presidents Medvedev and Obama seem to have finally reached the root causes of differences in U.S. and Russian approaches to international politics. If these contradictions are successfully overcome, there is hope that U.S.-Russian dialogue will see a sustained improvement with the ensuing benefits for the economy and security of the entire world.

Words and Deeds

Barack Obama and the Islam Issue

Alexander Ignatenko

On January 27, 2009, a week after his inauguration, U.S. President Barack Hussein Obama gave his first interview to a foreign TV channel. It was the Dubai-based and Saudi-financed Al-Arabiya Arab television network. The interview was actually a verbal dissociation from the policy of Obama's Republican predecessor. "The language we use matters," Obama said in the interview. Shortly after, Iran's Supreme Leader Ayatollah Ali Khamenei responded that "changes in words" would not be enough.

The attention given by the new U.S. leader to the Islamic factor from the very first days in office is quite understandable, as almost all problems in the U.S. foreign-policy agenda are in one way or another related to Islam.

These problems include the protracted "war on terror," launched as a response to the 9/11 attacks, which official Washington blamed on Islamists from Al-Qaeda. Another one is the war in Iraq, where resistance is put up mostly by Islamic groups and where the country's post-occupation prospects largely depend on these groups. The third problem is Iran, which has been gaining weight in the Middle East with its increasingly real "Islamic nuclear bomb." The fourth problem is the Taliban movement in Afghanistan, which does not let the United States and other NATO countries control hydrocarbon traffic from post-Soviet Central Asia. This problem is coupled with the Taliban's attempts to seize power in nuclear Pakistan or to ruin that country. Another problem is posed by the Islamist Hamas movement, which stands in the way of Palestinian-Israeli settlement. These are only a short list of U.S. foreign-policy problems related to Islam.

Alexander Ignatenko is President of the Institute of Religion and Politics; member of the Public Council of the Russian Federation. He holds a Doctorate in Philosophy.

All these problems cannot be solved and even discussed without working out a special discourse that would appeal to Islam and without conducting a sensible policy that would take into consideration the Islamic factor. The previous, Republican, period of the U.S. presidency has shown that things are not that good with either the discourse (suffice it to mention the term “Islamofascism”) or policies. The “war on terror” in Iraq has brought about thriving terrorism and, what is perhaps more important and dangerous, the legalization of terrorism in the eyes of a large part of the Islamic world. At the same time, many of the current conflicts are rooted in events of 30 years ago.

THE YEAR 1979 AS A STARTING POINT

In the late 1970s, the United States began to tie a tight knot of problems and conflicts, centered around Islam, in international relations. The war in Afghanistan (1979-1989), which was an episode in the global Cold War rivalry between the two superpowers, was presented as an anti-Soviet *jihad* against Communist “infidels” and Afghan “apostates.” The declared goal of the *jihad* was the “liberation of Islamic lands from atheist invaders.” In line with this logic, the U.S. presence in Afghanistan was explained by the need to “defend Islam and Muslims,” although in fact it was intended to create a geo-strategic bridgehead near the border of Iran, where an anti-American “Islamic Revolution” had taken place. For obvious reasons, Americans could not employ jihadist discourse and jihadist practices, so they delegated this task to their allies – Saudi Arabia and Pakistan, which mobilized *mujahideen*.

The Soviet Union’s defeat in the Afghan war deluded the United States into a belief that it had “caught Allah by the beard,” meaning that it could control Islam and use it to serve its own interests. In those years, it could play on the political differences between various regimes and on internal conflicts in Islam itself (centuries-old self-destructing conflicts between Sunnis and Shias repeatedly broke out in Afghanistan, Bahrain, Iraq, Lebanon, Pakistan, Saudi Arabia, Syria and other countries). At the time when the U.S. entered the region in the wake of the anti-Communist *jihad*, it used differences between Sunni-dominated Afghanistan and Shia-dominated Iran to serve its purposes.

The Afghan war was met with enthusiasm in Islamic countries – initially for domestic political reasons. Large-scale U.S. aid, both military and non-military, was only one of the advantages. More importantly, the ruling regimes received an opportunity for *exporting internal tensions*.

The aggravation of social and economic problems in the Middle East in the 1970s sparked outbreaks of discontent and even uprisings under Islamic slogans. It happened, for example, in Saudi Arabia in 1979, when a group of the *Ikhwan* (traditionalist Salafis close to Wahhabis) seized the Holy Sanctuary in Mecca and declared a young man named Muhammad bin abd Allah al-Qahtani to be the Mahdi, or redeemer of Islam. In Syria in the same year, members of the Sunni Muslim Brotherhood organization carried out an attack on the Military Academy of Aleppo, killing more than 60 cadets. In 1982, the Brotherhood led an insurrection in Hama, which was suppressed by the military who carried out artillery and air bombing of the city, killing more than 20,000 people.

These tensions largely stemmed from a conflict between the needs for modernization and Islamic traditions which began to stand in the way of progress. Algeria, Egypt, the Republic of Yemen (North Yemen), Pakistan, Saudi Arabia and some other countries began to drive out “passionary elements” – as Russian eulogist of “fiery Islam” Alexander Prokhanov would put it – out of the countries, instigating them to participate in the jihad in Afghanistan. It was then that a mechanism was built for *transferring extremists and terrorists*: a place was named for conducting jihad and violence-prone Muslim oppositionists were sent there by state and non-state organizations. The official clergy shaped an ideology and practice of “non-returnees from jihad” – the so-called *shahids*.

There was also a foreign-policy factor that caused Arab Islamic states to participate actively in the Sunni anti-Communist jihad in Afghanistan – it was hope for success of the U.S. struggle against Khomeini’s Iran, which began to display expansionist ambitions after the victory of the Islamic Revolution in 1979. Later that year, an uprising, apparently inspired by Tehran, took place in Saudi Arabia’s oil-rich and Shia-populated Eastern Province (Al-Hasa).

Three decades later, Iran has not given up its expansionist plans. Ali Akbar Nateq-Nouri, advisor to Supreme Leader Khamenei and presidential candidate in the 1997 election, in February 2009 referred to

Bahrain as Iran's 14th province. Ever since the revolution, Tehran has been seeking to increase its influence in the Arab world, mainly by using and expanding the Shia presence. In addition to the war with Iraq (1980-1988), Iranian exclaves have been created in southern Lebanon and in southern areas of Beirut. The Islamic Revolution has been exported to Yemen, where a Shia (Zaidi) uprising, led by the Al-Houthi family, has been going on since 2004, as well as to Saudi Arabia and other countries of the Arabian Peninsula. Iran has occasional territorial disputes with the United Arab Emirates over three islands in the Persian Gulf, and is actively involved in the Shiazation of Syria, as it did in Lebanon. The formation of a "Shia crescent" evokes deep concern among Arab states, which are now more afraid of Iran than Israel.

The 30 years that have passed since the beginning of the Soviet Union's Afghan campaign have made Washington even more confident that it can use Islam as a factor of international politics. Shias from the Supreme Council for the Islamic Revolution in Iraq and Shia forces from the Badr Brigade, based in Iran, were used against the Sunni regime of Saddam Hussein. The "democratization" of Iraq after its occupation was a step backwards even in comparison with the secular state of the leftist and nationalist Baath Party. The U.S.-imposed religious system has begun to tear apart the country and its large cities, above all Baghdad, along ethnic and religious lines.

Now the United States is encouraging (and possibly arming and financing) the Sunni Jundallah (Soldiers of Allah) organization, which is fighting against the Shia regime in Iran. Most likely, the current presence of the U.S. and its allies in Afghanistan is aimed, among other things, at creating a bridgehead for attacking Iran. There have been reports that the U.S. is planning to divide the Greater Middle East along confessional lines. It would seem that religious-political "levers," of which Islam is the main one, can be used infinitely.

"GLOBAL JIHAD" AS A POLITICAL IMPERATIVE

It was after the Afghan war that U.S. allies that had participated in it began to create in droves Muslim extremist and terrorist groups to serve their own international purposes. Today, these groups number

no less than 500. They let states move their international political activity into the “grey zone” which is not governed by international law or international custom and which, most importantly, does not allow states that are targets of “unconventional aggression” to exercise their right to the application of Article 5 of the UN Charter.

The most successful, Sunni, project patronized by Saudi Arabia and other Arab Gulf monarchies was named Al-Qaeda (“The Base”). Al-Qaeda created a global network, setting up branches in Sunni-populated areas or “absorbing” opposition and/or rebel or extremist and terrorist groups operating in those areas.

Al-Qaeda became an instrument for implementing global geopolitical and geo-economic interests of its patrons: first of all, the control and regulation of the hydrocarbon market using non-economic methods and force. Al-Qaeda realizes its goals in zones of interests (areas where it is particularly active coincide with areas of hydrocarbon production and transportation), fighting, for example, against Americans and their allies in Iraq and against the growing Iranian influence, and far away from these areas by means of terrorist attacks and other forms of pressure on sensitive points (the Madrid train bombings in the spring of 2004, and the terrorist acts in London in the summer of 2005).

However, this project revealed serious shortcomings which negated its advantages. Many veterans of the jihad in Afghanistan and later in Bosnia, Chechnya, the Fergana Valley, Iraq and elsewhere (80 to 85 percent) returned to their countries and formed groups with increased “passionarity,” i.e. readiness to kill and be killed for the ideals of Islam, as they had been made to understand these ideals. The number of jihad veterans around the world is now estimated at not less than 150,000 people. Throughout the first decade of the 21st century, the backward waves of the “global jihad” brought rebel wars and/or terrorist attacks to Saudi Arabia and other Arabian states, as well as to Algeria, Morocco, Pakistan and other countries.

Afghan War veteran Osama bin Laden broke with the Saudi royal family and leveled criticism and even used violence against it after it allowed U.S. troops to be deployed in the country during Operation Desert Storm in 1991, which stayed on Saudi territory for almost two

decades after that. If Abdullah Azzam, the late mentor of bin Laden and the ideologue of “the defense of Islamic lands from infidel occupiers” during the Afghan War, had now looked at the Arabian Peninsula, he would have definitely said that the “Land of Two Shrines” is almost entirely occupied by these “infidels”: a dozen U.S. bases have been deployed in Bahrain, Qatar, Kuwait, the United Arab Emirates and Oman. For a veteran of jihad in Afghanistan, Bosnia or Iraq, it is logical to wage war against “infidel occupiers” who have seized Muslim lands and against apostate rulers that have invited these “occupiers.”

Backward waves are dampened by a carrot and stick. Jihad veterans are destroyed, arrested, sent to prisons and detention camps, and rehabilitated, and those rehabilitated are rewarded. However, it is impossible and, perhaps, not planned to “digest” so many “passionaries,” as “global jihad” is very convenient and effective as a foreign-policy instrument.

Now the heads of Arabian and other Arab special services are pondering where to redirect the backward wave of the “global jihad” from Iraq after the war there is over. According to some reports, several regions are now viewed as potential fields for “global jihad”: Lebanon, Chechnya and the Palestinian territories. Many of the returning mujahideen apparently remain in reserve for a possible war against Iran. To this end, radical anti-Shia sentiments are maintained among the warring mujahideen and war veterans. Obviously, Islamic states are constantly interested in the existence or creation of “global jihad” fronts beyond their borders.

“CALIPHATE” AS A SUBJECT OF INTERNATIONAL RELATIONS

It is generally known that Al-Qaeda is a horizontal network structure without vertical subordination and links with specific states, which implies the absence of ties with official authorities. Through target-specific efforts, a coordinating center builds a network of cross-border groups which implement a common geopolitical project in their territorial “areas of responsibility.” Al-Qaeda territorial branches emerge or are implanted in various regions. They turn into latent states —

“emirates,” “vilayats,” “Sharia zones” and other religious-administrative units that form as latent a “caliphate.” Al-Qaeda operates only where there are Sunni Muslims or where they appear as a result of spontaneous or controlled migration. The zoning of territories for this global project is done according to historical and geographical areas as they formed in the times of the Islamic Caliphate.

Let me begin the description of these branches with “Al-Qaeda on the Island of Arabs,” although this branch was set up on the territory of the Kingdom of Saudi Arabia and other Arabian monarchies later than the other branches. Arabian Al-Qaeda members believe that Prophet Muhammad told Muslims before his death: “Remove polytheists from the Island of Arabs!” The prophet’s words became Al-Qaeda’s official slogan. Pre-recorded statements by 9/11 hijackers were released with this slogan on screen, which real Muslims cannot ignore. It makes them fight against all “polytheists” (“infidels” and “crusaders”) that have settled on the Island of Arabs, as the Arabian Peninsula was called in the prophet’s time, and against the authorities that have invited them and that have thus become “apostates” and “infidels.” According to a basic precept of Islam, those who are friends with “infidels” become “infidels” themselves.

“Al Qaeda in the Country of Two Rivers (Mesopotamia)” consists primarily of foreign mujahideen and operates in Iraq in parallel with the national Resistance. It has already proclaimed the establishment of an Islamic State of Iraq in the Sunni-dominated regions of Iraq. Should Iraq break up (which cannot be ruled out) into independent states (for example, a Kurdish, a Shia and a Sunni state), the “Islamic State of Iraq” may be recognized by Arab countries that support “Al-Qaeda in Mesopotamia” as an outpost for containing Iran’s expansion and Kurdish separatism and expansionism (Kurds also have territorial claims over areas beyond Iraqi Kurdistan). Interestingly, official materials of the “Islamic State of Iraq” describe it as “the core of the Caliphate.” Baghdad was the capital of the caliphate in its heyday. However, Sunnis in Iraq and beyond it seem to be more interested not in Baghdad but Kirkuk, an oil-rich area in northern Iraq, to which Kurds have claims and which the U.S. Republican administration promised to give them.

“Al-Qaeda in Khorasan” deserves special mention. This organization is little known to the general public, yet it plays an exceptional, symbolic and propaganda role in the “global jihad.” In the period from the 3rd to the mid-18th century, Khorasan was a large region without clearly defined boundaries, which comprised the north-eastern part of modern Iran, the Merv oasis, oases in southern areas of modern Turkmenistan, and the northern and north-western parts of modern Afghanistan. Khorasan holds a special place in Muslim beliefs, as the Prophet Muhammad is believed to have predicted the coming of the Mahdi (“divinely guided one”), who is the Caliph of Allah, in the “last hour.” One of his prophesies said: “If you see Black Flags coming from Khorasan, then you must join them, even if you have to crawl on snow, since among them is the Caliph of Allah, Al Mahdi.”

The Al-Qaeda propaganda emphasizes that the Al-Qaeda flag is black and that this organization was established in Afghan territory, that is, in Khorasan. For many mujahideen, this must imply that the Caliph of Allah is no other than the father and leader of Al-Qaeda, Osama bin Laden, whose coming was predicted by the Prophet Muhammad.

But that is not all. This “heart of Asia” is the prophesied site of a “last hour” battle between the Mahdi and Dajjal (“The Impostor Messiah”), in which the Caliph of Allah will win an inevitable victory. The “infantry” of “Al-Qaeda in Khorasan” and the allied Taliban may view NATO troops as Dajjal’s army, to which they must give the final battle in history – especially as Al-Qaeda and Taliban *da’is* (preachers) consistently instill this idea into their minds. In other words, mujahideen believe that the Mahdi/the Caliph of Allah has already come under Al-Qaeda’s black flags and that the final battle in history is going on.

Another Al-Qaeda branch is “Al-Qaeda in Al-Sham” in the so-called Greater Syria, which includes territories of modern Syria, Lebanon, Jordan, Israel and Palestine. It is not as real as, for example, the “Islamic State of Iraq.” There was a failed attempt to establish an “Islamic Emirate” in northern Lebanon, where Al-Qaeda’s branch Fatah Al-Islam, which consists mostly of Saudis, was engaged in fighting. Groups of “Al-Qaeda in Al-Sham” are also trying to settle

in Gaza to counter Iranian infiltration through the “Iranization” of the Hamas movement.

There is “the Al-Qaeda Organization in the Islamic Maghreb,” which operates in Algeria, Libya, Mauritania, Morocco, Tunisia, as well as in limitrophe countries of Black Africa, in particular in Mali. To the east, Egypt is an “area of responsibility” of “Al-Qaeda in the Land of Kinana” (the ancient name of Egypt). To the south-east, in Somalia. “Al-Shabaab” does not conceal that it is an organization allied to Al-Qaeda. Similar to the Algerian “Salafist Group for Call and Combat” and the “Group of Monotheism and Jihad” in Iraq, which became Al-Qaeda’s branches, it is ready to swear allegiance to Osama bin Laden and to be called, for example, “Al-Qaeda in the Horn of Africa.” In the north, “Al-Qaeda in the Islamic Maghreb” is targeted against Europe. Its mujahideen have committed or prepared terrorist acts in European countries.

One can also speak of “Al-Qaeda in Europe,” which committed terrorist acts under distracting names, such as “the Abu Hafs al-Misri Brigade,” named after one of the closest associates of bin Laden, who was killed in Afghanistan during a counter-terrorist operation in the autumn of 2001. It must be noted, though, that the Caliphate never included the whole of Europe, unlike the Maghreb, “the Land of Al-Sham” or “the Land of Kinana.” The Caliphate included only part of modern Spain – Andalusia – and the island of Sicily. However, by preparing and committing terrorist acts in Europe, Al-Qaeda not only exerts pressure on European governments (for example, the attacks in Madrid forced Spain to withdraw its troops from Iraq, while the attacks in London were committed by natives of Pakistan, which is interested in expansion into Afghanistan) but also “fights for the liberation of Islamic lands” in Europe.

Al-Qaeda’s second-in-command, Ayman al-Zawahiri, in one of his latest works lauded by jihadists, described “Islamic lands” as territories where Allah’s laws, that is Sharia, were applied for least one day. Meanwhile, Sharia is widely used, along with state legal systems, in all European countries where there are Muslim diasporas. For example, there is a Sharia court in the UK, which, by the way, sentenced Tony Blair to death in his tenure as prime minister.

Let me conclude this brief review of Al-Qaeda's "political geography" with two more Al-Qaeda branches opened in different parts of the world.

One is "the Islamic Emirate of the Caucasus," which actually is an Al-Qaeda branch in "Caucasia," as Abdullah Azzam described the Caucasian region in his *fatwa*, "Defense of the Muslim Lands." This emirate is divided into "vilayats" according to North Caucasian ethno-religious zones.

The other is located on the Indian subcontinent, where a group calling itself "the Deccan Mujahideen" (after the Deccan Plateau, which is about one million square kilometers in area) committed terrorist acts in 2008 in India's Mumbai (formerly Bombay). Thus, this group, with links to Al-Qaeda, seeks to involve the larger part of the subcontinent into an Al-Qaeda-controlled zone.

Al-Qaeda as a global structure interacts with the Islamic Party of Liberation (*Hizb ut Tahrir al Islami*), whose black flag is similar to the Al-Qaeda flag. The party has also divided the territory of Eurasia into "vilayats," including, for example, "the British Vilayat." The party's goal is to combine all Muslim countries in a unitary Islamic state or caliphate. Al-Qaeda is an ally to the Taliban movement, which operates not only in Afghanistan but also in Pakistan. (The Taliban has declared the establishment of two states: "the Islamic Emirate of Afghanistan" on Afghan territory in September 1996, and "the Islamic Emirate of Waziristan" on Pakistani territory in February 2006.) At the same time, Al-Qaeda is a bitter rival to the Shia Hezbollah organization, as the latter seeks control over the same geopolitical zones.

So, there are many expansionist *cross-border Islamic clerocratic quasi-states* in the present world. They become subjects of international relations and may turn into full-fledged states recognized de facto by the international community or part of it. For example, it became known in September 2008 that the Taliban, with Saudi Arabia's financial participation and Britain's support, was engaged in secret negotiations on the termination of the conflict in Afghanistan. In August of the same year, Swiss Foreign Minister Micheline Calmy-Rey expressed her readiness to even "sit down at the same table as Al-Qaeda leader Osama bin Laden" to tackle global terrorism. Thus she

became the first foreign minister of a democratic country to allow for such a possibility. Hezbollah, headed by Hassan Nasrallah who is a representative of Iran's Supreme Leader Ali Khamenei in Lebanon, has been advancing to the role of the main political force in the "Cedars' Land" and is already establishing relations with some anti-American regimes, in particular with Venezuela.

THIRTY YEARS AFTER

U.S. President Barack Obama has tried to change the U.S. rhetoric and, partly, policy vis-à-vis Islam now that extremist organizations and ideology are on the rise. The addressees of Obama's messages respond with haughty statements.

As regards Al-Qaeda, in early February 2009, two weeks after Obama's inauguration, Ayman al-Zawahiri released an audio message through the Islamist Internet, in which he criticized the U.S. president for not mentioning the war in Gaza during his inaugural address. Al-Zawahiri called on Muslims around the world to attack U.S. targets in revenge for the U.S. support to Israel during the operation in Gaza. His patron Ali Khamenei in March commented on Obama's video message to the Iranians on the occasion of the major Iranian festival of Nowruz, a 12-day holiday that marks the arrival of spring and the beginning of a Persian New Year. Addressing his supporters in Mashhad on the occasion of Nowruz on March 21, 2009, Khamenei replied to Obama's message: "If you change, we will also change our behavior."

Obviously, the new U.S. president holds much hope for his "I'm one of you" campaign targeted at Muslims. Interestingly, a few weeks before Obama paid a visit to his first Islamic country (Turkey) in April 2009, Istanbul was visited by his half-brother from Kenya who performed namaz in the Sultan Ahmet Mosque. In a speech to Turkey's parliament, Obama said that he came from a Muslim family and that "the United States is not and will never be at war with Islam" but fights against "a fringe ideology." The result of this campaign has so far produced more effect in the U.S. rather than in the Islamic world: according to public opinion polls, 10 percent of Americans believe that Obama is a Muslim. Meanwhile, many Muslims around the

world associate themselves with Al-Qaeda and view the fight against it as struggle against Islam. (Hardly any rank-and-file member of the Taliban or Al-Qaeda in Khuzestan or Waziristan knows what “fringe ideology” is, but if they understand what it is, they will only feel insulted.)

On the whole, Muslims of the world view – not without some grounds – the coming of Obama (“a bit Muslim”) to power as their own victory. Some of them (probably adepts of the “fringe ideology”) take it as a step towards turning the United States into an “American Vilayat” of the Caliphate. (Many Muslims believe that, way before Columbus, America was discovered by Muslims and that therefore it is an “Islamic land” which must be “liberated.”)

The mass media in Islamic countries actively discussed Obama’s Nowruz message to Iranians. The president proposed putting an end to years of hostility and mistrust between the two countries and said that “we seek instead engagement that is honest and grounded in mutual respect.” However, a couple of weeks before his “conciliatory” video message to the Iranian people, Obama had extended for another year the sanctions imposed against Iran by Bill Clinton in 1995. The Americans could not fail to foresee the possible reaction – skepticism, irony and alienation, and it seems that the message was a deceptive maneuver intended to show that Iran is rejecting an olive branch extended to it, thus forcing Washington to seek other ways to influence that country.

During the war in Iraq, the Americans established who was fighting against them and what hid behind the names “Al-Qaeda in Mesopotamia” and “the Islamic State of Iraq.” They successfully organized resistance of local Sunni Arab fighters from among Awakening Councils (Majalis al-Sahwa) against Sunni Arab mujahideen from other Arab countries, mainly from Saudi Arabia and other Arabian monarchies. This experience of General David Petraeus, the former commander of the Multi-National Force – Iraq and now the commander of the United States Central Command (USCENTCOM) whose area of responsibility is in the Greater Middle East, is now being extended to Afghanistan and Pakistan. The U.S. seeks to sow discord between local Pashtun members of the

Taliban and “newcomers” from Arab Al-Qaeda in Afghanistan and Pakistan, thus mobilizing the local Taliban movement to struggle against the “strangers.”

This tactic is nothing new. In the summer of 2001, Taliban leader Mullah Mohammed Omar, who had direct and indirect (via Pakistanis) ties with Americans, as a result of secret accords began to break with Osama bin Laden and Al-Qaeda. As a first major step, he issued a fatwa that disavowed all anti-American fatwas of bin Laden as a man incompetent in matters of Islamic law and without a proper education. The “divorce” between the Taliban and Al-Qaeda in U.S. interests was interrupted by the 9/11 attacks.

U.S. success in these efforts is not ruled out, although recent years have seen a kind of “Al-Qaedaization” of the Taliban, which has been increasingly becoming a group associated with Al-Qaeda and embracing its ideology, slogans and methods of struggle, for example, terrorist acts committed by suicide bombers (shahids).

Another area of the new U.S. administration’s “Islamic policy” is more active involvement of Europe in its Afghan-Pakistani operation. The goal is to share with Europeans the burden of military spending and political responsibility.

First, Washington proposed transferring inmates of the Guantanamo Bay prison, which Obama ordered to be closed, to European countries. It is another matter how practicable the idea to release Guantanamo Bay detainees is, as the “global jihad” thus will receive new leaders with the aura of “martyrs” and strong anti-American views. For example, one Guantanamo Bay detainee from Yemen became the leader of “Al-Qaeda in Southern Arabia” as soon as he returned to the country and committed a series of terrorist attacks against Americans.

Then, Obama continued pressuring the European allies in NATO to send more troops to Afghanistan (and, by implication, to Pakistan). However, to all appearances, the European nations seek not to be associated with the United States (although to little effect, as Afghans view all NATO troops as Western “crusaders”) but to participate largely in humanitarian and economic projects, educational programs, and etc.

In other regions of the Islamic world, European nations are bitter

competitors of Americans: suffice it to mention France, working on a Mediterranean Union, and Italy, which is building almost brotherly relations with Libya. Europe is obviously showing Obama red lines marking the areas of its interests, which he should not cross. One such controversial issue is Turkey's bid to join the European Union. French President Nicolas Sarkozy gave a clear signal to the U.S. president in April 2009 that "when it comes to the European Union it's up to EU member states to decide" on membership. Obviously, Obama wanted to support Turkey's EU ambitions in exchange for Turkey's efforts to create favorable conditions for the withdrawal of U.S. troops from Iraq and for its subsequent support for a pro-American status quo in the north-western part of the Greater Middle East.

There is also a purely speculative assumption that the new U.S. administration may continue the policy of its predecessors to "Islamize" Europe. This would help it increase pressure on the European countries through the use of religious and political leverage, which the United States has been so good at in the Greater Middle East.

Islamic states – and not only they – are looking forward to see what President Obama will do with respect to organizations, institutions and projects that the United States helped to create and develop in the far-off 1970s.

Passions Over Water

Hydro Resources as a Factor of National Security

Vassily Belozyorov

The struggle for oil and gas resources that became so intensely debated in the previous years of the price boom, has overshadowed the aggravating problem of shortages of other natural resources, including water. In the meantime, the situation around it is fraught with various conflicts already in the medium term.

THE EARTH'S WATER PROBLEMS

Mere 2.5 percent of all water reserves on the planet is good for human consumption, and even this amount is distributed irregularly. At the end of 2006, as many as 80 countries that are home to 40 percent of the Earth's population said they were experiencing a shortage of water. While the averaged distribution of water resources on the planet stands at 7,500 cubic meters per capita, the ratio for Europe is only 4,700 cubic meters and for Asia, as little as 3,400 cubic meters. Consumption of water per capita differs largely even in developed countries, and the gap between Europe and the U.S. measures several hundred percent. The UN assesses the annual shortage of fresh water at 230 billion cubic meters, saying that the figure is likely to increase to 1,300 to 2,000 billion cubic meters by 2025. And some estimates indicate that up to two-thirds of people on the planet will feel the deficit in some 25 years from now.

About 6 million hectares of the land surface of the Earth turn into desert every year, and unsatisfactory hygienic conditions caused by the deficit of water result in the death of about 6,000 people a day.

Vassily Belozyorov is a co-chairman of the Association of Military Political Scientists, a Candidate of Political Sciences, and the author of publications on defense and security.

Anthropogenic activity has overstepped the sustainability limits of natural ecosystems, which now only serve to satisfy man's everyday needs and do not have the properties of natural objects anymore.

The quality of water is degrading, too. Each year, humankind takes away 160 billion cubic meters of potable water from subterranean reserves and drops up to 95 percent of liquid industrial waste into water basins in the absence of whatever control. Acid rains have become a regular fact of life in many countries. If contamination gets irreversible, water may turn into a non-reproducible resource.

The UN set up the UN-Water Secretariat in 1978. It declared 2003 to be the Year of Freshwater and the period from 2005 through 2015, the Decade of Freshwater. Drinking water supplies to urban population rose 2 percent during the first International Decade of Drinking Water Supply and Sanitation in the 1980s. This time the number of people experiencing the shortage of freshwater is planned to be reduced by half.

The problem, however, is that about 50 percent of regions get water from river basins belonging to two or more countries, which sometimes do not stop short of blaming the water deficit on neighbors. Given the situation, imposition of control over water resources becomes a source of international conflicts increasingly frequently, all the more so if the neighbors have had a record of past conflicts or one of them can block the water supply. Extremist and criminal groups, too, throw their shoulder into the strife for the vital sources, especially where the government is corrupt or showings of a failed state are present.

Yet the spectrum of problems of water resource utilization that are related to national and international security is much broader and they can stand a review only if they are addressed comprehensively.

Depriving an enemy of water supplies is a time-tested method of destroying him in the course of a military conflict. It involves putting up dams, filling water wells with dirt or contaminating them. Sources of water get into the focal point of fighting in desert areas. It is not accidental, for instance, that the Georgian authorities slashed water supplies to Tskhinval practically every time the conflict with the unrecognized Republic of South Ossetia surged.

Vulnerable developed societies have to take account of the possible destruction of hydraulic engineering installations and its catastrophic

aftermath as they plan antiterrorist operations. Several decades ago, German sociologist and jurist Carl Schmitt wrote that he could well imagine a demolitionist coming to his native Sauerland under the guise of a pediatrician, going to the nearest hill and destroying from there all the dams blocking the floodplains of rivers in the locality and adjoining areas. As a result of this, the entire Ruhr area would transform into marshland.

Russian security services averted an extremist attempt in November 2006 to carry out a chain of explosions at hydraulic engineering facilities in southern Russia. "A subversive act at any of them may bring about disastrous aftereffects, including a paralysis of life in a whole area, a huge loss of human lives, and grave economic losses," FSB director Nikolai Patrushev said then.

WILL NATIONS WAGE WARS FOR WATER?

In all probability, even the first ever conflicts between political subjects of human society were waged for rivers and sources of water. Recall the Sumerian civilization that evidenced an acute strife for the right to use the waters of the Tigris and the Euphrates in Mesopotamia some 2,500 years BC.

Today, many experts share an opinion that the era of anti-terrorist struggle will be followed by decades of armed conflicts for resources and water will turn into a major object for the brawling powers. The loudest sounds of alarm are coming from the expert community and politicians in the West, while Russia has not aired any competent position yet.

In 1995, Ismail Serageldin, the then Vice President of the World Bank, voiced a conviction that wars of the future would be fought not for crude oil but for water. British Defense Secretary John Reid said at a summit on climate change in 2006 that violence and political conflicts would grow ever more realistic as long as water basins turned into deserts, glaciers continued melting, and water reservoirs got contaminated. In his opinion, the general water crisis is posing a threat to global security. In light of it, the British Army should be ready to take part in untangling armed conflicts that might erupt after the exhaustion of freshwater resources.

Reid was not the only person to make such forecasts. Michelle Alliot-Marie, then the French Defense Minister, said at much the same

time that wars of the future would be the conflicts for water, energy and, possibly, foodstuffs. Her words call for special attention on the background of the foodstuff crisis that has enveloped the whole planet. Dr Hans van Ginkel, the former director of the United Nations University in Tokyo, also indicated that international and civil wars over water resources pose the risk of becoming the main element of political life in the 21st century.

Research organizations in the U.S. are increasingly often inclined to tie up hydro resources, on which stability in many petroleum-exporting countries is hinged, to energy security. Reduction of water resources pose a “serious threat” to America’s national security, the Center for Naval Analyses told the U.S. President in an April 2007 report. A group of retired admirals and generals warned the country’s leadership that a time would come when Washington would find itself enmeshed in a chain of harsh wars for water. Experts close to the Bush administration voiced equally categorical assessments: “Water issues are critical to U.S. national security and integral to upholding American values of humanitarianism and democratic development.”

The U.S. is reluctant to watch idly the deterioration of the situation on the global scale and hence it is getting ready to unilaterally manage – with the aid of armaments – the water reservoirs that have been co-owned with neighbors. In 2006, the Administration made public its intentions to place patrols armed with submachine-guns on gunboats for guarding the shores of the Great Lakes that are getting contaminated at a menacing rate and continue going shallow due to a huge growth of the population and industries around them. The Americans have built 34 firing ranges along the Lakes shoreline for training and have held numerous combat drills there.

WATER AS AN INSTRUMENT OF POLITICS

Water can be used as a powerful instrument for enforcing national interests. This is what China and some other countries do. However, the most pragmatic and rationalistic utilization of hydro resources, as well as the natural/geographic situation, has been displayed by Turkey.

That country has impressive experience in selling big amounts of potable water, and it is not only the commercial aspect of the activity that

presents special interest. The Turkish authorities intensively use the 'aquatic levers' for exerting political influence on neighbors. It squeezes maximum benefit from the fact that the upper reaches of both the Tigris and the Euphrates are found on Turkey's territory. By 2010, the Turks plan building 22 dams, as well as hydro stations and water reservoirs there.

Since countries located in the Tigris/Euphrates basin have low rainfall, they have to resort to artificial irrigation of lands, and if Ankara's plans materialize, the amounts of water getting to Syria and Iraq, both of them located downstream, will shrink considerably. Turkey will get an opportunity to meter water out to its neighbors and the amounts they will get will depend on their pliability. Incidentally, the Turks resorted to pressuring Saddam Hussein – upon an agreement with Syria – with the aid of stream flow restrictions in 1990 and 1991, shortly before the first Gulf War.

Ankara uses water for influencing Syria, too. In 1987, the two countries signed an agreement regulating the problems of water supplies. Turkey then set forth a condition – that Syria renounce support for the Kurdistan Workers' Party (PKK). Emblematically enough, the Turks are building new hydro installations right in the places populated by the Kurds struggling to create an independent statehood.

Turkish supplies of water to Israel deserve notice, too. The countries signed an agreement in August 2002 for deliveries of 50 million cubic meters of water a year, which accounts for only 3 percent of Israel's annual need for water. The sides chose to deliver water by pipeline, which is more expensive than deliveries by tankers. The capacity of the pipeline is greater than the initially conceived shipments by tankers by a factor of four to six. On the other hand, this will be much more expensive than the construction of seawater desalting plants on the Israeli territory. And the production costs of desalted seawater are much smaller than the price of Turkish water.

The get clarity around this situation, we must take account of the political – rather than economic – significance of this agreement. Turkey has become a strategic partner for Israel in recent years and they have signed an agreement on expanding cooperation in the field of security. Quite possibly, the prospects for selling Israeli weaponry to Turkey depended on the signing of the water supply agreement. Yosef Paritzky,

the then Israeli Minister of National Infrastructure, said unambiguously during a discussion of the project that Israel was interested in far from water only. This means that Ankara made pumping the water by pipeline a condition for expanding cooperation in defense technologies.

CONFLICT POTENTIAL IN CENTRAL ASIA AND CHINA

Conflicts of various intensity over fresh water exist on all continents. Let us concentrate on the situation shaping in the vicinity of Russia, namely, in Central Asia and China.

Incidents related to water would occur in Central Asia even back in the Soviet era, but the authorities succeeded in containing them then. Today the situation keeps getting worse for a number of reasons, and it is expected that the region will lose about a third of its water reserves within 15 to 20 years.

First, the region is facing climate change. Drought has been suffocating the once super-fertile Fergana Valley, and western regions of Uzbekistan have become waterless.

Second, the anthropogenic pressure on the ecosystem continues growing. The region has high rates of population growth and it is experiencing a deficit of food, which rules out a slashing of land areas under crops. Meanwhile, land in the region is irrigated by archaic methods as water flows down primitive irrigation ditches. As a result, the growing of crops takes several times more water than up-to-date technologies would require.

The story of the Aral Sea, once the world's fourth largest lake abounding in fish, offers an especially graphic and pitiable example. The 'cold war' that nations of the region have been leading over freshwater resources of the rivers Amu Darya and Syr Darya, the sea's tributaries, has wiped out more than a half of the Aral Sea's water area within five decades.

Third, relations between countries as regards the use of water resources remain unregulated.

The sharpest contradictions arise over water from the Toktogul reservoir in Kyrgyzstan, which contains about 40 percent of all freshwater reserves in the region. Kyrgyzstan itself does not need more than 10 per-

cent of the annual flow of water but financial shortfalls have forced the country to use electricity for heating for the last few years. Electricity is produced by local hydro plants. As a result, the winter discharge of water is bigger than neighboring Uzbekistan and Kazakhstan need, while in the summertime the flow of water is restricted, although the demand for water at that time of year is much greater.

Kyrgyzstan, Kazakhstan, Uzbekistan and Tajikistan have signed a framework agreement on the use of hydro resources of the Naryn-Syr Darya river basin. It envisions an annual adoption of ancillary four-partite documents, to be followed up with bilateral agreements. However, Uzbekistan has shunned their signing for a number of years.

The difference of outlooks concerning methods of solving problems with water and energy utilization in the region came into the focal point of the August 2007 summit of the Shanghai Cooperation Organization (SCO). Specifically, the presidents of Uzbekistan and Tajikistan exchanged peppery remarks regarding the Tajik government's plans to complete the construction of the Rogun Dam, frozen for years. Uzbekistani officials have apprehensions that an overly high dam would give the other side an opportunity to regulate the stream flows that irrigate Uzbekistani valleys. Frictions between the two countries intensified, even though Tajikistan tried to allay these fears. A statement that Russian President Dmitry Medvedev made during a visit to Uzbekistan in early 2009 was interpreted by the Tajik government as support for Tashkent's position. This triggered a diplomatic conflict with Moscow and almost brought about a cancellation of Tajikistani President Emomali Rahmon's visit to Russia.

Back at the 2007 summit, President Nursultan Nazarbayev of Kazakhstan voiced a number of claims against China, as Astana has grave concerns over a number of water projects being implemented by Beijing. Nazarbayev's fears are easy to understand if one considers the bottom position that Kazakhstan has on the list of post-Soviet countries in terms of sufficiency of freshwater.

In the meantime, the Chinese leadership is planning a speedy development of the country's backward western regions. The construction of a canal that will siphon water from the upper reaches of the Irtysh River to the Karamay oil province plants and farmlands is drawing to an end in the Xinjiang Uyghur Autonomous Region. The authorities also plan

building up an intake of water in the upper reaches of the transborder Ili River which ensures 80 percent of the influx of water into Lake Balkhash. At present, the intake of the Ili's waters on the Chinese territory totals 3,500 cubic meters a year and its buildup to 5,000 cubic meters will entail a shallowing and salinization of the Balkhash. Add to it that the Irtysh is the largest tributary of the Ob, one of Russia's major rivers, and it also yields water to Lake Zaysan in Kazakhstan. The materialization of Beijing's plans will slash the inflow of freshwater into the eastern and central regions of Kazakhstan, will put the cities of Ust-Kamenogorsk, Semipalatinsk and Pavlodar on the brink of full water deficiency, dry up the Irtysh-Karaganda canal, and will lower the water level in the Irtysh in the area of the Russian city of Omsk by 0.6 meters.

China is experiencing a shortage of good quality water supply, as 70 percent of all water there cannot be utilized even for technical purposes. The contamination of Chinese rivers with extremely hazardous waste has become a routine feature of life and industrial facilities have practically no wastewater treatment facilities. Beijing conceals the real scale of industrial accidents and disasters in most cases, thereby making it difficult for the neighbors to assess the aftermath and take adequate countermeasures. The Chinese have built hundreds of industrial facilities along the shores of the Songhua River that adjoins the Russian border. The factories do not have wastewater treatment facilities, and the Songhua's waters get straight into the Amur. Russia has already had to bring army units into efforts to eliminate chemical slicks.

APPROACHES TO RESOLVING THE PROBLEM

Maude Barlow, the author of *Blue Covenant*, singles out three water crises in the world, which "pose the greatest threat of our time to the planet and to our survival:"

- dwindling freshwater supplies;
- inequitable access to water;
- and the corporate control of water.

She proposes starting with a global covenant on water that should have three components:

- a ***water conservation*** covenant from people and their governments that pledges to protect and conserve the world's water supplies;

- a **water justice** covenant between those in the Global North who have water and resources and those in the Global South who do not, to work in solidarity for water justice, water for all, and local control of water;

- and a **water democracy** covenant among all governments acknowledging that water is a fundamental human right for all.

Governments “must also recognize that citizens of other countries have the right to water as well.”

The fact that Barlow proposes giving uninterrupted access to water in any country to the abstract “all” is disconcerting, to put it mildly. While the answer to a question who has enough water and who wants it badly is a widely known secret, her scheme does not envision compensations to the owners of water resources. Most obviously, an approach of this sort will rally many followers in a situation of mounting global struggle for freshwater. An idea that Russia’s natural resources are a heritage of the entire humankind is already being driven home to the international community today. That is, Russia’s resources should be free for use by everyone who may need them. In plain words, countries rich in freshwater – and Russia is one of them – are offered to share it with others.

Russia’s position is unique. Suffice it to recall that the 23,600 cubic kilometers of water in the Baikal make up 80 percent of Russia’s freshwater reserves and about 20 percent of global reserves. On the whole, this country possesses one-third of freshwater on the globe and is second only to Brazil. In addition, Russia’s geographic location close to countries experiencing freshwater shortages has more advantages.

One may have a wild guess about the initial conceptions of the organizers of the 5th World Water Forum that gathered in Istanbul in March 2009, but its overarching theme – “Bridging Divides for Water” – sounds ambiguous in light of the above-said. An era of love, affluence, equal opportunities, full reconciliation, and prevailing humanism will not come about soon. Reality suggests that pragmatism continues reigning in international relations, that political subjects defend national interests (most typically, at the expense of others) and that the deficit of natural resources is getting acuter, along with all of its consequences.

At any rate, Russia is heading for a moment where it will have to make a choice. One would like to hope it would be a clearly thought-out and well-prepared choice, not a spontaneous one.

IN NEED OF A WELL-CONCEIVED
HYDRO POLICY

Meanwhile, is everything perfect in Russia itself? We still have many towns and villages where tap water is supplied for just several hours a day. Government officials correctly call attention to its poor quality, which has produced a number of cases of mass poisoning and outbreaks of infectious diseases in recent years. The absence of quality drinking water rules out any talk about improvements in the demographic situation, as the Russians' health and lifespan correlate with water quality immediately.

Although Russia occupies the seventh position in the world standings for water purity, this much rather reflects the hugeness of its overall freshwater resources. The Urals, Western Siberia, and the Amur River basin are the most contaminated areas. Vladimir Putin, then Russia's president, told a session of the country's Security Council on January 30, 2008, that 35 to 60 percent of potable water did not meet sanitary requirements in some regions. In addition, "efforts to stop the contamination of a whole number of river basins in the European part of the country and in Siberia have proved futile, and the contamination rates are especially high near our megalopolises and big cities." He also made reference to a heightening "trans-boundary contamination of territories [...] in the basins of the Amur and the Irtysh," thus virtually openly pointing at China. And Dmitry Medvedev said in his report that 40 percent of surface and 17 percent of subsurface water sources did not meet the sanitary norms. The session mapped out a range of measures to cope with the situation. A new Water Code that took effect January 1, 2007, is aimed to bring things into order in the sphere of water resources, too.

Russia's efforts to save water consumption have begun to yield results, as well. For instance, an average resident of Moscow uses 280 liters of water a day now, while fairly recently he or she would use 380 liters. Yuri Trutnev, Russia's Minister of Natural Resources, told the 5th World Water Forum that Russia has reduced water consumption per unit of the Gross National Product by almost a half in the past five years.

The situation around freshwater resources calls for an all-embracing assessment. We must figure out all the possible scenarios, including the most unfavorable ones, and get ready to offer appropriate reactions to them.

The time has come for bearing out a comprehensive, cohesive, and conceptually organized water resource policy (hydro policy) that would unite internal and external aspects. Its objectives should comprise sparing treatment and protection of existing water resources; the opening of new resources; rational use of existing water reserves; refraining from water contamination; and satisfaction of the current demand for water with account of its projected growth in the future.

Russia, a country possessing so many full-flowing rivers and water reservoirs, will unavoidably get into the epicenter of the unfolding strife over freshwater resources, and this calls for a clear-cut official position that would send unequivocal signals to our foreign partners. For this purpose, it would be reasonable to draft an independent document in the field of hydro policy. In any case, relevantly formulated ideas should become substantial elements of concepts and doctrines stipulating approaches to Russia's development and maintenance of national security. Given the situation as it is, we must consider setting up an alliance of countries rich in hydro resources so as to coordinate resource management.

Russia needs a package of measures for protecting water resources against terrorist attacks and encroachments on the part of other political subjects. The intensifying struggle for resources occupies an increasingly more important place in the system of factors determining the contents of state policy in the fields of defense and Armed Forces construction. One should not discard scenarios involving the use of force and thus dictating the use of the Armed Forces for defending our interests in this sphere. Since the system of inland waterways ranks among the critical infrastructures, the importance of a system of data gathering and processing and the employment of scientifically grounded methods enabling a timely identification of potential threats moves to the forefront.

The antiterrorist element can be illustrated by Moscow City's example. Owing to its status, emblematic significance and some other factors, this city has special attractiveness for terrorists. Moscow's water supply system provides water for some 14 million people, or 10 percent of Russia's overall population. Meanwhile, the megalopolis and its environs occupy a mere 0.3 percent of the country's territory. The big concentration of people pushes up the probability of terrorist acts at Moscow's hydro installations.

Since water has a tangible and ever-growing value, the management of hydro resources has a commercial aspect to it. Freshwater shortages put brake on the social and economic development of a whole range of countries bordering Russia and this makes water a highly demanded commodity. The price of a cubic meter of water has climbed to about 3 euros in the countries of Europe, which means that the idea of freshwater as a commodity for export has acquired practical sense.

At a meeting of ministers and regional governors with members of the United Russia parliamentary faction in 2008, State Duma speaker Boris Gryzlov proposed making water into Russia's third largest export article in terms of revenues after oil and gas. Nor should one forget a regularly re-emerging idea of diverting part of the water-flow of Siberian rivers to Central Asia with a view to selling it there.

Moscow Mayor Yuri Luzhkov has supported this idea persistently over a number of years. Back in 2002, he sent an analytical note on this subject to President Putin. The history of the concept and the arguments in favor of its implementation are featured in his book "Water and Peace" published in 2008. Luzhkov believes that Russia will thus get sizeable political dividends.

Kazakhstan President Nursultan Nazarbayev called for reviving this long-forgotten project as he addressed the Commonwealth of Independent States' summit in St. Petersburg in May 2007. Nazarbayev and his counterparts' statements at international forums point to the acuteness of the situation in Central Asia and contain a hint at potential conflicts over water resources that may spread beyond the region's boundaries.

Russia can take part in commercial projects in other ways, too. For instance, Russian defense industries have developed unique desalination equipment that can produce distilled water from seawater on an industrial scale. Assessments indicate that the global demand for such equipment comes to \$5 bln to \$7 bln a year already now.

A well-balanced and rational approach to the use of existing hydro resources can help Russia defend its national interests and extract benefits out of the situation, however problematic it might be.

Responses



“Diplomacy tearing Europe apart,”
Honoré Daumier, 1866

“*Sadly enough, the current atmosphere in EU-Russia relations is not conducive to the emergence of ambitious visions for a common future. Yet without such a vision, there is a real risk that the EU and Russia drift further apart. It is unlikely that this would be in the mutual long-term interest (although it could be in the interest of specific interest groups).*”

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Why We Need to Start Talking

Hansjörg Haber

Last August's war in Georgia was not an isolated event, but the result of two long-simmering conflicts in South Ossetia and Abkhazia.

Tensions have been rising and falling at almost regular intervals over the last few years, with piques in the summer months. Last August, incidents got out of control and turned into a hot conflict. We have all seen the results: civilians on all sides suffering from the effects of war.

The European Union showed strong political will to stabilize and pacify the situation in Georgia and continues to stand by its commitment. Not only did the then-President of the European Union, French President Nicolas Sarkozy, broker a cease-fire agreement between the conflicting parties, the European Union also decided to nominate a Special Representative, who is co-chairing

the Geneva talks, and to deploy a civilian, unarmed monitoring mission to Georgia in order to provide immediate security and stability to the war-torn territories.

The European Union Monitoring Mission (EUMM) started very successfully. In less than three weeks, more than 200 monitors with all their equipment were deployed to Georgia. This was only possible because all 27 EU Member States were strongly committed to foster stability and peace in the Southern Caucasus and continue to do so. The EUMM has its Headquarters in Tbilisi and four Field Offices in Tbilisi, Gori, Khashuri and Zugdidi. Since 1 October 2008, EUMM has conducted daily patrols – more than 2,600 in total by now, visiting checkpoints along the administrative boundary lines to South Ossetia and Abkhazia, inspecting police and

Hansjörg Haber is Head of the European Union Monitoring Mission in Georgia.

military facilities, visiting villages and IDP settlements and gathering information on alleged incidents. A first success was the nearly complete withdrawal of the Russian armed forces from the adjacent areas to South Ossetia and Abkhazia. This allowed more than 30,000 internally displaced persons to permanently return to their homes in the adjacent areas. And although there are still incidents happening and six Georgian police officers have been killed since EUMM started its operations, the security situation in the adjacent areas is better than one could have expected. However, it is far from being stable.

The Russian withdrawal and the subsequent monitoring of the situation in the areas adjacent to Abkhazia and South Ossetia was a key part of the stabilization component of the EUMM's mandate. The next phase was normalization – the return of law and order. With this in mind in October 2008 the EUMM signed a Memorandum of Understanding with the Georgian Interior Ministry which sets certain limits on the Georgian police and special police forces in the adjacent areas close to the administrative boundary line without prior notice – amongst other things, it has also

allowed EUMM to work with the Ministry to ensure the police and their vehicles are clearly identified. However, in order to achieve lasting stability, all sides need to cooperate. Therefore the third part of the EUMM's mandate, confidence-building, is the key element in this respect.

The EUMM has already made some progress in this area too. We concluded in January a Memorandum of Understanding with the Georgian Defence Ministry in which Georgia has unilaterally limited the deployment of military personnel and equipment in the areas neighbouring Abkhazia and South Ossetia. The Georgian Government has thus gone beyond the commitments in the cease-fire agreements from last August and September. As long as Georgia respects the Memorandum of Understanding – and EUMM is closely monitoring this – we can issue a clean bill of health that confirms that Georgia is not capable of executing any force or aggression against the administrative boundary lines or the de facto authorities. However, these confidence-building measures are only unilateral at the moment. That is their weak point. From the other side, i.e. the de facto authorities of Abkhazia and South Ossetia, there is a lack of trans-

parency. EUMM is not allowed to monitor the territories controlled by them. We simply do not know how many armed men and weapons there are on the other side of the administrative boundary line. We hear all sorts of rumours that we can neither confirm nor refute. All we know for sure is that Russia publicly announced the deployment of some 3,800 troops in each of the separatist territories. This uncertainty about the actual state of play understandably creates anxieties on the Georgian side.

If all sides were interested in lasting stability and in confidence-building, transparency would be a first step. Russia could inform us openly about the numbers and places of the deployment of their troops and equipment in South Ossetia and Abkhazia. And it could allow an independent inspection of the sites. Then, direct contact between the sides must be established. In order to avoid any misunderstandings, e.g. about incidents, a “hotline” could provide for a constant communication channel. The EUMM stands ready to offer its impartial services as a mediator. A further step would then be to reduce – by mutual

agreement – forces and equipment on both sides of the administrative boundary lines, to minimise the potential for clashes.

During the last round of Geneva talks all participants agreed on the establishment of an incident prevention mechanism. Weekly meetings should bring together all sides to regularly exchange information on security related issues. Since the end of February, the UN, the OSCE and the EUMM have been intensively working on setting up the first meetings. However, technical questions have stalled progress so far. But all sides need to talk!

With the better weather in spring, there is more and more movement across the administrative boundary lines. Farmers want to work in their fields or bring their cattle to their pastures. And people living in South Ossetia on both sides of the administrative boundary lines want to visit their families and friends. All sides need to agree on how freedom of movement can be guaranteed. At the same time, there is a natural interest on all sides to prevent criminal activities. Only by working together can we achieve results!



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An Ambitious Vision of Russia-EU Relations

Dennis Kredler

In these pages, Timofei Bordachev last autumn introduced a visionary idea. In a nutshell, he maintains that EU-Russia relations stand a hope of growing stronger only if we proceed down the road of a closer integration comparable to the EU's own historical evolution, specifically by including common Russian-EU institutions to ensure adequate economic governance. It was suggested that the foundations be laid for a wider economic governance by building a common energy market managed by a Standing Energy Commission that would be "as independent as possible from national governments."

This proposal is clearly based on the first steps in the creation of what is today the European Union, which started in 1951 – only six years after the end of World War II – as the

European Coal and Steel Community (ECSC), in which Franco-German reconciliation played the central role. The ECSC saw France and Germany (as well as Italy and the Benelux countries) pooling control over the coal and steel market – the most strategically important sectors in those days – under the oversight of a common institution, the High Authority. Its accountability to elected representatives in the ECSC Parliamentary Assembly guaranteed that the High Authority's decisions enjoyed the degree of transparency required to ensure political acceptance and market stability.

To this day, this economic policy decision is unrivalled in its boldness and effectiveness in achieving the desired political goal – lasting peace between Germany and France. On

Dennis Kredler is Russia analyst at the European Round Table of Industrialists (ERT). The views expressed in this article do not necessarily reflect those of ERT.

top of that, the ECSC provided a formidable example on which the EU's Single Market was built, which to this very day is a major driver of the Union's economic prosperity and a basis for its monetary union.

This is why the idea of a closer economic integration between the EU and Russia – as advocated by business groups like the EU-Russia Industrialists' Round Table (IRT) – makes eminent sense. Indeed, is there a better way – 20 years after the end of the Cold War – to achieve a sustainable and ever-deepening EU-Russia relationship than by encouraging our societies and economies to grow more closely intertwined and by interlocking our interests to such a degree that the distinction between “us” and “them” would be meaningless in practice?

What is less obvious is finding the right starting point. The undisputable core of a wider economic relationship between the EU and Russia is the energy relationship. This is why it would be logical to look for integration opportunities in this field, which undoubtedly do exist. However, while there is a clear interdependence between energy suppliers and consumers, the possibility of pooling resources and

implementing common policies appears much weaker than pooling coal and steel in the ECSC. Even if there were a strong interest in a common energy policy managed by a quasi-independent authority as suggested, it could not amount to pooling of resources (the EU has far fewer of them than Russia), and therefore it could not amount to credible pooling of interests and power.

So a more robust basis is required for credible EU-Russia integration that could bring mutual benefits for our societies and economies. The absence of balanced resources means that we need to work with a more abstract notion of integration. Any move towards a closer – abstract or concrete – integration will require vision, particularly political vision. Politicians in the EU and Russia will need to build a consensus that gradually deepening integration is ultimately desirable for our societies and should therefore be a long-term policy goal. Alternative options, such as disengagement or a Cold Peace, should be treated as theoretical, at best. A common future that benefits the peoples in Russia and the EU alike is clearly preferable.

Sadly enough, the current atmosphere in EU-Russia relations is

not conducive to the emergence of ambitious visions for a common future. Yet without such a vision, there is a real risk that the EU and Russia drift further apart. It is unlikely that this would be in the mutual long-term interest (although it could be in the interest of specific interest groups).

The challenge is to combine hawkish views – that have developed over a long historical time – with the recognition that the EU and Russia share the same continent and thus have partly compatible and partly competing ambitions. Surely, the overall best interest lies in establishing an atmosphere that would provide for constructive discussion – and, hopefully, resolution – of questions that affect both the EU and Russia.

Let us assume that, against all odds, the emergence of a long-term political vision of a closely integrated EU-Russia space – presumably starting with the economic sphere and eventually expanding to other spheres of society as and when desired – is possible (maybe as an escape from the deepening global recession?). Then there is still the question: How do we start? In the absence of obvious economic sectors for pooling resources, we need to be more innovative. We need to

work out a policy to achieve the commonly defined long-term policy objective – closer integration.

This can only be done by putting in place a mechanism that will ensure that short-term policy actions undertaken by the governments are in line with the common long-term policy objective. This is where the notion of a Standing EU-Russia Commission could play a role. This Commission would have to be a joint organization with a remit to promote policy action that will move us towards the achievement of the common long-term policy objective.

The Standing EU-Russia Commission could make proposals for medium-term policy choices and advise on short-term policy action, helping to define action that is consistent with the long-term goal, and to flag up any proposals that may conflict with it. For this purpose, the Commission could propose priority areas for closer cooperation and develop action plans to gather pro-active policy momentum towards the achievement of the long-term objective.

The Commission could also act as a platform for common action in other areas – for example, in formulating common approaches to global economic governance, and

thereby strengthening EU-Russia cooperation in international fora like the G20 and the G8.

While in theory the Standing EU-Russia Commission would have purely advisory powers, in practice it should be effective in advancing the long-term policy objective through the turbulences of short-term considerations. Its effectiveness would be greater the more power it would have to determine the main direction of the EU's and Russia's policies towards each other. It may be argued that the joint character of this quasi-governmental organization would impart it some degree of influence even if it has no "hard power" to force any policy change. Yet there is a danger of creating a "toothless" institution with a purely symbolic character. This may be counterproductive in the long run and must be avoided.

At the minimum, the Standing EU-Russia Commission should include a platform for effective dispute resolution between the EU and Russia — above all, on economic relations, including trade, investment protection and energy. This would require a dispute resolution mechanism which should provide that decisions be made both independently, using open and transparent processes, and on the basis of intergovernmental

contracts, compelling EU and Russian authorities to apply them. Of course, this will require that policy independence by both the EU and Russia be relinquished to certain degree. But since this would be in the interest of achieving the common long-term goal and would lend the necessary credibility to the policy objective, it should be accepted by the parties. Certainly, adequate oversight mechanisms in line with the relevant constitutional arrangements must be ensured.

Transparency in the process is crucial if we are to let go of our history of mutual mistrust that has dogged the EU-Russia relationship for so long.

Yes, this is an ambitious proposal. Yes, it may seem unrealistic to most readers. But most readers will have to agree that we cannot continue with the current lack of ambition in the EU-Russia relations. Russia and the EU have great a potential in working more closely together. The timing may now be more opportune than ever. We are going through a global recession that makes common approaches — especially in the economic sphere — even more desirable. Also, the EU and Russia are negotiating a new agreement to govern their bilateral relationship. Has there ever been a

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