RUSSIA in GLOBAL AFFAIRS

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Debates About Values

Fyodor Lukyanov, Editor-in-Chief

Thirty years ago, on August 1, 1975, the leaders of 35 countries gathered in Helsinki to sign the Final Act of the Conference on Security and Cooperation in Europe. This document fixed the geopolitical status quo in the Old World – a goal pursued by the Soviet Union – and, at the same time, introduced a new notion into international politics – the 'third basket,' that is, humanitarian issues and human rights, which Moscow formally pledged to observe. The "inviolability of frontiers," the prime goal of the participating nations, failed to withstand the test of time. Human rights and democratic freedoms, however, have become effective instruments that are capable of radically changing the international geopolitical landscape.

"It still remains a mystery to me how the Final Act, with its humanitarian 'heresies,' successfully passed through the Politburo of the Soviet Communist Party," Russian veteran diplomat **Anatoly Adamishin**, who was present at the birth of the Helsinki process, ponders in his article. He argues that the decisive role during those negotiations belonged to Communist Party liberals who had a large amount of influence on General Secretary Leonid Brezhnev. They believed that "the movement toward the observance of human rights was not a concession to the West but an indispensable prerequisite for the country's development." Conservatives in the Kremlin immediately raised the alarm, and their intuition did not betray them: Moscow's commitments soon were made an instrument of pressure from abroad and from the growing human rights movement inside the country. And although the collapse of the Soviet Union 15 years later was caused, above all, by economic factors, the 'third basket' played a role, too, as it helped destroy the ideological monopoly.

The 'third basket' gave rise to powerful nongovernmental organizations which now play an ever growing role in global politics. At the beginning of the 21st century, the ruling regimes of various countries have been pushed out of power by slogans which embrace the common human values of freedom and democracy. In some countries, these

political changes came about from the external use of force (as in the Middle East); in other cases, the ruling regimes fell under the pressure of domestic revolutionary developments (as in some of the former Soviet republics).

In Russia, the "values" issue arouses special interest. Some people are concerned by the present government's departure from democratic ideals, while others fear the possible use of the human rights argument for imposing alien interests and development models on the country. Both politicians and experts actively discuss the "uniqueness" of Russia, which many believe cannot follow any other path of development but its own. The ideologist of New Isolationism, **Mikhail Yuryev**, argues that the development of the Russian nation is possible only through the establishment of insurmountable civilizational barriers. **Alexander Muzykantsky** admits that the Russian mentality differs from the Western mentality, but he is confident that Russia can take avail of these differences for its successful modernization. Well-known politician **Grigory Yavlinsky** and **Andrei Illarionov**, the Russian president's economic advisor, share their views on the changes facing Russia, while economist **Vladimir Mau** warns against a "natural resource euphoria" and cites examples from the past to prove his position.

The issue of 'Russia's path' always gives rise to discussions about its place in the world – whether it belongs to Europe or Asia, or whether it represents a special type of civilization. Moscow's relations with the European Union were the focus of attention of a recent workshop headed by **Sergei Karaganov** and attended by major Russian experts. **Arkady Moshes** emphasizes the opportunities that would open up for Russia if it proclaims a "European choice." **Sergei Chugrov** looks at the Asian vector of Russia's policy and its relations with Japan. Businessman **Vladimir Yevtushenkov** urges Moscow to return to the Arab world – where the Soviet Union had firm positions in the second half of the 20th century – as an active player.

As for the other articles that appear in this issue, I would emphasize the debate between Swedish diplomat **Lars Fredén** and his Russian colleague **Mikhail Demurin** which considers whether Russia should show repentance to the Baltic States. Norway's Prime Minister **Kjell Magne Bondevik** writes about Oslo's experience in the peace settlement of internecine conflicts in various countries. **Alexei Arbatov** raises an uncommon subject as he discusses the feasibility of keeping nuclear weapons under democratic control. **Yevgeny Satanovsky** paints a gloomy picture of the Middle East's future, while **Olga Butorina** and **Alexander Zakharov** discuss the prospects of integration in the post-Soviet space.

Russia's Path

Engraving by Vladimir Favorsky

“Traditional Russian culture, which evolved simultaneously with the Russian centralized state in the 13th-16th centuries, was (and still is) considerably exposed to the trends of modernization, thus assimilating new ideas and features. At the same time, traditional characteristics were not degraded or destroyed; they were simply sidelined, oftentimes operating on the purely subconscious level.”

A Yardstick for Russia

Alexander Muzykantsky

The tumultuous changes that are occurring in the post-Soviet space — a zone where Moscow's traditional influence has never been challenged — present Russia's ruling authorities and society with an identity problem. "One of the weaknesses of our society and state," according to Andrei Kokoshin, Russian analyst and State Duma deputy, "is that not only the nation, but even the intellectual, political, and business elite lack a clear understanding as to the exact identity of our people and society."

The ideological confusion that characterized Russia's elite following the collapse of the Soviet system, together with the bitter disappointment that accompanied the post-Soviet liberal model, highlight the need to explore the fundamental characteristics of Russian civilization. Unless Russia takes into account the national characteristics that to a very large degree shaped the Russian Empire, the Soviet Union and the Russian Federation today, it will be impossible to devise a new model necessary for adjusting to the realities of the modern world.

What, then, are the core characteristics of the traditional Russian mentality?

THINKING RUSSIAN

According to the sociologist Igor Yakovenko, the Russian mentality possesses several distinguishing features: syncretism, Manicheanism, insularism, and a split cultural identity.

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Syncretism (syncresis) is a state of society and culture that is characterized by the fusion and blending of their elements. A primitive society may be described as one where neither social roles nor professions are separated, and institutions such as the family or private property do not exist. In a syncretic society, knowledge about the world – the norms of behavior, literature, religion, abilities and skills – exist in an aggregate, non-discrete form. The entire history of mankind is a continual process that works toward the fragmentation of primary syncretism. It is noteworthy that this process advanced faster and more vigorously in the West than in the East, where it was checked or impeded by culture.

One fundamental feature of the Russian mentality is that it fixes the level that has been achieved in the fragmentation of syncretism as final, obstructing its further fragmentation. Moreover, it views a return to its primary state as the ultimate ideal. If forced to choose, a Russian traditionalist will predictably opt for a model that is characterized by a higher level of syncretism. This explains why the idea of universal equality is so popular in Russia, while the ideal society – i.e., Communist – set forth in Soviet ideology obliterates the opposition between town and countryside, manual labor and brainwork, and presents a utopian plan for the eventual merging of socialist nations; this plan includes the evolution of a new community of people which would eliminate the division between rich and poor. It is not difficult to see that this ideology has similarities not only with Christian ideas of Heaven, but also with the popular vision of an ideal kingdom that is embodied in numerous folk tales and legends.

Not surprisingly, at the height of their influence Communist ideas quickly gained a wide following in Russia. The other side of the coin is that the evolution of a civil society is now progressing very slowly. The development of civil society is, in fact, the replacement of a limited number of rigid, vertically integrated political and social structures with a diversity of self-governing entities that have a complex interaction with each other, as well as with the ruling authorities. Thus, civil society is characterized by a higher degree of syncretic fragmentation.

Manichaeism. The doctrine of Manichaeism pertains to the Persian religious reformer Mani (3rd century A.D.) who reviewed and summarized the dramatic process that followed the disintegration of primitive mythological/ritualistic syncretism. The diversification of human activity and worldview resulted in the emergence of culture and a fundamental watershed between good and evil. Manichaeism sees the world as an arena of the eternal struggle between two forces – light and darkness, good and evil. In this struggle there are "them" and "us." "Us" are always on the side of light, while "them" are on the side of darkness. A Manichee always needs an "enemy," real or imaginary. Anyone can serve as an enemy – the man next door, a foreigner, and a person of another faith. Enemies may also be ideological opponents or business competitors. In the context of interstate relations, stereotypical enemies of the Manichean type are: a hostile environment, imperialist circles, backstage intrigues or simply "forces of darkness" that are out to "destroy, dismember, or take control of everything."

Insularism posits that the real world wallows in vice, while all attempts to rectify and improve the situation are doomed to failure. The ideas of insularism are deeply ingrained in Russian traditions: For example, they are related to monasticism, non-acquisitiveness, and modern varieties of a "who cares" attitude. Insularism generates a great diversity of asocial complexes – from decadence, depression and hopelessness to justification in the mass consciousness of any idea or initiative that fails in practice (from building socialism to democratization to the monetization of in-kind welfare benefits, for example), the basic reasoning being: Nothing will work anyway since the world is hopeless.

Split cultural identity. Briefly, this specific feature of the Russian mentality can be described as the existence in society of two polar opinions on any matter of consequence. They arise from different systems of values, concepts and arguments, as well as methods of their verbal expression. There can be no dialog between proponents of these positions. Instead there is a system of monologs. Furthermore, opponents are also affected by purely

Manichean complexes in relation to each other. In this situation the predominant aspiration is to suppress or, if possible, destroy an opponent. Yet another outcome of this standoff is the ineptness of the decisions made, which is due not to the inability to formulate ideas, but to deeply ingrained cultural stereotypes.

The aforementioned elements comprise the core of Russia's cultural and mental continuum. (The cultural core is an integrated system: Said elements are not isolated or separated from each other but are systemically interconnected. They support and complement each other, and therein are found an important source of their stability.) Among other components, it is essential to note the sacral image of the ruling establishment – on all levels (in the eyes of the majority of Russians, the state has always been the Ultimate Entity, always opposed to its subjects, with any supreme leader invariably grasping a problem faster and fathoming it more profoundly than any expert or specialist in the field). An essential factor here is the "primacy of expansionism" which has always been related to violence (against nature, people or neighboring countries) because new resources cannot be introduced without coercion.

The Russian mentality is also characterized by the squandering of resources, including human resources – a condition that arises from the primacy of expansionism and the sacredness of power.

It should be noted that traditional Russian culture, which evolved simultaneously with the Russian centralized state in the 13th-16th centuries, was (and still is) considerably exposed to the trends of modernization, thus assimilating new ideas and features. At the same time, traditional characteristics were not degraded or destroyed; they were simply sidelined, oftentimes operating on the purely subconscious level.

Nonetheless, even though they exist on the subconscious level, these fundamental cultural elements influence intellectual, spiritual, public and political life in all of its manifestations and on all levels – from everyday life to the halls of power. These "civilizational specifics" also predictably impact on the course of foreign policy.

CIVIL SOCIETY AND CRUSHING OF SYNCRETISM

A person who is guided, perhaps subconsciously, by the core values of Russian civilization is, of course, better off and more comfortable living in a "correctly" organized world – for example, a world that is divided into political blocs by oppositional alliances. It is preferable that two blocs exist – for instance, the Entente and the Alliance of Central Powers or the Warsaw Pact and NATO. In such a situation, everything is understandable and logical, and it is clear who is "friend" and who is "foe." Furthermore, a "friend" is always right, and "friends" are never betrayed. In its desire to defend "friendly" Serbia in 1914, Russia took the risk of being dragged into a European war (which is in fact what happened). Likewise, by defending "friendly" Cuba in 1962, Moscow ignored the potential danger of a nuclear missile conflict with the United States (which, fortunately, was avoided at the last moment). The Soviet Union assisted its allies from the socialist camp, providing them with colossal amounts of funds.

In this setup, every country must be classified as either "friend" or "foe." If, for example, Egypt and Syria are considered to be "friends," they must be supplied with billions of dollars worth of arms even though it is obvious that these arms will never be paid for or even used properly. By contrast, Israel is a "foe;" so, first, it must be denounced as a conduit of reactionary Zionist ideology; second, all relations with it must be discontinued; and third, Soviet Jews must be thoroughly discouraged from emigrating to Israel; it does not really matter that this course effectively pits the country against the rest of the world.

Also indicative is the swift transformation of some "friends" into "foes." Thus, in 1948 Josip Broz Tito went from a national hero into a "Nazi stooge" practically overnight. More recently, we witnessed Victor Yushchenko suddenly emerge from a pragmatic, cooperative politician into "a person who has conducted a lavish election campaign paid for with other people's money, sold out his independence, and is now ready to sell the independence of Ukraine" (as taken from an election campaign leaflet signed by Victor Khristenko, deputy chairman of the Association of Ukrainian Communities in

the Russian Federation). "As pro-Russian as Moldova's new president – the Russian Communist Voronin – seemed to be, now he is apparently pro-Western and pro-U.S.," as Andrei Piontkovsky, a Russian political scientist, quipped, highlighting this trend.

Meanwhile, the concept of "correctly" organized international relations is rapidly losing ground in the modern world. The explosive growth in the number of new states makes the principal mechanism of international relations, adapted to the world's bloc-based structures, ineffectual and unmanageable.

The need for global coordination in the second half of the 20th century brought about new mechanisms, as well as new international organizations. According to some sources, by the mid-1980s there were 365 intergovernmental and 4,615 non-governmental international organizations – twice as many as in the early 1970s. This is where the focus has shifted in the decision-making process on matters of international coordination and cooperation.

This is in fact the "crushing of syncretism in the making," with regard to the system of international relations. The "simple and understandable" structure, where all connections are predicated on a dozen or so treaties and where it is clear who is "friend" and who is "foe," is being replaced by a complex scheme of interaction where everything is interconnected by an intricate, multitiered system of agreements and protocols and where there are no friends or foes but rather partners formulating and upholding their own interests. In other words, a rigid hierarchical structure is giving way to a flexible and mobile network structure, and herein is to be found the essence of the current phase of historical evolution.

Similar processes are also occurring within the internal structure of international terrorism – a highly relevant development for Russia. International terrorism is a mobile and flexible network of interacting but essentially autonomous structures that do not have a single command and control center. Therein is its strength, making it especially difficult to fight. Thus, it would be mere fantasy to assume that terrorism will be eradicated once the antiterrorist coalition captures the semi-mythical Osama bin Laden, or destroys the mythical al Qaeda headquarters. Network beats hierarchy.

Reflecting on three centuries of Russian politics (from the Time of Troubles until 1917), Alexander Solzhenitsyn talks about the "missed opportunities for internal development and the extravagant wasting of human resources on external objectives that were unnecessary for Russia: They were more concerned about European interests than their own people." Now, what about the country's foreign policy after 1917? First, there was the preparation of a world revolution, then fraternal assistance to countries of the socialist camp, as well as countries "taking the path of non-capitalist development." Finally, in the modern era, there has been assistance to the former fraternal republics that have now become independent sovereign states. What are all of these examples if not foolishly wasted efforts?

Thus, despite the different historical circumstances and conditions, similar foreign policy paradigms and mechanisms are being reproduced. In some way or other, they reflect the fundamental characteristics of core cultural values that influence the formulation of doctrinal foreign policy concepts. For Russia, the philosophy of syncretism plays a decisive role and manifests itself by a tendency to reduce the entire range of international relations to a confrontation between a small number of alliances or blocs, identifying the "poles" of influence and staking out the zones of special interests.

MENTALITY AND "GLOBABILITY"

Like any theory, the concept of Russia's civilizational specifics, while addressing a number of problems, raises many new questions. The main question is, perhaps, how the known mechanisms of civilizational specifics correlate with the development strategy of modernization.

Complaints are frequently made about the "hangover" of the Russian mentality that is hindering the country's integration into the world economy, international labor markets and modern international relations. First, no development strategy can ignore civilizational specifics as a fundamental objective factor. Of course, it is perfectly reasonable to seek a target-specific adjustment of a nation's specific features which impede modernization. But in any case this is a prolonged and painful process.

Second, the following question is also perfectly valid: Are the fundamental characteristics of the Russian mentality really an impediment to any modernization projects in the country and, therefore, subject to elimination? Or perhaps there are some positive Russian characteristics that, on the contrary, could be successfully called upon for the modernization process?

There certainly are; the ability of Russian culture, for example, to assimilate different features from other cultures, as well as other cultural identities, without jeopardizing its intrinsic nature. This particular feature, which also arises from the Russian proclivity to syncretism, was noted long ago by Fyodor Dostoevsky: "It was not with hostility (as might have been expected) but with friendliness and great affection that we accepted geniuses from other nations to our hearts, knowing instinctively how to recognize, forgive, and reconcile differences, thus expressing our readiness and proclivity for mankind's global reunification." (Incidentally, Dostoevsky presaged the evaluation of Russia's policy that was offered by Alexander Solzhenitsyn 100 years later: "What has Russia been doing with its policy during the last two centuries if not serving Europe, probably far more than serving itself? I do not think this was only due to the ineptitude of our politicians.") Thus, a commitment to syncretism can play a positive role. This is especially important in the age of globalization, when a country's "globability" – that is, its ability to respond to the challenge of globalization – plays an increasingly significant role.

Here is another example. In 1945, the U.S. military occupation administration, led by Gen. Douglas MacArthur, set out to turn Japan into a country committed to democratic and free-market values. Many experts warned, however, that Japan's traditional adherence to communal values would become a natural impediment to this mission. Yet, 30 years later, Vladimir Tsvetov, one of the best Soviet experts on Japan, in studying the mechanism of the Japanese "economic miracle," quoted the CEO of a major Japanese shipbuilding company: "We were lucky. Communal relations had prevailed in Japan up until 1945, and during the relatively short spell of confusion following the end of the war, the communal spirit did not disappear."

There are two important aspects here. First, this "representative of monopoly capital," as Tsvetov describes him, states that, contrary to predictions by American experts, communal relations, far from becoming an impediment, proved an essential engine of Japanese economic modernization. More importantly, this period following the end of the war – when the U.S. administration was pursuing the most radical transformations affecting all spheres of life in Japanese society – was described as a brief "spell of confusion." During this period, Japan experienced democratic elections, the adoption of a new Constitution, and the imposition of checks on military-industrial corporations. Furthermore, Shintoism was stripped of its status as a state religion, thus causing Emperor Hirohito to lose his divinity status. Finally, there was the free distribution of 10 million copies of the Bible, the expurgation of school textbooks, etc.

MacArthur recalled that he had been granted absolute power to control the life of 80 million people and rebuild their nation, which included the need to fill the political, economic, and spiritual vacuum that had come about following the war. Three decades later, however, this feverish activity was effectively dismissed as a "short spell of confusion;" and what Gen. MacArthur only saw as different types of "vacuum" in fact turned out to be a repository for the core elements of culture which subsequently ensured the spectacular and dynamic rise of Japanese society.

Here is yet another example, borrowed from Alexei Zudin, a Russian political scientist. In the 1950s, many authors attributed the economic stagnation of Southeast Asia to Confucian ethics: After all, Confucians are oriented toward contemplation, introspection, passivity, etc. Twenty years later, however, these regions became economic growth areas, producing the proverbial "Asian Tigers." Today, experts argue that Confucian ethics was a principal factor in this success story: the philosophy orients the individual toward self-discipline and concentration, and as soon as favorable opportunities arise, an individual releases his energy.

At the same time, society's historical transformation may be accompanied by a revision of basic attitudes and values. The deep changes that occurred in Turkey in the 1920s, for example, were

General Douglas MacArthur (1) failed to change the Japanese mentality, while Mustafa Kemal Ataturk (2) created a new Turkish nation.

related not just to the form of governance but affected the attitude to religion and the empire. The revolution that was carried out by the Young Turks and led by Turkey's first president, Mustafa Kemal Ataturk, changed the core elements of culture, effectively forming a new nation.

The modern world dictates its own requirements. Nevertheless, the possibility for a transformation that ensures the vital evolutionary dynamism is obviously limited by the systemic characteristics of culture. Thus, a carefully planned, target-specific adjustment of social traits is becoming a historical imperative.

"CHAOS THEORY"

Russia's history shows that forcible methods of changing its national mentality – by adjusting it from above, for example – are counterproductive. The only possible strategic course that can produce a positive result within a relatively short time is the modernization of the national education system. The wide array of social disciplines from the Soviet system of higher education bor-

rowed many of the traditional elements unique to the Russian mentality. A modern liberal-arts education, however, does not provide answers to questions related to a nation's identity. Meanwhile, these questions cannot even be formulated properly outside the broad global context whose understanding presupposes the inclusion into the humanities of such obligatory systemic, fundamental courses as the history of culture and the history of religion. Sufficient knowledge has already been accumulated for developing training courses that could conveniently be described as the theory of civilizations or civilizational analysis.

The acquisition of analytical skills is especially important for liberal-arts students. Analysis is, in a certain sense, the opposite of syncretism. The Russian traditionalist perceives a syncretically fragmented world as a daunting chaos. He believes that chaos can be overcome by simplifying the situation and enforcing order — via economic regulation, the vertical chain of command in society, and a new multipolar world order.

Meanwhile, complex-system modeling has long been a subject of analysis. Today, there exists a special branch of mathematics known as "chaos theory." Any student of the humanities must understand that there is an adequate mathematical apparatus for modeling random network structures and analyzing the processes occurring within them. Generally speaking, it is vital for liberal-arts students to study mathematics in order to build mathematical models to analyze the current status of objects or phenomena, as well as forecast prospects for their development. Liberal-arts students also need the ability to operate in the modern information space. To make effective decisions in our increasingly complex world, already at the project feasibility stage, it is necessary to analyze the complex and diverse connections of an object or phenomenon and to assess the possible consequences of a particular scenario. This kind of analysis cannot be carried out without tapping and processing a huge volume of informational resources. And, of course, comprehensive problems cannot be resolved without a coherent strategy or its in-depth discussion in society. And this involves, importantly, a review of the core elements of cultural values.

Fortress Russia

Mikhail Yuryev

Russian society offers a broad array of prospects for the country's future, and all of them have one thing in common, namely, the conviction that Russia must become an active member of the global community, which includes a profound integration into the global economy and politics. The idea also suggests that isolationism from global civilization (in reality, it implies Western civilization only) will be the equivalent of death.

And yet the fact remains that a policy of isolationism (or perhaps a systematic vision of the world and not merely policy) is quite feasible. This article makes an attempt to explain why isolationism is as much possible as it is vitally important for Russia's survival.

Isolationism means a national mode of existence where the state builds a relatively small number of external contacts, as well as a relatively limited interaction with it in all spheres of life — economy, politics, culture, ideology, and religion. Thus, the influence of external forces is incomparably smaller than that of the internal forces. The definition is somewhat incomplete, yet suggestive of rather significant phenomena. First, it says nothing about administrative bans. This is no accident, since contacts may be limited due to administrative prohibitions of some kind and objectively existing barriers, such as the geographical remoteness of a country, lan-

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guage differences, religion, traditions and level of development, which naturally makes the use of bans unnecessary. The United States had become quite an isolationist country due to its geographic remoteness. Its foreign trade accounted for less than five percent of its Gross Domestic Product in the 19th century (versus up to 50 percent as compared to present-day Russia), and the country even lacked special customs barriers. This isolationism, however, did not prevent the U.S. from taking the leading position in terms of GDP by the end of the 19th century.

Second, infrequent contacts with the outside world do not mean they are nonexistent. Nobody would choose to grow coffee, for example, in an isolationist country if it does not grow there naturally, nor will anyone want to drink a substitute instead. However, if organizational and entrepreneurial talents work to create a strain of genuine local coffee, the producer will not have to compete with foreign producers: all imports will immediately cease, even though the local strain of coffee may be more expensive. Third, isolationism means ignoring contacts with the outside world, not ignoring its existence. A normal state, even an isolationist one, will maintain a strong army, which implies knowledge of everything about the enemy. And the military sphere is just one of the instances.

Most Russians are likely to react to this proposal as follows: endless Soviet-style queues in the shops? Not again! Admittedly, I fully share their dislike for store queues, and the Soviet economy was a closed one, indeed. The difference, however, between the Soviet model and today's Russian economy is that the Soviet-era economy was not based on a market economy. There is no full synonymy between 'market' and 'openness.' Apart from "open-market" and 'closed state-governed' economic systems, there are also open non-market economies (like in the majority of oil-producing countries of the Middle East) and market-oriented closed economies. The latter type is cherished by most isolationists. In the epoch of early capitalism, almost all countries (besides the commercialized republics like Holland) had that kind of economic relations, and it is noteworthy that all capitalist countries became economic giants at the time.

It is not economic openness that predetermines the quality, assortment and accessibility of consumer goods, but rather the motivation of the owners, competition and natural selection of the market players. If Russia makes a turn to isolationism while maintaining the current principles of organization, it will not turn into an ascetic. It is enough to recall that the Nazi Third Reich, the breaker of 20th century economic growth records, was quite far from being ascetic. Despite the bold proclamations that guns had superiority over butter, German manufacturers were not restricted to constructing just Tiger and Panther tanks. German plants produced Volkswagens, an automobile as revolutionary for their time as affordable for the people, and Maybachs, the auto grand of all time.

Let us now ask ourselves: What rate of economic growth does Russia actually need to catch up with the U.S. in terms of GDP per capita in the next 30 years? This particular time period marks the necessity of economic planning, while the postwar "economic miracles" of Germany and Japan also lasted some 30 years. China is set to take over the world's leading economic positions by 2010 or 2011, which is also 30 years after the start of economic reforms in that country.

Since Russia's specific GDP is smaller by a factor of 10 to 12 than America's (16 times formally, since the ruble is underrated), it is easy to predict that Russia's economic rate of growth must outstrip America's growth by 9 percent annually over the next 30 years. It means that Russia's economic growth must total 11 percent if the U.S. economy grows 2 percent, and must be bigger than 11 percent if the American economy grows more than 2 percent. Now, is a growth rate of 11 percent for 30 straight years at all possible? Granted, it is hard to attain, but theoretically possible if the entire nation mobilizes for such a task. In the meantime, an 11 percent growth rate is completely unfeasible in an open economy. An integrated economy cannot grow like that at a time when other economies are making a mere 2 percent a year. Today's global economy resembles a system of communicating vessels where not a single element stands out, as the flow of capital and currency exchange rate fluctuations will level it off all the

same. This does not mean that the global economy shackles the development of national economies – it simply trims growth rates to size. That is why the Russian economy, if it remains open, will never grow 11 percent a year, while other countries are experiencing an increase of just 2 percent. And if those countries slide into a recession or crisis, Russia will not be able to rely on 9 or even 7 percent growth rates. Russia will also slide into a crisis, maybe even a worse one, since the Americans have perfectly mastered the sophisticated art of relegating their problems to allies, to say nothing of foes. That is why ***the prospect of a GDP rate on the same level with other industrialized nations does not shine on Russia. If the economy improves in the West, it may also improve at home, but it will be impossible to narrow the gap in any sizable way***.

Is this a bad thing, though? After all, specific GDP has a direct bearing on living standards only, while the country's political and military might depends exclusively on the general GDP. This is so because people's living standards depend on the share of resources per capita in contrast to the power of the state that depends entirely on resources concentrated in the hands of the government. This fact goes far at explaining America's misgivings about China's growth. The latter will never approach the U.S. in the next century if just the specific GDP is the subject of debate. However, China's general GDP – and here we must remember that its population is four times greater than that of the U.S. – has reached one-third of the American GDP, while the share of the GDP at the government's disposal is much higher.

Meanwhile, a look at Russia's general GDP suggests that we are far worse off since our population is 50 percent smaller than in the U.S. and 80 percent smaller than in the entire Western world. Our general GDP is smaller than America's by a factor of 20 to 25 times (30 times formally) unlike the specific GDP, which is smaller by a factor of 10 to 12. Just consider that our military and political might would still remain 80 percent below the Western bloc even if we were to attain the same specific GDP as the U.S. (this requires not doubling our GDP per capita, as President Vladimir Putin has demanded, but increasing it by 15

times). Add to it that the Russian government will not be able to concentrate the lion's share of resources in its hands the same way that the Soviet government did, as this may arouse popular discontent and the people's refusal to support the authorities. Thus, the world's largest territory and collection of resources, where the military and political capabilities are far smaller than that of the world's Big Brothers, begins to look very appetizing. And it would be vain to place too much hope on the nuclear umbrella, but not simply because our nukes are rusting and falling apart. Remember the eloquent Russian proverb that for every smart lock there is a crowbar. And we should not entertain any doubts that the crowbar may appear soon enough in the form of a highly efficient antiballistic missile defense system.

To sum up, ***an open economy that presupposes the impossibility of catching up with the West paves the way for Russia's disappearance as a state***, even under conditions of parity that are unimaginable in real life. Recall that our discourse has not mentioned any inequality of conditions so far. The brutal reality, however, rouses an uneasy feeling that someday our export-bound oil pipelines may be shut down under the pretext of, say, encroachments on the rights of sexual minorities in Chechnya or some sort of nonsense along those lines. It will certainly happen should Iraq become too messy, OPEC collapse, or crude reserves overflow the markets for some reason. That is why the real situation appears much grimmer for us in an open economy where the promises for high growth rate may quickly turn into sheer fantasy in comparison with the scheme discussed above.

Should Russia place its hope in a closed economy? Unlike the open economic systems, closed economies are isolated vessels, and have little communication with the outside world. Would it be possible, then, to pump more water, for example, into a closed vessel than in a communicating vessel? That depends wholly on the force of the pumping. No doubt, this is a problematic issue, but the history of the Russian people should suggest its immense capabilities for making titanic efforts. The problem is that the moment Russia opens the hatch of its vessel the water will drain

away elsewhere at supersonic speed and this is what our economy has been experiencing over the past 15 years. On the face of it, the people who are urging us to make better conditions for capital in Russia – so that our own money could return to Russia together with an increase in foreign assets – seem to be making their suggestions in a state of confusion. If they want such a thing to happen in a global economy, they must make the conditions truly superlative, not just simply favorable. Is it really possible? Even if foreign investment really began streaming here, the centers of power in today's world would quickly block the channels of financial flows to Russia by non-economic methods. They do not need the Russian Federation becoming robust at their expense.

Moreover, the Western world could take persecutory measures that are partially economic in nature, including statements about the heightening risk of investment in Russia and sliding sovereign borrower ratings. As for Russian money hidden elsewhere, it will not return en masse under any circumstances. The reason is that a genuine thief – and there are few innocent people among the owners of drained capitals – will never believe that they will be fully pardoned. This would defy common sense, and besides, those individuals would hardly put themselves in such a situation. But ***should Russia take moves to isolate its economy with clear borders drawn up between state power and capital, then unparalleled financial liberalism will become possible, thus making the Russian capitalist system the world's most efficient.***

What is more, closed economies have recipes of speedier economic growth, including the issuance of special government bonds, which are impossible in open economies due to the possibility of amassed economic crises. It is at the moment of a crisis that Russia's finest hour will come, provided our economy is sealed and remains insensitive to world upheavals. If the economy develops dynamically, it only stands to gain from others' problems. That is how lions, the kings of the animal world, ambush their prey; that was how the U.S. turned into a superpower after World War II.

The scenario is realistic for Russia too, if it reverts to isolationism.

Economic growth is nothing more than an instance of autarchy. It does not take Solomon to prove that a nation grows into a world power only after a period of isolationism. This happened to Rome before the Punic wars and to the United States before World War I.

On the strategic plane, nothing is more important for Russian economic policy than to declare autarchy its goal and to prepare for making a turn toward it. Preparations presuppose a development of ideology explaining the importance of such a turn and convincing the majority of Russian society of it. This would not prove particularly difficult, even without allusions to the traditional 'Russian mentality,' since the idea of autarchy is based on a universal value of independence of a nation and state that is placed above other values. Any interaction with the outside world means becoming dependent on it, and the stronger the interaction, the greater the dependence. At a certain moment it develops a critical mass, and Russia is going through that moment now.

A turn to autarchy includes complex measures to discourage exports/imports, on the one hand, and the inflow/outflow of capital, on the other hand, which actually embraces all export/import operations. An essential move in this direction would be to declare the ruble unconvertible inside the country and to tighten up monetary and financial regulations. An accent on checking the flow of money is much more efficacious than checking commodity flows at customs offices. This tightening concerns business transaction with the outside world only, but it must proceed hand-in-glove with the liberalization of general regulations for domestic businesses.

The tightening of currency controls must envision mandatory sales of all hard currency revenues from exports, or even a transition to exports paid in rubles together with prohibitions for purchasing hard currency for any reasons other than imports. This means stringent control over exchange rates and the liquidation of opportunities to make money on the difference of these rates. Foreign currencies will be purchased from the government only (actually speaking, these will come directly from the exporters only). The exchange rates must be lowered against the ruble, and it would be most desirable to have

fixed rather than floating rates (the dates of changes of which would be announced in advance). Establishing the rates outside the market will shield the ruble and, consequently, our economy from the impact of external forces. This model will be feasible, however, if a clear and balanced mechanism is devised; a mechanism free of bribes and useful in determining who would like to become an importer and purchase hard currency. And if, for some reason, the plan fails, the exchange rates will be established through tenders organized by the state. A direct or indirect revival of multiple rates — through excise duties on particular groups of commodities and services, or on some transactions — is also possible.

The principle of the ***discouragement of imports*** determines that the first step is to establish if commodities of a quality comparable to imported items are manufactured in Russia. If they are not, we must determine when their production might possibly begin. For instance, to use the coffee example again, this commodity does not grow in Russia and the current stage of technological development does not make its production here possible. This means the government will always sell hard currency for buying it abroad and will, at the same time, ensure that the number of unaffiliated importers is large enough to maintain market competition. The exchange rate (that is the price of this commodity) will take account of Russia's hard currency potential. If a certain commodity is not produced here, yet businessmen launch an investment cycle making it possible for the commodity to appear on store shelves in two years' time, while covering the entire demand for the product for four years, then hard currency for purchasing its foreign analogs will be sold at a low rate during the first two years, at a higher rate during the third year, and will cease altogether in the fourth year.

At the same time, the government must consider special stimuli for facilities producing import-substituting commodities if the volumes of investment make a spontaneous emergence of investors scarcely possible. The entire cycle of automobile production provides a good example. The list of stimuli may include interest-free or low-interest loans, the interest on which will be equivalent to a certain percentage of the monies invested. Quite obviously, the

principle is easy to implement even in a situation where corruption has not been fully liquidated but simply curbed.

That is basically the mechanism for discouraging imports. Those who claim this sounds something like Marx's Communist Manifesto might be surprised to know that super-capitalist postwar Japan restored its economy in precisely such manner, and perhaps even more stringently. For instance, the government did not sell hard currency to importers for purchasing antibiotics during an outbreak of streptococcal angina, although the country did not produce such drugs at the time. It did sell currency, however, for buying equipment and ingredients used in the production of antibiotics.

The discouragement of exports entails a much simpler mechanism. In addition to a changeover to ruble transactions, it implies a revision of effective export duties. While the final objective for imports is their full eradication, the objective for exports is to discourage the exporters and reduce the share of export operations in the general GDP or in separate branches of the economy. What is so bad about exports, one may ask, especially if we export the products of high processing to countries that are not considered to be our foes?

It is not so bad from the economic point of view, and yet it is important to make the economic entities, as well as other players, realize at the level of subconscious social archetypes that everything which happens to them (enrichment or impoverishment, ups and downs, joy or grief) occurs on the space between Russia's eastern and western borders, and nowhere else. And if one day those borders become too tight for us, we must expand them, not just cross over to other countries. Only then will Russia turn into a power from a territory; we will become a nation rather than mere populace.

As for foreign investment, the story is much simpler since it only brings us hazards and we must develop a policy toward it as we would toward a hazardous thing. No foreigners have found companies here – or elsewhere – with truly noble goals in mind. They mostly invest in affiliates of their corporations which handle the assembling, molding or packing of a particular product. In other words, this is imports. Foreign investors will always try to export their profits from Russia, and the argument that they create jobs

here is misleading since the consumption of any commodity is generated in a market economy by demand and not by supply. This is to say that if a commodity enjoys demand, a Russian businessman will build a factory to produce it – unless foreigners have not built a factory of their own; thus, the number of jobs will be quite the same. Just look at the number of Coca-Cola factories in Russia. This phenomenon suggests that the same number of factories that produce the popular Russian drink Baikal were never built. Another reason for this heavy presence is that foreign corporations like moving their operations abroad because often their production processes are prohibited, or their products are simply unneeded, at home. Look at reformist China where Volkswagen and Audi produce very good cars – except that these are the models of the 1970s.

There is no need to nationalize the foreign factories which have been already built. It is enough to declare that the government will not convert the rubles they earn into hard currency, while currency purchases on the market would be impossible. Of course, warnings that nobody will invest in Russia for another 100 or 200 years will rock across the world. That will only be music to our ears.

I would like to present a few more comments about Russia's macroeconomic policies during its transition to isolationism. Since the ruble has hardly been real money for so many years, a ban on its exchange for foreign currency will certainly cause serious psychological problems (which other countries would not see and actually never saw during the periods of harsh currency regulations). That is why the package of new laws on isolationism must have a provision for the introduction of a gold (or gold-platinum) standard. Simultaneously, the authorities must declare the content of pure gold in the ruble effective over a period of no less than 10 years (it would be fine to feature the content in the Constitution in order to make the reform unchangeable). Also, there must be provisions for the dual circulation of bank notes and gold coins (denominated by their value rather than weight), as well as for a free exchange of paper rubles for gold.

Naturally, such an exchange would be possible inside Russia and for Russian citizens only, while foreign countries would be

unable to present illegally exported rubles for exchange. The gold standard seems to be quite a practical move for Russia. The main reason behind its abolition in the West was the shortage of gold, the global output of which was smaller than required by the money supply and increasing along with economic growth. In Russia, the per capita reserves of gold and especially platinum are much greater than elsewhere in the world, and their production can easily be boosted to meet the objectives. Initially, Russia may wish to purchase some amounts of gold from other countries, and this will be a convenient way of using our huge foreign exchange reserves. We should exclude the misgivings that everyone will rush out to exchange bank notes for gold, since this metal can only be stored in a safe (if it returns to the bank, it loses the functions of gold and becomes ordinary money in circulation). When kept in a safe, gold does not generate interest – an untypical scenario in a market economy, which is known for its tendency of slashing the circulation of cash, something which we are now witnessing. ***The gold standard will be a serious psychological counterbalance to the abolition of currency exchange.***

This begs the question: How will Russians travel abroad for vacations? – Since Russia's climate is not at all one of God's blessings; the very impossibility of crossing the border would create the effect of a forbidden fruit, as it was during the Soviet era. Each Russian citizen should have the right to purchase foreign currency at a high official rate in proportion to the taxes he or she pays over the year. That is, by spending a percentage of wages. The government may consider, of course, the sale of currency above the established limit but at a much lower ruble rate. Traveling abroad then will be as easy as now, yet much more expensive. As for the numerous business trips and sabbaticals, these would be done away with. Isolationism means ending any contacts with the outside world, not just in the realm of imports and exports. Trips fully financed by foreign hosts should be banned altogether.

Microeconomic policy during the transition to isolationism should also facilitate the closing of the economy and the country in general. Imports and exports can be efficiently discouraged by a

variety of non-tariff barriers, such as standards of technology, sanitary and food industry norms, and tougher language requirements. The best possible option would be to revert to the old Russian system of measurements and weights, including the verst (1,067 meters) and the pud (16 kilograms). These measures would not block imports, but would make them more problematic and expensive. Incidentally, this is the way that the United States, a nation where everything differs from the rest of the world, protects itself. From the standard of measurements, to the voltage of the outlets, everything is different in America. Thinking along these lines, we must ban the sale of computers, mobile telephones, and other electric appliances that contain any letters beside the Cyrillic, even if each button has two types of letters on it. Let those who need the Latin script use "Anglicized programs." All this may be done, but it would create additional costs and inconveniences.

In the meantime, the microeconomic features of the transition to isolationism must not differ very much from the features of today's economy. The main difference is that there must be much greater responsibility. This is necessary in light of different antitrust policies, which would become one of the major objectives contrary to the current situation where imports still exist. It concerns the toughening of approaches and changes in legal norms. The market monopolization limit set at 35 percent is enormous for an isolated economy and should be reduced to no more than 20 percent. Making competition inside the country more intense than is the case across the world must take precedence, and that is why the seizure of more than 20 percent of the market by groups of affiliated companies should be banned regardless of their future business scruples, fairness in pricing and so on (as opposed to the way the current antitrust law regulates things).

The main thing, however, is to stimulate the establishment of new factories or expand the old ones. This move would help to break up the monopoly of other producers and increase competition in general. In 2003, a budget surplus windfall of several billion U.S. dollars was generated. Why not spend half of that money to build several state-of-the-art automobile factories?

The most important microeconomic task for the government is to ward off any factors that may impede the growth of businesses. The most glaring factor in that sense is administrative and criminal pressure. A gangster or government official who comes to a shop to extort bribes from the owners must be treated as a person impinging on the vital interests of the state (defense interests in the final run), not simply as an individual who is covetous of another person's private property (since this will never be really treated as a crime in Russia). A governor, who builds his own business in the region by stifling all other businesses, must be "enfettered in iron and delivered to Moscow for investigation and execution," as czarist decrees would advise in the old days. Such practices shall be viewed as the equivalent of high treason.

Generally speaking, Russia's rampant corruption stems from ideological or, rather, psychological factors. U.S., Italian or Chinese officials have as many weighty reasons for taking bribes. They engage in this illegal activity every bit as willingly, albeit more cautiously. Further, the problem of bribing is just the same as in Russia, especially in Italy and China. And yet 999 out of 1,000 corrupt officials in those countries would never do things that would damage national interests regardless of the bribes, because they have not crossed their countries out of heart; the same thing cannot be said about Russia's bureaucrats. As we declare this country "Fortress Russia," and as we rehabilitate the original national idea coupled with trust in Russia's powerfulness (that is the only hope during isolationism and the essence of the latter), rampant corruption will subside without any especially bloodletting measures. As a result, we will reduce it to the limits, within which it has always existed in Russia and in all other countries, including Western ones.

Changes in the foreign policy must be even more resolute. Our foreign policy has evidenced just two modalities over the past 50 years – the bitter confrontation with the West during the Soviet era, and the policy of "common human values," that is, full capitulation and servility to the West, launched in the late 1980s.

Once autarchy is established, the ***need for whatever foreign policy measures will decrease, as it will be reduced to intelligence and***

defense policy built upon intelligence data. Foreign policy, however, must be different even during the transition period. We must say in a clear voice that we will not support any countries' standoffs with the West, nor will we support the West in standoffs with those countries. We will support neither international terrorism nor the fight against it. We will not support violations of human rights or the struggle against those violations. We will not support any of the above issues materially or morally – by diplomatic resources, finance, materiel, natural resources or military force. At the same time, we shall avoid discussions about such topics.

We will generally pull out of any multilateral relationships, as we believe the world community has not yet matured into a real community and will not do so for many years. Hence we will pull out of all multilateral organizations – European and international – and will crown the process with the abandonment of the UN.

We will make the formula of "Do it as you like and we will react as we find it necessary" the guideline of our foreign policy. If Britain, Spain or Israel once again refuse to extradite our criminals, we will tell them: "Well gentlemen, you owe nothing to us." But we will also tell them: "You are welcome to flood us with requests if people on your wanted lists come here. Your papers will not be considered, or they may, but the possibility of denials will be very high." This rule would apply to Irish, Basque, and Palestinian terrorists, among others.

Was it not the Americans who said they would not observe the Anti-Ballistic Missile Treaty any longer? Fine, they have a right not to. On our side, we have a duty before our country to pull out of the Intermediate Range Nuclear Forces Treaty. Intermediate range missiles are fairly inexpensive and more valuable for Russia as a less affluent country. Also, we have the right to pull out of Missile Technology Control Regime and later from the Nuclear Nonproliferation Treaty. The time of treaties is over, although it may come back again during a future new world order. But as for now, the Americans are right to say that treaties are out of place.

At the same time, we must avoid Cold War-era mistakes and deny our enemy the chance of making us search for burdensome

solutions. The Soviet Union let itself get involved in an unbearable arms race "to catch up with them," while it might have settled for inexpensive asymmetric options.

It is important to ban the registration of all public associations and non-commercial partnerships where foreign organizations or individuals are co-founders. Previously registered organizations should be given a few months to disband or reorganize themselves so as to meet the new requirements. All purely foreign organizations shall be told to wrap up their activity and leave Russia, and the foreigners entering Russia shall fill out questionnaires concerning their membership in public associations with international activity. If they are, they shall file formal recognizance not to propagate it while visiting Russia. All foreigners working in the political sphere (the list of activities may be shorter or longer) shall enter Russia only on diplomatic visas that are received upon exchange of notes between Foreign Ministries. All types of grants from abroad – either benefits for works or contracts for works tantamount to exports of non-material resources – shall be forbidden. Naturally, no government or budget-receiving organizations will be able to issue contracts to or employ foreign legal entities or individuals, except for operations outside Russia. Russian companies with more than 25 percent stakes held by foreigners would also fall into this category.

Ideology is the most problematic area, as overt bans are unproductive against it. Nor do we have a unifying idea like Soviet-style Communism to maintain an opposition to the West. Let us remember that ***the ideological support of isolationism through the establishment of insurmountable civilizational barriers is solved not so much through the imposition of bans, but through devising new concepts***. The concept of a Fortress Russia, with its inherent revision of economic, social, foreign, and – if need be – internal policy, should stay in place over several decades to enable us to win another Cold War, or perhaps even a Hot War. After the threats are gone, it will be time to drop the concept or, at least, its version described herein.

A Road Map for Russian Reform

Grigory Yavlinsky

Russia is once again witnessing an aggravation of political struggles. Although this time it is not a struggle against the Communists, but between clans – specifically between the clan of old oligarchs (those individuals who acquired large chunks of property, including mass media, during the privatization schemes of the 1990s which allowed them to become directly involved in politics and running the country) and the clan of new oligarchs (those who, following Putin's advent, acquired "law enforcement" clout and other means of leverage for redistributing property, shaping policy, running the country, as well as controlling parliament, the judiciary, media and the electoral process).

The old oligarchs – who replaced politics with behind-the-door intrigue, manipulation, ballot rigging and corruption in all branches of government, and ultimately delivered the incumbent president into the Kremlin – are now trying to cast themselves as "democrats." Meanwhile, the new oligarchs, who are continuing the same policies as their predecessors but in the interest of another group that calls itself the "State," are attempting with little success to implement the so-called "authoritarian modernization."

The presence of "career liberals" on one side or the other – be that public politicians hired by old oligarchs or economists pushed by new oligarchs to prominent positions – makes no real difference.

Grigory Yavlinsky, leader of the Yabloko party. This policy statement by the author was originally published in Russian in *Novaya Gazeta*, No. 30, April 25, 2005.

In setting out to seize or maintain power, neither the old oligarchs nor the new oligarchs formulate any socially significant objectives for the country's development for the next decade. They fail to substantiate their status in the world, and lack a value system that could enable Russia to finally find its own identity. This compels us to revisit the issue of economic and political reform, and present a new plan of action.

CHANGE WITHOUT REFORM

From the first tentative attempts at social transformation in the second half of the 1980s, known by the untranslatable euphemism *perestroika*, until now, talk about "reform" and its urgency has dominated virtually all political debate within both the political elite and society at large. At the same time at least two fundamental questions remain unaddressed, namely: First, what is the essence of reform, the need for which is recognized by nearly all active forces in society? Second, can the changes taking place in Russian society be regarded as reform, or at least a preparation for reform?

Not every social change constitutes reform. First of all, reform – 'reformation' in the generally accepted sense of the word – is basically a conscious, target-specific transformation of society according to some coherent, well-conceived plan. This does not necessarily have to be a plan in the bureaucratic sense of the word, with deadlines and officials responsible for its execution (although, in my opinion, there is nothing wrong about a detailed elaboration of measures and steps for which I and my co-authors of the '500 Days Program' drew heavy flak). In any case, however, it is vital to have a clear vision and understanding of ultimate objectives, of what needs to be done, for what purpose, how, and in what order of priority. Otherwise, the end result will not be reform but just a series of changes, random or planned, occurring without the participation of the political class or even contrary to its intentions.

Even if changes are brought into existence by design, according to a plan, this is not sufficient to call them reform; there must be a goal to modernize society, make it more advanced and responsive to some positive, historically recognized goals and ideals.

Otherwise, we could just as well be talking about reform, for example, in Nazi Germany, or Cambodia under the Khmer Rouge.

From this perspective, there is no reform in Russia today. There are ruling authorities who talk a great deal on reform. There are changes in society. But there is no reform per se. The reason is because the present authorities are not conducting any purposeful activity to modernize Russian society or the State. The measures that they call reform fail in principle to change the situation in the respective sectors (military, administrative, judicial, tax, social service, housing and utilities, etc.) from the point of view of their modernization – that is to say, making them more effective and targeted toward social tasks, ideals, and so on. In the best case scenario, positive changes occur with passive acceptance on the part of the ruling establishment, oftentimes contrary to the logic of its activity and even in the presence of actual resistance to the changes.

At the same time, the need for social reform is becoming increasingly pronounced. This may not be so obvious at the very apex of the social pyramid, where the pursuit of private interests creates the illusion of advancement in the right direction. At the lower and even intermediary levels, however, the acuteness of social problems can no longer be obscured by petty private gains or success stories.

WHAT IS THE MAIN GOAL?

This social requirement will be coming to the forefront despite a worsening stagnation in society, which is leading to conformism and evasion of active protest. For all the civic backwardness and passivity of Russia's main social groups, the establishment still fails to enjoy a monopoly on political activism. Eventually, the most discontented and dynamic groups within the socially and economically active strata are bound to emerge with a new political force with a positive agenda.

And then the question will arise: What needs to be done to avoid a crisis scenario and ensure that Russia's economy and society enjoys modernization? Another question is: How should Russian society accomplish these tasks? Today, without waiting

until crisis strikes, there needs to be a road map for Russian reform that takes into account both national and international characteristics, not to mention the actual, as opposed to imaginary, capabilities of Russia's ruling establishment.

What needs to be done? First of all, we must identify the ultimate objectives. It is not possible to tolerate a situation where abstract slogans of "greatness and prosperity," or an amorphous and toothless ideology of centrism, are replacing a coherent and consistent concept about Russia's future. It is critical to decide what values will be propagated in a country whose past and present are full of contradictions; what place will Russia occupy in a world that in the foreseeable future – in 10 or 15 or 25 years – will remain internally divided?

Whether we like it or not, the reality is that the world remains extremely heterogeneous: alongside those countries which make up the bulk of the most valuable economic resources (above all intellectual and technological, as well as financial and military resources), there is, and will continue to be, a vast global periphery that is deprived of access to most benefits that result from the use of these resources. Russia, which is situated in the "gray zone," has only two paths of movement: either integrate into the core capitalist economies (this path can conveniently be described as the "European option" for Russia), or opt to be on the periphery. A good case can be made for either options, but one thing should be clear: There is no "third," "Eurasian," or any other "unique" path, and there never will be. The fear of Russia losing some of its sovereignty as an argument against it choosing the "European" or "Euro-Atlantic" path is understandable. The only alternative, however, is to accept a place on the periphery of international processes. It also perforce implies a limitation of state sovereignty – not necessarily on a formal level, but this limitation is even more substantial since sovereignty and independence only exist insofar as there are opportunities for their realization. (The sovereignty of the weak and dependent is like freedom without money: it seems to exist in principle but actually cannot be enjoyed.)

A COMPASS FOR REFORM

If we look at how the countries of the first group differ from all other countries, we find that they all share a set of basic values – above all, the priority of human rights, including property rights, individual freedoms and a concept of social justice. The jury is still out on which comes first – these values or economic effectiveness. I personally believe that the truth, as usual, lies somewhere in between. What really matters, however, is that while admitting it would be counterproductive and downright foolish to try to amend social relations in strict compliance with the above values at one swoop, one cannot fail to see that without adopting them as social objectives, as a guideline to formulating a strategy, no reform as a means of modernizing Russian society is possible. Modernization of the State without the individual, without proclaiming and ensuring the actual priority of individual interests, is bound to lead our nation to poverty and lawlessness – that is to say, the exact opposite of modernization objectives.

Thus, the first step toward real modernization, and effective reform as its instrument, must be the adoption of such fundamental values as human rights and freedoms; the individual's right to property and social justice; and the priority of law over considerations of political expediency and self-interest on the part of the propertied and power-wielding class. In other words, the rule of law, civil rights, freedom and social justice must serve as a kind of compass for the road map for Russian reform.

Next, we must realize that true reform, which has yet to begin, will not start from nothing. Russian society today is not *tabula rasa* – it has its own history. Reform has a history of its own, too, and was preceded by one-and-a-half decades of rather controversial developments which evolved against the backdrop of the prerevolutionary Russian imperial and Soviet totalitarian tradition. Therefore, before going ahead with reform per se, we must weigh the conditions and, most importantly, draw a line under the present period of Russian history with all of its political, social, and economic consequences and implications.

STATE POWER

First and foremost is the question of power. Russia's present ruling authority (here I mean not only the head of State, but the entire system of State governance on all levels) is a product of the past one-and-a-half decades which experienced colossal political upheavals (suffice it to recall the events of 1991 and 1993), repeated breaks with political tradition, behind-the-scenes dealings and the de-facto imposition of constantly changing rules. Furthermore, the political establishment has been lying to society, manipulating and juggling with concepts, and reneging on its obligations. These factors necessarily affect society's perception of the State in terms of its legitimacy – even if not by directly and publicly challenging the latter (such things are relatively easy to control and keep in check), but through the public's skeptical, cynical and indifferent attitude to State institutions and its readiness to subvert and sabotage any of their decisions. At the same time, the political establishment fully inherited the traditions of the past era as established by Stalin.

This setup leaves us with a major, if not insurmountable, impediment to real reform. For creative reform to have any chance for success, the credibility of State institutions, the authority of law, and respect for State decisions in general must be considerably higher than they are now. In other words, government needs greater legitimization by granting representatives of particular political and public groups broader opportunities for accessing the levers of governance in exchange for guarantees to respect the foundations of the Constitutional system and the immutability of the principles of state governance. Furthermore, it is necessary to adopt, on a compromise basis, a package of laws that would curb the political influence of big property owners ("de-oligarchization of the establishment"). This may be achieved by sharply enhancing the transparency of decision-making in the executive and setting clear-cut rules that would not be subject to interpretation. This would annul state decisions made in the interest of particular groups or individuals in circumvention of the procedures established by law, and hold perpetrators to account.

PROPERTY

Second is the issue of property – above all, the large property holdings – that somehow materialized from the privatization of former "socialist" property and which remains a source of major controversy in Russian society. Obviously, the level of its legitimacy remains insufficient to ensure the active participation and cooperation of big business in the modernization process. On the other hand, it is equally obvious that the issue of legitimizing privatization, together with the evolution of property relations, does not have a simple and unequivocal solution since in this case the protection of property rights runs counter to considerations of social justice – a major element in the social consensus that is crucial for successful reform. This factor calls for the adoption of a special package of laws.

The first part of this package should recognize the legitimacy of privatization deals (with the exception of those involving murders and other felonies directed against individuals) and introduce a one-time compensatory windfall tax. The amount and assessment of the tax would naturally be the subject of another discussion. The second part of the package should comprise viable anti-monopoly and fair-competition laws, as well as laws limiting the concentration of capital. The third part comprises laws on the transparency of political party funding and the transparency of lobbying in the State Duma and other bodies; laws on public television, and a number of anticorruption laws, including sanctions against businessmen, state officials, and Cabinet members who took advantage of dubious privatization schemes in the 1990s.

Just as in the case of state power, the issue of property rights should be resolved on a compromise basis. It would, on the one hand, guarantee the inviolability of the rights of property owners, provided that they observe the letter of the law; on the other hand, it would establish – in the interest of society – rules for using assets that were acquired as a result of bureaucratic privatization schemes – that is to say, through essentially non-market mechanisms and procedures. These rules should be differentiated (for example, rules for the turnover of such assets, participation of shell companies or non-resident structures or any non-transparent

structures in managing these assets, etc.), and it is important that they minimize the risks for property owners, while guaranteeing the effective utilization of assets under their control. Also, it should be possible to retain a certain level of supervision over their use, as well as compliance with public objectives.

The same principle should be applied to the legitimization of property acquired not only in the course of privatization, but also with substantial violations of tax legislation. The guarantee of property rights to money and/or assets acquired by non-criminal methods – but without payment of the appropriate taxes – may be granted in exchange for some restraints on their use (obligatory, if only temporary, transfer of funds to the Russian banking system, payment of back income taxes with official amnesty on tax violations, etc.).

In light of the recent events in Ukraine, the term "de-privatization" has been gaining currency. The situation there, however, is different from the situation in Russia; Ukraine's experience, however positive it may appear, will not be applicable in Russia. Yet a law on de-privatization procedure in Russia must be adopted to establish mechanisms for the seizure of property from any owner who has committed especially grave crimes – murder, for example – to obtain it.

THE JUDICIARY

The third issue is the development of arbitration courts as an independent economic and political institution. Just as no sport can be organized without independent, neutral refereeing, so the economic and political system of a developed society cannot function properly without the institution of independent arbiters – state and arbitration courts – that may not be subject to any sanction on any grounds other than deviation from the law in the adjudication process.

Russia's judiciary system is a product of diverse social relations. It is an institution that has been operating by different principles for a long time. It employs people who are accustomed to being dependent on powerful political and economic interests as opposed to the principles of the law. It would be utterly wrong to ignore this factor in planning any reform, yet the total replacement of the law

enforcement and judiciary agencies is a technically and politically unfeasible proposition. So it is critical that we seek to close the book on the past and grant a kind of amnesty on the past "sins" of the judiciary/law enforcement system. At the same time, however, it is important to sharply increase the responsibility of these agencies against any possible departures from the letter of the law which must be regarded as serious crimes. This "amnesty" should, for example, apply to judges for any wrongful verdicts they may have delivered in the past. At the same time, a review system to reexamine such verdicts should be put in place: their numerous victims are still either in confinement or deprived of basic civil rights.

Once the aforementioned prerequisites are in place, the process of modernization reform may begin. Its principal objective is largely self-evident and does not require extensive commentary or substantiation. The basic lines and principles of this reform could be as follows.

INSTITUTIONS

The primary sphere of a viable reform program should be the institutional infrastructure of a developed society.

Just as in the case with basic values, the question of what comes first – the high level of economic development or the accompanying infrastructure; the base or the superstructure – does not have a simple and unequivocal answer. The process should of course develop simultaneously. It would be absurd to attempt to build modern, progressive institutions and expect them to operate effectively in a poor, stagnant society. Yet it is just as absurd to hope that at some stage economic growth will automatically lead to the creation of an effective and incorruptible State apparatus, an independent and efficient judiciary, armed forces and special (security and intelligence) services worthy of a developed State; furthermore, every developed state requires a modern education system, economic policy institutions, government agencies designed to supervise the banking and financial system, a fair and effective social service system, etc. So the first priority on the agenda should be institutional reform, which must become a condition for, not a

result of, doubling GDP and fulfilling other ambitious economic goals set by the government. This applies in particular to the reform of the civil service – not "administrative reform" with the latest merging/breakup of government ministries and agencies with attendant personnel reshuffles – but a real reform of the civil service. This reform would work to drastically change the system of incentives for civil servants, making civil service more attractive for gifted, creative and energetic people, while significantly raising the requirements for their qualitative and professional integrity. In addition to significantly higher pay scales, this reform should include the creation of a special system of social guarantees for civil servants, which would include an effective evaluation system, attractive incentives for career advancement, and special clauses for the violation of clearly stated rules and ethics. The operation of Russia's civil service agencies must be subject to strict regulation. It should also be made more transparent and open to civil and parliamentary supervision.

The next priority is a far-reaching, comprehensive reform of the judiciary. Once a line has been drawn under the past performance of the judiciary branch, the degree of its accountability for unlawful or wrongful decisions must be greatly increased, as must be the responsibility for attempted bribery or exertion of pressure on judiciary bodies, on the part of, among others, the executive. The severity, and more importantly, the inevitability, of punishment for any wrongful or unlawful judicial decisions should far outweigh any possible benefits or cozy relations arising from these positions, while court rulings should preclude the domination by any one group of interests or political force over another. At the same time, judges should be granted fair and effective immunity. A smooth-running judiciary mechanism to review wrongful verdicts delivered in the past is another essential element.

Next, it is imperative to devise mechanisms for the implementation of a host of laws designed to counter corruption and organized crime. Today, it is obvious (and this is borne out by the experience of other countries) that this vice, especially such a long-neglected vice, cannot be rooted out by ordinary, universal

Alexander Solzhenitsyn, writer, Nobel Prize winner, about Russian democracy

Democracy has really become a buzzword recently, and many orators like to play with the word. But there is no full understanding of democracy in this country. People hastily bring to light its separate features and ignore the rest of them.

Take the freedom of expression and the media, for example. People believe democracy is to be found where there is freedom of expression. This is not true. It is just one feature of democracy, and it is not enough for building a democracy.

Or consider parliamentarianism. People think if there is parliamentarianism then there must be democracy. And, generally speaking, what is a parliament? It is a representation of the popular will. But it must be popular! And representative, too! People's representatives must really represent the people and nobody else! Meanwhile, we still lack efficient contacts between them and the people, especially given the size of the country. Moreover, the contacts must be bilateral. The voters must know who their representative is and what he is doing, and if they are discontent with him they should be able to revoke him. This is a natural democratic method. But here it is different: once you get elected you can relax safely for four years.

Parliamentarianism as such is not bad. The problem is we are being pressed into party parliamentarianism, which means there are no specified candidates. A voter votes for a party in general. Then, that party may put forward a dummy to be your "reliable" rep, and that dummy rep will be calling on you all the time!

And what is a party? First of all, every party undermines individuality, since it squeezes people into its program and its charter. Now, who stands at the head of those parties? Inevitably, moneybags, because parties must be supported with huge amounts of money; and he who pays calls the shots. Parties do not build anything; instead, they crave power.

What is democracy, then? Genuine democracy? Democracy is a state system where the masses of people are free to decide on their destiny by their own will. This is written in the Russian Constitution, but it seems that we somehow forgot it. Instead, Russia has formed a kind of political class of several hundred people who said: "I'm a professional politician and I will do politics," or: "I'm a professional expert on legislation. Go plough soil with your noses, and we'll decide for you what you must do."

What kind of democracy has Russia been experiencing beginning with the early Gorbachev years? One of the first democratic decisions from Yeltsin was to knock Gorbachev out of office. But how? Break the Soviet Union! Three men gathered for a drinking party in the Belovezha Forest. Did they think then how difficult the divorce would be? Did they think of the borders, and about who lives where? Did they consider economic relations? These things take years to decide and cannot be done in one strike or by one decree. Did they consider a referendum?

When the Soviet Union broke up, 25 million Russians found themselves in alien countries overnight. Did Yeltsin and others think about their fate? How were the people

supposed to live? Would they be persecuted? Would their culture be suppressed? How would they communicate with their historical homeland? The leaders just ignored these questions. They just threw those people away like garbage. Now, is that democracy?

Then, some big cabinet hotshots decided to set prices free – all prices in a single swoop. That is typical of us – no waiting, no mulling. Just make the prices free, and let the bank savings of millions of people go down the drain! The hell with them!

Or take the appointment of governors that was a centuries-old practice in Russia. Its essence was that governors fulfill the federal government's will in the regions. Yeltsin made a generous gesture: the free election of governors. Ninety governors? Well, alright, fine, but did anyone prepare for it? And so what was the result of that change? Unfortunately, nothing but a lot of confusion and terrible blunders. Local moneybags interfered in the process and everything was decided by money, bribes, and cheating. In some places, elections were purely criminal.

Most importantly, people's money that had been kept in banks was stolen. Furthermore, Russia's immense riches were robbed while everyone was following the principle "Hurry up!" Chubais boasted then that nowhere in the world had privatization been so fast. That is true. And nowhere in the world have there been such idiots! They gave away our God-blessed oil, nonferrous metals, coal and industries in a twinkling of an eye. Russia was left virtually naked. Now, is that democracy?

Did we hold a referendum on that issue? Was it an example of the people's realization of its powers and destiny? Instead, obscure billionaires sprang out of the dustbin. They did nothing good for Russia. The best they did was to grab everything around them for free, or virtually for free. They grabbed it and became billionaires.

If that is democracy, we must go out onto the streets and complain that we have been robbed and deprived of benefits. If that is democracy, we must sit down to hunger strikes and demand bigger salaries. But we have had no democracy here!

Fifteen years ago, back in the Soviet times, I published an article and entitled it Rebuilding Russia. It raised many problems, and I surmised that the Soviet Union might collapse. Gorbachev laughed at that. And I said then: "Look, it is forthcoming, it is unavoidable. We must set up commissions that will discuss people's destinies, consider compensations, figure out people's conduct, and decide on what citizenship they will have." The bosses did nothing except laugh.

I also made a more important warning at that time: democracy cannot be imposed from above by a clever decree or clever politicians. It is not a cap that you pull on the top of your head. Democracy can only grow from the grassroots like everything that grows, like plants do. First, there must be democracy in the small spaces. We must have local self-government, and only then will democracy begin to develop.

Excerpt from an interview with Alexander Solzhenitsyn given to RTR TV Channel (June 5, 2005)

methods. To this end, it is vital to establish duly empowered agencies, equipped with the requisite tools and legal expertise, together with the responsibility for their performance. The know-how and practical experience is out there, as we have seen in other countries. The only element required to set this process in motion is the political will.

Another highly important sphere of institutional reform concerns mechanisms that would protect the freedom of information, while at the same time enhancing responsibility for abusing it. As in many other spheres, there is a pressing need to devise clear-cut and unambiguous criteria for limiting the dissemination of information and access to information, on the one hand, and instituting liability for the violation of the norms of law and professional ethics in using this information, on the other. Otherwise society will never be able to break out of the vicious circle of the non-transparency of information where the media are used as political and economic weapons. This vicious circle can effectively nullify even the most promising of efforts to carry out political and economic reform.

The next priority involves the long overdue reform of the natural monopolies, as well as the housing and utilities sector, which mistakenly or deliberately has been only exposed to simple reorganization. The essence of this indispensable reform — i.e., to ensure the openness and transparency of the relevant structures and their exposure to outside controls — is being replaced by endless discussions about organizational restructuring (the merging and breaking up of these structures, the creation of new ones, regrouping them and associating them into holdings, and so on). This will hardly result in the greater transparency of financial flows in the corresponding sectors.

Finally, reform of the social security and pension system, as well as of labor relations, which are designed to lay the groundwork for a modern and socially oriented State in Russia. The importance of these reforms must not be downplayed with references to the generally low level of incomes, the State's financial constraints, the specifics of the "transitional period," etc. I am convinced that the existence of a robust socially-oriented State is

not only a product of economic development but its prerequisite: an employee without a safety net, who fears an unexpected dismissal, financially devastating illness and/or a poverty-stricken old age, cannot be a fully-fledged actor in a post-industrial economy of the 21st century.

INCENTIVES

The second sphere of the proposed road map should be a system of incentives for long-term investment and complex, cutting-edge forms of modern economic activity. Today, I need no convincing that excessive economic regulation is an economic and social evil, a source of ineffectiveness and abuse, and a cause of irrational business behavior and substantial decline in economic growth rates. Still, it is equally obvious that the provision of effective incentives to ensure the funneling of resources and entrepreneurial energy into sectors that depend on the use of technically and organizationally complex schemes, presupposing long-term business planning and enhanced risks, and therefore predicated on the State's goodwill and the confidence that this attitude will last, is a key to the evolution of a new national economy and its competitiveness in the global economy. The elimination of incompetent bureaucratic meddling is an essential but clearly insufficient precondition for Russia to join the ranks of the advanced post-industrial economies.

Another such prerequisite is the existence of a large civilized business sector, not so much independent from the State as interacting with the State. This interaction would occur in areas where business' competitiveness in a global economy is directly contingent on the competitiveness of the State, its ability to reduce long-term risks and protect domestic businesses against the negative impact of non-market factors. From this perspective, the creation of effective mechanisms for interaction between State institutions and business, the provision of positive incentives for the latter and opportunities to adapt to the rapidly changing global economic environment should become a separate and critical area of accelerated modernization.

RESOURCES FOR THE FUTURE

The third sphere of reform includes substantial transformations in sectors that can and must provide resources for future economic and social development. These include education, science and research as a sphere providing the required intellectual resources, and the state financial sector, which provides the necessary capital. Discussion about the need for serious reform in these sectors has been proceeding for a very long time; the number of programs that have been drafted runs into the dozens; yet the quantity – and most importantly, the quality – of measures that have been implemented thus far is lamentable. As a result, the status of these spheres, which are critical to future development, is absolutely inadequate to the scale of the tasks that are facing the country, and is already a hindrance to economic development. It is also obvious that these spheres, due to their intrinsic nature, cannot function or develop outside State policy and should, therefore, be the focus of any modernization program.

Of course, the list of spheres requiring the application of modernization efforts is not confined to the aforementioned. Thus, political reform is a separate subject. Nor has anything been said about the long overdue reform of national security, foreign policy or health care. Furthermore, each of the spheres that have been addressed calls for further detailing with specification and breakdown by the tasks and measures needed to fulfill them. Still, the bottom line is: The claim that the main reforms are already behind us and now, to ensure the country's sustained development, they only require some fine-tuning and resolution of minor matters is false from beginning to end. Reform in the true sense of the word has yet to begin. A long and tortuous path lies ahead. To get the reform process off the ground, we need to come to terms with reality and demonstrate unwavering political will.

I also think that unless real reform is implemented in a comprehensive way within the next five to ten years, Russia will irretrievably lose the chance to become a modern developed country, while disintegration trends, as was the case with the Soviet Union, will become irreversible.

A Long-Term Project for Russia

Andrei Illarionov

The prospects for long-term investment in Russia will take definite shape only when the country succeeds in the so-called entrepreneurial project. The successful development of business is the only format in which Russia can develop as a civilized and successful country. A failure to embrace the entrepreneurial project means that from a strategic point of view Russia is doomed.

RUSSIA'S CURRENT SITUATION: THE OBVERSE

Russia is experiencing its seventh year of economic growth. Since 1998, the nation's Gross Domestic Product has increased by almost 50 percent; over the last six years the per capita GDP has increased 52 percent, with an annual growth rate of 7.2 percent. This rate ensures the doubling of the per capita GDP (a goal set forth by the Russian president) over a period of 10 years. Last year, some industrial sectors — primarily the oil, gas and ferrous metallurgical industries — overcame the slump they had experienced during the 1990s and reached the output volumes they had enjoyed before December 1991, the period which ushered in the disintegration of the Soviet Union. Although this advance does not embrace the entire economy, it signifies the overtaking of an important psychological barrier, as whole industries — not just individually successful corporations — have outpaced pre-crisis production volumes.

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Investment continues to increase. Over the past 6 years, investment has grown 79 percent, which means an average annual growth rate of 10.2 percent. The result is clearly positive, although some observers believe Russia still lacks a sufficient amount of investment. The past few years have seen a considerable growth of foreign direct investment, which trebled over the past six years and stood at $11 billion in 2004.

Russia's financial situation is more stable now than at any time in the past several decades. The national budget has enjoyed a surplus for six years running; the foreign exchange/gold reserves stand at approximately $140 billion, with around $30 billion of that amount accumulated in the stabilization fund. Since 1998, Russia's foreign debt has shrunk to $110 billion from $154 billion, while it no longer faces the economic challenge of repaying its foreign debt – once an economic and political problem; it is now a purely technical one. If Russia continues to pursue a prudent fiscal policy, it will be able to pay off its entire foreign debt in the coming few years.

The income and consumption rates of the Russian population have increased sizably in recent years. Private per capita consumption was 32 percent higher in 2004 than in 1990, the most affluent year in Soviet history (although disparities in consumption, income and property became more pronounced amongst the Russian people). Millions of Russians have significantly improved their living standards. For example, the number of private cars trebled and the total floor space of private housing quadrupled, while the construction of private country houses that people build in addition to their city apartments is thriving in the suburbs of any big Russian city, although official statistics may take an incomplete account of this phenomenon.

The list of tangible and important achievements can be continued, and yet it has a reverse side, too.

RUSSIA'S CURRENT SITUATION: THE REVERSE

By international standards, Russia's achievements look quite modest. While in 1975 the per capita GDP – which is the main economic indicator measured as consumer demand parity – stood at 43 percent of the U.S. level, it dropped to 18 percent by 1998; it recovered

slightly to reach 24 percent in 2004. By modern standards of wellbeing Russia remains a fundamentally impoverished country.

The problem of fundamental poverty has never been and cannot be solved through distribution and/or redistribution of existing resources. Poverty in Russia can be eliminated only by generating new wealth and accelerating economic growth.

However, *the economic growth rate has been consistently reducing in Russia.* In 2004, with regard to this indicator, the country sank to the bottom of the list among the ten countries of the Commonwealth of Independent States, and is presently sharing that position with Kyrgyzstan. The other economies of the CIS, like many countries of the world, are developing at a faster pace than the Russian economy whose growth rate reduced by a third at the beginning of 2005 as compared with the same period in 2004.

Russia's achievements are not steady enough, and each of the trends mentioned above may easily head in the reverse direction.

How did Russia attain those achievements in recent years? Basically, it drew on three major resources, or backbone elements that provided for this country's relatively successful development. Exploiting each of those three resources, however, involved serious problems.

The first factor involves the development of private enterprise. After all, it was Russian businessmen who produced economic growth, gradually bringing Russia into a different condition. They succeeded due to their energy, persistence, enterprising spirit, readiness to assume risks, and ability to rebuff the pressure of ruthless criminals and bureaucrats. It cannot be denied, however, that the Russian business community remains weak.

Factor number two is the activity of government agencies that witnessed serious fluctuations during the past 15 years. In the beginning, there was the start of economic reforms in 1991 and 1992 and a breakthrough in reformation in 1993. There was also a period between 2000 and 2002 when the authorities enacted a sizable package of economic reforms that sent the country's credit ratings up, attracted new investments and bred the hopes that Russia had opted for a path of civilized social, economic, and political development.

But there were also other significant periods. From 1995 through to 1998, the economy was unnaturally stifled by the policy known as the 'currency corridor.' This resulted in Russia's default on debts in August 1998 and a devaluation of the Russian ruble as the government confiscated many billions of dollars worth of assets belonging to Russian and foreign companies. Then there was a period between 2003 and 2004 when the government's actions aroused doubts both inside and outside Russia as to what direction the country was moving and what should be expected next.

Recently, Russia sent signals that the government was taking some steps toward reducing the damage that had occurred in 2003 and 2004. However, the Russian business community, as well as other sectors of the population, is not convinced that the steps taken are sufficient enough to declare that the damage inflicted on the entrepreneurial climate in 2003 and 2004 has been fully removed.

The third element involves the outside impact on Russia. There is no country in the world that can exist in international isolation, especially a country that seeks to advance its economy, attain high growth rates, and become a respected member of the global community. *Russia's integration into the global economy means that the performance of its economic and political entities, as well as the very nature of the Russian government's activities, heavily depend on the situation on the global markets.*

The favorable situation on the global markets in recent years has opened up an unprecedented inflow of finance to Russia. Furthermore, it has raised the degree of freedom of economic and political structures in implementing various projects. In some years, benefits from the market situation comprised 6 to 9 percentage points of the GDP. As for 2004, they clearly accounted for the entire actual growth of the GDP.

RUSSIA'S ECONOMIC ILLS

An inflow of hard currency from abroad plays a dual role: it builds up resources for economic growth on the one hand, but aggravates the conditions for the Dutch disease on the other. *Today, this economic disease presents one of the biggest challenges for the Russian economy, political system and society.* The Dutch disease occurs

when currency flows into the country, inflation remains high, the real exchange rates rise, economic growth slows down, and structural imbalances become more pronounced.

An exacerbation of the Dutch disease promotes corruption, impairs the quality of policies, including those of an economic nature, and demoralizes essential federal and public institutions. The flow of revenues not earned through the hard labor of the government or economic entities has a degrading effect, thus encouraging the emergence of *a "rent-oriented" government and a "rent-oriented" society*. As a result, the idea of business through creative endeavors gives way to an aggressive ideology of redistribution.

In Russia, the Dutch disease is gradually turning into the Venezuelan disease, i.e. a policy based on increasingly stringent tax and bureaucratic controls over finances (above all, in the oil and gas industry), nationalization of the largest and most successful corporations, the continued government monopoly over infrastructure facilities, a ban on private ownership of mineral resources, exclusion of foreign investors from the development of the most promising natural resource deposits, and protectionism that creeps into all branches of the economy.

This was the same path that Venezuela chose for itself in 1957. *Prior to that date, the development of oil deposits by local oligarchs and "imperialist sharks" had propelled the South American nation to record high positions in terms of economic growth within a period of four decades. Unprecedented economic growth increased the per capita GDP by a factor of ten.* By the beginning of the 1950s Venezuela became one of the world's richest nations. Its per capita incomes and consumption levels stood a notch below those of the U.S. and Switzerland. Its capital, Caracas, turned into one of the most modern, beautiful and safe cities in the world.

A turnaround occurred in 1957, however, when the government launched a nationalization campaign. Efforts to nationalize the fuel industry, pipelines, seaports, steel processing plants, and other facilities, completed 20 years later, drove the country to stagnation. The average per capita GDP growth rate fell by a factor of 13 then – from 7.6 to 0.6 percent.

The year 1977 marked the triumph of state capitalism in Venezuela. At this time, the government controlled the commanding positions in the economy and took an active part in managing the global crude oil market as OPEC's leading member. *The "patriotically motivated" economic policy proved devastating as Venezuela slid into its deepest economic crisis. By 2004 its per capita GDP was 37 percent lower than half a century before that.* The degrading impact of state command in the economy spread beyond government institutions – it caused the degeneration of Venezuelan society, affecting two generations of people who grew up during state capitalism. Today, Venezuela has no political forces capable of leading it out of the historical deadlock.

A part of the Russian elite is obviously tempted to follow the Venezuelan path. It dreams of imposing state control over money flows in the fuel sector, nationalizing it, putting under control its infrastructure, keeping up infrastructure monopolies, and managing energy resource flows inside and outside the country. *If Russia continues to move in this direction, the prospects of it being hit with the Venezuelan disease – with all of its economic and political complications – will become a very real possibility.*

THREE CHALLENGES

What are the options for Russia? The success of the Russian national project depends to a great degree on whether the Russian government, business community and society at large will be able to appropriately respond to three dramatic challenges.

Challenge number one is to choose a national formula of economic and social vision. Society has not made that choice yet, and the need for nationwide debate on that issue is hard to overestimate. It is critical for Russia to breed immunity against destructive ideas, which are occasionally imported from countries generally viewed as advanced and developed.

There are two extreme viewpoints as regards the ideas coming to us from the West. One of them suggests that all the ideas generating in the West are correct, progressive, and deserving immediate implementation. The other viewpoint dismisses all Western

ideas as dangerous and hazardous; Russia must vigorously prevent them from entering the country.

But real life is much more complex than this. Ideas that have been entering Russia for centuries from the West were typically those related to the ideas of freedom, market economy, democratic development and the observance of human rights. Like people from many other countries, the Russians are thankful to the West for its contribution to the international wealth of human thought. But let us remember, however, that inhumane and destructive ideas like Marxism, Communism, Socialism, and contemporary Kyotoism were also generated in the West.

On the one hand, Russia must learn how to assimilate the ideas of freedom, development, and creativity from a broad array of concepts offered by the world; on the other hand, it must learn to avoid those concepts that demand dependence, degradation and redistribution.

Challenge number two is to find the best formula for a relationship between the business community and Russian government, to design a model enabling the country's development over the long term. In the middle to late 1990s, big business unconditionally dominated the government, but society was opposed to that model. In recent years, Russia turned to the opposite extremity, which is the absolute domination of government over business. But this model has no promise for the future. Thus, neither the past nor present model can ensure Russia progress over the long term.

A look at the economic models offered by the developed nations suggests there are two options available. The first is the U.S.-Hong Kong model which has a more or less equitable – although far from idyllic – relationship between business and government; this model offers the broadest opportunities for creativity and development. The second option is the Continental-Japanese model, where government dominates over business, yet strives to create lucrative conditions for the redistribution of resources and protracted stagnation.

A comparison between the actual economic growth rates in the U.S. and Hong Kong, on the one hand, and Continental Europe or Japan, on the other, provides a good example of the efficiency of a long-term relationship between business and government. As

for Russia, it has yet to make a choice between these two models, although a part of its political elite has already made its decision.

Challenge number three seems to pose the biggest problem for the success of Russia's long-term national project – *finding the best formula for a relationship between the business community and the rest of Russian society, as that relationship is now in a state of latent conflict.*

In previous years, Russian business offered a model of de facto bribing or 'buying up' of society. The majority of ordinary people rejected those overtures. At the same time, the government proposed a model of social responsibility for business. This is ridiculous, of course, since the main responsibility that the business community has for society is to ensure efficient business, that is, produce the commodities and services that would enjoy demand on the market. *Neither the previous nor the existing model of relations between society and business can ensure Russia's efficient development over the long term.*

A response to that challenge – that is, devising a model of equitable partnership between business and society without bribery or violence on either side – will be critical for the success of the Russian entrepreneurial project and guarantee its very survival. Russian and foreign businesses in this country must also find equitable, decent and respectful methods of cooperation with society. It would make the business community understandable to society which would begin supporting and defending businesspeople. Only then would Russian businessmen get a chance to overcome or at least reduce the hostile attitude now visible in some sections of society. It would then avoid the possibility of becoming hostage to the mob or the whims of government agencies. It would then be able to turn into an inalienable, respected, and genuinely treasured part of Russian society. The lessons of what happened to Russia in 1917, in China in 1949, or in Iran in 1979 must finally be learned.

If Russia's business community, government and society at large are able to find appropriate responses to these many challenges, then the Russian national project is destined to enjoy long-term success.

Lessons of the Spanish Empire

Vladimir Mau

NATURAL RESOURCES AND DEVELOPMENT

The role that natural resources play in stable economic development has recently attracted the attention of economists and politicians. An overwhelming majority of countries with a high average per capita gross domestic product (Western Europe, Japan) are not rich in natural resources. Africa, which after World War II was approximately at the same level of development as Southeast Asia, is today a region of extreme poverty (many Southeast Asian countries, by comparison, have slowly begun to catch up with the developed world). Just half a century ago it seemed that the Black Continent had very good prospects due to its natural wealth and relative proximity to European markets.

The abundance of natural resources, however, may serve as a negative factor for social and economic development. How can this be?

First, the presence of significant natural resources prompts the political and business elite to focus their efforts on controlling the natural resource rent, instead of seeking to increase labor productivity. When the elite is not interested in restructuring, modernizing and diversifying the economy, it loses an opportunity for implementing reforms.

Second, the inflow of funds generated by the sale of natural resources corrupts the ruling elite. On the one hand, the authori-

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ties are tempted to take a populist line: they can afford to experiment with economic policy and make rather extreme and irresponsible decisions; if the new policies have negative consequences, they can be relieved through large financial injections. On the other hand, the risk is high that corruption will inevitably grow as the authorities are engaged in the distribution of the natural resource rent.

Third, dependence on natural resources provokes the development of a lop-sided, often single-product, economy and, especially, single-product export. The so-called 'Dutch disease' impedes the development of non-export (in this case non-raw material) sectors of the economy: exports ensure the inflow of "cheap" foreign currency into the country, thus leading to an overstatement of the national currency's exchange rate. This undermines the competitiveness of domestic producers oriented to the home market. The same process reduces investment activity, since the import of goods proves to be more profitable than the production of these same goods inside the country. Naturally, import substitution in this situation becomes practically impossible, and the economy becomes strongly dependent on fluctuations in export prices.

Fourth, the abundance of natural resources becomes a serious obstacle to political democratization. As mentioned above, a high natural resource rent impedes economic growth, that is, the achievement of an economic development level necessary for the formation of stable democratic institutions. This refers, above all, to countries where the bulk of the national budget is formed by revenues from the export of one kind of raw material (for example, oil). Control over this resource brings in enough revenues to meet the authorities' needs and to ensure social stability, and allows the government to ignore other sources of income, thus leaving the national tax system undeveloped. The lack of the authorities' need for significant tax revenues actually allows them to ignore the political demands of society and creates conditions for a peculiar "social contract:" "We do not levy taxes on you, and you do not demand political rights." This is essentially how things stand in the absolute monarchies of the Persian Gulf.

Finally, some scholars argue there is a negative interrelation between the presence of natural resources and the authorities' attention to the development of education. Sectors of the economy that are based on raw materials demand lower skills for the workforce. Thus, the domination of these sectors reduces the demand for educational services.

An additional danger arises when a country is suddenly inundated with natural resource revenues which are generated by a leap in their price. In the light of abundant revenues, the state begins to actively participate in various kinds of investment and social programs and comes out with ambitious projects for a foreign policy expansion. In a bid to make the best use of its opened opportunities, the state actively borrows additional funds from both inside the country and abroad. Consequently, despite an abundant inflow of money, the financial situation in the country greatly deteriorates.

Later, the country will find itself involved in a series of complex and ineffective economic and political projects, as its hopes for an abundance of "cheap" money prevent it from developing a serious cost-benefit analysis. Furthermore, overwhelmed by the tremendous inflow of funds, the state also gets more and more involved in reckless foreign-policy schemes.

On the other hand, the state's social and economic structure is adapted to fit the new, favorable situation. The reliance on the abundance of "cheap" money makes the government forget about the effectiveness of other sectors – the deficiencies of domestic production, for example, can always be compensated for with imports. Domestic producers start degrading, which for some time does not worry the authorities who are lulled by the raw material-based economic growth.

But when the source of revenues suddenly disappears (due, for example, to a change in the market price of the natural resources), a full-scale crisis will appear which may hit the entire system.

Such problems have arisen in various countries over the last few decades. Many of these crises are obvious when we analyze the economic and political processes caused by fluctuations in oil

prices following the 1973 oil crisis. Mexico, the Soviet Union, and Iran in the times of the shah's rule provide the best examples.

At the turn of the 1970s, oil prices reached U.S. $90 per barrel (in terms of the present exchange rate), and it seemed that exporters had ensured an affluent future for themselves. Soviet leaders pursued an active oil-for-food policy, purchasing abroad consumer goods, foodstuffs, and equipment for expanding oil and gas production, while Mexico's president José López Portillo declared proudly: "We must learn to administer abundance."

Portillo's policy of "administering abundance" provided for sharply increasing growth rates and strengthening the country's economic independence through the development of the economy's public sectors. The government launched various investment programs; growth rates increased from 3-4 percent (1975-1977) to 8-9 percent (1978-1981); the average annual increase in investment eventually reached 16 percent. At the same time, the national budget accumulated high deficits since the government pinned much hope on continued rates and therefore greatly ignored this parameter.

Mexico's situation began to deteriorate with a decline in oil prices at the beginning of the 1980s: GDP began to demonstrate negative growth rates; the peso was devaluated by more than 40 percent; foreign debt increased from U.S. $40 billion in 1979 to $97 billion in 1985. Capital flight accelerated, and the gold and hard-currency reserves decreased to U.S. $1.8 billion. By the end of Portillo's six-year presidential term, he was accused of wasting the oil revenues, concluding "extravagant" foreign-loan deals and inflating budget expenses. After his resignation, Portillo was forced to leave the country. When he died in early 2004, he was not even provided a state funeral, which was a departure from the usual practice.

The history of the Soviet Union in this regard is already familiar to most people. After wavering attempts to reform the economy in 1965-1972, the Soviet government completely abandoned these initiatives; it chose to ensure steady (albeit low) economic growth rates and social stability by stepping up energy exports. In the second half of the 1980s, the decline in oil prices and the

growing budget deficit forced Mikhail Gorbachev to launch the so-called acceleration reform. This provided for resolute measures to reduce the country's dependence on raw materials. These efforts to boost economic growth rates, however, threw the economic system off balance and triggered its collapse.

As yet another example, Iran's regime initially gained from an oil price boom but then suffered a complete fiasco. Iran's economy, as distinct from other countries, was hit by crisis during the most favorable situation on the world oil market. The main factor behind the destabilization was an accelerated modernization of the economy, which was conducted largely by decree and did not have deep roots in any sphere of economic and social life. As a result, Iran experienced a sharp increase in social tensions which culminated in the outbreak of the "Islamic revolution" in the late 1970s.

In all fairness, it must be admitted that some countries that are rich in natural resources have reached a very high level of economic development (for example, the United States, Canada and Norway). The reason is that some specific circumstances can neutralize the negative influence of the abundance of natural resources.

These circumstances include, above all, the nature of resources from the point of view of the possibility of monopolizing control over them. An abundance of natural resources that are "scattered" about a country and not available for monopolization by the state does not create a serious obstacle to economic development.

Norway provides a nice example. Its wellbeing was primarily built on the abundance of its fish resources, namely cod. Fishing, of course, is a far cry from hydrocarbon extraction: cod fishing does not require much investment, while the state can neither exercise rigid control over access to cod catching, nor accumulate this resource in its hands. Also, the location of cod is not always predictable. As a result, practically any Norwegian could engage in the fishing business, which laid the foundation for economic (and thus civil) freedom in relations with the authorities. As Finnish economist Pekka Sutela wrote, what is important is not whether or not a country is rich in natural resources, but whether these resources serve as a natural basis for the emergence of oligarchy and autocracy because of

their high concentration, or as a natural basis for building democracy and equality as a result of their extensive occurrence.

One must add to this the extent of natural resource diversification. Natural variety and the absence of economic preferences for individual kinds of resources provide a basis for competition, the diversification of the economy, and the prevention of the formation of a single-product economy or single-product export. It is important to diversify control over resources, making it both state and non-state owned. Such tactics are an essential factor of steady economic development and, later, political democratization.

Second, a tremendous role is assigned to the political situation at the moment when the abundance of natural resources emerges. Occasionally the abundance of natural resources emerges in a country that is already experiencing a very high level of economic and political development. Under such conditions, governmental decision-making procedures for using natural resources are transparent. Furthermore, there exists a very low level of corruption, together with a diversified economy. Such countries include Britain and, especially, Norway, which unexpectedly came into possession of a great amount of hydrocarbon resources following the discovery of oil and gas fields in the North Sea. Even in this case, however, governmental policies continue to run the risk of sliding into populism. In the medium term – if we follow the trend of Norway's experience of the last 20 years – the quality of economic policy will inevitably degrade under the pressure of various kinds of lobby groups.

Third, under conditions of abundant natural resources an economy can successfully develop in absolute monarchies. This is true since the national budget of those countries is actually identical to the budget of the ruling dynasty. Furthermore, there is concern about the future generations in monarchies because these are generally the rulers' own heirs. The authorities in those countries are more capable of making long-term and effective decisions, including those intended to raise society's general wellbeing. However, this type of regime is exceptionally rare in the contemporary world and their decisions are not always effective in the long term, as indicated by the record of the Gulf monarchies.

AMERICAN GOLD AND THE DOWNFALL OF THE SPANISH SUPERPOWER

It seems to be a general rule that when governments of different countries and different epochs encounter similar problems, they initiate similar steps and commit similar mistakes. This would apply to the situation when a particular country suddenly strikes rich natural resources – especially when this sudden gift is coupled with the country's political ambitions.

After the unification of the kingdoms of Castile and Aragon in 1479, the possessions of the Spanish Crown rapidly expanded. By the 16th century, Spain was one of the strongest states in Europe and, therefore, in the entire world. By the middle of the century, the Spanish emperor's rule extended to a large part of the Iberian Peninsula, the Netherlands, Sardinia, Sicily and the whole of Italy south of Rome. From there it traversed to the Central European dominions of the Habsburgs, and also to the newly discovered lands in America.

The country had a strong army (including Europe's best infantry), navy, and extensive dynastic ties with the major royal houses of the Old World. There emerged prerequisites for the emergence of a new large empire, especially after King Charles I of Spain was crowned emperor of the Holy Roman Empire under the name of Charles V in 1519. The activities of Spanish monarchs had a pronounced messianic nature: the suppression of Islam and Protestantism, and the unification of the whole of Catholic Europe.

Economic factors also seemed to be on the side of the Spanish monarchy in its bid to become a real superpower. At a time when economic prosperity was based predominantly on agriculture, Spain held the leading positions in horticulture and sheep breeding. This, in turn, laid the foundation for the successful development of its textile industry. Add to this the high level of agriculture and several industries in the Spanish Netherlands, as well as the presence of mineral resources (iron, copper, tin and silver) in Spanish-controlled areas of Central Europe.

Yet the main source of the Spanish empire's power was based on precious metals discovered in America. The new lands became

English legend has it that Sir Francis Drake and Lord Howard completed their game of bowls despite the news that Spain's Invincible Armada appeared at the English seashore. The defeat of the Spanish fleet in the summer of 1588 came as a severe blow to Spain's imperial ambitions.

the source of metal money – all the more valuable since silver had risen in price in Europe shortly before, causing a natural fall in the prices of other goods. By that time, new technological methods were invented for extracting silver, which considerably reduced the cost of its extraction in the New World. The money came into the possession of the Crown (that is, the national budget) and, to an even greater extent, into private hands, which contributed to the country's enrichment and increased budget revenues (through taxes, revenues from coinage, and so on). Gold from America was expected to pave the way for the realization of Spain's ambitious political goals. Quite possibly, the Spanish monarch viewed the new source of countless riches as God's blessing for his Catholic mission.

The logic in the struggle for the title of superpower inevitably aggravated the foreign-policy situation and involved the Spanish Crown into a series of protracted wars. Active military operations, which continued for almost 150 years, required immense spending – the cost of war increased as the knight's cavalry began to be replaced with firearms.

With the circulation of coin, silver and gold seemed to create the basis for the country's reliable financing. The inflow of precious metals meant a sharp increase in the money supply, on the one hand, and the government's budgetary resources, on the other. The abundant monetary flow enabled Spanish rulers to ignore the economic situation and therefore the need to update their tax and budgetary policies.

The economic policy of the Spanish government proved to be amazingly shortsighted (the same mistake would be repeatedly made later by other resource-rich countries). Spain did not have a long-term strategy to stimulate production, and the isolated measures enacted by the government were largely intended to ease social tensions and receive additional revenues. Certain elements of the Spanish Crown's economic policy (i.e. attempts to regulate prices, the creation of monopolies on trade in staple goods and their production, high and unfair taxes and the retention of customs barriers inside the country) already looked old-fashioned in the 16th century.

To combat grain price hikes, for example, the government established price controls, which only brought about grain shortage. To cope with this problem, the government decided to stimulate grain import, which ruined domestic grain production and turned the country into a grain importer for centuries. The situation was much the same with its fabric production.

The Spanish tax system (with one of the highest tax rates in Europe) remained archaic. Although about 97 percent of all lands belonged to the aristocracy and the Church, direct taxes were levied on peasants, artisans and merchants. Some of the taxes were collected by the aristocracy, which then passed the money on to the Crown. Therefore the tax base proved very narrow, and the tax system ineffective in terms of budget revenues and remained purely fiscal, thus suppressing, rather than stimulating, economic development. There remained customs barriers between different parts of the empire (and even inside the Iberian Peninsula), which was motivated by fiscal considerations and the authorities' devotion to tradition. Different currencies circulated in the country, making their conversion a painful process.

Thus, it turned out that the abundant inflow of precious metals was creating serious problems.

The first problem was that the need for money grew faster than the amount of funds received by the Crown from its overseas dominions. In spite of the abundance of monetary resources, the country faced a steady budget deficit, which had never happened before the accession of Charles I.

On the one hand, the vast silver and gold reserves allowed the Crown to borrow money in any amount, as it was confident of its ability to pay off any debts. On the other hand, creditors easily lent money on the security of future supplies of precious metals (and at usurious interest). Thus, Spain suffered from something similar to "moral hazard" – a condition described in contemporary literature – when an economic agent can afford a lackadaisical attitude to decisions made.

In the first half of the 1570s, Spain's annual budget spending exceeded revenues by 50 percent, with huge sums of money used to repay old debts. For example, in 1575 alone, 36 million ducats – an amount equivalent to the country's revenues over six years – were spent to pay off old debts. In 1577, the Crown's revenues stood at 13 million ducats, whereas in 1582, the country's accumulated debt amounted to 80 million ducats. Later, the national debt continued to increase, reaching an unprecedented sum of 180 million ducats by 1667.

The second problem was inflation. As it turned out, Spain fell into a trap: the abundance of currency metals provided the authorities with large monetary resources but, at the same time, reduced the per-unit purchasing power of the precious metals (see Fig. 1) which gave rise to inflation. This, in turn, reduced the Crown's revenues.

Since inflation was at that time a little-known phenomenon in Western Europe, a large part of the treasury's revenues was established in absolute values. In the second half of the 16th century, traditional budget revenues, fixed in absolute sums (see Fig. 2), began to decrease. For some time, the declining revenues were compensated for with American gold and silver,

Fig. 1. Price growth in Spain in the 16th century

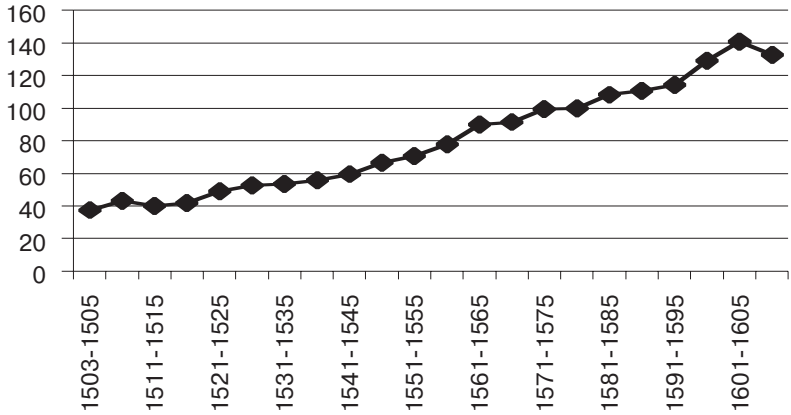
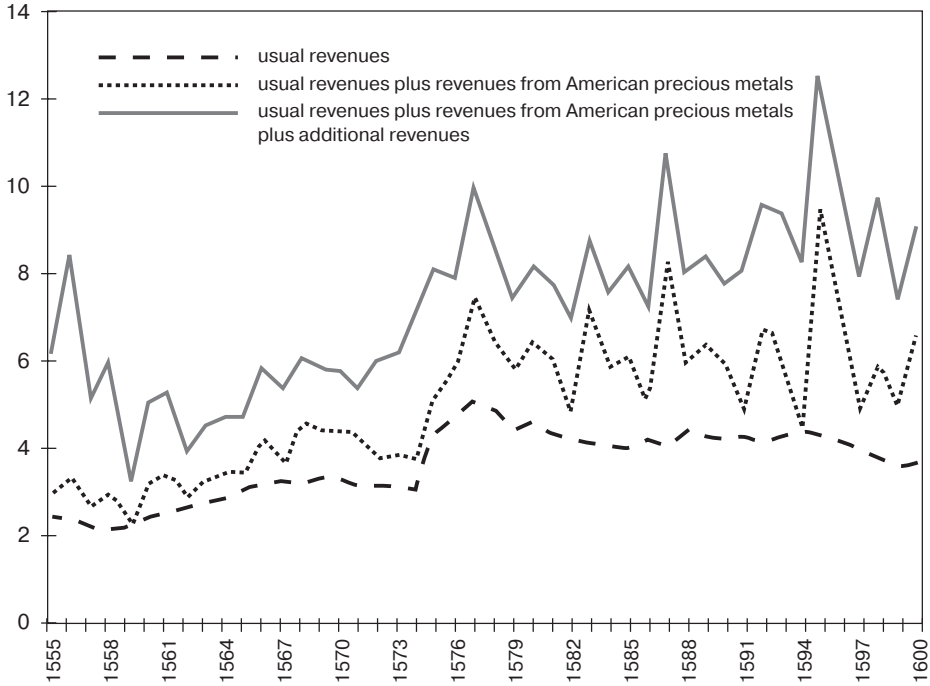
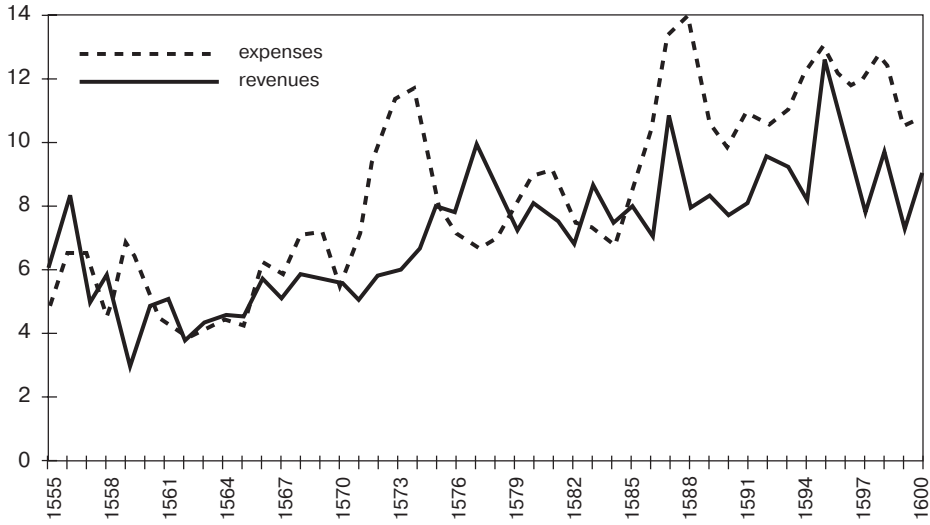


Fig. 2. The structure and amount of Spain's revenues in the second half of the 16th century



although, as it turned out later, the amount was insufficient for creating a steady financial basis for the expansionist policy of the Spanish authorities. Already in the second half of the 16th

Fig. 3. Spain's revenues and expenses in the second half of the 16th century



century, Spain's budget, as a rule, ended up with a deficit (see Fig. 3).

Furthermore, since Spain was the first to be hit by the depreciation of a metal currency, the competitive ability of Spanish producers naturally decreased: the value of their goods in coinage was higher than the value of goods produced by other countries. Something similar to "Dutch disease" resulted, although its effect was not as significant as it would be within the present conditions of the global economy.

The third problem was that the empire's economy and policy were adapted to meet the established situation with its currency revenues, which made Spain extremely vulnerable in two aspects. First, the Crown revealed its political and commercial weakness with regard to creditors who, knowing that the Crown could no longer survive without their loyalty, received an instrument for blackmailing. Second, the Crown was exposed to external shocks, that is, it became increasingly vulnerable to market fluctuations.

Spain received foreign loans at high interest rates from a financial cartel controlled by the Genoese, as well as from German, Flemish and Spanish bankers. By way of security, the Spanish

Crown offered the creditors shares in silver supplies and individual tax items, and the bankers were given the right to serve the Crown's financial transactions, including monopolies on international money transfers and currency exchanges. Considering that Spain's lands were scattered throughout Europe, this function played a significant role not only in the economic sphere, but also in political and military respects. Since different parts of the empire had different currencies in circulation, the stability of money transfers was an imperative factor for maintaining political stability. A still more important factor was the implementation of financial transactions to pay war expenses; any incorrect move by the debtor prompted creditors to stop the transfer of money.

In the second half of the 1550s, the supply of American precious metals to Spain decreased, thus triggering the Crown's first default in 1557, followed by another in 1560. (Those developments were preceded by an unprecedented political default: Charles V, apparently realizing that the mounting problems had a systemic nature, abdicated the throne in 1556 after forty years in power.)

Interestingly, between 1556-1560 the supply of precious metals to Spain decreased by more than half compared with the previous five-year period, yet their amount was proportionate with supplies from earlier periods (before the late 1540s). However, the preceding 15-20 years were marked by serious monetary and structural changes. On the one hand, inflation reduced the purchasing power of "American" money; on the other hand, the Crown's dependence on new financial infusions increased as Spain was involved in more and more expansionist projects.

By the end of the 16th century, Spain became completely dependent on the state of affairs in the American mines. The country, which had formerly had a stable financial system, began to repeatedly default on its foreign debts: after 1557 and 1560, defaults occurred in 1575, 1596, 1607, 1627, 1647, 1653 and 1680. For some time (under Philip II), Spain continued to expand, and eventually conquered Portugal with its huge Eastern colonies (1581). Later, however, followed a series of military defeats (the crushing defeat of its Invincible Armada in 1588 came as one of

the heaviest blows). The financial crisis was followed by a monetary one: not having enough budgetary resources, Philip III and Philip IV began to "spoil" the currency by reducing the gold and silver content of some coins. These measures, however, produced only short-term effects for the national budget and could not prevent a general degradation. The 17th century witnessed the steady economic decline of Spain, and it eventually turned into a second-rate country.

Despite mounting problems, the heirs of Charles V continued to abide by his policy: they focused their efforts on the achievement of imperial and messianic goals and ignored the need for creating favorable conditions for economic development. Spain lagged more and more behind other European countries, which took the leading positions (the Netherlands, England and France). *Spain's natural wealth (in this case tantamount to "cheap" money) played a trick on the country: having first created an illusion of political and economic invulnerability, it caused the Crown to change its needs to meet the new income level which led to a grave crisis. The crisis in Spain continued for four centuries.*

Thus, the collapse of the Spanish Empire was a result of its over-inflated ambitions and ill-considered and ineffective economic and budgetary policies. The inflated political ambitions were partly provoked by the increasing inflow of "cheap" money, which prompted the Crown to intensify its efforts to consolidate and enlarge the empire.

World history knows many instances when countries conducted bitter and protracted wars without bringing things to financial or economic crises. These are, for example, the Netherlands of the 16th-17th centuries or Britain of the 18th century. Those countries did not have abundant natural wealth (thus cheap financial resources) and were ruled by more reliable governments which took into consideration the interests of production and trade.

Russia and Beyond

German Chancellor Gerhard Schröder and Russian President Vladimir Putin, Bocharov Ruchei, Sochi, Russia. August 30, 2004

“Presently, Russia’s situation brings to mind the tale of the knight from the famous Russian fairytale who is standing at a crossroads and pondering which path to take. And just like the inscription on the signpost in the story, analysts predict harsh consequences for moving forward.”

Russia's European Strategy: A New Start

Of Russia's many international allies, relations with the European Union hold a unique place. The EU is Russia's largest trading partner, while the EU member states account for an essential part of all humanitarian and people-to-people contacts of Russian citizens abroad. Yet, despite an extensive program of cooperation aimed at bringing Russia closer to Europe's regulatory standards and rules, the two parties have fundamental differences in the political sphere which continue to increase, as does the economic rivalry between them. The elite of Russia and the European Union barely understand each other, and this lack of mutual comprehension is only increasing. Does Russia's EU policy have a well-formulated goal? How will Russia-EU relations develop in the future? And what cooperation model is the most advantageous to them? This workshop tried to find answers to these questions.

RUSSIA-EU RELATIONS

Despite the long and active dialog between Russia and the European Union, which includes a well-developed system of bilat-

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This article is an account of a workshop held in January 2005 and entitled *Russia-EU Relations: The Contemporary Situation and Prospects for the Future*. The workshop, headed by **Sergei Karaganov**, involved Russian experts in Russia-EU relations and representatives of Russian ministries, government agencies and major companies. The workshop was organized by the Institute of Europe of the Russian Academy of Sciences, the Editorial Board of *Russia in Global Affairs*, the Aeroflot Joint Stock Company, the Council on Foreign and Defense Policy, and the Institute of Strategic Studies and Analysis.

eral ties at various levels and a solid legal base, relations between Russia and the EU remain in a state of uncertainty. The parties lack a shared understanding of the phrase "strategic partnership," although this has been used to officially summarize the nature of their relations. Both Russia and the EU are becoming disillusioned with each other, and this feeling often gives way to irritation. This has resulted in the fact that the agenda of bilateral summits, together with the meaningful content of their drafted agreements, have been coming up short. Both parties lack a strategic understanding of how their mutual relations should develop.

At the same time, the European Union is becoming increasingly aggressive toward Russia. Most importantly, this refers to the situation in the post-Soviet space and to competition for markets and economic channels of the future. The personal relationships forged between the Russian president and the leaders of the EU's major countries in 2000-2002, are beginning to lose their effectiveness. As the Western leaders must reckon with the influence of public opinion in their own countries, an increasing number are beginning to question the efficiency of the Kremlin's domestic policy. Another factor concerning the change in the European Union's policy line toward Moscow involves the EU's new member states which joined the Union in the spring of 2004. These countries have taken a tough stance toward Russia and seek a major role in mapping out the EU's Russia policy.

Today, the EU accounts for 48.6 percent of Russia's foreign trade. Russia's exports to the EU include mostly fossil-fuel energy supplies and primary processed goods. This structure of exports reflects the level of the real competitive ability of Russian products. Oil and gas exports presently serve as a kind of "airbag" that guarantees against unpredictable complications in political relations. Yet this is obviously not enough to further develop mutual ties. Russia requires not a lesser EU role in its foreign trade but a diversification of its exports and the development of trade with other actors, specifically by exporting its traditional raw goods to other regions as well. Meanwhile, the EU countries themselves do not display any special interest in a broader range of imports from Russia. Indeed,

they seem to view this country rather as a source of energy resources. (Russia accounts for 7.6 percent of the EU's aggregate imports and 4.4 percent of the EU's aggregate exports.) Concurrently, the European Union is searching for new resource suppliers in order to secure itself against possible cataclysms in Russia, as well as to deny Moscow even a theoretical possibility of using its energy supplies as an instrument of political pressure.

Russia can increase its competitiveness by developing a transcontinental transport infrastructure which would offer the most convenient and safest route between Europe and Asia. In this respect, Russia must revise its approach to transit issues, which now links the state of this infrastructure primarily to the issue of national security. The construction of new railroads, air navigation and air traffic control systems and the modernization of existing ones, together with the construction of modern transit airports (which include payments for non-stop flights along the trans-Siberian route) have been important steps in this direction.

The European Union understands the importance of Russia's transport potential and seeks to increase its presence on Russian transit routes; this would include, primarily, flight routes. To this end, the Commission of the European Communities (CEC) insists that European airlines be exempted from compensatory payments for flights through the trans-Siberian corridor, and suggests that Russia adopt an "open sky" policy. If Brussels persuades Russia to implement such steps, this would represent a major precedent. Essentially, it would permit the EU countries to increase their supplies across Russia, thus effectively sidelining Russian airlines without compensating their financial losses.

Russia's integration into the global economy could also be promoted by railroad supplies between Europe and Asia; this potential, however, has not been sufficiently tapped.

The experts disagreed on their assessment of the terms on which Russia and the EU signed a protocol on Russia's accession to the World Trade Organization. It was unanimously agreed, however, that the very fact of the protocol's signing was a positive gesture as it has removed one source of mutual irritation – dis-

agreements over the terms for Russia's accession to the WTO. However, the concessions that Moscow has had to make under EU pressure may inflict great damage on the Russian economy as a whole, as well as on its individual corporations, such as Aeroflot, Gazprom, and Russian Railroads. It also remains unclear what the balance of benefits and losses will be for Russia now that it has ratified the Kyoto Protocol.

Earlier, the need to sign the WTO protocol forced Russia to make concessions to the EU which occasionally linked one issue to another, including the ratification of the Kyoto Protocol with the WTO accession issue. Now that this sword of Damocles has been removed, Russian negotiators have gained more freedom of action. An overwhelming majority of the participants present at the workshop agreed that maintaining the status quo in Russian-European relations, preserving the present model of cooperation, and trying to overcome the latent crisis by letting things run their natural course would be unacceptable. The experts emphasized that Russia must clearly formulate a strategic goal for creating a concrete model of interaction with Europe. But if Russia tries building its relations with the EU without having such a goal in mind, it will have to make ever new unilateral concessions. This will create a situation in which Russia's role will be reduced to merely reacting to the EU's initiatives.

THE LEGAL BASE OF RUSSIA-EU RELATIONS AND THE "FOUR COMMON SPACES"

The legal base of Russia-EU relations has become outdated; moreover, it has been inadequate from the very beginning. The parties fail to completely fulfill the terms of their Partnership and Cooperation Agreement (PCA), concluded in 1994, and most of its key elements will no longer have any relevance after Russia joins the WTO. Furthermore, neither Russia nor the EU is preparing an adequate substitute for the PCA, which expires in 2007. Instead – partly due to administrative inertia, partly due to the fear that a pause in the dialog would increase the atmosphere of negativity – the parties are continuing to work out new mecha-

nisms of cooperation within the framework of the Russia-EU project known as "four common spaces."

The experts agreed, however, that this concept cannot serve as a replacement for the PCA. From a legal point of view, the concept of "four common spaces" is beyond the juridical conceptual vocabulary. From the point of view of political relations, the content of Russia's and the European Union's joint "road maps" actually puts Russia on an equal level with other EU neighbors. The implementation of the "four spaces" concept will not help the parties to overcome the present crisis in their relations but will only create an outward impression of progress, which later will inevitably bring about a new wave of disillusionment.

By making Russia pressed for time, the CEC will, most likely, try to fix Moscow's unilateral concessions through formal agreements. The weakness of Russia's negotiating positions is largely due to the lack of coordination among different government agencies and to the inadequate involvement of businesspeople in the negotiating process. This factor enables the EU to impose its own agenda and initiatives on Moscow and push through decisions that are often aimed at receiving unilateral advantages by the EU.

An absolute majority of the experts who participated in the discussion argued that Russia should refrain from signing any binding agreements with the European Union for the next two to three years. If, however, Russia does decide to sign documents with the EU, these should be limited to "agreements on strategic intent." The experts believe the work on the "common spaces" should be re-oriented to the preparation of a new "major" treaty between Russia and the EU, which must replace the PCA, and specific agreements on individual areas of interaction.

Russia should draw up and propose its own document drafts; otherwise it will be forced, yet again, to be bound by CEC-proposed drafts. Furthermore, it must find an internal working mechanism for preparing a Russian proposal for a new fundamental treaty with the European Union for the period after 2007.

The experts emphasized that the content and nature of a new treaty must be determined not by the need for "rapprochement"

(which can simply be a consequence of administrative inertia), but by Russia's final objective in its relations with the EU. Since the drafting of the treaty must be preceded by a definition of Russia's intended goal, and not vice versa, it is the final goal that will determine the nature of the new treaty – whether it will be, for example, a treaty of association or, conversely, a less significant agreement that will not provide for any serious integration.

STRATEGIC GOAL

The participants of the workshop unanimously agreed that the main problem of Russia's EU policy is the absence of a strategic vision concerning Russia's place in the pan-European context. The experts argue there are only two possible models: 1) Russia's strategic goal with regard to the EU is gradual integration, which may culminate in its accession to a new European Union; 2) cooperation between the two friendly yet independent centers of power will not strive for formal integration, including the harmonization of their respective legislation.

Presently, the only clearly formulated point concerning Russia's policy toward the European Union is its assertion that "Russia does not seek EU membership." Representatives of both the EU and Russia emphasize the "special Russian mentality," as well as Russia's huge size and relative economic backwardness when speaking about the hypothetical impossibility of Russia integrating itself into the European Union. At the same time, several participants argued there are candidates for EU accession that are less economically developed than Russia, or have a mentality that differs significantly from the "Central European mentality" (for example, Turkey). When speaking about the size of Russia as an argument against EU integration, this seems to lack real validity in our modern era of communication; moreover, it may be balanced by Russia's rich natural resources.

More than two-thirds of the experts agreed that in the long term (after 15 to 20 years) the issue of Russia's accession to the European Union could be raised. In this time, much will depend on what path the EU and Russia take. The EU may transform into a quasi-federation with strong supranational governing bodies, or a socio-economic union, whose members may share some aspects of their for-

eign and defense policies. Russia may become an idle and weak authoritarian state or a developed democratic country. Russia's integration with a quasi-federative state is much less probable than its integration with a union of a more or less free configuration.

Russia is prompted to make the "European choice" by several objective factors.

First, Russia's acute demographic crisis, together with its increasing lag behind the advanced countries in terms of technological progress, will inevitably reduce its role as an independent global center of power. In the future, not only will Russia find it difficult to successfully develop on its own, but even simple survival will be a problem.

Second, among Russia's foreign-policy partners and neighbors, the European Union is the most predictable, civilized and attractive. The regions to the south of Russia are growing increasingly unstable, yet a close union with China is hardly possible. The EU's zone of attraction covers most, if not all, of the former Soviet republics west and south-west of Russia. As for Russia itself, its cultural traditions undoubtedly make it part of Europe.

Third, from an economic perspective Russia is greatly dependent on the European Union.

Therefore, according to some of the experts, Russia's most rational, pragmatic and successful decision would be to end its unrealistic claims of being an absolutely independent "pole" and assume a steady rapprochement with the European Union. Several of the participants said Moscow must enter into negotiations with Brussels in order to replace the PCA with a more advanced agreement – a Treaty of Association.

However, a majority of the experts who share the view that the most advantageous policy for Russia would be to nurture its relations with the EU, believe that it would be too early to begin drafting a Treaty of Association at this time because Russia-EU relations have been hit by a crisis of confidence and systemic differences.

The transition to more advanced relations was proposed to be accomplished in two stages. First, the parties should work to "cool down" their relations a bit. This would guard them against exces-

sive expectations and, therefore, disappointments. Furthermore, it is necessary to revise the entire sphere of EU-Russian relations in order to bring the formal framework of their cooperation into line with the political and economic realities. Perhaps it would make sense to give up the idea of the "four common spaces," or to partially adopt it in a general and non-binding way.

In any case, any reference to integration must be temporarily removed from Russia-EU relations, in particular those references that demand the extension of EU legislation to Russian soil. Russia's priority must be its adaptation to international, as opposed to European, legislation. Once Russia's legal norms are brought into line with international standards, it will be able to raise its relations with the EU to a higher integration level.

Russia and the EU must draft a new treaty that would provide for close economic and political relations between two mutually independent economic and political actors of the world stage. The new political and legislative basis for this mutual relationship (to replace the PCA which expires in 2007) must start to be built now.

Finally, relations with the European Union, which now dominate Russia's foreign policy agenda, must be temporarily given a less significant place in the hierarchy of Russia's foreign-policy priorities. This will help Russia and the European Union to achieve a higher level of integration in the future, as they will proceed not from the present negative state of affairs in their mutual relations but from a relatively clean sheet.

Some of the workshop participants insisted that lessening the significance of Russia-EU relations, together with the removal of integration references, must mark a final, rather than intermediary, chapter of these relations. These experts argued that full-scale EU membership (even if it evolves toward a "common market plus" model) would damage the long-term interests of Russia as a nation of global significance. They noted that Russia and the EU are rivals in some areas of global politics, such as the future of the post-Soviet space, and relations with the United States. Finally, Russia's mentality and political culture prevent it from accepting the idea of being "one of numerous leaders" inside the European Union.

However, the experts expressing this point of view were in the minority; the majority of the experts believe that in the medium term and, particularly, in the long term, Russia will not be able to handle the task of becoming an independent center of power in the global system, while siding with other centers of power (for example, China) would be either unrealistic or simply dangerous.

TOWARD A "RUSSIAN MODEL" OF RELATIONS WITH THE EU

Before Russia can successfully integrate into the European Union it will have to adopt a model of economic and social development, not to mention democracy, which would be similar with that of the EU, or at least compatible with it. But given the conditions of the present situation, when the elites of Russia and the European Union have different values and views, attempts to borrow individual elements of integration can only serve to aggravate the negative atmosphere.

Of the various models of relations which the EU builds with its external partners, the least advantageous for Russia would be "integration without membership." Such a model would provide for the harmonization of Russian and EU legislation, but would deny Russia the right to participate in the drafting process of EU legislation.

The participants in the workshop recommended studying thoroughly all existing models and borrowing only those that would meet Russia's interests. The same relates to EU legislation – only its advantageous elements can be transferred onto Russian soil, including those that are advantageous for the development of relations with the EU. Some of the experts believe, however, that a selective adoption of individual elements of EU legislation by the EU's partners is unlikely because of the specific nature of the European Union.

When building a "Russian model," Moscow must not only be guided by what is advantageous to it, but also take into account objective limitations on the part of the European Union. These limitations are due to the following features of European integration:

• the European Union is characterized by a constant tendency to enforce its own legislation and standards on third countries as a condition for cooperation;

• the integrationist nature of the EU does not allow it to depart from the set of common standards and rules for fear of its own disintegration;

• the internal agenda of the European Union is connected with the need to adapt its new member countries.

Russia can soften the effect of these limiting factors if it adapts to international legislation and standards in the economic, judicial and other spheres.

THE QUALITY OF WORK WITH "EURO-BUREAUCRACY"

Russia's administrative machinery is not prepared for the tasks set down by its EU policy. The structures that are responsible for interaction with the European Union are organizationally disunited, and the number of qualified personnel is insufficient to carry out real productive work with the powerful bureaucratic machinery of Brussels.

Individual Russian agencies specialize in their areas of cooperation with the EU and interact with their counterparts in CEC subdivisions and other EU bodies; however, they fail to coordinate their efforts between themselves. In contrast, the individual agencies and departments of the European Union are highly coordinated.

The number of people in Russia's policy-forming class and bureaucratic apparatus who are well informed about the inner workings of the EU is very small (estimated in tens), and over the past few years their numbers have not increased. Any growth in the number of qualified personnel in the state organizations is immediately offset by their peers leaving for the world of business.

Russia often lacks the people and time to prepare its own drafts for joint documents, thus, the CEC officials take this process under their control. The representation of Russian business interests in Brussels is extremely weak or practically non-existent, and

only a few Russian companies have lobbyists and legal staff there. The increase in the number of Russia's permanent representation to the European Union has been a positive move, yet the lobbying potential remains largely untapped.

In the unanimous opinion of the workshop participants, Russia's official bodies engaged in routine interaction with the EU need to seriously improve their work. This can be done by increasing their personnel and funds, improving the personnel's professional skills, implementing structural changes, and better coordinating Russia's EU policy. Several experts proposed consolidating negotiation resources in one of the existing agencies or — in the long term — within the framework of a special agency on EU affairs.

This move would help remove many of the problems aggravated by the need to coordinate Russia's negotiating position. Also, it would deny the CEC the possibility to push through its decisions due to the lack of coordination among various Russian agencies.

The experts proposed Russia's Foreign Ministry to be a coordinating agency for the transition period; this ministry, with its highly skilled negotiators, boasts rich experience in conducting multilateral negotiations. At the same time, there must be a role for other Russian ministries that are now engaged in dialog with the EU. Their representatives must be involved in the coordination of positions within the frameworks of interdepartmental committees and in ad hoc working groups. The establishment of such groups was mentioned as a possible intermediate form of interaction. The experts spoke highly of the U.S. experience in this field, which implies strict subordination of such a group to a higher governmental official with a sufficient scope of powers. The experts expressed doubts, however, that this system would work in Russia, given the present quality of the work and administrative culture of the state apparatus.

Russia must give priority to the establishment of a special agency that would coordinate efforts to implement and advance a single Russian position on all aspects of relations with the European Union. This agency should actively pool the expertise of the Russian expert community. In particular, the experts advanced the idea of creating a broad public consultative council on Russia-EU relations,

which would assess their current relationship and introduce new initiatives for furthering rapprochement with the European Union. Taking into account the increasing role of the European Parliament, it is important for Russia to strengthen ties at the level of inter-parliamentary structures, public organizations and business associations. It is time for Russia to have permanent representation in the European Parliament in order to further its interests there. The experts also proposed establishing committees (subcommittees) on Russia-EU relations at Russia's Federal Assembly.

Considering that Russia's development greatly depends on its relations with the EU, the acute shortage of specialists threatens the key interests of the country. The participants spoke in favor of introducing special bonuses to encourage such specialists to work for state bodies.

INCREASING THE ROLE OF PRIVATE BUSINESSES

Presently, there are no mechanisms for protecting the interests of Russian private businesses at the level of Russia-EU relations. Russian businesses, with rare exception, are not ready to make serious investments in the creation of a lobbying infrastructure. Furthermore, the extremely complicated relationship between business and government in Russia is not conducive to protecting the interests of Russian entrepreneurs abroad. This is a major reason why the negotiating process remains non-transparent for the business community and why its interests are not duly taken into consideration by the Russian authorities. Another problem is that Russia consults the business community only at the early stage of its negotiating process with Brussels. In order to solve political problems, Russian officials sacrifice the material interests of businesses – even the largest corporations. The CEC, however, acts exactly in the opposite way – it meticulously bargains even on minor issues in the interests of European economic actors.

The participants in the workshop unanimously favored to strengthen the participation of Russia's business circles in implementing practical moves with regard to the European Union and

in protecting Russia's economic interests in Brussels. Mechanisms for such a proposal must be created on the basis of coordination and mutual support of private and state structures. This can be achieved through the following moves:

- more active interaction between the business community and official Russian bodies at the European Union (representation);
- more active involvement of EU legal structures by Russian businesses, and the creation of their own infrastructure for influencing the decision-making process in the European Union;
- broader use of the Russian expert community in this field and its consolidation by Russian business and state organizations. To this end, the workshop participants proposed that Russian businesses invest in efforts to improve the quality of knowledge about the European Union in Russia. The Russian business community must increase its efforts for developing representation with a powerful analytical and legal potential in Brussels.

IMPROVING THE QUALITY OF KNOWLEDGE ABOUT THE EU

The participants in the workshop unanimously agreed that Russia must urgently adopt a state program for studying the European Union and training experts in EU affairs. Emphasis in these efforts must be made not on purely theoretical studies (as is done in academic institutes or institutions of higher education specializing in the history of the European Union and its institutions), but on the study of all practical EU mechanisms – most importantly, the practice of applying European law. Applied knowledge of this kind will help Russian representatives to defend and promote their interests and positions in a competent and qualified way.

The experts supported the idea for the establishment of a European College at the Moscow State Institute of International Relations, but agreed that this proposal is insufficient for achieving the above goals. Another possibility is the mass education of Russian students and young specialists at European colleges and universities, as well as the establishment of specialized courses in Russia, involving Russian professors. The program of training

MOSCOW SUMMIT

During the Moscow summit, which was held on May 10, 2005, Russia and the European Union jointly endorsed the Road Maps for the creation of the 'four common spaces.' Formally, Russia and the EU had never assumed such a comprehensive commitment, especially in the economic sphere. The main objective of the Common Economic Space (CES) agreed to by the parties is *"the creation of an open and integrated market between the EU and Russia."*

As the main instrument for achieving this goal, the Road Maps provide for gradual harmonization of legislation and regulatory norms between Russia and the EU. These efforts must involve industrial and competition policies, government support for companies and foreign trade. As regards the Common Economic Space, the Road Maps repeatedly emphasize the need for building mechanisms for bilateral consultations among all interested parties, including businesspeople and citizens. At the same time, the Road Maps plan does not mention the possibility of creating a free trade zone between Russia and the EU, nor does it bind the parties to accept particular norms of behavior.

The Road Maps evolved as an attempt to replace a strategic vision of Russia-EU relations with technocratic plans and cooperation between their administrative machineries. The experience of recent years has proven that even well-planned technocratic decisions may fail if they lack a long-term vision of mutual relations, as well as the support of society.

The Road Maps, which became something of a modest version of preparatory plans for Russia's EU membership, largely resemble a list of good intentions. Politically, it has masked the crisis in Russia-EU relations, but failed to solve the main problems between the countries. The approval of the Road Maps can lift Russia-EU relations out of the political format and markedly reduce public interest in this issue, thus perpetuating the stagnation in relations. But if Moscow and Brussels display enough will, which they presently lack, the Road Maps can lay the foundation for their long-term structured cooperation.

Russia-EU relations may follow an undesirable scenario where they would transform into administrative routine. Thus, the decision-making process would be made by ministries and other government agencies; control over this process would not be left with society. The right to make decisions within the Road Maps will ultimately belong to those having the greatest administrative-bureaucratic resources.

The European integration of the last 50 years provides solid arguments for shifting the focus to cooperation in specific areas and projects. However, such a policy will be successful only if the parties have a clear, shared understanding of the strategic prospects of their mutual relations. Thus far, Russia and the European Union have not acquired such an understanding.

young specialists in EU affairs could become the subject of a special agreement with the European Union. Russia and the EU might jointly allocate funds for this purpose.

The training of Russian specialists at educational institutions and government agencies of the European Union would provide them with unique knowledge and experience. It would provide them an opportunity to understand how it feels to be in the shoes of a European bureaucrat, while enabling them to establish personal contacts with officials of the CEC and other European bodies.

Reaffirming the Benefits of Russia's European Choice

Arkady Moshes

LOGIC AND POLITICS

Today, few members of Russia's expert community would argue that the country's social and economic revitalization will be an easy process, if at all possible, without close contacts with the European Union. Most experts agree that Europe is the best natural partner for Russia due to the shared cultural traditions between the countries, as well as the tendency of the Russian people to embrace a European self-identification. In this sense, Russia's policy has two imperatives: a civilizational one that compels it to integrate into the processes of globalization, and a modernization imperative. Both fit fairly well into the format of Russia's so-called 'European choice.'

The logic of Europeanization for Russia, however, loses its shine once it becomes understandable that practical implementation of the European choice course means accepting some long-established rules that will remain in place despite Russian influence; moreover, accepting these rules will actually damage Russia's interests. It appears that Russia faces unjustified, biased, or simply humiliatingly stringent requirements; such claims are not groundless. Thus, some people tend to conclude that integration into Europe will strip Russia of its influence in the immediate region, not to mention around the world, and turn it into a second-rate power even on the continental scale.

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The concept of Russia's policy toward Europe aims to maintain relations of equitable partnership lest the country should lose its status. Since this goal is unattainable due to the imbalance of economic powers, as well as the attractiveness of social models (many Russians would welcome European living standards, for example, but not vice versa), its practical implementation boils down to Russia keeping its options open, renouncing obligations to bridge the gap between Russian and EU norms, and staking at selective cooperation in a handful of spheres where our resources are still comparable (in the energy and security sectors, for example).

Since the end of 2002, mutual expectations between Russia and the EU have witnessed a certain slide. This was partially due to Moscow's conscientious rejection to integrate its political, legal and economic policies into the European system, which was the underlying idea of "harmonization of norms and rules." The EU-Russia Common Strategy, although obviously declaratory in nature, originally contained visions of Russia as being an element of a United Europe. In the summer of 2004, however, this possibility became devoid of force de jure, but its actual demise occurred a year earlier. In 2007, the 1994 Partnership and Cooperation Agreement (PCA) will expire, and since its provisions will not be fulfilled before the expiration date it is highly doubtful that it will be replaced by a document of equal status. The sides will certainly have problems in deciding on the binding legal obligations of the new agreement and in specifying sanctions for their non-commitment. It seems quite possible that the Road Maps on Russia-EU Common Spaces (involving economics, external security, freedom/security/justice, and science/education/culture) endorsed in Moscow in May 2005 will take the PCA's place indefinitely. It should be noted that such arrangements do not always go beyond dialog and are quite indistinct.

Russia-EU interaction process has taken the form of the Mobius Strip. After formally fulfilling the requirements of the Partnership and Cooperation Agreement, which certainly contained strong integration potential, Russia has gone back to coop-

eration in individual projects, albeit big ones, i.e. in the same manner with which the Soviet Union made headway into the Gorbachev era. Russia has failed to design a strategic vision of future bilateral relations, and common sense prompts that stagnation and regress are inevitable in such a situation.

Against this background, Moscow's unwillingness to follow the path of integration with Europe is not accompanied by a build-up of its own influence, contrary to the logic of those who support its independence from institutional restrictions. Russia is losing its positions in the former Soviet republics and will most likely see a further loss of its international power resource unless it turns its policy toward Europe. Russia would be wise to reject its position as an external player toward the EU and attempt to influence the system from the inside the way leading European powers do. Russia should seriously consider the creation of an integration paradigm of relations with the EU.

FRIEND OR FOE

Russia is losing its positions in Europe, systemically and qualitatively, along two relatively new fronts. First, it is acquiring the image of a weak and undemocratic country that is unwilling to reform itself efficiently. The hostage crisis at a school in Beslan, demonstrations against social benefits reform, the YUKOS affair, a critical economic dependence on oil exports and sweeping corruption – all these factors have revived the image of Russia as alien to Europe (Europe's Other) which faded in the 1990s.

The spread of that image will have a direct political impact on Russia. If it remains an alien body for the Europeans – a Nigeria or Algeria, for example, in the Siberian style – it is natural to expect that Europe will resort to an egoistic policy toward it, aimed only at winning access to Russia's sources of natural wealth and transit routes, as well as stripping it of natural competitive advantages. Simultaneously, the Europeans will seal themselves off from the associated risks of cooperating with Moscow and resort to a "soft security" policy. Later, they will cover up everything with diplomatic niceties at summit conferences.

At the same time, Russia could hope for a more balanced response from the Europeans if it were ready to build rapport with Europe on a more systemic basis. Russia's adherence to the model of selective interaction, however, leads to a situation where the Europeans also begin subscribing to the so-called "cherry picking tactics." And it cannot be denied that they are quite efficient in doing so. In the past several years, the majority of disputes between Moscow and Brussels have been settled on the terms of the latter. This conclusion is readily seen by the creation of a transit route between the Baltic exclave of Kaliningrad and the rest of Russia via Lithuanian territory, the proliferation of Partnership and Cooperation Agreements onto the new EU members, and Moscow's ratification of the Kyoto Protocol. Incidentally, there is no certainty that the signing of a re-admission agreement with Europe will eventually exempt Russian nationals from the Schengen visa rules. Most likely, this agreement will be substituted for by the liberalization of visa issuance, which in practical terms, however, means little for most people.

Another detrimental effect associated with Russia's image of a country alien to Europe is that this negative representation is used by countries having problematic relations with Russia to consolidate their own positions inside the Union. In 1995, relations between Russia and the Baltic countries were as troubled as in 2005; the Europeans were as much sensitive toward the war in Chechnya as they are now, while NATO's eastward expansion was already on the agenda. Despite these issues, the topic of "Soviet occupation" of the Baltic countries had an incomparably smaller place in the Western mass media in comparison with today. The Estonians, Latvians and Lithuanians have irreversibly become the "friends" of the Europeans over the past ten years, that is, they are a priori the nations to be trusted and supported, while Russia has lost the opportunity for a common future or has blatantly rejected it. Russia can demonstrate righteous indignation over the question of double standards, and offer strong reactions to the overtly provocative gestures and statements on the part of some Baltic leaders, but that will hardly help eliminate the disadvantages of being categorized as "a foe" in their eyes.

COMMON NEIGHBORS: WHO ARE THEY WITH?

Another sphere where Russia has lost its influence pertains to those European CIS countries which have become reoriented toward the EU (although to variable degrees) and have adopted a new system of guidelines. The post-Soviet space, where Russia was once a powerful player by virtue of history, ceased to exist and has turned into an "intermediate Europe;" in other words, the shape of the present EU at a much earlier date. Russia started losing its attractiveness for socially and politically active sections of the population for a number of reasons, including the folding up of democracy, loss of its leading position in the CIS in terms of the rate and quality of economic growth, scale of terrorist activity, etc. Meanwhile, Europe acquired attractiveness as a zone of stability and economic prosperity, and a considerable part of the people in the CIS countries began to realize they had a choice.

Ukraine has advanced the farthest among the former CIS countries along the path of *reorientation toward the EU* (this is specially italicized since the *NATO option* has minor support there). The Ukrainians have something bigger than abstract notions on the benefits of the European choice. They have developed the assuredness that it is achievable. According to polls, in the past few years 50 to 60 percent of Ukrainians spoke in favor of joining the EU and only 10 percent were against the idea. A poll conducted by the Kiev International Institute of Sociology in April 2005 indicated that 48.6 percent of the respondents were confident that the EU would accept their country while 23.1 percent believed their country would be rejected. According to the Kiev-based Razumkov Center of Economic and Political Studies, Ukraine has nearly equal numbers of supporters of the Russian and EU options as foreign policy priorities. The spring 2005 poll revealed more supporters of the EU, but this opinion has changed many times over the years. The situation looks quite different, however, if you consider the age of the respondents. Supporters of the Russian option are mostly older than 50, while those between the ages of 18 and 39

give preference to the EU (44 to 46 percent versus 30 to 33 percent, respectively, in February 2005).

There are two factors of critical importance for the rise of such sentiments. First, a large number of people with close contacts in Central Europe, or with a record of immigrant work in the old European countries, have formed favorable opinions about life in Europe. Owing to their high rate of personal, employment and social mobility, these people are confident that Ukraine will be able to adapt to the EU accession requirements. Second, the EU had become a leading importer of Ukrainian products even before its eastward expansion. Ukrainian corporations have developed a taste for doing business in Europe and have begun praising their stable rules of the game.

That is why the Yushchenko administration's goal of attaining EU membership is absolutely logical. Of course, its attempt may flop – largely due to internal political problems – and the country may slide into a period of irregular development, but it is doubtful that the European option will retreat from its present positions there.

Similar processes are taking place in other countries, as well. Moldova, for example, experienced a dramatic change recently as President Voronin, a pro-Russian politician just four years ago, decided he could use turbulent relations with Moscow as a platform for his re-election campaign, regardless of Brussels' ability – or inability – to settle the dragged-out conflict in the secessionist Dniester region.

The situation looks far from ordinary even in Belarus, a country distanced much farther away from Europe in terms of information. Polls conducted by the Minsk-based Institute for Social, Economic and Political Research suggest that the share of proponents of the country's accession to the EU never dropped below 50 percent since 2002. In spring 2005, 52.8 percent spoke in favor of accession while 44.4 percent were against the idea. Meanwhile, the amorphous integration with Russia – that is, the maintenance of its current model – got support from less than one half of the respondents, and only 14 to 15 percent spoke in favor of a unified

state. Almost one half of Belarusians do not support the introduction of the Russian ruble as a single monetary unit, while the percentage of its supporters stands between 30 and 35 percent. The popularity of the European choice is likely to grow in the next few years under the impact of developments in Ukraine and – to a greater degree – in Poland. Belarus will follow in Ukraine's footsteps after Alexander Lukashenko leaves the presidential office.

The issue of accepting European influence has also sprung up in the South-Caucasian countries, although to a far smaller degree and in somewhat different forms. The EU has included Armenia, Azerbaijan and Georgia in the European Neighborhood Policy. The inclusion of these countries will unlikely have any major effects in the short term, but things may change in the future if one considers the possibility of Turkey's accession to the EU at the end of next decade.

ALTERNATIVES TO A ZERO-SUM GAME

One should seriously question those conspiracy theories that suggest the EU is intentionally pushing Russia out of the western parts of the post-Soviet space. Most EU member-nations have small economic interests in that region, at least for now. Nor do they have illusions as to the huge cost of integrating the regional countries into the EU. That is why they continue giving priority to Russia and would like to avert unnecessary conflicts with it (this was evidenced by the telephone call Germany's Federal Chancellor Schroeder made to President Putin at the peak of the Orange Revolution in Kiev). It also explains why Brussels officials are pondering an intermediary status of some kind for Ukraine, and are not especially willing to offer it the prospect of membership. And yet the EU continues to enlarge eastwards due to pressure by the new member-states which have their own interests and ability to shape the EU's line of conduct – a power that should not be underrated. The new neighbors have realized they can be actors too, and not merely objects in policy-making.

Russia is trying to prevent the emergence of new division lines in Europe, for example, along Ukraine's eastern border, while

maintaining, at the same time, the old borders along Ukraine's western border. It was one of the reasons why Moscow interfered actively in the election campaigns in Ukraine in 2004 and Moldova in 2005. Interference in the Ukrainian parliamentary election in 2006 is also a possibility. But its real capability for an efficient policy arouses grave doubts. Unlike the Soviet Union with its ideology of world Communism or imperial Russia with security guarantees, as well as Pan-Slavism and Orthodoxy, the Russian Federation does not have an attractive project to offer these days. The "carrot" it can offer does not look appealing enough, while Russia's "stick" can definitely make the political regimes and people of neighboring countries more problematic. No one can guarantee, however, that economic sanctions will prove efficacious: The blockade of the Abkhazian border in December 2004 failed to bring the pro-Moscow candidate Raul Khadzhimba to presidency in that breakaway region of Georgia. Furthermore, sanctions may turn out to be altogether impossible (suffice it to recall who controls Russia's transit pipelines). On the face of it, hitting the wallets of ordinary people may provoke a harsh reaction toward Russia as opposed to any anticipated affections, as well as alienate it.

There seems to be a different solution to Russia's quandary: the division line along the "friend or foe" principle must be moved to Russia's eastern border. If this is not accomplished, Russia will not be able to avoid the erosion of the common civilizational and cultural space in Ukraine and Belarus, to say nothing of the dangers of ending up isolated against a destabilizing South and growing China.

The acceptance of the slogan "Together with Ukraine into Europe!" seems to be quite a feasible choice for Russia. The Ukrainians are not interested in a tough choice that will subject them to any sort of a breaking point. Unlike the Baltic countries, anti-Russian sentiments are marginal in Ukraine and pragmatism dominates everywhere. Surprising as it may seem, only 18.4 percent of people in the traditionally nationalistic western regions of Ukraine spoke in favor of a complete pull out of the CIS Common Economic Area that unites Ukraine, Belarus, Russia

and Kazakhstan. At the same time, Ukraine has identified its foreign policy priorities: it will integrate into Europe and cooperate with Russia and not vice versa. Thus, Russia will never win a zero-sum game from Ukraine.

NO ADMITTANCE FOR RUSSIA?

There is a prevalent conviction in Russia that Europe is unprepared to build an integration relationship with it. This belief is justified in many ways, yet it does not reflect the whole truth since the Europeans have had no need to formulate a clear-cut position on the issue at this time. Paradoxically, European discussions concerning Russia's possible membership mostly boil down to the conclusion that Russia is not seeking it. There will be no serious answers from the European side until Russia loudly proclaims it is willing to integrate and proves its ability to move along that path.

Along these lines, the European policy has several imperatives that integration with Russia agrees with. First, Russia's integration is the only method of rounding out the so-called European project, since all other methods can only move the EU's border eastwards. The prospect for Turkey's accession, for example, has invalidated the argument about the impossibility of integrating countries with predominantly Asiatic territories (and "huge populations" like Russia – in a few years, Turkey will have a greater population than Russia). Russia is a European country in all other respects. Slavs who are brought up in the traditions of Eastern Orthodox Christianity make up the majority of its population, while the share of its Moslem population does not exceed that of France. Russia's 'European self-identification' differs from the accepted version in the EU, but redefining itself as 'Asiatic' would be totally out of place. Considering existing European legislation, Russia has every right to apply for membership.

Second, history has taught Europe that integration on the basis of systemic transformation provides much stronger guarantees of predictable and friendly conduct on the part of countries, and big countries in particular, than any economic inter-dependence. Third, the EU is gradually turning into a global force in spheres

that go beyond the economy; and by pooling their potentialities in cooperation with Russia, the Europeans could raise their presence on the Asian and Atlantic flanks to a fundamentally new level. Lastly, integration would provide the Europeans with much better access to Russia's energy resources.

The likelihood that Russia will receive a negative response to its application (only Morocco's application has been rejected thus far, since its non-European identity did not require strong proofs) is reduced by the fact that it may first integrate with Europe according to some special format. And that is different from becoming an EU member. In that case, Russia would have to fully adopt the European understanding of democracy and supremacy of law (the conspicuous 'values'), as well as partially adopt the *acquis communautaire* (of course, not in the first phases of the process). The above would help Russia to mitigate the nervous disdain among the 'old European countries' over the EU's further spread, which seems to be quite rampant following its largest enlargement in 2004.

WHAT IS TO BE DONE?

The most important objective for Russia in its relations with the EU is to make a strategic choice. Integration with the EU must be considered the main strategic goal. This can be achieved through a gradual horizontal (sectoral) integration and through increasing its role in the EU political decision-making process.

There are no insurmountable barriers on the road to integration, and to make it achievable we must realize that political democracy, supremacy of law and human rights are more than simply words. Moreover, these concepts are not merely instruments in the hands of European negotiators used for squeezing concessions out of Russia. They are the building blocks of success in the contemporary world.

In the next 10 to 15 years Russia should give priority to projects that will expedite the integration process and facilitate the formation of communities of economic or social entities. This is really the only way to eliminate the friend-or-foe division line

between the two powers. Infrastructure projects – in all spheres, ranging from transportation and customs offices to telecommunications and tourism – are critical means for reaching that end. It is also important to encourage education exchange programs between the states. The Road Maps of four common spaces possess a real potential and should not remain mere declarations.

One of the priorities in Russia's relations with the EU is the lifting of travel visas. This would make it possible for nationals from both parties to make short-term trips on either side without special permits. The elimination of visa formalities for average citizens would be the best way of forging a Russian-European identity. The Europeans, however, tend to misrepresent the problem which gives the impression that Russia is included in the Schengen zone. In reality, however, we are referring to the transfer of all travel checks from the consulates to the border-crossing stations (up-to-date border control procedures are much more efficacious). Many Europeans fear a possible inflow of cheap labor and criminals from Russia, and yet the chances of coming to an agreement still exist. Europe has an interest in readmission agreements and tighter control over Russia's southern and eastern borders. If the Russian authorities improve the quality of its passport regime, and initiate the eradication of corruption in the interior agencies, visa-free travel will become more realistic. Incidentally, Ukraine may become the trailblazer in visa-free travel as it is working to conclude an agreement on travel regulations.

One short-term goal is to decide on the legal format of integration and to start negotiations to that end. Russia and the EU can build relations on the basis of a legally binding document that would be organically linked to the Partnership and Cooperation Agreement. This could take the form of a new agreement on Russia-EU Strategic Partnership that has been proposed by some experts. Its preamble, however, must acknowledge the intention of achieving an integration relationship in the future. Later, Russia and the EU could sign an agreement on association, or, as an alternative, Russia could join the European Economic Area (EEA).

The Russians do not view the latter option as acceptable since it does not provide the EEA countries with opportunities to draft laws that they have to abide by; Switzerland and Norway are good examples of such countries. Yet counter-arguments do exist. First, the formula for participation in the EEA is individual, and Norway did get some levers of influence when it joined. Depending on the parameters, importance and potential of the Russian economy for Europe at a particular moment, Russia can naturally hope to receive more controls. Second, the EU may select precisely that formula of integration and be ready to expand the field of compromise. Third, the EEA itself may experience enlargement and evolution by that time – if Ukraine joins it, for example – and consolidate its positions with regard to Brussels.

The date of Russia's membership in the EU is beyond the powers of prediction at the present time. On the one hand, if Russia attains a large degree of integration with the EU and gets access to the decision-making process, then the need for seeking formal membership will diminish. On the other hand, transition to membership under those conditions will not require strenuous efforts.

Presently, Russia's situation brings to mind the tale of the knight from the famous Russian fairytale who is standing at a crossroads and pondering which path to take. And just like the inscription on the signpost in the story, analysts predict harsh consequences for moving forward. Of course this is possible, yet equally possible is the situation where Russia will receive something in return for its efforts. The history of European integration provides numerous instances of win-win situations, without which that very integration would have failed. If a traveler continues to stare at the inscription on the signpost along the road, however, he will never succeed.

Change or Die

Olga Butorina, Alexander Zakharov

The CIS was devised as a regional union, based on the concept of a state, complete with a centralized economy and cross-border ties at the macro and micro levels. If CIS institutions fail to account for the business interests of its member states, it is doomed to disintegration.

The prestige of the CIS is in steady decline. During the recent election campaigns in Ukraine, Abkhazia and Moldova, issues related to CIS activities remained on the sidelines of public interest and were not raised in the political debates. Notions such as CIS unity and solidarity, it seems, are becoming purely theoretical. This is the result of objective economic processes and not simply the changing sentiments of the elites of the member countries or the work of political spin doctors.

After the 1998 crisis in Russia, it looked as though the CIS would be given a new lease of life. The crisis rapidly affected the neighboring countries, which led to a serious decline in production and the devaluation of national currencies (in 1998, the exchange rates of the CIS countries fell three to five times on average against the Russian ruble, while the Belarusian ruble's rate was down nearly ten times); this state of affairs testified to the

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interdependence of the economies of the former Soviet republics and inspired hope that integration efforts would thus intensify in the CIS, especially since by this time rerouting of commodity flows to countries outside the CIS had stopped. Yet there were no major breakthroughs.

The economic recovery, which started in 1999 and led to steady improvements in the macroeconomic performance of CIS member states, promoted decentralizing trends. Paradoxically, the further strengthening of the post-Soviet economies, together with the development of market mechanisms there, pose a real threat to the CIS in its current configuration.

THE BETTER THE WORSE

In the past decade, mutual trade in real value terms grew very moderately, if at all, among the CIS member states. In 2003, in particular, exports within the region reached $39 billion, compared to $37 billion in 1996 and 1997. Imports amounted to $44 billion in 2003, roughly the same amount as in 1996. Meanwhile, supplies to outside countries grew 2.5 times from 1994 to 2003, while imports from outside the region nearly doubled. As a result, the CIS member countries suffered a deficit in the total foreign trade volumes, falling from 30 to 20 percent in exports and from 70 to 37 percent in imports over the decade. The trend was common for all member countries except Belarus. For example, in 1992, 89 percent of Armenia's exports were inside the CIS, while in 2003 this figure dropped to a mere 19 percent. For Kazakhstan, the figure was 60 and 23 percent, respectively; while for Ukraine the percentages stood at 56 and 26, respectively. Russian exports have never really enjoyed a good market in the CIS, yet it still managed to decrease from 22 percent in 1992 to 16 percent in 2004. The share of CIS in imports was 23 percent on average from 2002 through 2004, compared with 28 percent from 1993 through 2001.

Naturally, foreign trade statistics fail to take account of all economic factors. For example, the region has a high rate of migration flows. In 1991-2000, 6.9 million people arrived in Russia from CIS member states, with a net migration gain of 3.8

million. Yet since 2000 the number of migrants has been declining, even though labor migration remains high. According to recent estimates, Russia's net migration gain from CIS member states will be approximately 1.2 to 2.6 million in the period 2002 to 2006, with the bulk of the new labor force arriving from Kazakhstan and Central Asia, particularly Uzbekistan. Some 400,000 to 500,000 people are expected to enter Russia from Ukraine, while, simultaneously, approximately 300,000-350,000 people are predicted to leave Russia for Ukraine. A great bulk of the labor flow, which is comprised mostly of seasonal workers, enters Russia as tourists to replenish "slave markets" in Moscow and other major cities. But those spontaneous flows have little to do with formal CIS policy (in fact, the CIS has not dealt with the issue) or a move toward interstate integration. The fact that 6.3 million legal immigrants now live in France, for example, certainly does not mean it is heading for integration with the African or Asian countries. Furthermore, as the economic situation improves in the CIS member states, the number of people forced to search for subsistence abroad will naturally decline.

The significant devaluation of the Russian ruble and national currencies of the CIS member states briefly reduced imports from outside countries and increased CIS share in imports value. But that development was short-lived: in 2000-2001 CIS products could no longer replace the imported goods from outside countries.

The substantial increase in the price of oil, as well as other commodities (ferrous metals and alloys, copper, lead, aluminum, nickel, precious metals, cotton fiber), increased the export revenues of the post-Soviet republics, thus allowing them to buy Western products, including foodstuffs, consumer goods, as well as machinery and equipment required for industrial modernization. In the first half of 2004, Moldova imported from outside the CIS 70 percent more tractors as compared to the same period one year earlier, while the import of cars and trucks in Azerbaijan grew 2.5 times. CIS member states have been importing the bulk of their medicines and high added value chemical products particularly from countries outside the CIS. Obviously, as national

economies develop and their investment demand grows, their economic ties with the world will further intensify.

The low industrial development level of the CIS member countries has been a serious obstacle to the expansion of mutual trade. As a result, their export potential is comparable across the board: raw materials and low added value products. Most importantly, this scenario reduces the potential for integration, as the division of labor – a key factor in any integration process – is altogether lacking.

Incidentally, this is what economic integration is based on in Western Europe. France and Germany, for example, have supplied machinery and chemical products to each other, but the products vary. An in-depth industrial specialization process has long turned the EU member states into separate links of a single production chain. As a result, their mutual trade does not excessively depend on fluctuations in world prices, their relations can weather the severest political storms.

The hope still remains that the structure of regional trade will improve and trade volumes will grow. Overall, the share of technologically advanced products in exports inside the CIS is higher than beyond its borders. In 2003, for example, the share of machinery and equipment in supplies from CIS countries to other CIS member states was 4 percent, while this category of export ranked just one percent to outside countries; respective figures for chemical products were 17 and 2 percent. If governmental agencies from the CIS pay more attention to industrial cooperation inside the region, then the CIS economy would strongly benefit from it. CIS institutions should promote direct business contacts, as well as commercial and production ties between enterprises in various member countries. The current CIS model does not encourage this kind of integration.

MODELS MATTER

The CIS was formed as a means of overcoming the adverse effects of the Soviet Union's disintegration and establishing a new system of relationships among its former parts. The CIS was intended to retain all of the vital elements of its former infrastructure, ward off any militaristic and/or political threats and, when possible, mitigate

losses resulting from the breakup of the single economic unit. Under those conditions, a new union could only exist as a state-type integration model designed for a centralized, planned economy with cross-border ties at the macro, rather than micro level. No other model was possible. The Soviet Union had a planned economy and cooperation inside the Council of Mutual Economic Assistance was also strictly planned: every year the governments of the member countries signed bilateral trade protocols, after which they fixed rigid plans for their enterprises, with rigid figures for supply volumes, rigid prices and rigid product ranges. This scheme could certainly only exist in conditions of a foreign trade monopoly. CIS countries' leaders had no other experience of integration.

An integration model where the governments are the key players was prompted by the very nature of the challenges faced by the member countries: border protection, army and navy restructuring, cooperation in space research, maintaining infrastructures (transport, water and power supply), etc. These areas have been traditionally dealt with on the state level, and experience has shown that the CIS has made a lot of progress in those spheres. Councils formed in particular sectors (e.g. railways, aerospace and air transport, standardization, metrology and product certification) have been working energetically and are able to address issues within their authority. Due to the efforts of the CIS Power Energy Council, a system of mutual energy supplies was launched to minimize power outages in the most vulnerable areas. This goal was achieved through the participation of power plants in the neighboring countries.

But the CIS proved helpless in spheres where integration was expected to promote the development of enterprises by regulating the quality of the market environment. More than ten years proved insufficient time to establish a free trade zone. Attempts to form a common grain market also failed. As a result, member countries began to suffer from overproduction, grain shortages and uncontrolled hikes in the retail price of bread.

The situation with the currency regime has also begun to deteriorate. An agreement on the payment union signed in 1994,

which could have facilitated multilateral settlements among CIS member states, has not been implemented and has been indefinitely delayed. A concept to coordinate efforts of the CIS member states in the currency sphere, adopted in September 2003, reads that the emergence of the payment union – as stipulated by the step-by-step policy – along with the customs union, is only possible after the CIS forms a common market of goods, services, capital and labor. This concept, however, runs counter to international practice. The European Payment Union (EPU) was established by 17 European countries in 1950 from nothing more than political will, the proper elaboration of plans and – frankly speaking – direct pressure from the U.S. The European Economic Community (EEC), which gave birth to the current European Union, emerged seven years later after West-European countries used the EPU to streamline multilateral settlements in national currencies, eliminate barter and restore the convertibility of their currencies for current transactions.

Thus far, the CIS has not been able to fully resolve any of these problems. According to estimates, 90 percent of foreign trade deals inside the CIS have been made in foreign currency – primarily the U.S. dollar. That is, the circulation of national currencies is quite limited as they are not actually used in foreign economic trade, even though exchange rates have stabilized and nine (out of 12) CIS member countries have accepted the obligations of Article VIII of the IMF Articles of Agreement, which bans restrictions on current payments, discriminatory currency practices and barriers to convertibility of foreign-held balances. Meanwhile, there really are preconditions for a wider use of national currencies in CIS regional trade. For example, according to Russia's Sberbank, half of the deals made by its clients with CIS partners stipulate payment in Russian rubles. Contracts, mostly involving imports and based on the Ukrainian hryvnias, Belarusian rubels, Kazakh tenge, Kyrgyz som and Moldovan leu have become more frequent over the past years, although their combined value ranges between 0.1 and 0.7 percent of the total value of imports (according to transaction passports).

Thus far, daily quotations rates of CIS member currencies with respect to each other have not been fixed; official rates are mostly fixed via the U.S. dollar. Trading volumes are negligible even in the biggest currency markets in the region (Russian ruble-Belarusian rubel, Russian ruble-Kazakh tenge and Russian ruble-Ukraine's hryvnia). In the second half of 2004, average daily trading volumes of inter-bank cash conversion operations in Russia did not exceed $3 million for the Russian ruble-Belarusian rubel; the figure was just $1 million for ruble-tenge, and even less for the ruble-hryvnia, let alone the hryvnia-tenge or Armenian dram-Azeri manat markets.

A HOUSE WITH ONE WALL AND A ROOF

The integration model now in effect in the CIS is intended for the interaction of states, rather than markets, thus, the number of mishaps may increase as new markets develop. One day this unfavorable situation may bring down the entire structure. The main potential fissures are already visible. First, there is the relationship between the biggest member state and the other CIS members. As Russia accounts for more than two-thirds of the GDP of the CIS, and a likewise share of its population, its say in the region must be greater than that of Moldova, for example, and even of Kazakhstan. This fact gives other member states grounds – real or imaginary – to fear Russia's diktat. While in the early years of the CIS the complex socioeconomic situation prompted former Soviet republics to reconcile themselves with this natural imbalance, they are now increasingly sensitive to it. As a result, many member states have been energetically seeking support outside the CIS, often failing to take proper account of the political realities. Several member states have voiced their intentions of joining the European Union, even though the EU leadership has clearly stated that further EU enlargement will be suspended after 2007 (after Bulgaria, Romania and, most likely, Croatia, become members). Talks with Turkey will be drawn out for years, and it seems that no other country will be allowed to join the union ahead of it.

The CIS member states, due to their dissimilarity in size, fear becoming overly dependent on each other; this has had an adverse

effect on their ability to display common will and formulate CIS strategy. Russia, while reluctant to pressure other CIS members for fear of attracting scorn, has been extremely careful, while the other states prefer not to be bound by particular commitments. As a result, the working papers and final documents of CIS statutory bodies are full of general postulations and endless mutual concessions.

Due to the obscurity of CIS mechanisms, many business structures have shown little interest in post-Soviet integration. Indeed, how is it possible to support an organization which states that the concept for cooperation and coordination of its member states' activities in the currency sphere for the period ending 2017, adopted in Astana, "will allow moving to concerted actions aimed at the creation of certain elements of a common currency space"? What will the companies of the CIS receive in 12 years due to "certain elements" of a common space? Perhaps a house with just one wall and a roof?

WHAT'S NEXT?

Let us try to imagine what will happen if the CIS disintegrates. There is no doubt that some of its member states, or rather part of their elites, will feel liberated from the attention of their "bigger brother" and turn their eyes to the European Union. "If the EU is holding talks even with Turkey, then we too are destined to join this club of the rich and respected," they may think. They will immediately recall that Ukraine, Moldova, Georgia, Armenia and Azerbaijan are members of the Council of Europe and other European organizations. But, as has been mentioned above, the EU plans to suspend its enlargement. Moreover, Turkey's accession is likely to be a lengthy and messy process full of unexpected twists. It is no secret that saying "yes" to the Turkish authorities at the initial stage of the negotiations has strong political rationale. The EU's current goal is to prevent Turkey, with its unique strategic location, from drifting away from the West and thus away from secular state principles and toward the Muslim world; that is a highly probable scenario if the EU rejects it. Therefore, the EU sees negotiations with Turkey as a goal in itself, and is less con-

cerned about their immediate results. It is no coincidence that, in addition to the three Copenhagen criteria which the Central and East European countries had to observe to be allowed to join the EU (democracy and the rule of law; a functioning market economy; commitments concerning membership in the currency union), three new conditions were invented for Turkey. In particular, negotiations on separate issues will be held in succession, rather than simultaneously, as was previously the case. Therefore, any EU member country will be able to suspend the negotiations at any moment.

The prospects for CIS member states joining the EU are unlikely. Equally unrealistic are their hopes for receiving ample financial assistance from the EU budget, which in 2005 is €117 billion; €15 billion of that sum is already allocated for the development of ten new member countries and €80 billion for aid to farmers and the EU-15. In the future, the EU's budget will grow very slowly. Germany, for example, exhausted from its unification with Eastern Germany and the EU's eastward enlargement, can no longer act as the main donor – this is apparent from its above-average budget deficit and chronically low growth rates.

CIS member states, even if they have an opportunity to join the EU, will find themselves on the periphery of European integration. Their economic cycles and structure are markedly different from those of the leading EU member countries, thus making it impossible for them to join the currency union, not to mention a whole range of other projects. EU financial resources will continue to be allocated largely to Western, as opposed to Eastern, countries and areas (Brussels has reasonably deemed the economies of the new member states as "low absorption capacity").

The disintegration of the CIS, or its lingering in a state of latent disintegration (which often happens to unions comprised of developing countries), will have adverse effects for all member states and concerned parties. The fragmentation of the existing system will drastically reduce the potential of the countries in the region – as well as the international community – to control various processes there. Social and political instability will intensify.

Armed conflicts, expansion of drug trafficking, illicit weapons trade, illegal migration and terrorism will become more frequent occurrences. Certain countries may collapse into failed states (the numbers of which have been growing recently, despite globalization, as well as humanitarian and military intervention by the world's leading nations). Neither the EU nor the U.S. will be able to impose their system of governance in the CIS territory.

The above factors lead us to certain conclusions.

First, the CIS should draw up a new agenda as soon as possible, which will be in line with current realities and proceed from the actual (officially stated or de facto existing) interests of its members.

Second, a new integration model is required, based on the market environment as well as democracy. The mobilization model that emerged more than a decade ago as an emergency procedure to control the Soviet Union's disintegration has served its functions and must be replaced. When forming a new integration model, the CIS should proceed from regional specificities (including the specificities regarding transitional economies) and the region's real objectives, while effectively making use of the practices of the EU and other international unions. The CIS should finally build a normal and advanced legislative foundation, together with a system of mechanisms that would allow it to make common decisions and successfully implement them.

Third, the CIS cannot do without a new leadership concept. It is Russia and only Russia that can serve as the driving force of integration. To be able to perform this function, it should make relevant political and financial commitments. Otherwise, regional integration will be impossible. In the European Union, France and Germany have moved the train of integration for half a century, and there does not seem to be any other way even now after the EU has enlarged extensively. Russia must generate new ideas in the CIS and lead the development of CIS strategy. This requires rejecting the false "paternalism or weak will" dilemma. It must learn to look for associates – convince them with sound arguments, compromise with them – and

reach a wide consensus within the framework of democratic procedures.

In conclusion, in order to gain a clear foreign policy perspective, the CIS should devise a common strategy for the development of relations with the European Union. Today, all existing agreements have been signed between the EU and individual CIS member states. There is no EU-CIS framework agreement, nor has it been discussed so far, even though the EU has signed a range of similar accords, for example, with ASEAN and Mercosur. (An agreement acknowledging the formation of the European Economic Area was signed between the EU and EFTA in 1992 and remains in effect. Under the EEA Agreement, most of the freedoms of the EU internal market apply to EFTA member countries.) Shifting bilateral relations to a framework format would substantially strengthen the positions of the CIS member states in their dialog with the EU. This would provide them with more freedom to cooperate with the EU without official EU membership, thus removing the need for the CIS to make heavy commitments.

Russia and Japan: A Failed Breakthrough

Sergei Chugrov

February 7, 2005 marked the date of a major landmark moment in the history of Russian-Japanese relations: 150 years ago, Russian Admiral Yevfimy Putyatin's mission established official relations between the two countries. Undoubtedly, this anniversary will spark a new round of discussions about a peace treaty between Moscow and Tokyo which was never signed after World War II. A few months before the anniversary, various kinds of proposals and conjectures with regard to the sensitive "Northern Territories" issue began to make the rounds in the two countries.

In early November 2004, Russian Foreign Minister Sergei Lavrov said in a televised interview that Russia was ready to fulfill its commitments stated in the 1956 Soviet-Japanese Joint Declaration and hand over to Japan the southern Kuril Islands of Habomai and Shikotan. This would be done, Lavrov said, on condition that Tokyo finally signs a peace treaty with Moscow. Shortly thereafter, Russian President Vladimir Putin reiterated this readiness at a meeting with Cabinet members, saying that "Russia is ready to fulfill its agreements with Japan to the degree that is understood by our partners."

However, at a forum of the Asia-Pacific Economic Cooperation (APEC) in Santiago, Chile, following Putin's comments, Japanese Prime Minister Junichiro Koizumi rejected Russia's proposal and emphasized Japan's determination to get all four disputed Kuril

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Islands from Russia. The statement played the role of a sobering shower for all the participants in the peace negotiations.

Nonetheless, Vladimir Putins's visit to Japan will take place – either on the eve or immediately after the APEC summit due in November 2005. There is no doubt that a dozen important documents will be signed, yet one should hardly expect any breakthrough in the territorial dispute.

This is evidenced by two abortive attempts by the Foreign Ministers of Russia and Japan to tentatively find a way out from the political stalemate – during Sergei Lavrov's visit to Tokyo in late May and his meeting with Nobutaka Motimura in Brussels in June. Russia's disappointment over this failure was openly expressed by Mayor of Moscow Yuri Luzhkov at a forum of the 21st Century Russian Committee and Russia-Japan Society held in Moscow to discuss the 1956 Joint Declaration: "Russia seeks to conclude a peace treaty with Japan and cooperate with it on a mutually advantageous basis. However, the situation over this issue is sweepingly progressing toward deadlock."

Russia attempted to display its goodwill with the proposal of a compromise but was snubbed; Japan obviously does not wish to avail itself of a real opportunity of receiving territorial concessions. What a skillfully played gambit, it could be argued!

On the one hand, there is an impression that Putin is ready to cut the Gordian knot and return to Japan the so-called Northern Territories, that is, the southern Kurils. Analysts reason that because Putin received such strong support in the latest presidential elections, he can allow himself to swim against the current and make an unpopular decision in order to finally resolve this sore issue. Moreover, the remarkable anniversary of the establishment of Russian-Japanese relations may inspire the president to make a grand gesture.

On the other hand, even before the statements of Russia's foreign minister and president had been made, there had appeared articles in the press asking whether Russia really needs a peace treaty with Japan. The same articles provided a negative answer to this question. One Russian state-controlled television channel, for exam-

ple, showed a documentary about inhuman medical "experiments" conducted by Detachment 731 of Japan's Kwantung Army during World War II. It seems that influential groups who are opposed to any discussions on the territorial issue are stepping up their efforts.

STRUGGLING BETWEEN TWO OPTIONS

Academic and political circles are now divided over the territorial issue. An increasing number of their members argue that the absence of internationally recognized borders, as well as a peace treaty with Japan, is not natural. Moreover, many politicians and experts say that the islands must be returned to Japan unconditionally and immediately because they were "stolen."

Russia cannot agree with this point of view because the lands at issue were not stolen: Japan lost the four southernmost Kuril islands as a result of its defeat in war. Similarly, Mexico lost its northern territories (now the U.S. states of Texas, New Mexico and California) in 1848, which, however, does not prevent it from maintaining close relations with the United States and participating with it in integration processes within the framework of the North American Free Trade Agreement (NAFTA).

Imagine Tokyo's reaction had Moscow demanded back the southern half of the Sakhalin Island, which it was forced to surrender in accordance with the Treaty of Portsmouth following Russia's defeat by Japan in 1905. The situation with the Kurils and southern Sakhalin are not entirely identical, of course, yet their essence is the same: the loss of territory was the result of defeat in war. In the middle of the 20th century, the international community proclaimed a principle of "non-accretion of territory" as a result of war, but numerous violations of international law committed since then by major world powers and smaller countries have made this principle seem a bit hypocritical.

The opposite point of view is: "We will not surrender a single inch of Russian land." This position rests on patriotic sentiments that have been roused by painful reminiscences in connection with territories lost since the collapse of the Soviet Union. This point of view has influential supporters from among federal and region-

al politicians. One of them, Sakhalin Governor Ivan Malakhov, has made his position explicitly clear: "For us such an issue does not exist... For us the Kuril Islands are part of the Sakhalin Region." He is partly right: after all, people who were born on the islands have the right to consider them their native land. Meanwhile, some politicians believe that territorial concessions would be tantamount to the loss of national dignity.

There are also reasons of a political and economic nature for defending Russia's claims to the Kurils. Many Russian experts resort to historical arguments in a bid to consolidate Moscow's positions in the territorial dispute. They spend much time and energy studying rare diplomatic documents and maps and seem to have left no stone unturned! But such a way of thinking and acting only serves to plunge Russian-Japanese relations into a state of political malaise.

Indeed, both points of view lead to an impasse. The truth seems to lie somewhere in the middle, so the parties should look for a civilized compromise. The presence of the territorial dispute is not only Japan's problem; it is also Russia's headache.

Tokyo's approach to solving the territorial problem is characterized by two basic lines. On the one side are those who hold maximum goals: they do not want any compromises and advocate the unconditional return of all four islands to Japan. The supporters of the second viewpoint agree to a step-by-step approach to solving the territorial problem and argue that Japan should first content itself with the return of Shikotan and Habomai. Thereafter, it should develop, in every way possible, economic cooperation with Russia, and only then raise the issue of the other two islands. Experience suggests that any attempt to have the islands returned at once stand very little chance of success.

IMMEDIATE NEIGHBORS, YET COMPLETE STRANGERS

The opinion is generally held in both Russia and Japan that the main reason for strained relations between Moscow and Tokyo is the long-standing territorial dispute. The real reason, however, lies much deeper: relations between the two countries rest on a mutu-

al mistrust that has been inherited from previous generations. Japan's historical memory remembers the threat of the late 19th century when Russia dominated in Manchuria.

Russian-Japanese relations have experienced several crises, as a result of which Japan forfeited its claims to the Liaodong Peninsula [Japan had received it after the 1894-1895 war with China; later, Russia, Germany and France demanded that Japan be denied the right to own the peninsula under the pretext of preserving China's "territorial inviolability" – Ed.]. Later, Japan saw Russia's construction of the Chinese Eastern Railroad in northeast China in 1897-1903 as a serious threat [after the Russo-Japanese War in 1904-1905, the railroad's southern leg became the property of Japan, which it named the Southern Manchurian Railroad – Ed.].

Other factors that contributed to Japan's growing suspicions of Russia included the lease of Port Arthur by Russia, as well as the activation of Russian troops in Manchuria in 1900 during the 1899-1901 anti-Western uprising of peasants and poor town-dwellers in north China [known in the West as the Boxer Rebellion. The uprising was initiated by a secret religious society called *Yihequan* [Righteous and Harmonious Fists – Ed.].

The Soviet Union's decision to join in the war against Japan in August 1945 – which the Japanese emphasize it did in violation of a treaty of neutrality – seriously hurt their national pride. Furthermore, the imprisonment of more than 600,000 Japanese prisoners of war in Siberia delivered a crushing blow to relations between the two countries. On the whole, the Japanese viewed their Communist neighbor as a "giant bear," occasionally tossing and turning in his lair. Many Japanese still share this view. Japan's perception of Russia as a large unpredictable state which may one day "roll over" and crush the tiny country only adds to the Japanese people's apprehensions concerning Russia. Until quite recently, Russia was considered to be among the potential enemies of the Land of the Rising Sun.

Although both countries adjoin each other in Northeast Asia, the Japanese view Russia more of a European (that is, faraway)

state. In the Japanese language there is even a special term for Japan's territories facing Russia – ura-no Nihon, that is, "the reverse side of Japan." This can be translated to mean that Japan is facing the United States and has turned its back on Russia.

Meanwhile, Moscow has invariably viewed Japan as part of the Far Eastern region – this is probably because that country is so psychologically "distant" from us. Moreover, it is perceived as a source of danger. Russians still remember the military defeat they experienced in 1905, the atrocities of Japanese troops that invaded Russia's Far East in 1918 in the course of the Civil War in Russia, and military provocations near Lake Khasan (1938) and on the Khalkin Gol River (1939). Finally, decades of Communist indoctrination of the Russian population had a definite effect. Stalin's propaganda, together with the provocative actions of the Japanese army, provided the motivation for the Soviet Union to join in the war against Japan. The word "Samurai" still evokes negative feelings amongst the Russian people.

According to public opinion polls, an absolute majority of the Russian population does not know that the disputed territories never belonged to Russia or the Soviet Union before 1945. We are now witnessing a geographical, or rather psychological, watershed: for Russians, Sakhalin and the Kurils are their "farthest East," whereas Japan, as part of the American "security system," is the "farthest West." Meanwhile, these islands are only a narrow strait apart from each other. The international experience of the last few decades suggests that such a refracted perception of the problem must be overcome.

It is now obvious that the Japanese want to turn and face Russia's Far East and find an acceptable solution to the territorial dispute. There is the impression, however, that this issue is being deliberately exploited by part of Japan's political establishment that is oriented to the U.S. Furthermore, Japanese society generally views Russia as a country with innate "complexes" which it will be hard pressed to get rid of. The Japanese consciousness is having trouble getting over stereotypes that are based on emotional perception, a trait characteristic of the nation.

Yet, emotions are gradually giving way to pragmatic approaches in Japan. At the same time, it would be too early to say that the atmosphere of mistrust between Japan and Russia has disappeared. The negative tendencies, which have arisen in the course of Russia's economic reforms, have evoked apprehensions among the Japanese. This sharply reduces any chances for the signing of a peace treaty.

EXAMPLES TO FOLLOW

International experience may prove useful for solving the problems between Russia and Japan. Suffice it to recall the classical example of Israel returning the Sinai Peninsula to Egypt in 1982. The peninsula's area exceeds that of the southern Kurils and even Israel itself (the total area of the islands of Habomai, Shikotan, Kunashir and Iturup is 5,036 square kilometers, i.e., 0.029 percent of the entire territory of Russia). Psychologically, it was rather difficult for the Israelis to return the peninsula because it contains one of the holiest places in Judaism, Mount Sinai, where Moses received the Ten Commandments from God. Yet, Israel relinquished the territory in exchange for peace — and won: the peace between Israel and Egypt proved to be durable, and the formula of territorial settlement for the sake of political stability fruitful.

Another interesting example is when the United States returned the Ryukyu archipelago, including the island of Okinawa, to Japan. This happened in 1972, twenty years after Washington concluded a security treaty with Tokyo, which made the two countries close military and political allies. Yet, U.S. military bases still occupy a large part of the islands. A similar agreement could help to reach a demarcation formula that would be acceptable to both Russia and Japan. The problem is that Tokyo will not conclude any agreement until it has firm guarantees from Russia that the territorial issue will be settled. From Japan's point of view, the conclusion of a treaty would considerably reduce their chances for having the islands returned. The Japanese leaders are interested in preserving effective levers of pressure on Russia.

Throughout Russian history there have also been examples of ceding territory. In 1867, for example, the czarist government sold Alaska to the United States for a token sum when it realized that exercising real control over that remote territory would be too heavy a burden for Russia.

Or take the Crimean Peninsula, which Russia "granted" to Ukraine. In the context of its own territorial problem, Japan's political elite views the problem of the Crimea from a special perspective. In the opinion of Tokyo experts, Russia ceded the peninsula to Ukraine with surprising ease, although "historically and from the point of view of Russia's security, as well as for the Russian citizens' hearts, the Crimea is a region of major importance which is incommensurable with the significance of the northern islands of Habomai, Shikotan, Kunashir and Iturup" (*Landmarks on the Way to a Peace Treaty Between Japan and Russia. Eighty-Eight Questions from Russian Citizens* (Translated from Japanese). Moscow: Materik, 2000, p. 105). Moscow's complaisance on this issue inspired hope in Japan that the return of the southern Kurils would be equally painless for the Russians. Indeed, if the territorial dispute with Japan had as much influence on Russia's strategic priorities as the "Crimean issue" (and in the case with the Crimea Russia's stake was very high: Ukraine's withdrawal from Russia's sphere of influence could have unbalanced the entire system of international relations in Europe), it would be settled much quicker.

Still greater – yet hopeless – expectations were aroused in Japan by Russia's handover of border islands on the Amur and Argun rivers to China (without going into detail let us note that the roots of the disputes in both cases differed fundamentally).

Today, however, the atmosphere around the territorial problem remains very strained. As Japanese professor Akihiro Iwashita put it, "the sensation-hungry media and some self-styled 'specialists in the territorial issue' turn any serious attempts to find a solution to the territorial problem into a sensation or scandal." No progress should be expected for achieving a peace treaty unless the tone of Russian-Japanese relations changes.

PEACE TREATY THROUGH ECONOMIC COOPERATION?

It is generally believed that economic cooperation between Russia and Japan can be one of the most effective ways to accelerate the conclusion of a peace treaty. The Japanese are, on the whole, skeptical about using economic levers and are not inclined to make the settlement of the territorial problem dependent on the establishment of closer economic ties with Russia.

The present level of economic relations between the two countries is not high. Professor Shigeki Hakamada, an outstanding Japanese expert in Russian politics, has written an article with a rather expressive title – *The Russian Crisis and Fragility of the Society of Low Confidence*. In it, he wrote: "The true reason behind the political and economic setbacks in Russia is the lack of basic principles of civil society, based on mutual confidence, which is valued very highly in Japanese society. If there is no confidence, there can be no business. The displacement of capital for use in speculative operations and tax evasion considerably impedes the country's transition to a market economy."

Hakamada says that, unlike the Japanese whose national psychology is characterized by a devotion to order, Russians gravitate more toward spontaneity. Spontaneity, as the antipode of order, scares the Japanese away. Here is a very typical example: an "average" Japanese businessman has decided to obey the rules of the game in Russia, but he does not know whom to bribe, since many Russian officials willingly take bribes but do nothing in return. Such conduct puzzles Japanese businesspeople, who are also annoyed by the absence of elementary production discipline at Russian industrial enterprises.

The Japanese business community is particularly irritated by the absence of legal guarantees in Russia, or rather, by the instability in this sphere. Many Japanese view "business Russian style" as a game totally without rules, or as a game with rules that constantly and unexpectedly change. Japanese companies would have hardly refrained from investing in Russia if their investment brought them "normal" dividends, with the certainty that they

were protected against racketeering and not dependent on the arbitrariness of the bureaucrats. Japanese businesspeople are very apprehensive about crime in Russia and they have a tendency to overdramatize the situation.

In Russia, according to opinion polls conducted by the Russian business community, there is no stable and, more importantly, active interest in Japanese investment. Russian businessmen, of course, are interested in making money, but they do not display enough responsibility or desire to duly fulfill their obligations. The Japanese are baffled and dispirited by the "laziness" and passiveness they witness in some of their Russian partners.

Thus, there are no influential social or lobby groups in Russia or Japan which are interested enough in finding a resolution to the territorial dispute (on the basis of a reasonable compromise) that they would petition their governments on the issue. In fact, this conflict is not the main obstacle, and certainly not the only obstacle, to improving economic relations between the two countries.

Nevertheless, there are grounds for hope. In April 2004, Moscow hosted a meeting of the Russian-Japanese Council of Wise Men, co-chaired by Moscow Mayor Yuri Luzhkov and Japan's ex-prime minister Yoshiro Mori. The council was set up to add new life to the Russian-Japanese negotiations (as a rule, these negotiations, first viewed as "historic," would later bring about profound disillusionment in Japan. Following the 1997 meeting between Boris Yeltsin and Japanese Prime Minister Ryutaro Hashimoto in Krasnoyarsk, for example, the Russian president promised to conclude a peace treaty with Japan before 2000). The public expects new and substantial ideas from the Council of Wise Men, a nongovernmental organization. A notable idea came at the council's April meeting, when the Moscow mayor proposed launching economic cooperation between the two countries on the southern Kurils.

The last few years have seen the emergence of a new factor in the development of bilateral ties: high oil prices on the world market. This factor can provide a boost to the joint efforts of concluding a peace treaty. If oil prices continue to increase, the

Japanese economy may be hit by a major crisis and experience a decline similar to that of the 1970s. Moreover, the escalation of tensions in the Middle East has increased the demand for crude oil in Asian countries.

These factors have prompted the Japanese authorities to diversify their sources of fuel supplies. They view Russia and, to a lesser extent, West Africa and Iran as the main alternative suppliers. The Japanese have demonstrated high interest in the construction of an Angarsk-Nakhodka pipeline, as well as participating in geological surveys. They have shown an interest in oil and gas extraction projects in Russia, in particular in the Irkutsk Region. Clearly, the threat of economic crisis is causing the Japanese politicians to step up their cooperation with Russia.

WILL THERE BE AN END TO THE TUG OF WAR?

Naturally, the Russian leadership would like to get rid of the territorial "headache" and find an acceptable solution to the problem. After all, Russia needs internationally recognized borders in the Far East. At the same time, however, Moscow does not want to return the islands.

Is Putin capable of cutting the Gordian knot? Theoretically, the answer is yes, but practically speaking, it will prove to be a difficult task. This is particularly the case when we consider that he would have to make this painful move against the background of other unpopular measures, such as the recent decision to replace social benefits for low income people with cash payments. There were also reform initiatives for housing and public utilities, not to mention within the pension system. Obviously, there can be no simple and quick solution to this problem.

There is no doubt that the Japanese leadership would also like to settle the territorial dispute and heal Japan's wounded national pride. But at the same time, it is also not ready to make sacrifices and compromises.

The solution of the territorial problem between Russia and Japan requires meaningful and consistent efforts to reach a com-

promise because neither country is going to surrender its positions. At the end of 2004, President Putin (at an annual grand press conference) and Prime Minister Koizumi (in a later reply) exchanged sharp statements on the issue.

Now Russia and Japan have two options: they can either halt their talks, or they can continue their negotiations on a territorial demarcation, despite the previous setbacks. When two states really seek to settle their differences, they can surely achieve this goal.

At the present stage, however, there is an impression that Russia is more interested in a compromise than Japan, as Tokyo keeps turning down Moscow's proposals. Nevertheless, changes are already taking place in the foreign-policy mentality of Japanese and Russian societies. More and more Japanese want to see their homeland not as a great military and political power, but as a cozy "Asian Switzerland" – an ecologically clean country providing social guarantees for its citizens. This means that they may moderate their political ambitions.

Furthermore, the Japanese are growing more and more discontent with the role assumed by the United States in the world and in Japan, in particular. According to some Japanese political scientists, the term 'globalization' is now often used to mean 'Americanization,' because "the United States, as the only superpower, is advancing only its own interests under the guise of globalization."

All these factors give grounds to believe that Russian-Japanese relations may soon develop in a somewhat different context and according to scenarios that now seem unlikely.

Controversy

Martyrs are calling: "West, destroy the Red Tyranny in the East, before it destroys you!"
Poster, 1949

❝ *Today, few* Vergangenheitsbewältigung *efforts are made in Russia, but in the long run they are inevitable. These will be difficult and heavy steps to take, but to ask for them is not to demand too much from a great nation. At some point in the future Russian leaders will have to explain to their own people the damage the Soviet Union did to the peoples of Estonia, Latvia and Lithuania.* ❞

Shadows of the Past in Russia and the Baltic Countries

Lars Fredén

Any sustained discussion with Russian officials about the prevailing situation in the Baltic States leads to an evaluation of the events of 1939-1940, 1944-1945 and thereafter. Russia's interpretation of what happened in these periods differs profoundly from that of Estonia, Latvia and Lithuania. These differences influence the present relationship between Russia and the Baltic States.

In the time when I dealt with Baltic-Russian relations (1991-1998), Russian politicians and diplomats liked to point out that Russia "gave" the Baltic States their independence in 1991, referring to the fact that Russian recognition was decisive in making other countries recognize them. This was true. They also recalled the close cooperation that existed between Baltic and Russian democrats during the last years of the Soviet Union. They were right in doing so. Russian representatives also used to point to Boris Yeltsin's trip to Tallinn on January 13, 1991, just hours after the massacre at the TV-tower in Vilnius, and they underlined how decisive that visit was for the Baltic peoples' struggle for independence. Again, they had a point.

Lars Fredén was a member of the Swedish diplomatic service for more than twenty years. His postings included Riga and Moscow. In 1992-1994, he was Advisor to the Swedish Prime Minister on Baltic Affairs. This article is an abridged version of a chapter from a book to be published in early 2006 by the Atlantis publishing house, Sweden. It deals with Estonia's, Latvia's and Lithuania's first years of independence, particularly their negotiations with Russia on the withdrawal of the ex-Soviet forces from there.

But following independence, argues Russia, the Baltic countries failed to acknowledge Russia's generosity; instead they turned to Western organizations like the EU and NATO. Furthermore, Estonia and Latvia refused to grant all ethnic Russians living in their countries automatic citizenship.

In 1992-1994, during the protracted negotiations concerning the Russian troop withdrawal – which I followed closely when I worked at the Swedish prime minister's office – Russian officials insisted, with genuine conviction, that the Baltic States should be grateful that the withdrawal was taking place at all.

Russian sentiment was understandable in some ways. Many Russians, and not only red-brown Soviet nostalgics, were disappointed and even personally insulted by many Baltic policies after 1991. Additionally, it is a fact that Estonia and Latvia (with the exception of the prewar independence period) had been part of Russia since the early 1700s; Lithuania (with the exception of Memel-Klaipeda) had been Russian since 1795.

Such feelings, however, are irrelevant from the perspective of international law. And from the perspective of the Baltic peoples, to hear the Russian view that they should be grateful for their freedom is incomprehensible – even outrageous and politically unseemly. I used to point out to Russian diplomats that Baltic independence is a right, not a favor. What is a right cannot be given as a gift, by Russia or anybody else. One may rejoice that an aggression has ceased, but should not also have to thank the offender that it has stopped.

Another argument frequently heard from the Russian side was that the Baltic States should be grateful for the material progress that was achieved during Soviet rule. They should appreciate that it was the Soviet Union that built the New Harbor in Tallinn, Estonia; the oil terminal in Ventspils, Latvia; and the motorway from Vilnius to Klaipeda in Lithuania.

On February 1, 1999, the Speaker of the Russian Duma, Gennady Seleznev, remarked at a press conference: "I do not know where Latvia would be now, in what backwoods of Europe, if the whole of the Soviet Union had not helped Latvia and Estonia develop."

That the living standards of the subject peoples were raised during foreign rule is an argument that has always been used to justify imperialism. That does not make it any more valid. In the case of the Baltic States, the argument is easy to refute since there are statistics concerning their living standards in the interwar years. It shows, for example, that in 1938 Estonia had about the same living standards as Finland. That was, to put it mildly, no longer the case by 1991. No one denies that some material progress was made during Soviet rule – it would have been strange indeed had there not been any – but the important point of principle is that the Estonians, Latvians and Lithuanians would have liked to make the decision to build – or not build – the various ports and motorways on their own initiatives. And in point of fact, aside from some still useful infrastructural projects, Soviet rule in the Baltic States resulted in mind-boggling environmental damage; a huge destruction of capital in the countryside due to collectivization; and a systematic attack on Estonian, Latvian and Lithuanian culture.

HAS THE PACT BEEN CONDEMNED?

It is often said that the People's Congress of the Soviet Union condemned not only the Molotov-Ribbentrop Pact of 1939, which ultimately led to the Baltic States' losing their independence, but also the Soviet annexation of the Baltic States in 1940.

It is correct that in December 1989 the People's Congress debated the Molotov-Ribbentrop Pact and the secret protocols. A commission led by Alexander Yakovlev – then one of Gorbachev's closest advisors – reported to a plenary session about its investigations on the matter. The main issue was whether the protocols had existed or the persistent rumors about them were merely an "anti-Soviet plot."

Yakovlev's commission reported that the originals of the protocols had not been found in the Soviet archives; nevertheless, a number of factors indicated that the copies the commission did have in its possession were genuine. The Congress adopted a resolution in which it concluded that the protocols had been in contravention of international law. It condemned them and declared

them "illegal and invalid from their signing." The People's Congress also stated that since the protocols were secret and had never been referred to parliament for ratification by the Soviet citizens, they did not "in any way reflect the will of the Soviet people who do not bear any responsibility for this plot."

But the People's Congress never linked the protocols to the annexation of the Baltic countries. This was because its mandate only concerned the year 1939, while the stipulations of the protocols were fully implemented with regard to the Baltic countries only in 1940, that is, when these states were occupied. Deputies from the Baltic States suggested that a new commission be formed to investigate the events of 1940-1941, but this proposal did not gain support.

Thus, the Soviet People's Congress condemned the secret protocols, but it did not express any opinion about their consequences. Nor has the new Russia been able to bring itself to do so. Instead, even as this is being written in 2005, the official Russian line is to deny that the Baltic countries were ever occupied. Instead, the official Russian view is that they were incorporated in the U.S.S.R. "in accordance with agreements," implying that their adherence to the Soviet Union was voluntary and legal.

MASTERING THE PAST

Presently, nothing indicates that Russia is coming to terms with its own history concerning the Baltic States, or anywhere else for that matter. Like other large countries, Russia finds it difficult to understand the perspective of the smaller ones.

It is worth pondering why the new Russia is unable to admit the Soviet occupation of the Baltic States. Russia, after all, claims to have broken with the evil traditions of the Soviet Union. It should not then be difficult for Russia to condemn, or at least to recognize, what happened in the Baltic countries more than half a century ago.

One probable reason why Russia still has not done so is that it is simply very difficult and painful to confront the past, especially the Soviet past.

What then connects the former Soviet Union with today's Russia – a country that has emerged from the remnants of the

U.S.S.R. and refuted (at least in its early years) the entire system represented by the Soviet empire? Is Russia responsible for the past actions of the Soviet Union in the Baltic States? The question is complex – legally, morally and psychologically; but some things are undeniable.

To begin with, it is impossible to deny the fact that the Bolshevik coup d'état of 1917 happened in Russia (even though it was a Russia very different from that of today). Second, it is a fact that in many cases (not all, of course, but only when it suits it) Russia regards itself as the legal successor of the Soviet Union. For the people who were ravaged by the Soviet Union there is a psychological link between the U.S.S.R. and today's Russia, a link so strong that it has become a political fact. Furthermore, the Soviet Union was Russian in the sense that it was ruled by Russians, or by representatives of other peoples whose thinking was Russian (such as Stalin's). Russians were placed in positions of authority in the Communist parties of all Soviet republics; Russians dominated the armed forces; and the Russian language and Russian culture were favored all over the Soviet Union, threatening to sweep aside those of the occupied states.

In the case of Germany, no one denies there is such a link, least of all the Germans themselves. Today's Germany is a democratic state that has nothing at all in common with Hitler's Germany. Yet, the Federal Republic of Germany has spent many years and billions of D-marks to indemnify, and in some cases, reconcile with, nations devastated by Nazism.

One reason this happened is that the international community clearly demanded that postwar Germany come to terms with its own history. The world asks the same thing of Japan. But for some reason such claims are seldom directed at Russia, except by the Baltic States. At the very least, we should ask Russia not to deny its own history. To admit facts is not necessarily to assume guilt. Today's Russians are not responsible for the crimes of their forefathers. But if and when they deny the truth they assume a co-responsibility.

That official Russia has refused to admit the facts about Soviet rule in the Baltic States can hardly be interpreted as anything else

but an implicit recognition that Moscow actually believes there is a link and a responsibility. Facts for which one is not responsible should not be hard to admit.

Coming to terms with the past which I have in mind is what Germans call *Vergangenheitsbewältigung* ("mastering the past"). This can be done in many different ways – from explicit statements of political leaders to silent gestures. Russia, in fact, did both during its first years, if on a minor scale. This concerned Hungary, Poland and Czechoslovakia (still a single nation at the time). There were even some gestures made toward the Baltic States.

In the preamble to the treaty of July 29, 1991, in which Lithuania and the Soviet Russian Republic (a not yet independent Russia) recognized each other, there was a reference to the Soviet Union's "annexation in 1940 which infringed on Lithuania's sovereignty." In an article by Russian Foreign Minister Andrei Kozyrev published in the *International Herald Tribune* (14-15 August, 1993) there was also a mention of "Stalin's crimes" and "the secret protocols which in 1939 laid a foundation for Stalin and Hitler to decide the destiny of the Baltic States."

When on April 30, 1994 Boris Yeltsin signed the troop withdrawal agreement with Latvia, he made a short speech mentioning "the repressions in Latvia" and the "violent expulsion to Siberia of a not insignificant part of its inhabitants." But he also hastened to deny that Russia or the Russian people carried any responsibility for what had happened. And on February 25 this year, during a visit to Slovakia, President Putin said: "We respect the opinion of those people in the Baltics who consider that the tragedy of the Baltic States' loss of independence was connected to the end of the World War II."

These statements – and similar ones made by Mr. Putin around May 9, 2005 – are the only ones of regret or recognition that have so far been made by official Russia concerning the Soviet Union's past in the Baltics (at least that I know of). It really isn't much.

Today, few *Vergangenheitsbewältigung* efforts are made in Russia, but in the long run they are inevitable. These will be difficult and

heavy steps to take, but to ask for them is not to demand too much from a great nation. At some point in the future Russian leaders will have to explain to their own people the damage the Soviet Union did to the peoples of Estonia, Latvia and Lithuania, their cultures, economies and environments. Until that happens, relations between them and Russia will never be completely normal. Russia must at least show that it understands what took place there under Soviet rule.

Single gestures or statements will not suffice. Some things will have to be said and written many times, over many years. Consider how long it has taken Germany to normalize its relations with Poland, France, Norway – and Russia.

Russia's mastering of the past is also necessary to clear the air between the native inhabitants of the Baltic countries and the Russian-speaking part of their populations. That would help the Baltic peoples to accept the place of Russian culture and the Russian language in their countries.

Perhaps even more importantly, Russian *Vergangenheitsbewältigung* is necessary with regard to Russia itself. Russia cannot become a normal European country without admitting the immense crimes that Communism committed against the Russians themselves.

The task of mastering the past is Russia's, and only to a very small extent can it be influenced from the outside. But it is important, not least for our self-respect – that outsiders do what little we can, that is, to never let the current Russian view of history stand unopposed.

These questions are painful for many Russians, not only for the official representatives of Russian policies, but also for average citizens. Discussions about them easily become heated. But to shy away from the debate would be mistaken: the one thing at which Russian representatives are masters is to scent weakness; it is scorned in Russia as much as toughness is respected.

Russians must learn to live with their past while the Balts must learn to live with their present. Estonian, Latvian and Lithuanian politicians, for their part, should give the democrats in Moscow and St. Petersburg a clearer appreciation for the support they received from them in the pre-1991 period. Estonians and Latvians should

also recognize the important role that Russian culture has played in their countries in the past and will play in the future.

In any case, relations will not normalize of themselves. How could Baltic leaders trust a neighbor who refuses to admit that the annexation was an annexation and nothing else?

Estonia, Latvia and Lithuania must critically examine their pasts as well. The authoritarian regimes – of Päts, Ulmanis and Smetona – during the 1920s and 1930s are obvious objects for such scrutiny.

Baltic leaders have taken positive steps in recent years to confront the truth about local complicity in the Nazi extermination of particularly Latvian and Lithuanian Jewry. But there are probably more bitter truths to confront on that issue.

Difficult questions must also be asked about the cooperation that the Soviet Union received from a number of Estonians, Latvians and Lithuanians after the occupation. For most people there was, of course, no other choice but to cooperate. The Baltic States were constituent parts of the U.S.S.R. and the Soviet system pervaded every part of society. Up to a point, cooperation was to the benefit of Estonians, Latvians and Lithuanians. It mitigated the effects of Moscow's rule and it preserved memories, cultural sites and environments that would perhaps otherwise have been destroyed, and the sheer existence of which later – during the independence movement of the late 1980s – were crucial sources of mental and political sustenance.

The first stages of the struggle for freedom were carried out almost solely within Soviet structures. Some local Communist leaders in the Baltic countries deserve respect for their contributions to that struggle. Seen in this way, both collaborators and dissidents were necessary for the survival of the small Baltic nations. But it is equally true that there was a limit beyond which cooperation with the Soviet system became a betrayal of one's own culture, language and history – and a betrayal against fellow Estonians, Latvians and Lithuanians.

With regard to these questions, an outside observer finds himself in territory where he does not have the right to judge – especially someone who, like the author of this paper, grew up in secure Sweden.

Russia and the Baltic States: Not a Case of "Flawed" History

Mikhail Demurin

When the *Russia in Global Affairs* journal asked me to comment on the article by Lars Fredén "Shadows of the Past in Russia and the Baltic Countries" featured in this issue, a political scientist from Sweden, I agreed without hesitation. Swedish evaluations of Russia's policy in the Baltic region, especially insofar as concerns Latvia, Lithuania, and Estonia, have always been marked by a measure of bias. As I read the text, I found that the events of the last year that has passed since the Baltic States joined the European Union and NATO have not in the least affected Swedish perceptions; indeed, they have remained basically the same. This is a pity. The Baltic capitals have used their membership in the major Western associations not to improve relations with their eastern neighbor. On the contrary, they are using their new status to aggravate relations. For example, instead of approving the legal status of their ethnic minorities, they continue to practice discrimination against them. This conduct has had the effect of provoking extremely unfriendly and counterproductive approaches toward Russia in the West. In the meantime, the Baltic countries could play an instrumental role in

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Enthusiastic Lithuanian collective farmers working on the wall newspaper *People's Friendship*. October, 1952

adjusting ideologically motivated views that are entertained by a part of the political establishment in Sweden and the EU, as represented by Lars Fredén.

FORCED POLEMICS

I must say, however, that the Russians themselves have also contributed to the preservation of Western sentiments concerning the Baltic issue. At the crucial moment when the EU became aware of the scale of the political, economic, human rights issues, and other problems that were aggravated by the hasty admission of the Baltic countries, the Russian side inexplicably backed down. Instead of maintaining pressure on its partners on these issues, which are of principal importance for Russia, Moscow issued statements about its readiness to "separate economics from politics" and provide "economic incentives," thus reducing its criticism toward the course pursued by the Baltic States and the support it was receiving from the EU and the United States. Russia began cozying up to some avowedly anti-Russian and Russo-phobic politicians. At the same time, the attitude toward those forces that were consistently advocating a thoughtful approach to Russia

and equal rights for the Russian-speaking population in the Baltic States – urging Riga, Vilnius, and Tallinn, as well as their Western allies to abandon their double standards – became pointedly cooler. Russia has played a part in impeding the evolution of more objective approaches toward the myriad problems now plaguing the Baltic countries (a process that began in West European political circles and expert community), thus limiting the methods for prodding the Baltic countries to devise a reasonable compromise with Russia on these issues. It is extremely important that this is achieved, and not least of all for the Western capitals.

The situation was rather rectified by the celebration of the 60th anniversary of V-Day in Moscow despite the persistence of the Latvians who behaved as if they had received carte blanche from the EU and NATO to make territorial and other "historical" claims to Russia. Yet another attempt to demoralize Russia, initiated in the West with an active role played by the Baltic States and Poland, only served to produce a backlash and an upsurge of patriotism in Russia. Moscow's positions in its dialog with the West were unaffected, while Riga ended up without a formal border treaty with its eastern neighbor. Furthermore, the Russian advocates of appeasements and concessions toward the Baltic States were forced to lay low and keep quiet, while Washington and the West European capitals were forced to admit that playing up to ultranationalists and Russophobes worked against even Russia's ill-wishers, not to mention those in the West who are seeking a constructive dialog with Moscow.

For the first several years of my professional involvement in Russia's foreign policy in the Baltic region, I was convinced, like so many others, that the concept of "occupation" adopted by the Baltic States was, above all, a defensive reaction to the oppressive burden of their own history. There were no doubts that it was simultaneously a tool for the Baltic States to break away from the Soviet Union and enlist Western support in upholding their independence. Over time it became obvious that although real, the arguments they forwarded were definitely not the primary cause of their actions. The concept of "occupation" was basically designed

to justify discrimination against ethnic minorities; deprive a substantial part of Latvian and Estonian residents of their basic political and socio-economic rights, and consolidate the domination of certain ethnocratic groups in these countries.

Economics played a critical factor in what eventually transpired. Many people who had worked in Latvia or Estonia for decades, far from being granted automatic citizenship (as they had been promised), were actually denied a purely formal right to equal participation in privatization (they were entitled to a smaller number of privatization vouchers). Worse, they ended up in a situation where virtually all (up to 95 to 97 percent) of key positions in state executive agencies in charge of the privatization process were occupied by members of dominant ethnic groups, that is, the native inhabitants.

A certain share of responsibility for the justification and implementation of this discriminatory policy lies with Riga's and Tallinn's West European and U.S. advisers (in particular, Carl Bildt, a prominent Swedish politician, who served as the country's prime minister during this time). Following this outside advice, Latvian and Estonian "democrats" betrayed those with whom they had been fighting side by side for national independence, reneging on their promise to grant citizenship to all of their permanent residents. Thus, an unprecedented and absurd phenomenon has transpired in Europe: the rise of Latvian and Estonian "non-citizens" (that is to say, people who are lawfully present in the host country, but not stateless persons) and outright discrimination by the ruling authorities. The example of Lithuania – where the principle of automatic citizenship was granted – shows that considerations of "historical justice," together with "continuity with regard to prewar status," in the case of Latvia and Estonia were mere utterances that served as a pretext for creating political and economic preferences for one part of the population at the expense of another.

There is, however, a far more substantial point to be made concerning the issue of "non-citizenship," specifically the general principle of non-discrimination as recorded in UN documents.

A corresponding convention adopted by this largest international organization prohibits the infringement of the rights of various categories of people on grounds of race, ethnicity, gender, faith, and so on. At best, it is simply illogical to suggest that discrimination may be deemed lawful merely by virtue of the fact that a particular event happened in the history of relations between two or more peoples (nations). Take any other European region – e.g., Central or Eastern Europe, and try to prove to the Hungarians, for example, that Slovaks may infringe on the rights of their compatriots now living in Slovakia because Slovaks were oppressed in the former Austro-Hungarian Empire. I believe the result of such an argument would be obvious and predictable.

Our opponents in the Baltic countries, Europe and the United States should have no doubts: The Russian side has become involved in polemics over historical issues not through its own choosing. In fact, our basic assumption is that differences over historical interpretations should be removed from the political agenda. This proposal, however, is strongly opposed by certain circles in the Baltic countries, as well as by certain forces in the EU and the United States – primarily by the same group that only three years ago supported U.S. operations in Iraq despite the fact that these actions were a contravention of international law. They became involved in armed aggression against Iraq which eventually entailed its occupation. They then acknowledged the legitimacy of outside-influenced elections which were held in the presence of foreign troops, amidst a guerrilla war.

TRUTH AND LIES

Let us consider some of the arguments forwarded by Lars Fredén. Concerning his use of the terms "aggression" and "occupation" with regard to the events of June 1940 and the subsequent period in the Baltic region, let this lie on his own conscience. Fredén laments the fact that having condemned the signing of secret protocols to the Soviet-German non-aggression treaty known as the Molotov-Ribbentrop Pact (August 23, 1939), the Congress of Soviet People's Deputies, in December 1989,

ignored the "Soviet Union's annexation of the Baltic States in 1940." But what is the connection between these events? The 1939 Soviet-German agreements did not affect the legitimacy of the pacts on mutual assistance that the Soviet Union subsequently signed with the Baltic countries, at a time when World War II had already begun. These pacts enabled the Soviet Union to deploy its troops and military installations in these countries, subject to their approval. (Lithuania, for example, cited the existence of such a treaty in its diplomatic correspondence with the League of Nations.)

As for the instruments of ensuring Soviet and German interests in Eastern Europe and the Baltic region, these were not specified. Since the Soviet Union did not resort to the use of military force in upholding its interests in the Baltic region, while Latvia, Lithuania and Estonia throughout the entire period in question – from June 1940 until their secession from the Soviet Union in the early 1990s – were ruled by national governments, any talk about the occupation of the Baltic countries is groundless.

Recently, however, talk has revived to the effect that in 1940 the Latvian, Lithuanian, and Estonian ruling authorities had to agree to the introduction of additional Red Army contingents without their voluntary consent. Meanwhile, under the rules of international law in effect at that time, coercion without the use of military force or the threat of war was not considered legitimate grounds for declaring a corresponding treaty or agreement null and void. As is known, none of the memos from the Soviet government to the Latvian, Lithuanian, or Estonian authorities contained such a threat, and military force was never used.

It is also worth studying the contemporary testimony of participants in the events that had happened shortly before or during the initial outbreak of World War II. Thus, in evaluating the policy pursued at that time by Riga and Tallinn, Winston Churchill wrote in his memoirs: "On June 7 [1939 – Ed.] Esthonia (sic) and Latvia signed non-aggression pacts with Germany. Thus Hitler penetrated with ease into the final defenses of the tardy, irresolute coalition against him."

Now here is an excerpt from the reminiscences of Arnold Meri, an Estonian veteran Nazi fighter and Hero of the Soviet Union (awarded the title for his participation in combat operations in the summer of 1941): "The 22nd Territorial Corps of the Estonian Army was reorganized as a Red Army corps, until the winter of 1941 fighting in its old, 'bourgeois' form. Combat operations began on July 6 and lasted through October 4. Our corps retreated 120 km... After two months of fierce fighting, our 6,000- to 7,000-strong corps was decimated to just 640 men... Do you know of another such example in history when the army of an 'occupied territory' would have fought so desperately for the cause of 'occupation'?"

Thus, if in 1940 the Soviet Union had really committed an act of aggression against Estonia and the 22nd Corps had been ordered to repulse it, presumably it would have faithfully carried out the order.

Now let us consider the term "annexation." The preamble to the Treaty between the Russian Federation and Lithuania on the Basic Principles of Interstate Relations (1991) indeed refers to the need "for the Soviet Union to eliminate the consequences of the 1940 annexation which infringed on Lithuania's sovereignty." This, however, is a general statement on accession, which does not qualify it as an unlawful act. The Baltic countries' accession to the Soviet Union in 1940 was not a unilateral act but was based on a formal application by the supreme authorities of those countries and therefore was not in contravention of international law at that time. The same holds true for the incorporation into the Entente countries of the German and allied territories at the end of World War I, which was also based on the consent of an incorporated state. Incidentally, one consequence of Lithuania's accession to the Soviet Union was its acquisition of regions that had not been part of its territory before the war (Vilnius, the Vilnius region, and Klaipeda). It is impossible to present in a brief article an in-depth study of the legal and historical circumstances of the 1939-1940 events that involved the Baltic region. Nor is it necessary in this case. It is perfectly obvious that this is a politically motivated issue, not an academic dispute, especially when Lars Fredén

attempts to evaluate the postwar period of the Baltic countries' history as one and the same as the Soviet Union. Consider, for example, the assertions concerning "foreign rule" that allegedly existed in those years. Any statistical abstract will show that ethnic Russians and Russian-speaking residents of Latvia, Lithuania, and Estonia were predominantly represented in the industrial, transport and public utility sectors of the national economies. At the same time, the native peoples of Lithuania, Latvia, and Estonia accounted for up to 80 to 85 percent of key positions in party, government, and legislative bodies. Native inhabitants were also heavily represented in the sphere of culture and art. Furthermore, it is important to bear in mind that during the Soviet period, Latvian, Lithuanian and Estonian representatives also actively worked in the supreme state bodies of the Soviet Union, as well as within CPSU leadership structures.

Lars Fredén's assertion that Soviet rule in the Baltics resulted in "a systematic attack on Estonian, Latvian and Lithuanian culture" merits special consideration. Those who have any idea about life in the Soviet Union know very well that the Latvian, Lithuanian, and Estonian artists, writers, film and theater actors, musicians and performers enjoyed immense popularity. As far as the "Russification" is concerned, I will only say that if ethnic Russians, and all those who consider Russian to be their native language in Latvia or Estonia, enjoyed the same rights as the ethnic Latvians or Estonians did in the Soviet Union, there would simply be no problem to speak of now.

I know that I am exposing myself to charges of presenting some sort of an apologia for "Soviet order." Such accusations, however, can only originate from ideologically biased opponents. By contrast, an objective researcher reading Fredén's argument concerning the need for recognizing the crimes perpetrated by the Communist regime against the Russian people, would not fail to mention 1956 and 1962, perestroika, the laws on the rehabilitation of victims of political reprisals and repressed peoples, and many other positive initiatives. It should be mentioned that neither Latvia nor Lithuania or Estonia has done a fraction of what could

have been done to overcome the harsh legacy of the Ulmanis, Smetona, and Päts regimes which is still a tangible part of the policies of their respective countries.

Fredén's assertion about the steps that the Baltic States have taken in recent years "to confront the truth about local complicity in the Nazi extermination of Baltic Jewry" sounds even more dubious. These steps must be more decisive, especially considering that this refers not to complicity per se but the participation by a faction of the Baltic population in the atrocities that directly led to the Holocaust. Does the memory of hundreds of thousands of POWs who were tortured to death with the participation of Baltic SS members, not to mention the mass extermination of their own civilians from various ethnic groups for "sympathizing with the Soviet regime," not cry out for justice? Finally, is it possible to eradicate the memory of the victims of the monstrous punitive operations that were conducted by the Latvian and Estonian Sondercommands in the Pskov, Novgorod and Leningrad regions of Russia, as well as in Belorussia, and other areas?

And one final point. Lars Fredén claims that weakness is scorned in Russia as much as toughness is respected. I believe that this is a Freudian slip of the tongue since this maxim has nothing in common with Russia. "God is in truth, not in strength." These words, spoken by His Holiness the Grand Prince Alexander Nevsky, well known to the Swedes, would be an appropriate conclusion to this article.

World Order

Rome, 1966. The birth of the Helsinki 'third basket.'
Soviet Foreign Minister Andrei Gromyko
and his Italian counterpart Amintore Fanfani.
Photo from Anatoly Adamishin's personal archives

“The more orthodox members blamed the “doves” that they paid the West with a ‘third basket’ for what the country already had: territorial integrity in Europe, the existence of the German Democratic Republic and other Communist countries. Now, they argued, the West received loopholes for interfering in the Soviet Union’s home affairs, thus making it more difficult to foil the enemy’s plans.”

The Final Act: Is The Curtain Coming Down?

Anatoly Adamishin

August 1, 1975 has gone down in history as the date when the leaders of 35 countries gathered in Helsinki, Finland to sign the Final Act of the Conference on Security and Cooperation in Europe. This document was intended to have long-term effects on international politics. Thirty years later, it has proven to be a powerful catalyst for the tectonic changes that have transformed beyond recognition the European and international political landscape.

The Soviet Union, which was among the initiators of that forum, sought to perpetuate, on a multilateral basis, the political and territorial outcome of World War II and the postwar period, that is, the division of Europe between two opposing blocs. At that time, it was obvious to Moscow that it would not be able to advance the "positions of Communism" any further westward; thus, it was necessary to establish the status quo in the Old World.

Of course, the principle of "inviolable" frontiers, which seemed to be established in Helsinki forever, did not survive the deep crisis which hit the Communist system in the second half of the 1980s. Today, the Helsinki process involves 55 states, instead of the former 35. The new members are comprised of the former constituent parts of three of the founder nations which later broke up: the Soviet Union, Yugoslavia and Czechoslovakia. Ironically,

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the one form of integration the signatories to the Final Act sought to prevent – the reunification of Germany – did take place.

Thus, the initiative – which had been on the drawing board since as far back as the mid-1960s – ultimately failed. On the other hand, however, subjects that the Soviet leadership viewed as secondary – the so-called 'third (humanitarian) basket' and the human rights issue – moved into the foreground. The importance of this aspect of interstate relations was first emphasized in the Final Act. Now it has become a major instrument of international politics, and this instrument can be very useful if it is used in an honest way.

THE SOURCES OF THE PAN-EUROPEAN PROCESS

According to popular belief, the idea to convene a pan-European conference was the brainchild of Soviet Foreign Minister Andrei Gromyko. The form proposed for the conference – a kind of party functionaries' meeting convened on an international scale – reflected the bureaucratic way of thinking in the Soviet Union. Nevertheless, the idea promised a lot; its implementation would fix the boundaries of Europe without there being the need to discuss the delicate issue of a peace treaty with Germany. In any event, the slogan "Europeans should sit down at one negotiating table" was a good propaganda maneuver.

It was Gromyko who was the first to test the West's reaction to the idea to convene an international conference. It happened in Rome in April 1966 at negotiations with Italian leaders, where the author of this article was an interpreter, as well as a witness. Italy at the time had "special relations" with Russia (the two countries had just signed an agreement for the construction of a car-making plant in the Soviet city of Togliatti), and the Italians immediately supported the Soviet minister's proposal. However, the experienced descendants of the ancient Romans immediately proposed that the Soviet wording for the name of the conference – "Conference on Security in Europe" – also include the word "cooperation."

The Soviet Union gave its consent to U.S. participation in the conference, although originally Washington had been excluded

from the list of conference participants. The United States, however, was a signatory to the Yalta and Potsdam agreements and one of the guarantors of the quadripartite agreement on West Berlin; so, the project would have died before it was born without the participation of the U.S. To make Washington's participation less pronounced, however, Moscow made the decision to invite Canada as well. Moscow's allies gave their approval to this modified concept in a special declaration of the Political Consultative Committee of the Warsaw Treaty Organization. Now it was already a joint initiative of the Communist countries.

The implementation of the idea took a long time. Events in Czechoslovakia in the summer of 1968 were a blow to pan-European prospects, not to mention the prospects for a conference; the momentum could not be stopped, however. The "Eastern policy" of West German Chancellor Willy Brandt, and the treaties which Bonn concluded with Poland and the Soviet Union in 1970, served as new incentives for the commencement of a European conference. In order to overcome the skepticism of the West, the Soviet Union resorted to the entire arsenal of diplomatic techniques, above all, influencing of partners at top level. The United States was among the last countries to accept the idea of a pan-European conference on security and cooperation. It agreed to participate only after President Richard Nixon's negotiations in Moscow in May 1972, which resulted in the ratification of START-1 Treaty. Before this time, however, Nixon and, most importantly, his mighty Secretary of State Henry Kissinger, did not hide their negative attitude to the European plan.

In November 1972, Helsinki hosted multilateral consultations at the ambassadorial level, which continued for almost 9 months. Finally, in early July 1973, the foreign ministers of 35 countries gathered in the Finnish capital. Europe had not seen such a representative assembly since the Congress of Vienna (1815), which was described as a "joyous holiday of all diplomacies in the world." The first stage of the pan-European conference was a success: the ministers gave instructions to the experts on how they believed Europe should exist.

It was an enormously difficult task and took almost two years to fulfill: from September 18, 1973 to July 21, 1975. The concluding document, which was entitled the Final Act, had 35 authors (including the Vatican – it was the first time the Holy See participated in a major international forum since 1824). One dissenting voice against the phraseology of any part of the document was enough to make all of the participants go back and search for new wording. Never before had the principle of consensus – the highest manifestation of democracy – been used on such a scale; it will take a long time before something like this happens again – if ever. And think of the scope of the Final Act! The 30,000-page document comprised every possible aspect: from the principle of the inviolability of frontiers and various military aspects of security to specific matters of economic and humanitarian cooperation, specified in the minutest detail; the Follow-Up to the Conference section provided for further development of the process.

HOW THE SOVIET DIPLOMATS WORKED

The second stage of the conference took place in Geneva. The Soviet delegation was headed by Deputy Foreign Minister Anatoly Kovalyov, a very talented individual with advanced views, who built a strong team of leading experts from various government agencies. The walls in his office in the "bunker," a gloomy building where the European negotiators worked, were covered with large sheets of paper, on which we put agreed-on, or "registered," pages of the future document. These were brought from various committees and commissions. I was on the Soviet delegation to Geneva for two months.

At the Soviet Foreign Ministry, the person in charge of preparations for the conference at the level of deputy foreign ministers was Igor Zemskov, a real professional who fully devoted himself to his work. As regards his views, he was the exact opposite of Kovalyov. It was typical of Gromyko to make pairs of this kind. During the course of preparations for the conference I was promoted to the head of a department which made me in charge of everything at the working level. My office was several blocks away

from the ministry, and I often had to rush between the two buildings. The most difficult part of my work was getting approval for Kovalyov's liberal touches in the text from Soviet officials with more orthodox views.

In keeping with their strategy, the Soviet Union and its allies in the Warsaw Pact (although they had different degrees of conviction) fought for the unconditional establishment of the inviolability of frontiers, which implied that the territorial and political setup of Europe established by that time could not be altered. This principle would thus perpetuate the division of Germany and keep East Germany in the Communist bloc. In a sense, the Soviet Union flipped the chessboard: during the early postwar years, it was Moscow that advocated the unification of Germany, while Washington (and actually the entire West, although not officially) vehemently opposed the idea. The Americans believed, and not without certain grounds, that they would have much more difficulty maintaining control over a unified Germany. Thus, the lengthy suppression of Germany's striving for unification is a painstakingly concealed skeleton in the American closet. (Incidentally, West Germany's allies agreed to unification only when developments became irreversible. Even as East Germany ceased to exist of its own free will, the unification of Germany still worried many in the West.)

During the preparation of the Final Act, the Germans – not only in West Germany – were well aware of the hidden motives behind the principle of the inviolability of frontiers. Its wording caused the most heated debates, but of course no one intended to reject it. The very thought of territorial claims was contemptible to Europe which had passed through horrible wars. Yet it was beyond the Germans to give any hope for a re-unification, no matter how much they spoke about the absence of revanchist sentiments in their country. Finally, the negotiators found a way out of the impasse. They included in the Final Act a reservation which provided for the possibility of changing frontiers between states "by peaceful means and by agreement." Theoretically, this provision could not be challenged, but in practice who would give such con-

sent to West Germany? The Soviet Union would never provide it; nor would East Germany. And the West itself, it seems, would not have been too anxious to extend the offer. Who could imagine then what would happen to the Soviet Union in a mere 15 years?

THE 'THIRD BASKET'

The West displayed goodwill with regard to the fixing of the territorial and political realities in Europe in the hope that the Soviet Union would make concessions on its home affairs. The main motive behind this goodwill, however, was not the wish that the Soviet people would live in a more democratic state. Western leaders held that the more predictable the Soviet policy, and the more founded on generally accepted international terminology, the more secure Europe would be.

The only goal of the Soviet leadership when discussing the principle of non-interference in internal affairs was the containment of the "price." As Gromyko once stated in one of his speeches, "internal affairs and internal laws are a boundary at the gate of each state, before which the others must stop." This approach prevailed under the Soviet leadership. This is why it still remains a mystery to me how the Final Act, with its humanitarian "heresies," successfully passed through the Politburo of the Soviet Communist Party. There are authors of memoirs and other observers who believe that the Kremlin simply underestimated the explosive nature of the bomb which the 'third basket' planted under the Soviet ideological edifice. I do not believe this theory to be correct. Conservatives, who made up a majority in the country's top leadership, could not overlook such an obvious attempt to "undermine the foundations of the Soviet system." Yet they kept silent. The reason was that General Secretary Leonid Brezhnev, who was full of life and mental vigor at the time, patronized the pan-European conference. His attitude, in turn, was shaped by professional and intelligent Soviet functionaries. Furthermore, they were good writers (which was particularly valued), honest and, most importantly, really cared for the interests of their country.

These people held that the movement toward the observance of human rights was not a concession to the West but an indispensable prerequisite for the country's development, that democratic reforms had long been ripe, and that if foreign policy could help to promote them, this should only be welcome.

And was it not in the interests of the Soviet Union to see Europe transformed from a zone of bitter East-West confrontation into a friendly region; to materialize the policy of détente, including in the military sphere, and establish the much-needed level of cooperation? It was particularly enticing for war veteran Leonid Brezhnev to sum up the collective results of the war and, jointly with the leaders of Europe, the U.S. and Canada, to solemnly open a new page in the history of the European continent. The third stage of the conference – the adoption of the Final Act at summit level – was the triumph of the policy of détente. Brezhnev's advisers had told him that without a counterbalance – the human rights issue – the West would never sign the Act. And they were right. Although the number of those advisers was small, some of them held positions that enabled them to influence top-level politics.

Who would oppose the General Secretary? The Politburo, the Presidium of the Supreme Soviet and the Council of Ministers of the U.S.S.R., in a joint document highly assessed the results of the European conference, and it seems their conclusions were warranted.

For the Soviet liberals, however, the trouble began shortly after the euphoria had vanished and the aides to the hawks in the Soviet leadership attentively read the Final Act. It was discovered that the 10 principles, by which the signatory states were now to guide themselves on the world stage, included such commandments as "respect for human rights and fundamental freedoms, including the freedom of thought, conscience, religion or belief." The aides wondered, was it no longer "our own home affair?" And holy Moses! The Soviet Union, according to the declaration, would have to provide facilitated access to information, put up with the reunification of families, and invite observers to its military exercises. The strong reservations forwarded against all of those provisions by the wise Kovalyov were not taken into account.

The more orthodox members blamed the "doves" that they paid the West with a 'third basket' for what the country already had: territorial integrity in Europe, the existence of the German Democratic Republic and other Communist countries. Now, they argued, the West received loopholes for interfering in the Soviet Union's home affairs, thus making it more difficult to foil the enemy's plans.

Without much publicity, the authorities took disciplinary action against the main "perpetrator," Kovalyov. The punishment was not harsh, though – he was only denied election to the Communist Party's Central Committee. The unofficial conclusion was that the humanitarian provisions – and other unwelcome provisions – would have to be quietly buried, especially since they were not legally binding but merely moral and political obligations.

The intuition of the conservatives did not betray them. Indeed, the commitments assumed by Moscow, even though only formally, soon were turned into an instrument of pressure on the Soviet regime – not only by the West but also by domestic human rights activists who demanded that Moscow abide by the Final Act's provisions. When détente gave way to a new cold wave in East-West relations in the late 1970s, the human rights issue became a battering ram used by the Americans against the "evil empire." Anti-Western politicians in Russia still argue that the Soviet Union collapsed as a result of the Soviet leadership's "weakness" which it showed on the liberals' advice in 1975. I think the reality was quite the opposite. It was not the commitments assumed by Moscow that proved fatal for the country, but its unwillingness to follow the path outlined in the Final Act. This resulted in yet another round of confrontation with the West, which proved to be a burden Russia could not bear.

AFTER HELSINKI

Many observers view the triumph of the Helsinki forum as the funeral of the Cold War. Yet, the "witch" proved to be long-lasting and was buried many times. The pan-European process, which reached its peak at the signing of the Final Act, began to die out. Despite some early hopes very little changed in Russia's home

affairs. In the realm of foreign policy, however, the climate improved somewhat. Those years witnessed the buildup of bilateral political and economic relations and cross-border people-to-people contacts, although in very small degrees. The Soviet Union signed its first long-term agreement (until 2003) for natural gas supplies to Europe. The climate in European politics improved, as well: Italy and Yugoslavia, for example, reached final agreement on Trieste.

At the same time, Moscow was increasingly accused of failing to fulfill the Final Act, which in the West was often presented to the public as a document consisting of just the 'third basket.' The first post-Helsinki meeting of the participants who were previously involved in the European conference – convened in Belgrade in 1977-1978 to follow up the process – made no headway.

The late 1970s marked the beginning of gloomy times for détente and its advocates. The tone on both sides of the East-West border was set by forces that were not interested in reducing international tensions. I personally doubt that the Soviet leadership really believed the two different social systems could peacefully co-exist. Many generations of Soviet leaders were brought up in the belief that, sooner or later, one of the systems would "bury" the other. This belief suggested that détente would not last long, and eventually we would be deceived, thus, we should not go beyond a certain threshold. Besides, our class enemy would do the same. A buildup of armaments was inevitable, although the introduction of some limitations would certainly not be a bad thing. Moreover, the mighty military-industrial complex was quite happy with how things were developing.

Incidentally, détente, the way it was understood thirty years ago, ruled out any "ideological convergence." Despite Moscow's signature under the Final Act, the Soviet mass media continued to write the words "human rights" in inverted commas and adding "so-called" before them. The Kremlin only began to speak of common human values at a much later date, after Mikhail Gorbachev came to power and launched his *perestroika* reforms.

Finally, the status quo was maintained only in Europe. In other parts of the world – in Southeast Asia, Central America

(Nicaragua) and Africa (Angola) – the bitter struggle continued. In Africa, for example, only months after the signing of the Final Act, Angola, led by "Marxist" Agostinho Neto, chose the "socialist path of development" with Moscow's and Havana's military and political support, which caused a wave of protests in the West. But when the Soviet Union launched its Afghan campaign in December 1979, the sky became ominously dark for Moscow. After Ronald Reagan came to power, the Americans came to the conclusion that the task of crushing their strategic rival was not at all unfeasible; intensifying the arms race and increasing pressure on Moscow over the human rights issue proved very effective.

In the above situation the Helsinki process almost ceased to exist. The second post-Helsinki meeting, held in Madrid, was more like a clash which lasted three years. This should have come as no surprise, however, considering that it was held amidst the Soviet campaign in Afghanistan, the boycott of the Moscow Olympic Games, conflicts over the deployment of medium-range missiles in Europe, the introduction of martial law in Poland, and finally, the scandal over the downing of a Korean Boeing airliner by the Soviet air defense.

The pan-European process was again saved by a Soviet General Secretary, this time Yuri Andropov. The following is what I myself witnessed. The Soviet delegation to Madrid was headed by Leonid Ilyichev, an outstanding person, yet not someone who could be described as a "dove." (Later, he was replaced by Anatoly Kovalyov.) Ilyichev was very tough with the Americans, who had lost any interest in the European process unless it was a pretext for putting pressure on Moscow over the humanitarian issue. The Madrid meeting was nearly concluded by a purely formal document or statement, as was proposed by the U.S., that the parties simply failed to agree. From my frequent contacts with the minister (I then headed the Foreign Ministry's First European Department, whose scope of interests included, among others, Spanish affairs) I concluded that Gromyko viewed the latter variant as possibly acceptable.

Such an outcome, however, would have meant that plans to convene a conference on military détente and disarmament in Europe, which we had been advocating for several years, might be

disrupted. At the risk of being punished for letting things out of the bag, so to speak, I nevertheless contacted Anatoly Blatov, an aide to Andropov. Blatov failed to sense the urgency of the situation, however, since not all the wires from Madrid had reached him (that was an old bureaucratic trick), yet he grasped the heart of the problem immediately. On the following day, he called me back: "Your alarm signal has worked," he said. But by then I had already understood as much, since my superior had changed the course of his policy. In the long run, we had prevented a failure of the Madrid meeting, while the aforementioned conference opened in Stockholm in January 1984.

In hindsight, perhaps we should not have tried to save the European process? At that time, however, we did the right thing, since the political situation was so tense that one more blow could have been fatal. Andropov understood that "shutting down" détente was not in our interests. Yet, in principle, we asked ourselves that very same question many times. Indeed, the political task was accomplished and the inviolability of frontiers ensured, so why try to continue with a process that only brought problems?

Gorbachev's *perestroika* allayed those doubts for some time. Moscow began to implement the Helsinki accords even in those aspects that it had formerly ignored, and the country only gained from that decision. This referred, for example, to the shameful and costly act of jamming foreign radio broadcasts, which was only fully terminated in 1988, in the third year of Gorbachev's rule. This was one of Moscow's concessions that contributed to the success of the third European conference held in Vienna from November 1986 to January 1989, where discussions of the human rights issue with the Americans were less confrontational. My American counterpart at the time, Richard Shifter, Assistant Secretary of State for Human Rights and Humanitarian Affairs, still holds that our interaction on that issue was the decisive factor in the meeting's success. (Human rights were among the issues I was in charge of at the Foreign Ministry after I was appointed deputy minister in 1986. It was then that we began to write the words "human rights" without inverted commas.)

Gorbachev and his team began to build a state based on the rule of law, while removing certain injustices and absurdities from Soviet society. That was our home affair, our own initiative, and we did not need any impulses from the outside. Simultaneously, that was the main cause for the peak in pan-European activity. We even came up with an idea to hold a conference on human affairs in Moscow, and organized it during one of the most dramatic periods in Soviet history: September 1991.

But the most important international document of those times – the Charter of Paris for a New Europe, adopted in November 1990 at a summit meeting held in the French capital within the OSCE framework – played a rather negative role. It failed to help build a European home for all, gave rise to inflated and impossible expectations, and clouded the vision of real European problems: the unification of Germany, the collapse of the Communist bloc, and the progressive weakening of the Soviet Union.

BETWEEN THE PAST AND THE FUTURE

After the Soviet Union left the political stage, the European process began to lose any sense. The Helsinki idea served agreements between the East and the West when these were understood as two different social systems. But when this division ceased to exist – despite the Final Act's principles of inviolability of frontiers and territorial integrity, rather than in accordance with them – the initial idea lost all its meaning.

As a rule, even very good international agreements do not live long. Any specific situation is determined not by officially stamped documents but by the correlation of forces. On January 1, 1995, the CSCE was reorganized into the Organization on Security and Cooperation in Europe, but the move did not help much, as the institutionalization of the process was never completed. The OSCE's enlargement – due to the inclusion of all the former Soviet republics – did not bring with it any new goals or new agendas to the organization. Over the ten years of its existence, the OSCE has brought little benefit to Russia, and in the last few years its mission has been reduced to giving verdicts on the level

of democracy in the elections of the post-Soviet space. Even though the majority of the newly independent states in the ex-Soviet Union cannot boast achievements in building democracy, the objectivity of the OSCE raises certain doubts.

We cannot bring ourselves to bury the OSCE – it would be a pity to lose this unique Eurasian forum which still operates on the basis of consensus. Russia even has veto power there and has used it, although not as often as it once did in the UN. On the other hand, we cannot forever remain captives to our own ideas, however wonderful they may appear to be. Europe and the world have changed dramatically, and if we were to cite the international organizations through which Russia promotes its national interests, the OSCE would appear at the bottom of the list (far below the European Union or NATO – in any case, Russia's relations with these organizations do bear fruit through regular practical interaction, despite some problems.

The OSCE has not become – and will now hardly become – a major factor in building a European security system that would encompass all aspects of cooperation, from military cooperation to humanitarian activity. Presently, this organization is busy discussing minor subjects that do not match its initial idea. It is not accidental that the OSCE has not held a single summit meeting since the 1999 summit in Istanbul.

The OSCE has two options available to it. Either, as the successor to the CSCE, it will remain in its glorious past, with its experience of unprecedented cooperation and accomplishments in improving the general climate in Europe. This includes its past promotion of détente and cooperation, as well as the involvement of a large number of countries, including neutral states, in big politics. Or it must transform into a purely specialized organization to fulfill a really important task – that of promoting democratic changes, modernizing law, and protecting human rights. But this requires the organization's own modernization that would suit all the participating nations. It is a consensus-based organization, after all.

Altruism As National Interest

Kjell Magne Bondevik

2005 marks the 100th anniversary of diplomatic relations between Norway and Russia, which were established following the denunciation of the Swedish-Norwegian Union (1814-1905). However, the two countries have been "neighbors for a thousand years," as expressed in the title of a joint cultural exhibition that opened in St. Petersburg in April 2005. During all this time, our two nations have never been at war. Even in times of tension, peace prevailed across our common border in the north. Norway and the Soviet Union were allies in the fight against Nazism and the Soviet army liberated the county of Finnmark.

Fifteen years ago, relations between Norway and Russia entered a new phase. Economic, energy and environmental cooperation and cross-border cultural and people-to-people relations are now as important as military and political issues were in the period before 1990, when they dominated our bilateral agenda. For several decades Norway and Russia have jointly managed the fisheries resources in the Barents Sea. The importance of the Barents Region and the northern areas as a whole has increased. The increasing importance of the petroleum denunciation of the Swedish-Norwegian Union resources in these waters presents both Norway and Russia with new and promising opportunities, and at the same time paves the way for bringing our two countries closer together.

Nuclear safety has become a major area of cooperation that also involves other nations in the G-8 Global Partnership. Our cooper-

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Kjell Magne Bondevik is Prime Minister of Norway.

ation on nuclear safety and security in Northwestern Russia has become an increasingly important part of our bilateral relations over the last decade. During this period, Norway has provided some $160 million for these efforts. We intend to continue working with Russia on reducing the risk of nuclear accidents and pollution from nuclear facilities in Northwestern Russia, and on preventing radioactive and fissile materials from falling into the wrong hands. Norway will also give high priority to the bilateral cooperation between supervisory and administrative authorities in this field.

While our two governments are working together to secure a clean environment and the sound management of fish stocks and nuclear materials, a growing number of companies in our two countries are forming links through joint ventures, trade and investment. This is particularly true of the petroleum sector, where we hope to see even closer cooperation in Norwegian and Russian offshore fields in the north in the near future. Norwegian companies, with 30 years of experience of technologically challenging North Sea development, have a lot to offer Russia. The development of the giant offshore Shtokman gas field is a case in point.

Norway and Russia are two of the world's three largest oil exporters and the main suppliers of natural gas to European energy markets. The prominence of the issue of global energy security, partly as a result of the instability in major oil-producing regions like the Middle East and of the current high oil prices, means that petroleum production in our northern areas has considerable strategic and economic importance. At the same time, both countries have important military, political and ecological interests in the north that need to be taken into account. Norway therefore welcomes closer and more comprehensive bilateral dialog with Russia in all these areas.

An agreement on a maritime delimitation line in accordance with established international legal practice and principles will make it possible for us to expand our cooperation to include what is currently the disputed area. Norway is ready to continue negotiations when Russia has concluded its internal administrative review process.

GLOBAL PARTNERSHIPS

One of the most effective ways of promoting international peace and stability is through regional and sub-regional cooperation structures. Norway and Russia are active members of the Barents Council, the Arctic Council and the Council of Baltic Sea States, where we work for regional integration and cross-border cooperation in areas such as health, environmental protection, migration and trafficking.

The political and military cooperation between NATO and Russia has reached yet another milestone with Russia's signature of the Partnership for Peace Status of Forces Agreement (PfP SOFA) at the NATO-Russia Council meeting in Vilnius in April. Since the establishment of the Council, NATO-Russia relations have undergone a remarkable transformation and are now a central element in the emerging Eurasian security architecture. This will strengthen our ability to respond to the threats posed by terrorism, drug trafficking and other challenges in and around Afghanistan, Central Asia and the Caucasus region. We look forward to the Duma's ratification of the PfP SOFA agreement, which will pave the way for intensified bilateral military cooperation between Norway and Russia.

The Organization for Security and Cooperation in Europe (OSCE) and the Council of Europe also play important roles in promoting peace, stability, democracy and human rights in the Eurasian area. Lately, however, several CIS member states, including Russia, have criticized the OSCE for taking an unbalanced approach by focusing more on the human than on the politico-military and economic dimensions, while Western members have criticized CIS states for the opposite. Following the "tulip revolution" in Kyrgyzstan, positive signals have come from both sides regarding the need to reach agreement on the way forward. Norway will contribute to the efforts to find balanced solutions that will ensure an effective role for the OSCE in both the human and the security dimensions.

There can be no doubt about the need for international cooperation in order to strengthen democratic institutions and human rights in the OSCE area. There is simply no such thing as a trade-

off between human rights and security. On the contrary, measures to protect human rights must go hand in hand with measures to improve security, in the same way as peace diplomacy needs to be combined with development cooperation. The two sets of measures are mutually reinforcing: history has shown us that enhancing security at the expense of democracy and human rights is doomed to failure.

The Chechen conflict has for years been a source of friction between Russia and Western countries. The situation in Chechnya is complex and difficult. Terrorists and extremist groups have committed terrible atrocities, including the horrific Beslan massacre. No cause can justify terrorist acts. Serious human rights violations have been committed by all sides. This is unacceptable. So are the attempts to support separatism or to change borders by force. Like other OSCE states, Norway remains committed to the Helsinki Acts. We fully support Russia's sovereignty and territorial integrity, in the North Caucasus and elsewhere.

Norway continues to advocate a peaceful, political solution to the conflict, and to provide humanitarian aid to refugees in the North Caucasus. We are involved in supporting the Russian Government's rehabilitation plans for the region, including the construction of a new school in Beslan and the reconstruction of the educational system in Chechnya. In these efforts we are cooperating with UN agencies like OCHA, UNHCR and UNESCO, and with NGOs like the Norwegian Refugee Council, the International Red Cross and Red Crescent, and Médecins sans Frontières. These organizations are doing a tremendous job under difficult conditions to help people in the North Caucasus, and they need all the help they can get from donors and from Russian federal and regional authorities.

NORWAY'S ROLE IN PEACE PROCESSES

Norway is among the largest donors to international development cooperation, giving close to 1 percent of its GNI, or roughly $2 billion, each year through UN agencies, NGOs and bilateral cooperation. Norway's role as a mediator and facilitator in peace,

reconciliation and conflict resolution processes worldwide is an integral part of this picture.

Promoting peaceful relations and helping to resolve conflicts between peoples and nations is a logical foreign policy objective for small states like Norway. With our open economy, we are vulnerable to events outside our borders. At the same time, it is important for us to protect our significant investments in development and human security in partner countries. Just as it is true that poverty and lack of development increase the risk of conflict, so it is equally true that conflict and the absence of peace are an obstacle to sustainable development.

Our participation in peace processes takes a number of different forms. It ranges from acting as official facilitator of negotiations, as in Sri Lanka and the Philippines; to sponsoring a back channel for secret negotiations, as in the Middle East; to being a partner in an international coalition, as in Sudan, Ethiopia-Eritrea, Somalia, Colombia and Guatemala.

Five years ago, Norway was asked by the parties to the conflict in Sri Lanka to facilitate a peace process. We were naturally willing to help, and in 2002 the Government and the Liberation Tigers of Tamil Eelam (LTTE) entered into the present cease-fire agreement. Three years of cease-fire is by far the longest period without hostilities since the war began in 1983, and it has probably saved thousands of lives.

At the moment direct negotiations between the parties have been suspended. The delay in resuming talks is partly due to the uncertain political and security situation and the parties' need to develop confidence in one another as negotiating partners. However, the post-tsunami situation has created an opportunity for implementing confidence-building measures through the efforts to establish a joint mechanism for channelling funds for rebuilding the tsunami-affected areas in the north and east.

We hope agreement on a joint mechanism will be reached shortly. The successful implementation of such a mechanism would not only ensure the equitable distribution of relief based on

real needs and local priorities, but would contribute greatly to creating a favorable climate for peace talks in the longer term.

Three months ago a truly historic event occurred in Africa: the Government of Sudan and the Sudan People's Liberation Movement (SPLM) signed the Comprehensive Peace Agreement in Nairobi. The agreement marks the end of one of Africa's longest and bloodiest civil wars.

On the other hand, the conflict in Darfur has not yet been resolved, and continues to be a matter of great concern. A workable solution will require a new form of nation-building based on the sharing of power and wealth between the center and the regions. It must also take into account a large number of cultural, ethnic, religious and historical issues. The peace agreement provides a blueprint for such a solution. Now it needs to be applied to other regions in the country as well: the sustainability of the peace will depend on this. Supporting the implementation of the peace agreement is a key element of our Sudan policy.

Norway's political support to and involvement in the Sudan peace process is the result of our long-standing commitment to humanitarian assistance to Sudan, the efforts of Norwegian NGOs in the country and many years of cooperation between various academic institutions in Norway and Sudan.

Through our humanitarian efforts we have been involved with both parties to the conflict. Humanitarian assistance to the war-affected areas in the south brought us in particularly close contact with the SPLM/A, a relationship that proved to be very valuable to the Government of Sudan during the crucial last round of peace talks. It has also facilitated our assistance to the parties, which took the form of communicating and explaining their positions to each other.

Norway's involvement in the peace process in Sudan has been coordinated in an informal troika with the U.S.A. and the UK. However, efforts to sustain peace and development in Sudan must enjoy a wider support by other countries. The first international donor conference for Sudan was a welcome success in this regard. Representatives of more than 60 countries and international orga-

nizations met in Oslo on 11-12 April, and donors pledged more than $4.5 billion to Sudan for the period 2005-2007. This shows that there is international commitment to the implementation of the peace agreement.

In the conflict between Israel and the Palestinians, the prospects for a resumption of the peace process are more promising than they have been for a long time. Israel's decision to withdraw from the settlements in Gaza and four settlements on the West Bank is of vital importance: if implemented, it could be a major step toward bringing the peace process back on track. But the international community must be resolute in insisting that the withdrawal is carried out in accordance with the Road Map for Peace.

The Palestinian Authority must continue its efforts to fully control all armed Palestinian groups. The understanding reached in Egypt last month between the Palestinian Authority and a majority of the Palestinian militant organizations, first and foremost Hamas, was another significant step. So is Hamas' decision to take part in local and parliamentary elections. Only political solutions can bring peace to the Middle East. The terrorist infrastructure must be dismantled, and all weapons collected.

The respective governments have to overcome enormous challenges. They must deal with domestic considerations and with opposition to the process on both sides: there are still far too many who wish to stop or derail the process. However, it is important that the parties refrain from actions that will result in short-term political gain at the expense of long-term progress.

The international community must seize this new opportunity and support the parties in their efforts to revitalize the peace process. A concerted, targeted effort on the part of the Quartet is needed to give it further momentum. Here Russia, along with the other Quartet members – the U.S., the UN and the EU – has a decisive role to play.

While important steps have been taken to bring the process back on track, there are still significant problems with regard to the West Bank and East Jerusalem. The construction of the wall on occupied Palestinian land and the expansion of settlements could jeop-

ardize the two-state solution. Construction must stop before it undermines progress. A "Gaza first, Gaza last" solution will never bring peace to the Middle East. The developments in East Jerusalem and the West Bank must therefore have top priority in the dialog between the international community and Israel.

The difficult economic and humanitarian situation for the Palestinian population poses another threat to the process, since poverty breeds extremism. Norway has been heading the international donors' efforts to support the Palestinian community for more than a decade, efforts that have been an essential part of the thrust for a peaceful solution.

NOT MERE ALTRUISM

Norway's efforts are always part of a broader setting: Norway's role as a peace facilitator follows from our long-standing support for the UN mandate for peace and security. It is built on a tradition of engagement in humanitarian assistance and development cooperation, and reinforces the success and sustainability of these efforts.

We also tend to support other leading actors rather than taking the lead ourselves. In certain cases Norway does take a leading role, but this is always at the request of the parties involved in the conflict.

Norway is also a patient facilitator. There is broad and long-established political consensus in Norway on our policy of promoting peace and reconciliation. One example is our engagement in Sri Lanka, which has been maintained by three different foreign ministers from three different political parties.

One particular area in which we have been active is inter-religious dialog since in the past decade religion has gained an increasingly important position on the international political agenda. Religion is usually not the only or the main reason for a conflict, but it is often exploited for political purposes. Religion, like patriotism, is easy to misuse, because people often express their anger, their desires, and even their aims in religious terms. Religious sentiments can be used to pave the way for peaceful, durable political solutions to conflicts. Cooperation between reli-

gious leaders and religious communities can be a powerful force for peace, and create more understanding and cooperation within a country and between countries and peoples. Thus, although religion is often regarded as part of the problem, it can in fact be a valuable part of the solution.

Another important factor is our emphasis on cooperating with national and international NGOs. Norwegian NGOs have decades of experience, gained from their activities in different parts of the world. They have valuable networks and hands-on knowledge of the various regions, and skills and expertise that we are able to draw on.

Norway is regarded in many quarters as being impartial. Norway has no colonial past, and is usually perceived as having no hidden political or economic agenda. Since it is difficult for a country to achieve success on its own, we work together with other international actors. This means that we can combine our own resources with those of others, and it ensures the necessary support for the processes we are involved in.

Finally, an important aspect of Norway's involvement is that we regard ourselves as a peace facilitator, not a peacemaker. As a facilitator we do our utmost to support the parties, but at the end of the day the will to bring about peace must come from the parties themselves.

As regards why we choose to be so heavily involved, one reason is that, like many others, we feel we have a moral obligation to contribute to the peaceful resolution of conflicts and thus improve the lives of people in other parts of the world.

But it is not altruism alone that drives us. Contributing to peace in other parts of the world is in our own interest.

Today there are fewer conflicts between countries. On the other hand, we are witnessing an intensification of internal, intra-state conflicts, which are the subject of greater international attention.

Globalization has proved to be a double-edged sword. On the one hand, it has had the positive effect of bringing the countries of the world closer together through the flow of trade, investments, information and ideas, providing new opportunities for cooperation and joint endeavors. On the other hand, instability

and insecurity now spread more easily. Internal conflicts have negative effects far beyond the actual site of the conflict, through illegal migration, disease, environmental degradation, organized crime and terrorism.

Internal conflicts have thus become a global concern. Yesterday's humanitarian situations are today's core security policy issues. Peace diplomacy is one instrument in our quest for peace. But the quest for peace is also very much a question of providing development assistance and ensuring good governance and respect for human rights. It may also involve using military means when the situation calls for it, but then as a measure of last resort. No country can isolate itself from globalization and its effects, either positive or negative. Norway, like Russia and other nations, stands to gain overall from the benefits of increased cross-border communication and interaction. But greater intergovernmental cooperation is needed to exercise democratic control. States must work together – nationally, bilaterally, regionally and multilaterally – in order to more effectively tackle these conflicts, and the related international threats and challenges.

Norway's experience of peace processes and development assistance has shown us that people in poor or conflict-prone parts of the world, without hope and without jobs, are more easily recruited by groups or ideologies that advocate violence and conflict. And we believe that eventually the consequences of such conflicts will come home to haunt us, even in our supposedly safe and prosperous part of the world. This is why, in addition to more altruistic motives, we choose to provide development assistance and support peace processes. By combating poverty, pollution and disease we are also eliminating potential breeding grounds for hatred, extremism and terrorism.

Of course, political and ethnic grievances must be tackled, but this must be done by political and peaceful means. Peace and stability must be built patiently, using all the means at our disposal – diplomatic, political, and economic – so as to ensure lasting, sustainable development. To achieve this goal, we must work together. Norway and Russia should be partners in this endeavor.

Democracy and Nuclear Weapons

Alexei Arbatov

On the eve of the Russian-U.S. summit in Bratislava in March 2005, Russia's political circles were very agitated. The reason for this mood was due to the 'leakage' of information about a Russian-U.S. plan for placing Russia's nuclear facilities and even its nuclear forces under American control. Despite Moscow's official denials of these reports, the rumor continues to be the subject of intense debate by politicians and experts.

In reality, of course, there are no plans for U.S. "control" over Russia's nuclear armaments. Instead, the real debate involves the question of granting U.S. specialists possible access to Russia's nuclear facilities (including repositories of weapon-grade nuclear materials and munitions). Foreign countries provide financial and technical aid in order to guarantee the physical protection of these facilities, as well as elimination and utilization of their nuclear surpluses.

In the 1990s, the West allocated a total of U.S. $6 billion for these purposes under the well-known Nunn-Lugar program. At the G-8 summit in Kananaskis (Canada) in 2002, Russia was promised an additional $20 billion under the Global Partnership project. Providing a foreign country with such large sums of money from the pockets of its taxpayers, Western governments

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want to guarantee that the funds are appropriately used. Besides, intelligence services are always eager to obtain additional information on nuclear issues. Since this entire sphere of activity remains hidden under a veil of strict secrecy, the boundary between what is deemed to be secret and non-secret is rather ambiguous and has for years been the subject of delicate negotiations. Incidentally, foreign specialists have already received considerable access to formerly secret facilities, products and information in Russia under the programs sponsored in the 1990s.

The above-mentioned reference to the rumors of foreign control over Russia's nuclear armaments brings up a real problem: Russia's own political and democratic control over its nuclear weapons. This involves Russia's policy for the development, deployment, elimination and utilization of these nuclear armaments either in keeping with international treaties, or on a unilateral basis.

On the face of it, there is no connection between this issue and the sensational reports that Russia may place its nuclear facilities under Washington's control. Nevertheless, generally speaking, is it possible to combine the incompatible – nuclear weapons and democratic control? It is important not to rush to conclusions and analyze the subject in more detail.

TWO KINDS OF CONTROL OVER DEFENSE POLICY

Political control over the state's defense policy, with regard to both nuclear and conventional armaments, is usually interpreted as a decisive role of political leadership in the decision-making process in this sphere.

Democratic control, on the other hand, is a much broader concept and implies the role of the legislative branch in devising a defense policy. This is attainable through such mechanisms as the defense budget, major programs and plans for the armed forces' development, and the ratification of treaties on arms limitation and disarmament. These efforts require the transparency of defense information, including the discussion of important issues in the mass media and specialized publications;

Photo by Vyacheslav Afonin

Democratic control and accountability with regard to nuclear weapons are not only possible but also necessary, although in a very special way that conforms to the nature of this class of weapon.

otherwise, parliament will become hostage to policies pursued by executive agencies.

Political control is possible in the absence of democratic control. In totalitarian or authoritarian countries, for example, the ruling party's official bodies and secret services guarantee this kind of control.

However, democratic control and accountability cannot exist without political control, which implies civilian control over defense and security organizations. Civilians as heads of defense organizations are supposed to be envoys of the political leadership in such organizations, as opposed to representatives of the military bureaucracy, who cannot but represent its own interests before the president or the prime minister. Without control from the country's political leadership, neither civil society nor the legislative branch can directly influence the powerful, united and secluded military establishment.

In other words, political control over executive bodies is an integral part of democratic control and accountability in the sphere of state policy in general, and defense policy in particular.

In contemporary Russia, democratic control over nuclear policy has not yet become a reality. First, Russian society and the legislative branch have little influence on state policy as a whole – partly due to their weakness, and partly due to the general consolidation of the "executive vertical" in the country. They exert still less influence on defense policy, and no influence whatsoever over the holy of holies – the nation's nuclear armaments.

Second, the very act of raising the issue of democratic control and accountability in this sphere can, at best, evoke bewilderment or, at worst, suspicion of evil intentions. The significance of the factors surrounding nuclear arsenals – their sophisticated designs, the secrecy surrounding them (which also exists in the West although to much smaller degree), and the specific nature of these technologies which influences the strategy and plans for their application – may give the impression that it is absurd to raise the issue of democratic control in this field.

Yet, not only is democratic control a legitimate issue, it is long overdue in Russia's defense and security policy.

NUCLEAR WEAPONS AND SOCIETY

Why does society need to know its country's plans for the development and application of nuclear weapons? Furthermore, why should it influence them — and how?

General-purpose troops and armaments, as well as the methods and goals of their application, comprise a military sphere that is comprehensible for the public at large; the Russian people have some idea of ongoing local conflicts, as well as a historical memory of past wars. As far as public opinion is concerned, general-purpose forces are not some "virtual reality" or abstract thing like nuclear weapons, although the new revolution in military affairs is dramatically changing the face of these systems.

Most sober-minded people would agree that the 60,000 tanks or 300 submarines, for example, deployed by the Soviet Union in the 1970s-1980s were more than the country needed for its defense. Presently, many discussions are underway as to whether Russia really needs a 1.2-million-strong army, whether it is a good idea to transform the conscript army into a voluntary one, how much money military officers should earn, and whether non-monetary benefits of the military are worth retaining.

Still more difficult are the questions: Is Russia's 5,000 strategic nuclear warheads force (about the same number as in the U.S.A.) too large or too little? Will the 1,700-2,200 warheads that both sides will have in 2012 under the Strategic Offensive Reductions Treaty (signed in May 2002 in Moscow) be sufficient? For answers to these questions, it is important to know the state and prospects of the evolution of the strategic nuclear balance, various concepts for employing strategic nuclear forces, criteria of the adequacy of deterrence, the logic of strategic stability, and other esoteric matters not commonly known to the public.

The employment of conventional forces — even in undemocratic countries — requires, at the very least, the tacit consent of the people. After all, some people will be called upon to fight, while others will have to ensure the domestic support for the army. Preparations for military activities give society a possibility to form its attitude to these actions, since they usually require much time

(the U.S. war against Iraq, for example, was prepared more than half a year in advance, while preparations for the second Chechen campaign in Russia took several months). In many countries, including the United States and the Russian Federation, the declaration of a state of war or a state of emergency, as well as the employment of armed forces abroad, requires parliamentary or congressional approval.

The question of employment of nuclear-missile weapons is quite a different matter. The flight time of a long-range ballistic missiles varies from 15 to 30 minutes. Thus, the political leadership of the target country will have, in the best case, a few minutes to decide on whether or not to launch a retaliatory missile strike. This means that the nation cannot have any effect on a decision to employ nuclear weapons either directly (through a referendum), or indirectly (through parliament).

Nuclear war does not require any involvement of broad popular masses. It would involve an insignificant part of the peacetime army, which does not exceed one percent of the country's population. After the decision to employ nuclear weapons is made, the sanction is sent down the chain of command; at this point, only several thousand officers on duty get involved. In the most advanced command-control systems, the missile launch signal is transmitted directly from the national leadership's highest command post via relay systems to launchers, bypassing the missile forces' personnel.

Still, democratic control and accountability with regard to nuclear weapons are not only possible but also necessary, although in a very special way that conforms to the nature of this class of weapon. This would be possible, however, only if society recognizes the need for democratic control over the entire range of state policy, including its defense policy.

DEMOCRATIC CONTROL OVER A-BOMB?

Although the citizens of a nation do not make the final decision to employ nuclear weapons and do not participate in nuclear war, it is the nation, that is, the civilian population, which from the very beginning becomes the immediate target of devastating nuclear strikes. This

factor makes a nuclear conflict very different from a conventional war, even a large-scale conventional war. Even if nuclear strikes were to be concentrated on military sites, command posts and industrial centers, in keeping with an accepted modern strategy, the collateral damage to the civilian population would amount to tens of millions killed during the first few hours of such a war.

This is why the nation has the right to influence nuclear policy. In the event of such a conflict, this policy will determine its fate more than any economic, social or political aspects of state policy, which are traditionally relegated to the sphere of democratic control and accountability. Thus, the very nature of these weapons prompts the need for democratic control.

The second reason is as follows. One of the important distinctions of nuclear weapons, and most importantly, strategic nuclear weapons, from conventional armaments is a rather limited range of their possible combat missions and methods of employment. For example, the task of a strategic missile or aircraft is very narrow: to hit a predetermined pinpoint or area target. The methods of their employment are limited as well: massive, grouped or single launch. A nuclear strike can be the first (pre-emptive), retaliatory or a launch-on-warning (carried out on a signal from a missile attack warning system before the enemy warheads reach their designated targets). In contrast, in various kinds of military and paramilitary operations [that is, military actions during peacetime, as well as operations involving local conflicts – Ed.], conventional aircraft, tanks and ships, for example, may be used in an infinite variety of ways.

The technical characteristics of the weapon systems in service with the strategic nuclear forces, as well as the strength and composition of these forces, largely predetermine methods of their employment – at least against a nuclear-armed enemy. Such an opponent is the main target of the nuclear deterrence strategy. In turn, the probability of a nuclear conflict, with all its catastrophic consequences, depends not only on concomitant political factors, but also on the degree of stability of the strategic balance between the parties. The degree of stability depends on how strong is the incentive to deliver a first nuclear strike (this may

result from a desire to avoid defeat, or the fear of a surprise enemy attack).

The above-mentioned technical characteristics of the weapon systems in service with the strategic nuclear forces (together with the force levels and composition of these forces, which include control and warning systems) tangibly affect this stability. Naturally, those technical characteristics do not dictate the methods of employing the strategic nuclear forces in any particular way. Yet, they logically offer the most effective, preferable ways of military employment of various systems.

In 1990, Moscow and Washington agreed to classify as stabilizing the systems of strategic delivery vehicles with a greater survivability at launch sites and with a smaller number of warheads per delivery vehicle. These features make these types of systems less suited for a first strike and more for a retaliatory strike. And vice versa: the higher the vulnerability of weapon systems at launch sites and the more warheads they carry, the more they threaten their opponent, thus making themselves more attractive for and vulnerable to a pre-emptive attack – a factor which destabilizes strategic balance. The premise of this logic is that a first strike aims, above all, at disarming the enemy; otherwise, a devastating retribution would be inevitable.

The accuracy of modern guidance systems and the short flight time of strategic ballistic carriers make silo-based intercontinental ballistic missiles of the other party poorly suitable for a retaliatory second strike. As for a launch-on-warning option, it is possible only if the warning and command-control systems are highly effective. This is particularly true if silo-based ICBMs are armed with multiple individually targeted re-entry vehicles (MIRV), and if they threaten the strategic nuclear forces of the enemy with a disarming strike (like the U.S. MX Peacekeeper ICBM, or Russia's RS-20 heavy missile, designated RS-18 in the West). As these missiles combine high strike power with vulnerability, they may be predominantly used in a first strike, thus literally inviting a pre-emptive strike and undermining strategic stability.

As for submarine-launched nuclear missiles – such as Trident-2 system with W-88 warheads – these are highly survivable.

However, if these missiles are equipped with powerful MIRVs, they are capable of delivering disarming strikes at fixed targets (like ICBM silos and command centers) as well, and therefore play a destabilizing role.

Alternatively, submarine-launched ballistic missiles (SLBMs) with a small number of low-yield MIRV warheads, as well as ground-mobile ICBMs with a single warhead or few MIRV warheads (Russia's RSM-52 submarine-launched ballistic missile on 667 BDRM submarines, designated Delta IV in the West, for example, and ground-mobile Topol and Topol-M ICBMs) are stabilizing weapons. They have a high survivability potential and do not threaten the other side with a disarming strike, i.e., they are classical second-strike retaliatory systems. Such systems reduce the probability of nuclear war inasmuch as it depends on the state of military balance.

Presently, Russian members of parliament rejoice like children whenever they hear about preservation or introduction of a new nuclear weapon in the Russian armed forces. Unable to estimate the contribution of various systems to strategic stability and security, they adhere to the principle "The more, the better." This principle is not always right, however: many weapons are simply a waste of money. It would be better to use these funds on the introduction and/or maintenance of a weapon that is capable of strengthening the country's defense capability and security.

An informed public and parliament can influence arms programs and strategic balance if they are aware of the importance of these factors; if they have the knowledge of these issues, they may reduce the probability of a nuclear war. In particular, Russian legislators could implement these measures through budget allocations for various programs, since, unlike their American counterparts, they do not have the power to endorse arms programs directly. If defense information becomes transparent enough, legislators may use the findings of independent experts to forward alternative proposals based on the understanding of all their strategic, political and economic implications.

The third argument in favor of democratic control in the military nuclear sphere involves the financial aspect. Annual expen-

ditures for the development and maintenance of nuclear arms comprise no more than 10 to 15 percent of defense expenditures. Yet, considering the 20-30-year life cycle of nuclear weapons — their development, deployment, maintenance and final disposal — this is a vast sum of money. Therefore, the rational use of resources in this field requires democratic control and accountability no less than other major parts of the federal budget.

Finally, nuclear arms policy has become a major part of foreign policy, being directly associated with negotiations and agreements on the limitation, reduction and nonproliferation of nuclear weapons. Society and parliament participate in this process through the ratification of treaties. However, if they do not have an adequate understanding of nuclear policy or are unable to critically estimate it, their participation turns into either an ideological opposition (as was the case with the seven-year debates in the State Duma over the START-2 Treaty) or a mere formality (as with the Strategic Offensive Reductions Treaty in 2002).

POLITICAL CONTROL BY THE STATE LEADERSHIP

Control from above, void of a democratic foundation, guarantees political loyalty of the military generals but denies the political leaders the ability to play a real role in defense policy and development of the armed forces. Their role gets limited to establishing the overall size of defense allocations, or to being an arbiter in case the various bureaucratic agencies fail to agree between themselves on some issues. Without alternative options of a defense policy, established by independent experts and discussed by parliament, political leadership has to deal with a monolithic position elaborated at lower levels of the military and defense-industry bureaucracy. Political leadership can have only marginal effect on this position.

Naturally, it is impossible for the head of state to be an expert in all spheres, and especially in one that is as complex as contemporary defense — and nuclear policy in particular. He must rely on the opinions of his subordinates. However, in a closed format, without broad debate occurring in parliament, in the press and at the

independent scientific centers, defense agencies will be able to push through their decisions via the closest aides to the president, especially as aides usually come from the defense agencies.

But perhaps this is a normal way of molding defense policy? After all, the defense and security agencies and their research institutes comprise highly skilled experts, therefore, why not place full trust in them?

Experience shows that this approach is incorrect, and not only with regard to defense policy but also to any other sphere of state policy in a democratic country. Executive control over all aspects of government is not a good idea because bureaucracy often pursues personal, rather than national, interests. Furthermore, bureaucratic agencies poorly coordinate their actions. It would be incorrect to say that bureaucracy comprises only malevolent or incompetent people. However, an individual working for a powerful bureaucratic organization will have to subordinate himself to its interests or leave.

The country's political leadership in the person of the president and parliament must formulate national interests, as opposed to bureaucratic interests of various agencies; and these national interests must represent the priorities of various social groups within society. However, is such a goal actually feasible with regard to defense and nuclear policy when defense information remains strictly closed? How is it possible to define the national interest when there are no independent assessments and proposals available to the public, and executive agencies have a monopoly on the information and resist all attempts to criticize or amend their positions? The answer is obvious, as is the inevitability of mistakes, some of which can do serious damage to the country's security and economy, examples of which are abundant.

In 2000-2001, in order to redistribute resources in favor of the general-purpose forces, the Russian government sharply cut allocations for the national strategic nuclear forces. The cuts primarily affected ground-based missiles, the main component of these forces, including the procurement of mobile Topol-M ICBMs, the main program for their modernization. The technical characteristics of this system make it easily adaptable to changing strategic

situations and most stabilizing of all weapon systems. Moreover, no other country besides Russia possesses a similar weapon, nor will they have one in the foreseeable future.

As a result, the situation with the general-purpose forces has not improved, because, most importantly, the military reform has stalled, while the strategic nuclear deterrence has been greatly undermined. If this policy persists (and there have been no official statements yet that it may change), in 10 to 15 years 90 percent of Russia's strategic nuclear forces may be vulnerable at their deployment sites to hypothetical disarming strikes by the United States, Britain, France and, possibly, even China. Of course, it is extremely unlikely that these countries will attack Russia; nevertheless, the strategic stability will be undercut – with all of the ensuing consequences.

Having such vulnerable strategic nuclear forces, Russia will have to rely increasingly on the launch-on-warning concept. However, in a situation when Russia's early warning satellite constellation is weakening and most of the ground-based radar stations from the Soviet era remain on the territory of other post-Soviet states (almost all of them, incidentally, are now seeking NATO membership), continued reliance on this concept is becoming ever more dangerous. This problem is acquiring special importance considering the continuing proliferation of nuclear-missile weapons around the world, and the growing probability of accidental or provocative missile launches from various directions.

Some of the negative consequences of the decisions of 2000-2001 showed up immediately. In particular, the U.S. lost any interest in the continuation of negotiations with Russia on the limitation of strategic arms; the ABM Treaty, the START-2 Treaty (ratified by Russia in 2000) and the START-3 framework (signed in 1997) all collapsed.

In a bid to improve the situation, Russia purchased obsolete silo-based missiles and bombers from Ukraine and extended the service life of its heavy ICBMs (in the same vulnerable silos). These moves on the part of Russia were quite expensive but did little to increase strategic stability. Later, Moscow announced it had developed a "magic weapon" – a missile with a gliding and

maneuverable re-entry vehicle capable of penetrating any missile defense system. The announcement, however, did not impress Washington. No wonder: Russian armed forces buy only four to six Topol-M ICBMs a year and the scale of new missiles' deployment may not be great – they will be much more expensive. Besides, the new missiles will need to be tested, put into production and ensured a highly survivable basing mode. (Since Russia has the U.S. in mind while developing these missiles, it is essential that they are capable of surviving a disarming strike.)

Following the events of September 11, however, a spirit of cooperation emerged in Russia-U.S. relations, and in May 2002, Moscow and Washington signed the Strategic Offensive Reductions Treaty (SORT). This treaty, however, will hardly influence the objective process of strategic destabilization, since it does not limit either party in any way. Besides, it remains rather an agreement of intent: it does not establish any counting rules for warheads, or procedures for dismantling armaments. The treaty provides no reduction schedule or verification procedures. For example, the treaty calls for both countries to have no more than 1,700-2,200 warheads 10 years after the treaty's ratification. The treaty, however, does not specify what warheads will be limited or how they will be counted under the established ceilings. SORT lacks the above set of instruments usual for such agreements. Until the year 2009, though, the verification regime of the START-1 Treaty will remain in force, but it will only provide Russia with information about the U.S. strategic nuclear forces rather than about the implementation of the Treaty by the United States.

It would seem that Russia, now lagging behind the U.S. in strategic nuclear potential while possessing weak general-purpose forces, must give this issue a greater importance. It must take avail of America's interest in cooperation in many other international affairs in order to ensure an acceptable nuclear balance. However, Russia's policy has been surprisingly passive; the 2002 Treaty has not been filled with legal or technical content. Washington's nuclear arms policy has been harshly criticized in the United States itself, in Western Europe, in the United Nations and at the 7th Review Conference of

the Treaty on Nonproliferation of Nuclear Weapons (NPT), which took place in New York in May 2005. Nevertheless, Russia's Foreign and Defense Ministries have not put forward any new concerted proposals and offer scant criticism of American policy. Had there been democratic control and accountability in Russia's nuclear policy, and if the public and specialists had more access to information on nuclear issues, such mistakes would have been preventable.

Consider another example. Of all large powers, Russia is the most vulnerable to threats posed by the proliferation of nuclear weapons and missile technologies: the majority of new and potential nuclear missile-capable countries are either located along the perimeter of Russian territory, or close enough to Russian territory to be a threat. More importantly, nuclear proliferation is creating favorable conditions for these technologies to be accessible to international terrorists, who are now engaged in armed struggle against Russia in the North Caucasus, and are threatening this country's security in Central Asia.

In light of these conditions, one would expect Moscow to be the most ardent advocate of strengthening the NPT, regimes and mechanisms of nuclear and missile non-proliferation, and continuously introduce new initiatives in this field. Instead, Russia only half-heartedly reacts to new concepts of the U.S. and Western Europe (the Proliferation Security Initiative, the renunciation of the export of complete nuclear fuel cycle technologies, the obligation of accession to the International Atomic Energy Agency's 1997 Additional Protocol to the NPT, the code of missile technology exports). It is hard to avoid an impression that nuclear-missile proliferation does not really concern Russia and that the efforts to combat proliferation are being perceived as an annoying hindrance to Russia's Atomic Energy Agency's deals for the export of nuclear technologies and materials. Here again Russia's public and parliament remain in blissful ignorance of this problem and fail to raise the issue of a serious revision of the state policy.

Finally, returning to the issue mentioned at the beginning of this article: international cooperation in ensuring the safe storage of nuclear munitions and materials, the elimination of their surpluses, and the

dismantling of decommissioned nuclear submarines. Obviously, by providing Russia with billions of dollars in aid, the West seeks to ensure its own security: if nuclear weapons or materials come into the hands of rogue states or terrorists, or if an ecological catastrophe should occur, the entire world will suffer the consequences.

Meanwhile, the U.S. and other countries have to address the same problems of the elimination of nuclear and chemical weapons; but it is them who help Russia, not vice versa. Hence, the growing tensions in relations between the parties. Apart from technical issues, there are many other factors impeding Russian-Western cooperation in this field (suffice it to mention Russia's demand that the West pay value-added tax in keeping with its tax law, or the issue of liability for possible damage). In return for its aid, the West demands access to Russian nuclear facilities (beside the strategic nuclear forces inspected under START-1), yet Russia cannot make similar demands. Only as a goodwill gesture, the U.S. allows Russian representatives to visit some of its facilities. At the same time, Russia continues to develop new nuclear weapon systems, including strategic ones that would be capable of penetrating ABM defenses. Thus, Western countries raise the question: Why alleviate Russia's financial burden caused by the elimination of weapons and allow it to spend more on new ones? Perhaps if there was democratic control over Russia's nuclear policy, the state could adequately estimate its financial needs concerning the elimination of obsolete weapons. This might make it possible to allocate much more funds for the elimination and disposal of armaments (the lack of funding for this budget item has been continuing for over a decade) and thus remove Russia's dependence on foreign countries. However, if Russia decides to continue accepting foreign aid, it must negotiate measures to develop partnership and cooperation in order to transform mutual nuclear deterrence, thus resolving the issues of contention for cooperation in this field.

Unfortunately, here too Moscow's priorities remain undefined because of the compartmentalized bureaucratic narrow-mindedness and lack of coordination in mapping out state policy, as well as because of the absence of democratic control and accountability.

WHO CONTROLS THE NUCLEAR BUTTON?

If Russia had an effective system of democratic control and accountability, it would be possible to ask several questions concerning the sensitive issue of the authorization of the employment of nuclear forces. The information publicly available on this issue is very scant and not officially confirmed. It is possible, of course, that the actual state of affairs in this realm is quite satisfactory. However, if the available information is correct at least to some extent, then it may be prudent to question the implementation of a particular constitutional provision, which gives the power to authorize the use of nuclear forces only to the president – the supreme commander of the Russian armed forces.

According to published information, Russia's Kazbek system, put into operation in the early 1980s, allows the head of state, no matter where he may be at a particular moment, to receive information about a missile attack and issue an order to deliver a nuclear strike by means of a portable electronic terminal named Cheget. This so-called 'nuclear briefcase' sends a signal, encrypted in a personal presidential code, to the central command post, which is then relayed to the command posts of ICBMs and nuclear-missile submarines. As is common within the sphere of strategic armaments, the Soviet Union followed the example of the U.S., which introduced such a system in the early 1960s.

Yet, there have always been fundamental differences between the two 'briefcase' systems as regards organizational and legal aspects. There is plenty of information on the U.S. system from official sources and from a library of expert publications. In the United States, the decision to employ nuclear weapons must receive the consent of primary individuals involved in this process. However, only the U.S. president is in possession of the 'briefcase,' and he is always accompanied by a military officer. If the president is unable to perform his duties as commander-in-chief (due to illness, absence in the country, a security threat, etc.), the terminal is passed over to the vice-president. That is why the president and the vice-president never leave the country simultaneously. Furthermore, a special law specifies the procedures for passing over command in case both top

executives die or lose communication in the event of a war. The chain of command consists of more than ten officials, beginning with the speaker of the House of Representatives, the Secretary of the Treasury, and so on. The Secretary of Defense is far behind them, while there are no military officers on the list.

The equivalent Soviet system operated in a different way from the very beginning, and Russia has borrowed this system unchanged. In addition to the presidential 'nuclear briefcase' (in the past, this terminal was in possession of the Communist Party General Secretary), there are two more such 'briefcases' – one remains with the minister of defense and the other with the chief of the Armed Forces General Staff. This setup begs the question: How can these three terminals issue an order to launch a missile strike? In unison, as three parts of a single code, or each on an individual basis? There is no answer to this question from official sources.

If the signal to launch strategic nuclear forces proceeds from all the three sources that would seem rather strange, since the defense minister and the chief of the General Staff are not equal to the president: the first is subordinate to the head of state, while the second is subordinate to the minister. From the legal point of view, the supreme commander's decision to use nuclear weapons does not require confirmation from the other two officials. Furthermore, how can the country react to a surprise missile attack if the president is abroad or is unable to issue an order for some other reason? (In Boris Yeltsin's times, there were many sarcastic suppositions to this effect.)

It would be appropriate here to recall the coup attempt in Moscow in August 1991, when President Mikhail Gorbachev was denied access to the "nuclear button," while one of the coup leaders, Defense Minister Dmitry Yazov, was separated from his terminal after the coup attempt failed. Did this mean that the "beheaded" country temporarily lost the ability to deliver a retaliatory nuclear strike in response to a surprise attack? It seems it did not; at least, no one in the Soviet Union or abroad showed any concern about such a possibility, because the third terminal apparently remained at the General Staff, which means control over the strategic nuclear forces was never lost.

If it is true that the three terminals do not operate in unison, while the individual possessors of the "Chegets" can give missile launch orders separately, is there a technical possibility of starting a nuclear war without the decision of the president? According to the Russian Constitution, if the president is unable to give orders, he is succeeded not by the defense minister or the chief of the General Staff but by the prime minister. Such a succession occurred only once: in 1996, Boris Yeltsin underwent a heart surgery, and then-prime minister Victor Chernomyrdin took over the nuclear briefcase. Lately, the mass media has not reported about the handover of the nuclear terminal to the Cabinet chairperson during the president's frequent visits to other countries. Moreover, the president and the prime minister often go abroad simultaneously, so how is it possible they are performing their "nuclear duties?" Who, at this time, has the powers of such an important decision and what about the principle of political control over the main decision in defense policy?

There is no doubt that presently both the defense minister and the chief of the General Staff are politically loyal and administratively subordinate to the president and will never act against his will, especially in such an important sphere as the employment of strategic nuclear forces. Times change, however, just as the personnel at the highest state posts do. It is impossible to predict how the "triple button" will operate in a possible crisis if the president is suddenly out of reach. What would transpire should the proliferation of nuclear missiles result in an accidental or provocative missile strike against Russia? What would happen in the event of a nuclear terrorist act?

In the Soviet Union, there was no notion of political or civil control over the army; there was only unified "military-political" control, which was in line with the Soviet totalitarian political regime. In today's Russia, which is following a democratic path, as President Putin said in his April 25, 2005 address to the Federal Assembly, the political leadership must have firm and technically guaranteed control over the most important of all decisions – the decision to employ nuclear weapons.

WAYS TO SOLVE THE PROBLEM

Making information available to the public about nuclear armaments requires a well thought-out approach; after all, there is much information that must remain secret. This includes technical aspects of many existing and future weapon systems and nuclear munitions, command-control and warning systems, operational plans for the combat employment of forces, and their target lists.

A similar secrecy practice is in force in many democratic countries, including the U.S., Great Britain and France. Those countries may make mistakes in their nuclear policies, as well. However, the advantage of a democratic system is not that it guarantees against mistakes, but that it allows free discussion on nuclear issues based on reliable information, and the timely correction of mistakes before they cause irreparable damage.

As for Russia, much of the information on the deployed forces, programs for their development, the allocation of financial resources, and measures to strengthen strategic stability must be transparent. This is especially the case since Russia shares much of this information with foreign countries (information exchanges, for example, under the START-1 Treaty) and the United Nations (which Russia informs about its nuclear program funding). There is no good reason to classify this data – if, of course, government agencies do not seek to preserve their monopoly on decision-making and conceal their mistakes. In order to remove the senseless veil of secrecy surrounding such information, essential amendments are required in the law *On State Secrets*.

The legislative branch must have a greater role in forming defense policy in general, and nuclear policy in particular. This can be accomplished through parliamentary hearings, investigations and, possibly, an amendment to the constitution that would give the Federal Assembly control powers (now it has only legislative and representative powers). Parliament deputies need more information than just the size of budget allocations for utility services or clothing allowances for the Army and the Navy. They need funding information that will let them form an opinion about major priorities of defense policy and military devel-

opment. These would include nuclear deterrence at the global level and in theaters of operations, offensive and defensive strategic systems, and general-purpose forces, the potential for conducting large-scale and local wars, rapid response forces and forces for peacekeeping operations, as well as the distribution of resources for countering possible threats from the west, south and east of the country. To make this a reality, the law *On Budget Classification* needs to be revised.

In addition, the law *On Defense* requires amending in order to legalize the institution of civilian control over the Ministry of Defense. This proposal includes the defense minister's staff subordinated only to him and capable of objectively assessing proposals coming from the commanders of the armed forces and the General Staff.

It is also necessary to adopt a special law that would considerably enhance the role of Russia's Security Council. The Council must not be just an advisory body to the president, but a supradepartmental organization intended to analyze the positions of the country's defense and security agencies. It would focus on coordinating the efforts of the security bodies in implementing presidential and parliamentary security policy, especially in areas where domestic and external problems and challenges converge.

The possibility of changing the high-level nuclear control system (Kazbek) with reference to Russia's political system, together with the introduction of a law *On the Succession of Supreme Command*, warrants consideration. This would establish the order in which state officials, besides the president and the prime minister, assume power in a war to decide on the use of nuclear weapons.

Finally, the government should strongly encourage expert studies and listen to recommendations of independent scientific and public organizations and individual authoritative experts. Given free access to ample and trustworthy information, they will be able to propose alternative approaches to security problems, which would be free of departmental pressure. Their efforts will help the president and parliament make the best decisions on the long-term state strategy.

The Middle East: What's Next?

Monument to the Soviet builders
of the Aswan Dam, Egypt

Russian businessmen had a lack of experience in dealing with the Arab business quarters, even in the traditional partner-countries. They neither knew the specificity of Arab nations nor had the required skills for doing business under local conditions. Thus, an entr'acte began in Russian-Arab relations which was to last for many years.

After the Lull: Russia and the Arab World at a New Stage

Vladimir Yevtushenkov

The Middle East — a vast area with a huge population, abounding mineral wealth, and a multitude of political 'wounds' which aggravate global problems — is once again the focus of interest of the global powers. Issues related to security, terrorism and the increasing global energy demand are extremely topical there, and it seems only natural that the region became the subject of sweeping international initiatives in the past few years. The U.S., for example, sponsored a plan for the democratic realignment of the Greater Middle East (later reflected in the Group of Eight's Wider Middle East initiative), while various UN projects aimed at stimulating development and eliminating poverty and inequality were also created. The present course of developments there has graphically demonstrated that not a single country, even a country as powerful as the U.S., can unilaterally solve the problems of that vital region.

THE PLIGHT OF SOVIET HERITAGE

Russia is far from being a detached observer in the Middle East; indeed, the influential country enjoys the respect of the people in this region. Soviet loans and technological aid have helped the Arab countries build key infrastructure and power engineer-

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ing facilities, metallurgical plants, and defense production facilities, as well as to maintain well-equipped and well-trained armed forces.

Soviet specialists during the reign of President Gamal Abdel Nasser helped to build Egypt's industrial facilities; these constitute the foundation of the country's economy. The best known of these are the Aswan High Dam and the Helwan steelworks, as well as the aluminum factory in Naga Hammadi, the phosphate compound in Abu Tartur and the shipyard in Alexandria. Overall, there are approximately one hundred such Soviet-built facilities.

Algeria also received significant assistance from Moscow which gave that nation a head start in its energy sector, as well as in mining, metallurgy, machine-building, water management and other industries. The Soviet Union assisted the construction of steelworks in El Hadjar and Annaba, a thermal power plant in Jijel, the Alrar-Tin Fouye-Hassi Messaoud gas pipeline, a dam in Beni-Zid, etc.

Contracts were signed with Iraq for the construction of oilfields in its southern regions. The Soviet Union helped build the Al-Nasiriyah-Baghdad gas pipeline, the al-Yusifiya thermal power plant and a number of other facilities. However, the greater part of the contracts was frozen after the imposition of UN sanctions against Iraq in 1990.

In Libya, the Soviet Union built the Tajoura nuclear research center, high-voltage transmission lines and a gas pipeline. It also drilled about 130 commercial oil wells, carried out soil, geobotanical and ecological studies on an area totaling 3.5 million hectares. It devised plans for developing that nation's gas industry, high-voltage power grids and machine-building plants, and prepared a feasibility study for the second phase of the Misurata steelworks with an annual output capacity of 1.67 million tons of steel (with further increase of annual capacity to five million tons).

Industrial facilities built with Soviet assistance play a crucial role in the Syrian economy. They provide the country with 22 percent of its electricity, 27 percent of its crude oil and help it to irrigate more than 70,000 hectares of arid lands. The cascade

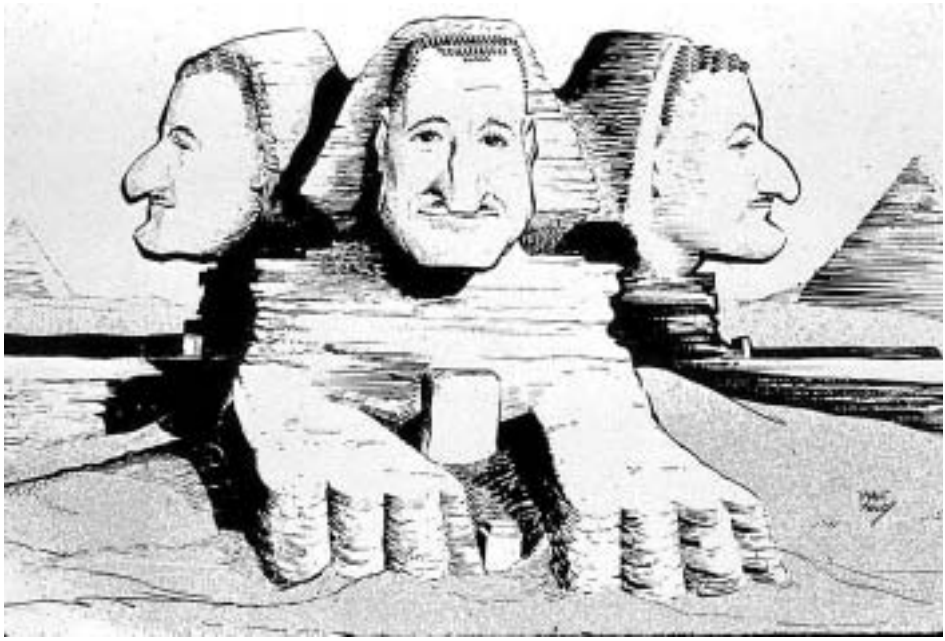
of hydropower plants on the Euphrates, the Al-Baath and Tishrin hydropower complexes, about 1,500 kilometers of railroads, 3,700 kilometers of high-voltage transmission lines, irrigation and water supply installations, the Homs-Aleppo oil product pipeline, the Homs factory of nitrate fertilizers, and several vocational training centers were all built with the aid of Soviet government loans.

The Arab countries (Egypt, Syria, and Algeria) paid off their loans with consumer goods almost entirely produced by small private companies. These exports to the vast and stable Soviet market promoted the rise and strengthening of national manufacturers in those countries.

The Soviet Union traditionally imported Arab citruses, fruit, canned foods, and confectionery. Arab beauty products (Egypt's *Nefertiti* and *Climat* perfume brands, for example, as well as cotton fabrics, and Syria's door curtains, guipure, curtain lace, and a type of polyester known as crimplene) enjoyed stable demand in the Soviet Union.

The start of the dramatic transformations in the Soviet Union, however, brought all those processes to a halt. Russian leaders adopted new approaches in the administration of the state and economy after the disintegration of the Soviet Union and these predetermined the Kremlin's desire to keep at a distance some of its traditional allies, which was especially conspicuous during the initial pro-Western euphoria. Political contradictions over the situation in the North Caucasus added to the estrangement of Arab countries in later years.

As a result, Russia froze or severed economic relations with the Arab world after the events of 1991, and the huge potential of cooperation that had been built up in previous decades was shelved. The government abandoned trade with those countries, while private Russian businesses were unable to return to these traditional markets. Moreover, Russian businessmen had a lack of experience in dealing with the Arab business quarters, even in the traditional partner-countries. They neither knew the specificity of Arab nations nor had the required skills for doing business under



The Middle East: Looking for allies.
A caricature of Egyptian President Gamal Abdel Nasser. 1956

local conditions. Thus, an entr'acte began in Russian-Arab relations which was to last for many years.

MORE THAN JUST ECONOMY

The Middle East plays a crucial global role. Located on the African and Eurasian continents, it has a territory of 14 million square kilometers and a population of approximately 300 million people. Arab countries have been showing annual growth rates of 3 to 6.4 percent over the past two decades, while they continue to boast an attractiveness for foreign partners. More importantly, in recent years a clear change has been spreading over the regional market.

Over the years, the general conviction prevailed that the Arab economies have always been, and would continue to be, based on oil. Undoubtedly, the oil industry remains the major field for business opportunities – as much as a source of political tensions. But in 2004, Saudi Arabia opened up more than 20 economic facilities in different branches – ranging from oil production to retail trade – for an inflow of foreign investment.

The result was that the Russian fuel company, LUKoil, signed a concession agreement in March 2004 which gave it prospecting rights and geological works, as well as the opportunity to develop natural gas and gas condensate fields on an area of 30,000 square kilometers in the Rub Al-Khali desert. The agreement spans 40 years and is worth an estimated four billion dollars. LUKoil and Saudi Aramco Corp set up a joint venture, Luksar, to implement the project. They have 80 and 20 percent in the joint venture, respectively.

Markets of capitals and powerful financial centers are rising rapidly in the region. Bahrain, whose government seeks to turn the country into a major regional and international trading and financial center, has been particularly active in that sphere recently. Bahrain's economy is number three in the world in terms of openness after Hong Kong and Singapore. There are no taxes on individual or corporate incomes in Bahrain. Furthermore, there are no restrictions on cash and profits that are taken out of the country, or on currency conversion. The imports of raw materials, prefabricated commodities or capitals to be used in local manufacturing are free of duties. The government permits the establishment of 100 percent foreign-owned companies and offers to them simple registration formalities.

Kuwait is the largest regional investment center. It has a developed local money market and its population has more finances in the bank than the populations of Saudi Arabia, Abu Dhabi and Qatar taken together. Kuwait makes long-term investments abroad, but the investor in such cases is the government, not private companies.

The tendency for economic liberalization, together with the process of globalization, has boosted the popularity of free economic zones in the Middle East and North Africa. Being a form of attracting foreign capital, including from Russia, such free zones have emerged in Syria, Jordan, Lebanon, the United Arab Emirates, Egypt, Tunisia, Morocco, Djibouti and Yemen.

The Jebel Ali free zone in Dubai is one of the most successful and attractive zones in the entire Arab world. The emirate's stable

legislation, perfectly developed communications and transport networks have made it possible to concentrate the offices of more than 2,000 companies from 97 countries in this special area. Jordan, too, has considerable experience with free economic zones. It has introduced special industrial areas – the latest-generation zones that draw the lion's share of foreign capital. The creation of free economic zones is also underway in Bahrain, Qatar, and Kuwait.

Lebanon, whose banking sector has an extensive history, is of special interest. Earnings on oil exports have traditionally flown into Beirut, and Lebanon's centuries-long trade and cultural relations with European and Arab states enabled it to make trade an important sector of its economy. Before the civil war of 1975 to 1990, Lebanon's economy showed stable growth rates, while tough laws on banking information privacy attracted foreign cash to its local banks. The country was even described at the time as a "Middle Eastern Switzerland." Corporations in the West and in Arab countries eagerly invited Lebanese managers to fill top positions.
Then war sent Lebanon backwards. Its economy lost $30 billion, while other Middle East countries were experiencing a boom. Business activity shifted from Beirut to other economic centers, yet Lebanese banking assets saw miraculous growth, as they had been pertinently invested in the U.S. and Europe right at the start of the war. Although Lebanon's present debt stands at about 160 percent of its Gross Domestic Product, this fact does not seem to worry the nation or the world in the least. In 2002, the Financial Action Task Force on Money Laundering dropped Lebanon from its blacklist, while a total of eleven local banks are ranked among the 100 most successful Arab financial institutions. Political developments that followed the assassination of Prime Minister Rafiq al-Hariri cast certain doubts over future economic prospects, yet there is a hope that the country will overcome the current crisis; of course, stability is in the interests of the Lebanese economy and business community.

Meanwhile, other regional countries face a host of difficult problems. As it is with the Russian economy, the economies of the

Middle East are heavily dependent on the oil market situation. Arab states must address the same type of problems as Russia. They acknowledge the deficit of foreign investment and seek new markets for their commodities. Even Saudi Arabia was compelled recently to stop the outflow of cash and began speaking about the need to attract outside investment for some projects on its territory. Another point of concern for the Arab world is its modest economic growth. In Saudi Arabia, for example, the per capita GDP fell to $7,000 in 2004 from $28,000 in 1982.

Presently, opportunities for expanding economic cooperation with the Arab countries are opening up for Russia, predominantly in high technologies, banking services, the supply of metal products and industrial materials, and in the transfer of technological know-how, especially in the oil and gas industry.

There are other promising areas, like exploration drilling to tap subterranean reservoirs of fresh water, the distillation of seawater (since the shortage of fresh water may become the region's biggest challenge over the medium term), and the petrochemical and metallurgical industries. Russia and the Arab countries have drafted joint projects to produce a long list of products which include chemical fertilizers, oil by-products, timber, leather, hunting accessories, fishing equipment, riverboats, motorboats, ships, cable fittings, fast-assembly wooden houses, cars, and other transport vehicles.

Defense cooperation with the Arab states also holds special promise, as it furnishes Russian defense manufacturers with highly profitable orders. Russia cannot compete with the West in terms of the amount of weaponry and technologies that are supplied to the Arab world, but a buildup of cooperation with Russia will help the Arabs diversify their arms acquisition sources, thus decreasing their dependence on imports from the U.S.

An acceleration of economic ties between Russia and the Arab world is of significant geopolitical importance. First, Russia is an internationally recognized co-sponsor of the Middle East peace process; its presence in the region is stable and conforms to the important state task of being a power center in a

multipolar world. In this sense, President Vladimir Putin's visit to the Middle East in April 2005 raised Russia's prestige on the regional and global scale.

Secondly, Russia can play a unique role in defending the Arab nations' interests on the international level, while helping to prevent particular attempts to push them to the sidelines of the modern world. Those attempts are often made under the pretext of fighting against "Islamic extremism." It appears that certain quarters have a desire to respond to the rise of international terrorism with a new partitioning of the world – according to civilizational and religious lines of demarcation as opposed to ideologies as in the past. Most Arab states run the risk of falling into the category of "suspicious" countries which implies the possibility of actions being initiated against them, including direct military interference in their internal affairs.

It is no accident that America's widening interventionist doctrines are arousing concerns even in the Gulf States, despite their traditional pro-Western orientation. In the situation where Washington's policies are often arrogant and awkward, the idea of diversifying external relations in a bid to somewhat modify American pressure is becoming increasingly popular with the Arabs. Relations with Russia – still a major international player despite the weakening of its position in the 1990s – are gaining significance for the Arab countries from this perspective.

Russia remains a reliable partner for any nation that objects to unilateral decisions regarding force against another nation in violation of the UN Security Council. The Russians and Arabs have very close views on at least two issues. First, both sides recognize the importance of handing over total state power to the Iraqi people in order to maintain territorial integrity of and stability in that long-suffering country. Second, both countries advocate a just peace settlement to the Middle East conflict on the basis of the UN Security Council's resolutions and the peace-for-land formula devised in Madrid.

And yet Moscow's role in the Middle East will diminish and it will no longer play a part in regional policy unless it bolsters

its influence there through appropriate economic activity. The Russian business community may throw its weight behind that effort by using the system of relationships now being established. Economic cooperation with all countries of the region without exception will enable Moscow to reaffirm its role as an efficient and friendly mediator between nations despite their differences.

Economic rapport with the Arabs must grow alongside a strengthening of mutual political ties. President Putin urged Russian businesses to increase trade with Arab states to a new level in the short term so that it would match the opportunities opened by public and political interstate relations at present.

OLD AND NEW PARTNERS

The scope of Russia's potential partners in the Arab world has grown sizably after the ideological element vanished from Russian-Arab relations. Economic interests, together with all of the economic benefits that go with it, necessitate the establishment of contacts with all countries in the region that are ready to cooperate in practical terms. It is important that they offer an appropriate array of goods and services rather than merely wave catchy political slogans.

Egypt – where Russia enjoys trade to the tune of half a billion U.S. dollars and its volume is growing – plays a key role among Russia's traditional partners in the Middle East. Communications and information technologies enjoy the best prospects for Russian-Egyptian cooperation. The fact that the recently appointed Prime Minister Ahmed Nazif held the post of Communications and IT Minister underscores the importance of these economic areas. While Nazif was in charge of these sectors they boasted a 34 percent growth over a period of five years.

Egypt has launched an energetic Smart Village project which is planned to be a technology park with state-of-the-art equipment and housing infrastructure, where the leading IT producers will locate their offices. Companies which choose to locate their offices in the village will receive tax privileges for ten years and enjoy simplified registration procedures at Egypt's government departments. The leading Egyptian IT companies (Alcatel

Egypt, Al Ahly Telecom and others) have already purchased the land for their offices in the Smart Village. Russian companies, too, are planning to settle there. A definite advantage of locating here derives from the relative youthfulness of the Egyptian national market. Being young, it is capable of being flexible to situational changes while enjoying much broader resources. More importantly, prices in Egypt are much lower than in the United Arab Emirates, for example, and hence production costs are less expensive.

Lebanon is another good example of a country where Russia is re-establishing historical contacts while developing new ones. Incentives to bilateral trade and investment, as well as assistance to the rise of close partner ties between private businesses, are important elements of Russian-Lebanese relations. But Lebanon gives greater focus to cooperation with Russia in the oil industry. Its government has repeatedly emphasized that it would welcome Russia's engagement in the construction of oil and gas pipelines across its territory. Moreover, the Lebanese have an interest in inviting Russian experts to participate in the construction of irrigation systems and dams.

Saudi Arabia is a very special case. For half a century, the Saudi kingdom and Russia have stared at each other across a barrier of hostility, and Moscow had little reason to hope for gaining positions there.

First, Russia had no political positions in Saudi Arabia during the most recent periods of history. The Saudi rulers had vivid memories of the Soviet Union's hostility toward their country. While the Russians typically associate Saudi Arabia with radical Islamism, which now threatens Russia in the North Caucasus, the Saudis have a very derogatory opinion of the Russian government's actions there. Secondly, the Saudi elite and society have traditionally looked toward the West and are simply not ready yet to work with other partners.

Such barriers mostly have a political nature, and ways to get over them to form an atmosphere of trust can be found in the realm of economics. Experts will typically point to the energy sec-

tor and arms trade as the major potential areas for Russian-Saudi cooperation, but one should not forget the sectors where investment pays back more quickly – real estate, construction, trade, securities, and transport infrastructures.

The experience Russia has gained in certain high-tech areas, including gas liquefaction, the construction of pipelines, and regasification may come in handy in Saudi Arabia. On their part, the Saudis are ready to invest in the Russian aerospace industry. Finally, in the defense sector, the Saudi army is equipped with U.S. and West European weapons, but Riyadh seems to be closely watching Russian-made combat helicopters. In light of the aforementioned, the first Russian-Saudi economic forum held in Moscow in July 2003 had real historic significance.

RUSSIAN-ARAB BUSINESS COUNCIL: MISSION AND ACHIEVEMENTS

The level of trade and defense cooperation between the Soviet Union and the Arab countries was measured in billions of U.S. dollars before 1991, but this amount was ensured exclusively by government agencies and control levers, while cooperation was driven by political calculus and Cold War logic. The current phase of Russian-Arab cooperation, however, pushes to the forefront the partnerships between government agencies and corporations.

The task of balancing Russia's trade and economic relations with the huge politically fragmented and economically variegated Arab world, while lending support to its regeneration, was entrusted to the recently established Russian-Arab Business Council (RABC). On the Russian side the Council was co-founded by the Chamber of Commerce and Industry.

The RABC rapidly won the status of an active and respected coordinator of Russian-Arab business cooperation. To a large degree, this was established by the high reputation that the Arab peoples have for Dr Yevgeny Primakov, President of Russia's Chamber of Commerce and Industry. His subtle knowledge of the region is widely recognized.

On the Arab side, the co-founder is the General Union of Chambers of Commerce, Industry and Agriculture of 22 countries. Its members are the chief executives and representatives of national chambers of commerce and industry and important businessmen. Russia's Sistema Joint Stock Financial Corporation is also playing a key role in the RABC. The Council's main job is to create joint committees entrusted with implementing specific projects between Russia and Arab member countries, establishing direct contacts between Russian and Arab businesses, and stimulating innovative activity.

Over the eighteen months since its foundation, the RABC has earned the reputation of an efficient instrument of building business relations and a center for collecting, analyzing and disseminating commercial information both sides may need. An Arab or Russian businessman can receive consultation and find a reliable business partner in the RABC. The council has helped to set up three bilateral committees for Russian-Egyptian, Russian-Syrian and Russian-Lebanese cooperation. Similar joint committees are in the offing. Their activity will help regulate relations between business people and determine the most promising spheres of operations in each country.

The results of the RABC's operations, and the noticeable growth of business contacts it has stimulated, inspires hope that the protracted lull in Russian-Arab relations has come to an end. The RABC gives this cooperation a chance to attain a new quality, free of ideological barriers and marked by productive interaction between business and government. In the business sphere, novel information technologies and the services sector should play the central role. This will allow Russia and its Arab partners to rid themselves of the oil dependent stereotype of their economies and help adapt them to the high-tech-dominated environment of the 21st century.

A New Middle East

Yevgeny Satanovsky

Politicians and international officials continue to make assurances that the efforts and investments that have been made in the Middle East over the past 50 years are so enormous that the region should long have become a center of a thriving elite and affluent public. Nothing of the sort, however, exists in the monarchies, autocracies and republics of the region.

Politically correct liberal analysts are prone to criticize Samuel Huntington for his ill-timed prediction concerning a clash of civilizations unfolding right before their eyes, while their conservative opponents are bolstering military operations by bold proclamations of forthcoming Middle-Eastern democracy. On the face of it, the crisis in this basically Islamic territory stretching from the Atlantic to the borders of the Indian subcontinent has become permanent. The Middle East countries that became independent during the second half of the 20th century failed to organize their internal political, humanitarian and economic structures, nor have they been able to create a stable system of external relations. Their border problems, derived from the liberties taken by French, British and Russian cartographers, do not bode well for their future.

Over the more than three decades that have elapsed since the monarchies of the Arabian Peninsula invented the "petroleum weapon," they have accumulated more than enough money for solving their regional problems. Time was on their side, as well.

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During the same period, the Europeans cleared away the remaining rubble of World War II and built the European Union, a bloc of 25 nations which is powerful enough to give the U.S. strong economic competition. The Middle Eastern countries, however, compare quite well to their Western counterparts in terms of the amount of political tools at their disposal, and especially so if their impressive representation in international organizations, including the UN, is taken into account. They use those tools expertly, for example, when it comes to blocking Israel's integration into the global system of humanitarian organizations.

The region received, apart from many other things, a lion's share of international aid, including that which was allocated to accommodating refugees. It enjoys discounted supplies and loans from both East and West for the resolution of its internal conflicts. Since it is considered "a zone of strategic interests," it receives outside military contingents, with a size and cost second only to what the West keeps for its own defense. Despite all of these seeming advantages, the prospects for the region's development remain as dim as ever.

The engagement of external powers in the Middle East has failed to resolve any of the conflicts now tearing the region apart; the problems have been driven into the corner and may flare up again anytime after external pressures are gone. This is equally true of minor and major sources of tensions regardless of whether their roots go back centuries or result from recent contentions. UN peacekeeping activity in the Middle East is no less a disaster than in Africa, whereas numerous Islamic or pan-Arabic initiatives meet with success only following a protracted occupation. This equally concerns Western initiatives, despite the rhetoric of the politicians and mass media covering the operations of the French Foreign Legion or U.S. Marines.

As the 21st century set in, the standoff between Christianity and Islam has resulted in victory for the latter. The Christian population of the region is rapidly shrinking, including in those places where local dictators would have – until recently – bolstered the wealthy Christian neighborhoods as counterweights to impover-

ished Islamic townships. Democratization in the Middle East means the expulsion or destruction of minorities rather than respect for their human rights. This concerns Christians in Egypt, Iraq, Lebanon and Sudan. Iranian and Syrian Christians feel more or less secure only while the incumbent regimes are standing at the helm of power. As for the Christians in Israel and Palestine – where the Palestinians have been building their "national homeland" for the past 10 years – if the Jewish state defends the rights of the Christian population and does not leave them at the mercy of Islamic fundamentalists, then they will survive.

Slavery – the eradication of which international humanitarian organizations have sensationalized since the 1960s – persists in the region in covert as much as overt classical forms. Mauritania and Sudan are just two good examples where the slave trade is flourishing with total neglect from the global community.

Political fundamentalism as the most effective means of opposing the authorities – oftentimes in the form of guerilla warfare and terrorism – has become commonplace. Algeria and Egypt have pushed the fundamentalist forces into the background by flexing the muscle of their armed forces and heavily limiting democracy, and yet there is no guarantee that the results will be long-lasting; moreover, fundamentalism is gaining momentum in the neighboring countries. Morocco, a country viewed for decades as a zone of cooperation between Ulemas and the monarchy, is now witnessing the killing of foreigners and the destruction of Jewish community buildings, which sends a disturbing signal. Add to this the powder keg of Western Sahara where a peace settlement seems as remote now as it did 25 years ago.

Millions of people from Algeria and Morocco are now emigrating to aging Europe. These countries are the source of the new European political Islam that is closely linked to international organizations of all colors – including terrorist organizations. Their leaders made perfect use of the electorate with their roots in the Maghreb and utilized the loopholes in the European Union's liberal system. This was proven when they tested the durability of the European political system in a series of railway

station bombings, the most dramatic of which occurred in Madrid on March 11, 2004. In the aftermath of those deadly bombings, the Spanish government capitulated to the terrorists. Against this background, the possible termination of the Arab-Berber conflict (a possible breakthrough arose when the Algerian government made symbolic steps toward the Berbers after ten years of continuous fighting against them and Islamic extremists) is poor consolation.

The transfer of power which aggravates the stability of the ruling regimes presents yet another headache for the region. The paradox is that under a "republican monarchy" the handing down of power within a ruling family, against the backdrop of democratic formalities – like in Syria or Azerbaijan – may actually provide the Middle East with a redeeming alternative to putsches, civil wars or Islamic revolutions. The elderly leaders of Libya and Egypt, for example, apparently find the legitimate transfer of power exclusively important. The question, however, is whether or not their successors will be able to hold onto power.

Egypt, the key country of the region, is experiencing a skyrocketing population growth rate. Furthermore, it is home to the region's most potent Islamic opposition with a record of fighting against the government. No one can rule out a situation where the pressure on the economy and ecology will become so overwhelming – when the country moves over the threshold of a 100 million people – that it will be forced to launch an external expansion in a bid to avoid an Algerian-type civil war. In such a scenario, Sudan will be the most likely target, especially considering the fact that it may cease to exist as a single country in the next 10 to 15 years. It may break up – through a referendum or without it – into the Islamic North and Christian/animistic South. The Egyptian-Sudanese union has deep roots and may turn into a dangerous neighbor for Israel: its leaders may eventually reach the conclusion that a clash with the Israelis is justified from both ideological and domestic perspectives.

There is also the possibility that a hypothetical Egyptian-Sudanese union may unite with Saudi Arabia should the Islamic

radicals from among "the Afghan Arabs" succeed in overthrowing the ruling Saudi dynasty. The new Caliphate that would most likely arise from such unification would certainly pose a serious economic, military, demographic and geopolitical challenge. As for Israel, it seems that a clash with such a Caliphate would be almost inevitable. The likelihood increases when we consider that the deterring factor of Israel's nuclear weapons is losing force in view of the Arab world's assuredness that the West will never allow the Israelis to use nukes even as a "weapon of last resort."

Are alternative scenarios possible for the Arabian Peninsula? One scenario, which has a less likely chance of materializing, is the rise to power of Islamic radicals and the imposition of a regime in the style of Iranian ayatollahs. However, a more likely scenario is the arrival of the Talibs. How things develop afterwards will depend on whether the West decides to interfere or avoid the situation. A Sunni Islamic republic, following the Iranian model, will have a lasting opportunity to exploit contradictions between the leading Western powers until it evolves into the New Caliphate, unless a personality akin to Osama bin Laden takes over the reins of the process from the very start. Should this occur – or if the Islamic radicals take hostile actions against the U.S. similar to 9/11, then the probability of a U.S. or NATO-led military operation resulting in the partitioning of Saudi Arabia is very high. The zones of partitioning may look as follows: the province of Hijaz with the Islamic shrines that will be placed under the control of friendly Arab regimes (like the Jordanian dynasty), Ash Sharqiyah (Eastern) Province with its oilfields, the Yemeni Asir, and the Wahhabi-dominated Najd. The Americans will benefit greatly in such a situation from their experience of governing Iraq, split de facto into ethnic-religious zones.

The destiny of lesser monarchies of the Persian Gulf will depend to a huge degree on the strength of U.S. and British positions in the region. Aside from Oman, those countries are unable to rebuff radicals on their own. As for Oman, its stability is pegged on Sultan Qaboos bin Said's ability to arrange a hand-over of power in the absence of an heir apparent to the throne.

Yemen is overstocked with weapons and the central government there remains feeble. Moreover, a crisis tantamount to an ecological disaster may hit the country within the next 10 years due to the increasing scarcity of fresh water. These developments heighten the probability of a clash between Yemen and Saudi Arabia in the future. The prospects for the solution of Yemeni problems without such a conflict are unclear, but in the event of war the consequences will prove no less catastrophic than the Iraqi occupation of Kuwait in 1990.

Yemen's neighbors across the Bab el Mandeb Strait – Somalia, Eritrea and Djibouti – will remain entangled in the mess accompanying the collapse of the former Ethiopian Empire with consequent border clashes, religious and tribal carnage, epidemics and famine. The possible disintegration of Sudan, together with the first continental 'mega-war' that experts on Africa are apprehensive about, will further aggravate the situation. Such a war may include the majority of countries of the Sahel (i.e. a broad corridor from the Sahara toward the West-African savannas) and the Great African Lakes region.

Afghanistan – located to the east of the Arab world – continues to be partly controlled by NATO occupational forces. The country is not really governed by anyone, however, which is witnessed by the growing output of the narcotics trade. This production has partly fallen into the hands of the Talibs, whose ostensible defeat was grossly overblown by Western media. The processes now unfolding in Afghanistan pose a mortal threat to stability in Pakistan, whose collapse is not off the cards in the short term largely because of its entanglement in the Afghan misadventure. The sad reality is that the central government of Pakistan, a country with its own nuclear weapons and a powerful pro-radical terrorist-connected lobby throughout its national elite, is losing control over developments in the border areas.

Iran, which is close to implementing a nuclear program for its energy needs, which may also entail a military nuclear program, remains the central element of the "axis of evil" construed by the U.S. The revolutionary Islamic republic is experiencing an evolu-

tion which the Soviet Union witnessed a few decades before it. Iran promotes regional stability by remaining on the sidelines of most conflicts or by playing a constructive role in them. And yet its own conflict with the West, primarily with the U.S. and Israel, may produce a disastrous destabilization in the Middle East, the Caspian littoral area and the Gulf. The Americans will try to avoid a direct standoff with Teheran, but they will do strive to provoke a confrontation between the Iranians and Israelis by instigating an Israeli attack on Iran's nuclear facilities. This possibility has not been ruled out in the wake of a recent surge of anti-Israeli terrorist activity on the part of Lebanese Shiites. Moreover, Israeli leaders may need "a little victorious war" to defuse the unprecedented tensions now existing amongst Jewish society over the pullout of Israeli settlements from the West Bank and Gaza Strip.

Iraq will remain a zone of civil war, with radical Islamists from across the world flocking to the country since they view Iraq as a testing ground for Jihad. The recent parliamentary elections failed to satisfy both the Sunnis and the Christians. The Sunnis who made up the core of Saddam's administration, police and armed forces, actually did not participate in the election, while the Christians are emigrating en masse. Iraq's disintegration looks quite possible and should it materialize, not only the first ever Shiite Arab state, but also the first independent Kurdish state may emerge. With regard to a possible Kurdish state, this would confirm a promise the League of Nations issued to the Kurds between the two world wars. It will also mean, however, the danger of Turkey's breakup since its rapidly increasing Kurdish population is seasoned with traditions of armed separatism.

This risk has cooled relations between Turkey and the U.S., as the Turkish government rejected the request of its chief partner to use the country's territory for an attack on Saddam. As a result, Turkey lost several billion U.S. dollars and a significant part of its relationship with the Americans. Meanwhile, Ankara's move to join the European Union under the condition of resolving the Northern Cyprus problem, may become a convenient alternative to preventing the EU's transformation into another Maghreb

and/or to an upsurge of Islamic trends inside Kemalist Turkey if it drifts away from the U.S.

The crisis in Lebanon after the assassination of its former Prime Minister, Rafiq al-Hariri, will most likely speed up the withdrawal of Syrian troops and catalyze a new round of civil war in that country, given the fact that foreign military contingents were the only instrument of scaling down the conflicts between ethnic/religious militias which destroyed Lebanese society. Simultaneously, Syrian President Bashar Assad may lose power in his country despite his great efforts. Following the loss of control over Lebanon, his downfall may be arranged by the national establishment that he controls – and incidentally, controls to a much lesser degree than his father did. The U.S. may also fuel Assad's ouster in a bid to round off the Iraqi adventure with the capitulation of Syria. As a result, Syria may be spiraling for a series of pre-Assad putsches and Latin-American-style juntas that will be unable, however, to play any significant role in the region.

The knot of Israeli-Palestinian challenges loosened somewhat after the death of the Palestinian Ra'is (the Arabic for "head") Yasser Arafat. It is not clear yet to what measure his successor, Mahmoud Abbas, will be able to control paramilitary organizations and maintain power. There continues to be a standoff with radicals at the municipal level, especially in the Gaza Strip, where radical elements have a grip on local rule. In the short time, a civil war cannot be ruled out in Palestine. In such an event, the territory will break up into enclaves reporting to local leaders, each building relations with Jordan, Egypt and Israel of his own accord.

The Jewish settlers' removal from parts of the West Bank and Gaza has split Israeli society. Prime Minister Ariel Sharon, a politician who considers his international image no less than his family's safety after his retirement, has practically driven the country to the verge of another "orange revolution." His actions show that Israel's former pride in its democratic institutions actually veiled traditions of clan authoritarianism that are quite a match for the neighboring Arab states, which the Israelis hold in disrepute as "dictatorships." Considering the vacuum of power,

together with the public's conviction that the left-wing and right-wing establishment has fused into a group of corrupt leaders may drive Israeli society to a standoff or cause irreversible changes to its internal political body. Experts surmise that Israel may soon turn into a presidential republic. Furthermore, there may be a greater political role for the Israeli Armed Forces while, at the same time, its Arab population [those who recognized the State of Israel and were its loyal citizens – Ed.] may get pushed out of the political national consensus, as their refashioning into Palestinians became an accomplished fact in the 1990s.

In general, the short-term projections for the Middle East suggest the flare up of old hotspots, together with the emergence of new ones outside its sphere, such as the ongoing power struggle between the U.S. and the EU, not to mention China, and the collapse of a coherent system of state borders.

With the increase of instability in the region and beyond, the prospects for the Middle East indeed seem gloomy.

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