RUSSIA in GLOBAL AFFAIRS

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Contents

Gains and Setbacks of Russian Reforms

Oil: A Gift or a Burden?

Transforming the Middle East

Widening Europe

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Gone with the Wind of Change

Fyodor Lukyanov, Editor-in-Chief

Fifteen years ago, in the early summer of 1989, the entire Soviet nation was glued to the television, not believing its eyes. At that time, the country held its first Congress of People's Deputies of the Soviet Union, and it was then that public politics first arose in Russia.

For the first time in almost 70 years, there was a real opposition in the Soviet Union which expressed not only a different view on the situation in the country, but also a desire to come to power and thus destroy the Communist Party's monopoly.

Against the background of brilliant democratic leaders, the Communist bosses, with their inarticulate discourses about the *renovation of socialism*, seemed purely anachronistic. Russian society was very quickly swept away by the euphoria of change.

Since then, everything has changed beyond recognition in Russia. The Soviet Union broke up into 15 independent states, while the state-planned economy collapsed, sending shock waves throughout the country. These transitions paved the way for a fast-developing market economy which bewildered the world with a legion of new billionaires. However, the transition to this new reality has proved to be much more difficult and unpredictable than the proponents of the reforms expected 15 years ago. It is not fortuitous that none of the original reformers are among today's active policymakers. The profound disillusionment is the other side of the transformations. What we are witnessing in Russia today — the discrediting of liberal ideas, managed democracy, a conflict between business and the government, attempts to reverse the results of the past privatization, and a passive society — all these are consequences of the mistakes made in the 1990s. Debates about whether or not it was possible to avoid those mistakes can go on forever, but they will never produce the truth. Of course, it is easy to be wise after the event and criticize those who were not afraid to assume responsibility for launching the long-pending and difficult reforms. It is more important that we learn from that bitter experience.

What Russia has become today following 15 years of reforms is the

main theme of this issue of *Russia in Global Affairs*. Comments on the results of the reforms were contributed by Russia's leading liberal economists and ideologists of those reforms, **Vladimir Mau** and **Yevgeny Yasin**. Academician **Nodari Simonia** and economists **Konstantin Sonin** and **Vladimir Milov** discuss the role that Russia's natural resources have played – and will continue playing – in Russia's transformation.

Svetlana Babayeva and **Georgy Bovt** paint a vivid picture of the strange mindset of the new Russian elite, which seems to believe that it has achieved everything and can now rest on its laurels. Well-known analyst **Alexander Dugin** warns about the danger of substituting real actions with their imitation in order to produce a PR effect.

Unlike other transition countries in Central and Eastern Europe, Russia has no definite foreign-policy goal, which adds to the difficulty of its reform. Other members of the former Warsaw Pact did not hesitate about which direction to go following the Soviet collapse – East or West. Their point of destination was definite – Europe. For Russia, the situation is more difficult: NATO or EU membership is not on Russia's agenda, while the enthusiasm about a partnership with its European neighbors has markedly subsided over the ten years since the EU and Russia signed the Partnership and Cooperation Agreement. Russia's major expert in European studies, Prof. **Yuri Borko**, proposes changing the terms of this agreement.

This issue also contains the results of an extensive public opinion survey that was organized by leading sociologists of Russia, Ukraine and Belarus. The purpose of the survey is to determine the three nations' attitudes toward European integration.

The renowned cast of contributing authors in this issue includes the famous Polish writer **Stanislaw Lem**, Turkey's Prime Minister **Recep Tayyip Erdoğan**, the United Nations' living legend **Brian Urquhart**, Chairman of Russia's Constitutional Court **Valery Zorkin**, and Chairman of the State Duma Foreign Affairs Committee **Konstantin Kosachev**.

The next issue of *Russia in Global Affairs* will take a look at what has happened to the other countries that were once part of the Soviet Union, and whether there is the possibility for a new integration within the post-Soviet space.

Comments

“For the Americans, space is becoming a place for establishing a military strategic advantage. During the Iraqi war, which many describe as revolutionary in terms of the technologies employed, satellite communications were widely used for real-time troop control”

The Times of Mars

Stanislaw Lem

The new century is characterized by an amazing paradox. Mankind's profound scientific and technological progress is turning what recently seemed inconceivable into everyday reality. The cognitive powers of man are working wonders. At the same time, the power of information technologies has increased to the point where people are ready to believe in practically anything. For example, a former French motor racing journalist, who has assumed the glamorous name Rael, relays the story of how he met a 25,000-year-old extraterrestrial who visited Earth in a UFO. The tiny, green ET explained to him – in perfect French, of course – that the first humans had been created by aliens via DNA manipulation. Since then, aliens have been cloning the best representatives of *Homo sapiens* for their 'exemplary conduct.'

Rael founded a sect which he named the Raelian Movement. In 2002, the Raelians declared the birth of the world's first human clone. It is not the Raelians that impressed me most (after all, there are plenty of crazy people among us), but rather the newspaper and TV journalists around the world who produced scintillating reports about the sectarians. The members of the media all hoped to be the first to break this spectacular news to the world.

We live in a world that is controlled by information, to the point where

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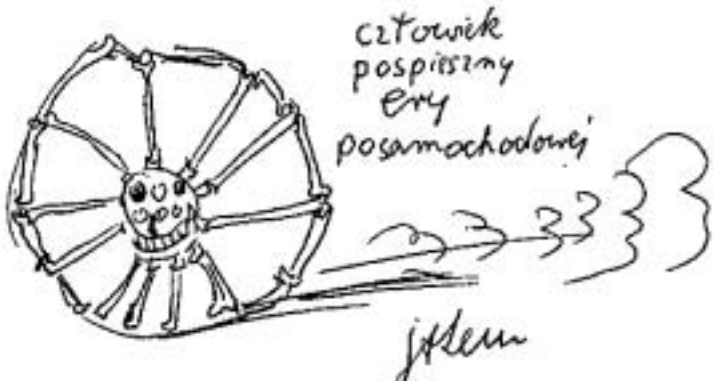
Stanislaw Lem is a Polish science-fiction writer, philosopher and futurologist. He is the author of the books *Man from Mars (Czlowiek z Marsa), Solaris, His Master's Voice (Glos Pana), The Cyberiad (Cyberiada),* the philosophical and sociological survey *Summa Technologiae*, and many other works, translated into 38 languages and published in a total of 20 million copies. This article includes illustrations by the author.

it is becoming a universal instrument for attaining any goal — political, ideological, economic or military. Like all the other new technologies previously created, the global information exchange is one in a series of technological achievements that quickly change from a tremendous benefit into a destructive force; the mightier the enemy, and the more computerized his control systems, the more vulnerable he is to a precise information strike.

A skillful hacker sitting at his computer in some god-forsaken place can paralyze the entire giant Moloch of U.S. industry. Satellite intelligence, the generation and transmission of electricity, transport, shipping and other industries, have become easy prey for information attacks. This is a type of asymmetric strategy which the underdeveloped world could possibly implement as a weapon against the developed world; it would only require a single member of a radical organization with a talent for computers. Such a strategy does not require much money, whereas an effective defense against such attacks would take much effort and investment. Technically, it would be very difficult to build.

On the other hand, perhaps we fail to realize what great technologies can be implemented in virtual warfare, or what intellectual potential the enemy can use: the results of almost all technological breakthroughs in the second half of the 20th century quickly replenished the arsenals of the god of war. In some fields of development, however, there was an inverse tendency: for example, the civilian exploration of outer space was a by-product of the arms race.



Outer space at the Bush administration's service

Years ago, like many other science-fiction writers, I wrote about man's travels to other planets; Mars was usually portrayed as the most likely destination. Now it seems possible that these dreams will be realized. Early this year U.S. President George W. Bush announced the beginning of preparations for an ambitious space program: the

Americans will return to the Moon, and prepare an expedition to Mars. But alas, the grandiose plans are less a daring desire to explore the universe than a very transparent political reckoning. The United States will soon have a presidential election, and the international reaction to the situation in Iraq, as well as to Washington's achievements in the fight against counterterrorism, is mixed. So, White House advisers aptly recalled the effect produced by Apollo 11's lunar landing in 1969. The U.S. astronauts' flight was what is now referred to as a brilliant PR action, that is, a realization of the famous statement by Karl von Clausewitz that "war is the continuation of policy by other means."

The U.S. administration is now trying to use the same tactics – especially since it would be impossible to hold the incumbent president to his bombastic promises: it would take not less than hundreds of billions of U.S. dollars and 15 to 20 years to prepare a flight to Mars. However, Bush is not looking to the future – he is more concerned with the nearest four years. It is not so important to him that the next president, who will replace him sooner or later, will most probably shelve all of his far-reaching plans. What matters more to the White House is that Mr. Bush is presented to the American people as a sagacious strategist and foreseer.

Even the arguments in favor of future space missions, presented by Bush during his speech at NASA, were nothing less than humorous. The U.S. president spoke about

some "abundant resources" on the Moon and the prospects for developing the resources of Mars. The U.S. leader must be thinking of an interplanetary expedition as a journey aimed to establish control over yet another oil-bearing area.

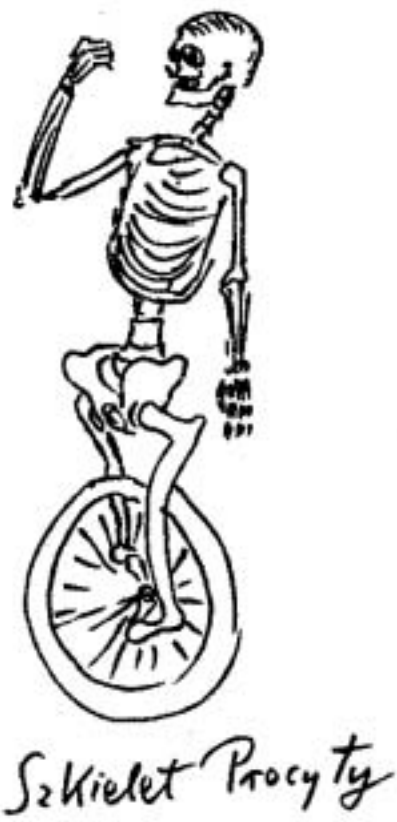
The only substance found on Mars to date was some quantity of frozen water. If this ice is melted, the water will cover the planet's surface in a four-millimeter layer. Thus we must ask: so what? There are four oceans on the Earth, why do we need Martian water?

War instead of science

There are still no prospects for exploring the universe in the way it was perceived by the 20th century futurologists. What we are witnessing today is not the exploration of the universe, but the exploration of near-Earth space (i.e. 100 to 300 kilometers above the Earth's surface). And the reason for these explorations is for military purposes. From a military point of view, the Moon, for example, is rather unimportant: the 400,000 kilometers that divide the Earth and the Moon is simply too great a distance. I believe that China, the latest space nation, also has military considerations behind its space program; last year it fired into space its first 'taikonaut.' Beijing has grandiose plans of its own: it does not wish to cooperate with any other country in the exploration of space, nor does it plan to participate in the International Space Station project. China desires to accomplish everything on its own, no matter how much time and effort it may cost. Considering the resourcefulness of the Chinese people, and their strong desire to acquire all the attributes of a modern great power, they will most likely succeed.

As for the Americans, space is becoming a place for establishing a military strategic advantage. During the Iraqi war, which many describe as revolutionary in terms of the technologies employed, satellite communications were widely used for real-time troop control. Washington operates a constellation of 600 satellites, and this number is expected to soon reach one thousand. The U.S. must be thinking that the arms race which it has provoked and extended into outer space will require so much spending that no other nation will be able to compete with it, let alone overpower it. However, it is impossible to predict the outcome of the emerging East-West confrontation. It was formerly believed that a technological edge would provide the U.S. with a

'computer shield.' However, terrorism has largely depreciated America's technological advantage over other countries, because electronic machines are unable to predict, for example, an Arab kamikaze terrorist's turn of mind. The human mind, especially if it has been poisoned with a radical ideology, cannot be mathematically decomposed into digital elements.



Recent developments on the Earth show that we must address the problems now afflicting the planet, rather than pursue space odysseys. The enormous gap in the living standards and development levels between the North and the South is much more dangerous than any conceivable technologies. The famous American political scientist, Francis Fukuyama, who in the late 1980s proclaimed the "end of history" with a universal triumph of liberal values (in the present war against terrorism such expectations look particularly naïve), has recently written a book entitled *Our Posthuman Future*. In it, he warns about threats posed by advanced biotechnologies which can alter the genetic code, change an embryo's sex, cure formerly incurable diseases and increase man's life span.

A majority of the global population — billions of paupers who live (or rather die) on half a dollar a day — are unable to comprehend the 'posthuman' threats that the scholar from prosperous America is so much afraid of. These people live in a different world, in a different epoch, in a different dimension — not 'posthuman' but inhuman. Meanwhile, the first phase in the development of the U.S. National Missile Defense alone will demand U.S. $50 billion, and one launch of an antimissile missile will cost U.S. $100 million. This world must be changed; other-

wise, it will spin out of control and begin to change us.

The U.S. invasion of Iraq has provoked a global political regrouping on the planet. Conflicts have emerged even in the once-inviolable North Atlantic Alliance. Professor Samuel Huntington's prophecy about an inevitable 'clash of civilizations' is becoming menacingly plausible. Hopefully, political events in a more distant future are still so unpredictable that Huntington's prophecy may never come to pass. Last century, the failure of futurology for determining future events nevertheless succeeded in producing a saying that "nothing changes as much as the future."

Let us save the Earth!

The future of the Earth, which is presently plagued with numerous political upheavals, is made even more unpredictable by climatic cataclysms. On a cosmic scale, man's life span is very short; this is no different when we consider the brief life span of a civilization. (One result is that people fail to perceive that the Sun is becoming increasingly hotter in line with the law of stellar evolution.) Considering man's environmentally unfriendly activities on the planet, it is difficult to look into the future without fear.

In the early 1960s, I wrote a satirical open letter on behalf of a character in my book Ijon Tichy. The letter made a plea for humanity to save the universe from man's destructive activities. In reality, people are simply unable to do any serious damage to the universe. However, on the Earth, man can do much harm. So, paraphrasing my call of 40 years ago, I would like to now exclaim: "Let us save the Earth!"

The United Nations in the 21st Century

Brian Urquhart

The Soviet Union, along with the United States and Great Britain, was one of the three countries that contributed most to the writing of the United Nations Charter. Russia is one of the five permanent members of the Security Council. Russia has always had a special weight in the affairs of the world organization, and it will also play an important part in determining the direction the organization will take in the confusing and dangerous world of the 21st century.

From 1945

From its earliest days, the United Nations has had to live with certain basic false assumptions. Because the Charter was written before the end of World War II, the work and membership of its most important organ, the Security Council, was based on the assumption that the victorious wartime alliance would stay together to monitor, and, if necessary, to enforce world peace. The leaders of the victorious wartime alliance became the five permanent members of the Council whose unanimity was to be the basis of the Council's capacity to act. If that unanimity was regularly broken by the veto, the Council would to a large extent be paralyzed. Even now that the Cold War has been over for fifteen years, the unanimity of the permanent five, as we saw last year over Iraq, still cannot be taken for granted.

The authors of the Charter believed that arms races had been a major cause of war in the past. One of the basic ideas of the Charter was that a collective security system, monitored and, if necessary, enforced by the five permanent members, would permit a major degree of world disarmament. Within four years of the signing of the Charter, however, the greatest arms race in history, includ-

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Sir **Brian Urquhart** is former Undersecretary General of the United Nations for Special Political Affairs. Since 1946, Sir Brian's professional life has been, in many respects, a history of the UN itself.

ing weapons of mass destruction, was under way among the permanent members of the Security Council. From being the designated guardians of peace and security, they had themselves become the greatest threat to world peace.

That is not the only paradoxical element in the history of the Security Council. Today conventional weapons, and especially small arms, account for virtually all the casualties in the conflicts that rage around the world at any given time. The permanent members of the Security Council account for more than 80 percent of the thriving arms trade that sustains these conflicts.

After the original dream of the United Nations collapsed, the organization had to find its way through the forty years of the Cold War by a process of improvisation and readjustment. The Security Council was paralyzed for much of the time by the lack of unanimity of its permanent members. The speed of the decolonization process had not been anticipated at San Francisco and created points of friction and conflict in several sensitive regions — Kashmir, the Middle East, Southeast Asia, and, later on, in Cyprus and the Congo and other parts of Africa. In order to prevent such regional disturbances from triggering what everyone on the planet feared most, a nuclear confrontation between East and West, the Security Council was able to agree to — or at least not to oppose — a means of containing regional conflicts without the direct involvement of the Soviet Union and the United States. Thus was born the technique that is now called peacekeeping — non-forceful operations managed by the Secretary-General under the general authority of the Security Council.

The Secretary-General was originally intended to be a predominantly administrative official. Another unanticipated consequence of the Cold War was a large expansion of the political role of the Secretary-General. With the Security Council paralyzed and the superpowers suspended in the balance of nuclear terror, an elected, high international official, universally recognized as non-partisan and serving only the United Nations, proved on a number of occasions to be a life-saving asset for the international community, especially in resolving critical situations between East and West. The Secretary-General's political role now occupies most of his time and energy.

When the Cold War unexpectedly came to an end, there was a brief period when it seemed that the

Security Council might at last be able to work in the way the Charter had envisaged. The Council's legitimizing role in evicting Saddam Hussein's forces from Kuwait was an exemplary use of Chapter VII of the Charter, which provides for forceful action against aggression. During the 1990s, however, it became clear that the nature of the problems that came before the Council was changing. Conflicts between states had largely given way to disorders within sovereign nations. The old peacekeeping technique, designed to contain conflicts between states, was far less suited to dealing with the collapse of governmental authority, and with violence and massive suffering within national borders, in places like Somalia, Bosnia, Mozambique, Cambodia or Angola. Nonetheless, of seventeen such operations mandated by the Security Council, only three – Somalia, Bosnia, and Rwanda – were unquestionable failures.

Perhaps the most important general development of the 1990s, especially after the UN's failure to stop the Rwanda genocide, was that the question of humanitarian intervention by the United Nations could no longer be ignored. Indeed, by the end of the decade, it seemed to be the most pressing security issue for the immediate future.

The 21st century

The events of the early 21st century took the United Nations, and the world, in a very different direction. The September 11, 2001 terrorist attacks on New York and Washington, the radical national security policies of the George W. Bush administration, the second Iraq war, and the persistence of global suicide terrorism have created a climate of alarm and confusion that is only now, in 2004, beginning to resolve itself into new agreements, better international relations, and a common resolve to face the new dangers together.

One of Washington's reactions to the tragedy of September 11 was to declare a radical new national security policy of unilateral preventive, or even preemptive, war. This policy was in contravention of the basic principle contained in Article 2.4 of the Charter – that all nations should refrain from the threat or use of force against the territorial or political integrity of any state. For this reason, and because a widespread adoption of such a policy would be catastrophic, it caused serious international concern. Succeeding events have shown some

of the practical difficulties of preventive or preemptive war. The operation against the Taliban and al Qaeda in Afghanistan, and, even more starkly, the occupation of Iraq, have shown that even the greatest military power, although it can easily win the opening battle, will have the utmost difficulty in dealing with guerilla or terrorist resistance, with setting up a new representative government, or with bringing preventive military operations to a satisfactory conclusion. It has also become clear that preventive operations depend upon a degree of accurate intelligence that was not available in the case of the second Iraq war. In other words, unilateral preventive action is far from being the realistic and practical policy that some assumed it to be two years ago.

The situation in Iraq has also changed. The invasion of Iraq by the American-led coalition in March 2003 with no Security Council legitimization caused a rancorous division among the membership of the United Nations. After more than a year, during which the initial victory over Saddam Hussein was followed by an increasingly chaotic and bloody occupation, a new stage has been reached. With the assistance of the Secretary-General's representative, Lakhdar Brahimi, it was possible to put together an interim government in Baghdad to which sovereignty has now been handed over by the United States. And in a new and unanimous resolution the Security Council has defined and legitimized the steps to be taken by the United Nations and its members for the future of Iraq. Although there are still enormous problems and risks ahead, at least the United Nations consensus over Iraq has been restored, and the United States has been partially extricated from an impossible situation, although its troops are still the main element of security in Iraq.

After all the divisiveness and frustration of 2003, the UN has to some extent resumed its proper place in international affairs, but serious questions remain. The United States declared the policy of unilateral preventive or preemptive war because Washington believed that there was no other effective way of confronting the new dangers so dramatically exemplified by the attacks of September 11, 2001. Its recent experiences with preventive war in Afghanistan and Iraq may well have modified that view, but how far is the United Nations, in its present

state, capable of playing a central role in ensuring international peace and security in a world where many nations have become, or feel they have become, dramatically less secure? Does the Security Council, for all its excellent resolutions on terrorism or nuclear proliferation, have the practical capacity to help nations to deal with the new face of danger – the deadly triad of global suicide terrorism, the possible proliferation of weapons of mass destruction, and the problem of rogue or dysfunctional states?

The United Nations: Strengths, weaknesses, and new challenges

The Secretary-General and his special representatives throughout the world have proved their usefulness again and again. The quiet diplomacy of Kofi Annan and his team is little known to the public. Indeed its confidentiality is one of its major assets. The work of Lakhdar Brahimi, for example, both in Afghanistan and in Iraq, was indispensable to setting up interim governments and moving the process forward toward constitution-building and elections. The Secretary-General and his representatives, however, have only skill, integrity, determination and patience. Action backed by real power, even force, has to originate in the Security Council.

Timely decision-making has often been a problem for the Security Council in the past. Even after the Rwanda genocide and the Council's total failure to take any action in time, there is still no general agreement on humanitarian intervention. For example, apart from the efforts of the Secretary-General, nothing practical has yet been done to check the brutal ethnic cleansing of more than one million people in the Darfur region of Sudan.

It seems certain that the immediate action required to deal with threats of terrorism, perhaps combined with nuclear proliferation, will be even more difficult for the Council to decide on. In the past the Council has usually reacted to events rather than anticipating them. In normal situations this is certainly much better than doing nothing at all, but faced with the threat of terrorism and proliferation, mere reaction to disaster is obviously not enough. Such threats will originate from groups completely outside the traditional international community – groups that will not be deterred by diplomatic, economic, or military pressure. Often only expeditious action will have any hope of suc-

cess. Thus it may well be that the future effectiveness of the Council will depend on a radical change in its attitude to emergency preventive intervention. This is one of the most difficult questions the Council has yet faced.

In the past the Council has encountered other problems that cause delay and give the impression of lack of authority. I have already mentioned lack of unanimity among the permanent members. Often in the past, the effort to avoid a veto has caused long delays in reaching a decision and has also resulted in feeble compromise resolutions in crises that demand rapid and decisive action. Moreover, the Council's current permanent membership represents the world's power structure in 1945 and is now to a considerable extent an anachronism. Southeast Asia, Africa, and Latin America have no permanent representation on the Council. This is yet another problem that will require attention if the authority and standing of the Council are to be strengthened.

Another serious problem is the present lack of United Nations physical capacity to act. The UN has no reliable standing capacity to take emergency action. At present it takes at least three months to assemble and deploy a peacekeeping force. The member governments have so far rejected all suggestions for a small standing UN rapid reaction force, so when immediate action is required the world must look elsewhere. This is one of the United Nations' greatest weaknesses, and, incidentally, one of the strongest arguments for unilateral preventive action, although experience, as I have mentioned above, is showing that that approach does not work very well either. NATO, various "coalitions of the willing," regional organizations, and sometimes individual countries — Australia in East Timor, for example — are increasingly called on to take on emergency peacekeeping duties until the United Nations can organize a peacekeeping force. In the worst of crises, like Rwanda, the UN was unable to find a single country willing to act in its name.

Sixty years after its foundation, the United Nations, whose primary function is the maintenance of international peace and security, still has no capacity of its own to take immediate practical action. In the light of the new threats to security, which will certainly demand swift action, the Security Council should also consider this problem again.

The events of the first four years of

the 21st century have shown the value, as well as the weaknesses, of the United Nations. Those events have also shown that the international community is facing new forms of danger that will demand new forms of action, reaction, and cooperation. For the United Nations, the world's primary agency for peace and security and its center for harmonizing the policies of nations on important matters, this is an especial challenge. The Secretary-General's High Level Panel on Threats, Challenges, and Change is expected to deliver its report before the end of this year. The quality of its proposals, and the reaction of the Security Council and other UN organs to them, will be a test of the organization's ability to adapt to change. Only an evident willingness to adapt and to renew its sense of mission will inspire, in the governments and peoples of the world, the confidence and support that will allow the United Nations to meet the challenge of the years ahead.

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An Apologia of the Westphalian System

Valery Zorkin

Despite the profound and numerous changes in the world over the last 15 years, state sovereignty remains the basis of the constitutional systems in a majority of countries. However, unlike the situation that evolved following the signing of the Treaty of Westphalia in 1648, the present sovereignty of democratic, rule-of-law states is significantly restricted by internal and external factors, as well as by legal regulations. Yet the provisions outlined in the Treaty of Westphalia remain unchanged for these democracies, including the Russian Federation: the supremacy and independence of state power on the territory of a state; independence in international contacts; and the integrity and inviolability of the state's territory.

Many voices are being raised for a revision of some international laws and principles. This refers, above all, to Point 7 of Article 2 of the UN Charter's Chapter I, which proclaims the principle of non-interference in "matters which are essentially within the domestic jurisdiction of any state."

They propose replacing the state sovereignty principle with a principle of global security governance by a 'renewed' UN and its Security Council. These individuals forget, however, that the UN emerged and exists only owing to the will of sovereign states which set themselves the goal of preventing global catastrophes, such as World War II. At the same time, the UN is the successor to the Westphalian political system, under which the first intergovernmental and international nongovernmental organizations were established. (In the first half of the 19th century, after the victory over Napoleon, the Standing Rhine Shipping Commission was established, followed by the International

Valery Zorkin, Doctor of Science (Law), is Chairman of the Constitutional Court of the Russian Federation.

Telegraph Union, the Universal Postal Union, etc.) The two world wars in the 20th century did not shake this system, which became even more consolidated after the establishment of the United Nations. And now, at the beginning of the 21st century and after September 11, 2001, there has emerged the most serious and most probable threat to the existence of the Westphalian system and thus to the foundations of the constitutional systems of sovereign states.

The Westphalian system is being attacked from two directions. First, the principles of state sovereignty and territorial integrity are being placed in opposition to human rights and nations' right to self-determination. Second, nation states are being blamed for their inability to ensure effective governance under conditions of globalization.

Sovereignty and the threat of Russia's breakup

The possible consequences of the first approach are well known: suffice it to recall the breakup of the Soviet Union and Yugoslavia. Perhaps it was those tragic experiences that helped to largely overcome this dangerous tendency, a tendency which calls into question the principle of sovereignty and which can potentially destroy Russia's statehood. Yet it would be too early to say that centrifugal forces in Russia have lost their dynamism.

Even now, after the 2004 presidential elections, some regional leaders speak of the need to build the federation on the basis of "divided sovereignty," although the Constitutional Court has ruled that provisions about sovereignty must be excluded from the constitutions of the Russian Federation's entities. The Constitutional Court holds that "the Constitution does not permit any other bearer of sovereignty and source of power than the multi-ethnic people of Russia and, consequently, does not provide for any other state sovereignty than the sovereignty of the Russian Federation. In keeping with the Russian Federation Constitution, the sovereignty of the Russian Federation rules out the existence of two levels of sovereign authorities within a single system of state government, which would enjoy supremacy and independence. That is, it does not permit sovereignty of republics or other entities of the Russian Federation."

Since the Russian Federation Constitution was put into effect ten years ago, the disintegration of the

state has been the greatest and most probable threat to the country. The greatest threat is not financial default, increasing social inequality, or soaring poverty, nor is it the spread of social vices, such as crime, corruption, prostitution and the addiction to alcohol and drugs. The greatest threat is simply the breakup of the country. Any social crises can be overcome, while the breakup of the state is irreversible. Only the Constitution now in force has helped to stop a breakup of the Russian Federation.

Recent history has shown that a state's breakup is always accompanied by mass violence, an encroachment on its citizens' rights, and possibly even genocide. What can prevent the breakup of sovereign states and protect them against separatism and violations of territorial integrity? An important role here is played by provisions of international law harmonized with national law.

The negative consequences which accompany the disintegration of a state can be overcome with the help of *international regulations for the withdrawal of an ethnic-territorial entity from a sovereign state*. Without such regulations, the international community will always be in a dilemma as to how to define one or another phenomenon – as the consequence of a national-liberation movement or as the manifestation of separatism coupled with terrorism? The formula of the above regulations must be based only on the recognition of the principles of sovereignty, incorporated in the constitutions of sovereign states. That is, the parties involved in specific ethnic or political confrontations must stop resorting to bombings, killings and hostage-taking techniques and initiate international legal proceedings, which the international community must coordinate.

Globalization against law

The Westphalian system is now being attacked from another direction, as some individuals are asserting that nation states are unable to ensure effective governance in the conditions of globalization due to their 'outdated territorial instincts' (see *High Noon: Twenty Global Problems, Twenty Years to Solve Them* by Jean-François Rischard, the World Bank's vice-president for Europe). Therefore, these individuals have introduced the idea of 'networked governance' and establishing networked organizations for solving global problems.

The ideologists of these networked structures admit that this 'new thinking' is not safeguarded against serious

mistakes. Yet, they insist, this is the inevitable price that must be paid. According to Rischard, the present international structure, together with any cosmetic reform of this structure per se, will not lead to positive results. In other words, this ideology provides for the demolition of everything: the Westphalian system, state sovereignties, territorial integrity and, consequently, the established system of international law. All of these will be the price to pay.

Renouncing the Westphalian system would also result in replacing *multilateralism* with *unilateralism* (this process has already begun after September 11, 2001). I fully agree with Manuel Castels who said in an interview with the *Expert* magazine (No.18/2003, *Network and Chaos*, pp. 75-76) that, when unilateralist logic is imposed on a multilateral world, chaos naturally arises. In this sense, we have really found ourselves in an absolutely chaotic world where everything has become unpredictable. In a lawless universal chaos, there is only one law: the law of the strong and aggressive – the law of the superpower, the dictators, and the leaders of the Mafia, not to mention the terrorist organizations.

American political analysts are increasingly using the expression 'soft sovereignty.' The 'right of ethnic minorities and regions to self-determination,' together with 'humanitarian intervention,' is being forwarded in opposition to the idea of national sovereignties. Prominent U.S. policymaker Henry Kissinger, in last year's interview with *Die Welt* magazine, announced the death of the Westphalian system and the senselessness of the idea of state sovereignties.

Moreover, there is already an aggressive 'scientific' substantiation of the idea for destroying the Westphalian system. For example, Michael Glennon, a U.S. ideologist of this theory, believes that "architects of an authentic new world order must therefore move beyond castles in the air – beyond imaginary truths that transcend politics – such as, for example, just war theory and the notion of the sovereign equality of states. These and other stale dogmas rest on archaic notions of universal truth, justice, and morality... One particularly pernicious outgrowth of natural law is the idea that states are sovereign equals... Treating states as equals prevents treating individuals as equals." (Michael J. Glennon. Why the Security Council Failed. *Foreign Affairs*, May/June 2003).

The logic of such an approach is clear, and the position is absolutely

transparent: any national law is archaic and does not need to be protected. No 'archaic' morality (meaning no morality at all), and thus no law that does not correspond to politics – which means the liquidation of international and national law per se.

It is amazing how such views are similar to the ideas of Nazi ideologist Alfred Rosenberg, who in the early 1930s called for launching "an offensive on the old notions of state and on the vestiges of the medieval political system" (cited from *Hitler Over Europe? Hitler Against the Soviet Union* by Ernst Henri. – Russ. Ed. Moscow, *Russkii Raritet*, 2004, p. 82). The world still remembers the consequences of such an offensive.

In the 21st century, Rosenberg's racist ideas have been replaced by an even more refined philosophy of negating the notion of the sovereign nation state and democracy per se. A book by two Swedes, Alexander Bard and Jan Söderqvist, *Netocracy: The New Power Elite and Life After Capitalism*, came as a kind of manifesto of this philosophy. The authors argue that September 11, 2001 will be considered the date "when information society took over capitalism as the dominant paradigm." "Network will replace Man as a great public project. The curator network [some upper cast of a network society] will replace the state in playing the role of the supreme authority and supreme seer," they believe. "Netiquette [network etiquette] will replace law and order as the main kinds of Man's activities move into the virtual world on a growing scale. Simultaneously, the authority and influence of the state will come to naught due to the decrease in tax crimes and the reduction of national borders. Curators will overtake the state in controlling morals." (Quoted from Alexander Bard, Jan Söderqvist. *Netocracy: The New Power Elite and Life After Capitalism*. – Russ. Ed. The Stockholm School of Economics in St. Petersburg, 2004.)

The Westphalian system has been called into question also by some international agreements which have delegated large volumes of state sovereignty to supranational bodies or some entities within the state. Examples of the former can be witnessed by the 1992 Maastricht agreements and the first 'network' state – the European Union. Voices are already being raised that warn the European economy will remain in a state of 'semi-stagnation' "until Europe overcomes the syndrome of nation state which is rooted in the

epoch of the Westphalian Peace and which still is the basis of international law; until policymakers in Europe stop considering the British Parliament, the French National Assembly or the German Bundestag more important than the European Parliament in Strasbourg" (Georgy Skorov. Not United Europe. *Vedomosti*, May 11, 2004).

Naturally, such an approach can reduce the parliamentary activities of the new EU members to decorative functions.

An example of part of state sovereignty being delegated to entities within one state is the 'principle of subsidiariness,' which provides that problems must be addressed at the lowest possible level where there are resources and possibilities for their solution.

Human rights as a goal and means

Even the United Nations is torn between the rigid Westphalian interpretation of state sovereignty and the growing influence of international humanitarian law and human rights which work to limit the authority of state leaders over the citizens of their country. UN Secretary General Kofi Annan made a statement to this effect after the war in Kosovo began in 1999 without a UN Security Council approval.

This dangerous tendency may result in the replacement of specific political notions, such as 'state' and 'frontier,' by judicially vague geographic and socio-economic terms that have no substantiation in any field of law. Hence, the dire need for an in-depth analysis of the modern notion of full-scale sovereignty by the international community of experts in constitutional law. This analysis must embrace the imperatives of liberal democracy and the need to ensure all components of strong governments which follow the rule of law. This is vital for the preservation and strengthening of sovereign states' status of world entities in all its dimensions – political, economic and social.

The issue of terminology is also essential. This is important in order to revise the aforementioned provision in the UN Charter concerning the principle of non-interference in matters which are within the domestic jurisdiction of a sovereign state. Therefore, it is important to determine what this domestic jurisdiction comprises and what can be included in the jurisdiction of supranational bodies, such as the UN. Agreeing on a definition of jurisdiction cannot be a simple process. It should

not be based on simplified formulas like 'rogue nations' or 'failed states.' As follows from international practices of the early 21st century, such formulas can be used only for superficial political analysis rather than in defining international legal norms. Simplifications do not lead to simple and correct solutions, but only serve to distract from in-depth and comprehensive analysis.

Defining legal terms for situations where state sovereignty may be restricted could possibly raise more questions than solutions. This is because such situations can be created artificially. Various political forces, special services, terrorist and mafia organizations have gained extensive experience in this respect. September 11 marked the beginning of large-scale attacks on national sovereignties and territorial integrity of states, and encouraged an offensive on another fundamental element of constitutional law – human rights. This offensive spread across the whole world – from the U.S. and Europe to Southeast Asia, where tough antiterrorist laws limiting citizens' rights were adopted. Of course, such laws per se do not threaten the constitutional systems of states that adopt them. Most often, their adoption is an adequate reaction to growing manifestations of terrorism, organized crime, drug-trafficking and illegal migration – what is now called the new challenges and threats to mankind.

But what are the limits in restricting people's constitutional rights? Various kinds of recipes are proposed in this respect. There has even emerged an ideology for renouncing the basic human rights. In the U.S., for example, well-known scholar Alan Dershowitz has written a book named *Why Terrorism Works: Understanding the Threat, Responding to the Challenge*. Once an active champion of human rights, he now advocates using the principle of collective punishment against families, ethnic minorities and confessional groups of terrorists; resorting to any kinds of torture; and drastically limiting immigration and the rights of foreigners, especially those from certain regions of the world.

Similar views are becoming widespread in other countries as well, including Russia. They are expressed by scholars and even politicians who have won the votes of large segments of the population. The question is, can the community of constitutional law experts ignore such tendencies? Where is the point beyond which the limitation of human rights turns into their nega-

tion? In the name of what and whom are these limitations introduced? How can a state achieve a balance between national security and the observance of human rights? For Russia, it is important not to isolate itself from the global community, which it has already entered, and to build mutually advantageous relations of openness with it. At the same time, Russia must know precisely the degree of risks posed by this openness. I am talking about the risk of dissolving in this still unshaped world, the danger of absorbing the lawless chaos, which is intruding into the international political system, and reproducing it on Russian territory. The world is changing. It is not growing better or worse – it is becoming different. The changes taking place in the world necessitate changing international law to regulate the new phenomena and processes. It is important that these changes not overshadow the bottom line in the name of which they are implemented – Man with all his rights and freedoms.

Russian Foreign Policy Vertical

Konstantin Kosachev

There has been much discussion lately about possible changes in the Russian Foreign Ministry's structure. However, the Ministry has successfully avoided any reform of the Russian government, which provides for a three-level structure model for the executive bodies. In contrast to other ministries, the diplomatic department does not have its own federal services or agencies. And this seems quite reasonable: the Foreign Ministry has nothing to place under its command. All that it can do is make the consular service a separate federal unit, but that would be more like reform for reform's sake.

It is clear that the unalterable functions and structure of the Foreign Ministry are necessitated by the

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specifics and area of its activity, as well as by the need to ensure consistency and continuity of Russia's foreign policy. However, the absence of superficial signs of structural changes, i.e. federal services and agencies, does not mean that the sphere of foreign policy management will remain an 'offshore' zone for administrative reform. The fact that the Ministry is not involved in the ongoing government transformations is not an indication of it lacking the desire to modify the foreign policy mechanism. On the contrary: restructuring the Foreign Ministry is too vital and large-scale a process to be simply limited to the framework of cabinet reform.

Anxious observers have perceived the appointment of former Foreign Minister Sergei Ivanov as head of Russia's National Security Council as a sign of coming changes. The more knowledgeable experts would disagree with the lingering assertions that the former minister was sent into 'an honorary exile;' such opinions were mainly based on an assessment of his predecessor's activity.

The fact that the former Interior Minister was replaced at the National Security Council with the former Foreign Minister is quite a significant event. Under Vladimir Rushailo, the Council paid more attention to internal problems. That is why it is reasonable to assume that with the new head this agency will concentrate more heavily on foreign policy. But should it be assumed that the political orientation of the National Security Council is dependent on the personality of its head? Or does the appointment signify a new conception of this institution's place within the state?

If the latter assumption is correct, then there are ample grounds to expect changes in the very mechanism of drawing up, adopting and implementing foreign policy decisions. If so, changes will go beyond the current government reform: the foreign policy vertical, should it be constructed, will not be confined to the executive agencies. There is nothing revolutionary in this concept, since according to the Constitution the main foreign policy guidelines are determined by the President, not the cabinet.

There have been an increasing number of weighty arguments in favor of such a reform. The Russian Foreign Ministry is in obvious need of a serious inventory, as well as a regulatory restructuring. Over the last fifteen years, the different departments of the Foreign Ministry

have gotten used to the idea of conducting their 'own' foreign policy. In light of the fact that the Russian Federation entities and major economic agents have their own interests abroad, the picture becomes even more variegated. As a result, in addition to the single foreign policy line there arises some 'simple average' of sharply contrasting initiatives that exist in parallel with – and occasionally opposite to – the main policy vector set down by the President. The hastiness and lack of coordination of these differing agendas prevented the development of positive outcomes. As is known, sometimes even a trump card can spoil the whole game if it is opened at the wrong time. Therefore, more often than not, the Foreign Ministry serves as an interpreter or even a 'sweeper' in order to smooth over the various discrepancies and tense situations inside the foreign policy area. The nature of the tasks that Russia is facing in the international arena necessitates an integrated approach to their accomplishment. Such a comprehensive approach should take into consideration all of the possible nuances, as well as the positions of various departments. A glaring example is Russia's ratification of the Kyoto Protocol, which sets strict limits on industrial discharges of greenhouse gases into the atmosphere. There are two opposing positions on this issue. Each one taken separately could be justified had it not considered only one side of the question. However, the Kyoto Protocol is a problem that concerns the relationship between Russia and Europe on the one hand, and long-term planning for economic development, environmental policy, and a whole range of other diplomatic, economic and tactical aspects on the other hand. Practically any problem that Russia encounters on the international scene – whether it be the approach to international terrorism, the expansion of NATO and the European Union, or Moscow's policy on the post-Soviet space – has a great number of such dimensions. It is generally believed that foreign policy activity adds to the prestige of any agency and increases its political weight and authority. Therefore, technical difficulties and a lack of mutual understanding between the individual agencies is a hereditary illness of the state apparatus. However, the crux of the problems facing Russia in the foreign policy sphere lies much deeper. It affects both the system of charting the national foreign policy

strategy on the basis of clearly defined goals, as well as an appropriate mechanism for implementing such a strategy, with the roles distinctly and effectively distributed among all the actors.

Russia's foreign policy goals need updating, most importantly because today there are unique opportunities for switching from a policy of response to a policy of initiation. These opportunities come about due to both subjective and objective factors. The former include President Putin's active policy, his intuition and expediency in making important foreign policy decisions. The latter ability embraces the absence of confrontation with the leading world powers, while cooperating with allies against common global threats. Furthermore, it strives for favorable economic conditions, the West's interest in a continuous dialog with Russia on energy issues against the backdrop of instability in the Middle East, the impossibility to settle many regional conflicts without Russia's involvement, etc. Today, Russia has real chances to conduct an independent foreign policy that would be consistent with its national interests, on the one hand, and understood and respected by other countries, on the other.

Russia will be able to benefit from the currently favorable situation only if its foreign policy ministry is well matched for the new tasks. As is often the case, the executive is forced to deal with questions of strategy while the head of the state, who puts forward ideas and initiatives, lacks the time or the means to shape them into a single political line which would be consistently adhered to by all of the state bodies. To regress at this point would be regrettable now that the President has undertaken significant steps which have been agreeable both in this country and abroad. I cannot but share the opinion of Sergei Karaganov, Chairman of the Presidium of the Council on Foreign and Defense Policy, who noted: "In recent years it was precisely the President who not only conceived but also implemented several important breakthroughs in foreign policy. But these breakthroughs were not sustained due to the rather weak and inefficient structure of the foreign policy ministry. People worked past exhaustion, however, the breakthroughs remained just breakthroughs without being made into genuine victories."

Putin's active diplomacy strategy actually forestalled all of the organizational and administrative resources; now it is the most oppor-

tune moment for pulling up these resources and putting them in order. This does not mean, however, that that same Ministry of Foreign Affairs should be loaded with the extra burden of implementing the reform of Russia's foreign policy mechanism. Quite the contrary: the Ministry already is overloaded with functions not characteristic of an executive body. And this is not due to some excessive ambitions of its former or present leadership. At his first press conference on March 17, newly appointed Minister of Foreign Affairs Sergei Lavrov pointedly stressed: "Our relations with the Russian President's Administration and National Security Council will be formed in accordance with the Constitution. The country's foreign policy is determined by the President and the Ministry of Foreign Affairs is to conduct it." The Minister expressed hope that "the efficiency of the NSC's activity will increase as this is in the best interests of the nation, as well as in the best interests of the Foreign Ministry. Moreover, this will give it confidence in implementing foreign policy tasks."

Putin also expressed hope that the National Security Council will work with increased efficiency. At the same time, the President has no plans to slow down his own international activity. Thus, the links of the already available structure (the President and his administration – the National Security Council – the Foreign Ministry) should coordinate their activities without any radical organizational and administrative changes in order to form a single system for drawing up and implementing the country's foreign policy course. Strengthening the positions of the National Security Council is a logical step but it should not be taken under instructions. The NSC itself is called upon to demonstrate a readiness for a new role, its ability to generate strategic concepts concerning the country's foreign policy and security as well as to coordinate the activities of various governing bodies, which, naturally, is beyond the capacity of an executive body. A possible redistribution of roles within this system should not result in weakening the Foreign Ministry and turning it into a trivial executor of other people's scenarios. The Ministry possesses a vast amount of experience, as well as a high analytical, organizational and informational potential. Furthermore, it possesses truly unique personnel. These factors prevent the Foreign Ministry from becoming simply a subordinate component of a three-link scheme,

which, strictly speaking, cannot be considered a power vertical. Yet, the Foreign Ministry badly needs a new relationship with the government.

The significance of Russia's tasks in the international arena, together with the perception of itself as a renascent great power, make it impermissible for it to adopt a simplistic approach to the functions of the Ministry, which should be directly responsible for implementing the nation's strategic goals from a global perspective.

Unfortunately, the reality is such that the diplomatic service encounters a multitude of problems, mostly of an economic nature. However enthusiastic Russian diplomats may be about their jobs, it is difficult to expect major accomplishments from this group when they must constantly think about how to provide for their families. The decreasing prestige of the diplomat's profession (due in large part to low salaries) is fraught with the most serious consequences for Russia. No single nation can afford to feel indifferent to who (and how) represents it on the international scene.

In the meantime, the situation in this respect is depressing.

Experienced employees are leaving the Ministry for careers in business, the staff is getting older, while its replenishment with fresh promising candidates is complicated by the lack of opportunities for material well-being. The Moscow State Institute of Foreign Relations is mostly engaged in training specialists for foreign commercial, political and informational organizations in Russia and abroad. The share of graduates from this institute among the Ministry's employees has been decreasing with every passing year and became particularly low in 2003. This situation cannot but worry the people who are concerned about foreign policy and who sympathize with the miserable state of Russia's most important ministry.

One of the solutions may be that under new legislation on state civil service the diplomatic service is given the status of being a fourth state service.

There is much discussion about the need to improve Russia's image abroad. To counter anti-Russian campaigns in the foreign mass media (which are often well planned and timed to political actions and initiatives by international organizations such as PACE, OSCE, etc.), Russia must prepare similarly effective actions.

It is no less important to explain Russia's foreign policy within the domestic sphere of information dis-

semination. Many key international initiatives of Russia's leadership are not properly covered by the domestic mass media or, even worse, are presented in a distorted way – often as failures and the "surrender of all frontiers." Such coverage often plays into the hands of political speculators, or becomes an instrument of image-making campaigns by some politicians.

Paradoxically, while the West has been increasingly displaying due appreciation of Moscow's growing authority, not to mention its consistent and well-balanced foreign policy, unbiased attitudes and even gratitude are oftentimes drowned out in the hysterics aroused by the national mass media concerning Russia's alleged failures in the international arena. Anti-Russian informational attacks abroad are immediately echoed here. Unfortunately, these attacks are not countered by methodical work to explain the state's foreign policy, thereby creating a positive image amongst the citizens. Due to speculative and slanted opinions dominating the national mass media, important initiatives often fail to get the necessary support and understanding of society. This affects the country's leadership, of course, which encounters additional difficulties in developing and implementing a foreign policy course.

Russia's interests in the international arena can be promoted by our compatriots, ethnic Russians and Russian-speaking diasporas abroad. Many states actively use their diasporas as an important factor of influence to transfer information and foster cultural and economic ties. With millions of Russian ethnics living abroad, Russia simply cannot afford to miss such an opportunity. There is also a humanitarian aspect to this problem: today many Russian ethnic minorities in some countries of the former Soviet Union are having their rights infringed upon.

Ideological differences with Russian emigrants and their descendants are already a thing of the past; the rapprochement between the Russian Orthodox Church and the Russian Orthodox Church Outside Russia is well underway; more frequently, former Russian citizens take business, private and tourist trips back to Russia. Therefore, the idea of common roots can significantly contribute to creating a fertile ground for uniting people.

Transnational business is undoubtedly a powerful factor in increasing a country's influence abroad. Politicians, diplomats and the mass

media of the world's leading countries are not shy when lobbying the interests of their companies abroad. In Russia however, this sphere of activity is surrounded with an aura of mystery as if it were something shameful and blameworthy. This perception is based on the widespread opinion – and often well-grounded – that there is a conflict of interests between business and government, and that lobbying of private companies by some bureaucrats is unlawful. Presently, however, when the government seeks to involve industrial and banking companies in accomplishing national tasks, foreign policy may become a most attractive domain for the business community. Civilized interaction between business circles and the authorities in international matters not only brings mutual benefits, it often becomes the only instrument of influence, and even pressure, in certain situations where diplomatic or other political means are exhausted or cannot be used.

In the meantime, there are no practicable concepts concerning the effective use of ethnic Russians living abroad, nor the use of transnational business in the interests of Russia's foreign policy. The development of a single integrated approach in this sphere requires interdepartmental efforts and, accordingly, the coordination of these efforts from the top. This means that while restructuring the Foreign Ministry it would be expedient to include into a single concept of foreign policy its cooperation with Russian-speaking diasporas abroad and the Russian business community as independent directions, while assigning the coordinating functions to the appropriate power structures.

No less important for increasing the efficiency of foreign policy is the revival and extensive use of the huge analytical potential of Russia's scientific and political elites. At present, joint activities involving the representatives of the power structures, scientists, political analysts and experts in international affairs are of a non-systemic, spontaneous nature; such activities are mostly confined to personal contacts. It is crucial to establish the government's effective interaction with the scientific community; reinforce the Russian school of political science; set up powerful non-governmental think tanks that would provide an impartial expert analysis of important decisions and prepare independent proposals. In this respect it would be useful to study the practices of Western countries (particu-

larly that of the United States), which have a diversified system of independent expertise and consultations. Nor should we ignore the valuable domestic experience of the Soviet era.

The new functions of the National Security Council may include coordination in this area as well. But, in my opinion, it is the parliament that could effectively promote the interaction of experts, analysts and power structures because this state structure embraces all political forces and maintains fruitful relations with different public institutions. The legislative maintains effective ties with the major state foreign policy structures – the President's Administration, the National Security Council and the Ministry of Foreign Affairs. This means that the parliament is able to guarantee the registration and implementation of valuable ideas and proposals made by the expert community on specific lines of the country's foreign policy. In recent years, the global community, particularly Europe, has seen a significant increase in the role of parliamentary diplomacy. Sometimes when the official negotiating process lost its bearings, lawmakers effectively used their channels to pave the way for decisions that turned out beneficial to their countries. Owing to its political weight within the country and extensive international activity, the parliament has become a center for integrating the initiatives of domestic political science, expert groups and public institutions.

In reorganizing the country's foreign policy mechanism it is essential that the transformation be consonant not only with the aim to raise the efficiency of the existing structures, but also with the general new trends in international politics, i.e. the radical global changes that have occurred in the post-WWII years.

Today, Russia has various options as regards its participation in shaping the global picture. Because of the general disagreement with the basic principles of building the new world order, it may, for example, stay aloof from this process or attempt to slow down the changes initiated by leading countries of the West.

Should Russia opt to follow such a course, it will run the risk of eventually seeing a new international system built without it and, most likely, against it. This is hardly a reasonable alternative for Russia, especially now that it has real opportunities for playing an active role in drawing up a new global policy.

Indeed, the recent disputes and confrontations between Russia, the

U.S. and the EU, concerning their interests in regional, economic, military and political spheres, are, in fact, nothing but proof of Russia's growing activity in international politics, which naturally causes tension. But many of the emerging problems are largely the result of past mistakes. A typical example is the admission of new NATO members. Russia should have sought legal restraints against NATO expansion to the East, i.e. including new members from among the former Soviet republics. The claim could be successfully forwarded in the 1990s, but now the field for political maneuvering has dramatically narrowed. Nevertheless, the period of retreating on Russian foreign policy is over and it is time to 'pick up the rocks' on the international field. Today, Russia's task is not simply to timely detect the main trends in international politics, but also to influence them at the initial stage and prevent any processes that would be detrimental to Russia. This fundamental task cannot be accomplished if Russia adopts isolationism. There is no other option for Russia but to establish large-scale cooperation with the principal international structures and countries that are shaping the picture of the future world. It should be specially noted that in order to influence this process and gain one's own ends, Russia must prove its stability in the changing world and be able to protect its interests in the face of globalization.

The world around us is changing so rapidly that it is impossible just to react to what is happening; it is necessary to forestall events. Furthermore, it is critical that every serious move in foreign policy be in line with a consistent strategy, which cannot be put into practice without perfectly functioning foreign policy structures. The country's ambitious tasks in domestic policy should be enhanced by no less important strategic goals in the international arena. This is the only way to secure well-being and security for the citizens of Russia.

Gains and Setbacks of Russian Reforms

A Soviet food shop. Moscow, the late 1980s.

“Russia’s transition from Communism to a market democracy was a tortuous and contradictory journey that gave rise to acrimonious debate about the very nature of the reform. This debate focuses upon the effectiveness and appropriateness of the reform, and whether there were alternative ways of meeting the challenges then confronting Russia”

The Logic of Russian Transition

Trends and results of the first post-Communist decade

Vladimir Mau

FOUR CRISES

Russia's transition from Communism to a market democracy was not an easy task. It still is and will continue to be a subject for difficult and energetic debate – political, theoretical and ideological. A tortuous and contradictory journey gave rise to acrimonious debate about the very nature of the reform. This debate focuses upon the effectiveness and appropriateness of the reform, and whether there were alternative ways of meeting the challenges then confronting Russia.

One of the key points of the debate considers several questions, such as: To what extent were Russia's problems unique to the country? Were they inherent in the historical experience, as well as the national and cultural features of Russia's development? And, accordingly, to what extent were universal approaches and the experience of other countries applicable in developing and implementing a programme of post-Communist restructuring? This is all the more important because an answer to these questions makes it possible to summarize the results of the first post-communist decade, as well as formulate some important problems concerning Russia's further progress toward the free market and democracy.

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At the end of the 1980s, Russia (or rather the Soviet Union) encountered formidable challenges associated with four different transformational processes. It was those processes that determined the country's development throughout the 1990s. While not necessarily interrelated per se, they proved to be intertwined in Russia, substantially affecting each other, not to mention the economic and political development of the whole country.

First, Russia faced the challenges of the post-industrial epoch. Transition from an industrial to a post-industrial society was accompanied by severe structural and macroeconomic crises, such as those the Western countries experienced from the 1970s onwards. The Soviet Union was able to delay its structural adjustment to the new challenges thanks to the favorable conditions of the world markets. One of these was the oil crises, which sharply increased the prices for important Soviet exports. But the price of that delay made the adjustment all the more painful when there was no longer any escaping it. The structural crisis of the Soviet economic system, which climaxed in the drastic decline of Russia's present market economy, resulted from the same processes which, with reference to Western countries in the 1970s, were described as "stagflation."

Intense discussions about the nature of the structural transformation continued throughout the 1990s. Some authors described the decline in output as de-industrialization, although a more in-depth analysis of the ongoing processes allows the nucleus of a new, post-industrial structure to be discerned in the structural change that is currently in progress (see Table 1). Telecommunications and electronics industries were booming (since 1998, the latter has been growing by as much as one-third annually). Modifications to more advanced products were constantly taking place in the chemical and metallurgical industries. The number of educational institutions was increasing markedly, as were the numbers of undergraduate and postgraduate students. Of course, this trend is not absolutely predominant, and whether it will be sustained or not will greatly depend on the efficiency of economic policy, as well as on the government's ability to promote favorable change.

Table 1. Some indicators of social and economic development in the 1990s (1991 = 100 unless stated otherwise)

	1992	1998	1999	2000
Education				
Number of universities	103.3	176.1	180.8	185.9
Number of university students	95.5	130.3	147.5	171.6
Number of university graduates	104.4	123.0	136.3	156.0
Number of faculty members, 1993=100		115.4	121.7	125.5
Production				
Video cassettes	107.7	1,157	944	807.5
Share of sophisticated products in the paint and varnish industry, %	72.0	82.0	85.0	86.0
Share of electric arc steel and oxygen-converter steel in total steel production, %	50.0	72.0	72.0	73.0
Share of continuous casting steel products, %	28.0	52.0	50.0	49.7
Production of aluminum	99.4	111.4	117	120.6
Transport				
Cars per 1,000 population	107.9	192.1	201.7	208.5
Metalled roads per 1,000 square meters of territory	103.3	111.1	111.3	111.6
Telecommunications				
Number of general access telephone lines	101.6	123.8	130.7	135.2
Number of household telephone lines per 100 households	105.0	137.6	147.6	155.5
Total length of long-distance telephone channels	106.3	252.8	351.1	509.1
Share of digital telephone channels in total long-distance telephone channels, %	1.5	56.9	69.1	76.9
Number of registered fax machines	206.2	1,706 (1997)		
Number of pagers	100.0	3,838	4,118	5,065
Number of cellular phones	100.0	12,695	23,600	55,524

Second, post-communist transformation was occurring throughout Russian society. This was a truly unique experiment. Never before in history (including the history of economics) has there been a

transition from a totally state-controlled system to a market economy. Of course, the most difficult part involved the transformation of property rights, i.e. privatization on a national scale. However, this sort of transition was not peculiar to Russia. Post-communist change was simultaneously occurring in about 25 countries. What is more, Russia was not a pioneer in this respect: a number of countries had embarked on such a transition two or three years earlier, which provided the post-Soviet republics with some experience, albeit very limited in nature.

Third, Russia was faced with a full-blown macroeconomic crisis resulting from its populist economic policies (beginning in the second half of the 1980s), which led to the breakdown of the fiscal and monetary systems, extremely high inflation and an industrial output decline. However, the phenomenon of macroeconomic crisis, together with the various ways of handling it, had been thoroughly studied by the end of the twentieth century. In the post-war period, many European, Asian and Latin American countries had to grapple with similar problems. Moreover, Russia had a similar experience of pulling itself out of a severe macroeconomic crisis in 1922-23.

Fourth and last, the political, macroeconomic and structural changes that Russia faced at the turn of the 1990s were accompanied by a full-scale social revolution. A systemic transformation, which radically changed the social set-up of the country, was being initiated inside of a weak state, which in fact is one of the defining characteristics of a revolution. By the time the post-communist changes had begun, practically every institution of the state had been all but destroyed, and their restoration was essentially the central political objective of the first post-communist decade. Moreover, economic reform advanced only to the extent that the institutions of the state were restored, which made the pace of reform much slower than in most other post-communist countries. Among the countries undergoing post-communist transition, the revolutionary transformation affecting Russia was a unique feature, although not entirely new to European history.

The interconnection of these crises determined not only the uniqueness, but also the peculiar complexity, of the reforms. Whereas in all known cases the policy of financial stabilization could be based on existing institutions of a market economy (not always effective but at least existing), in Russia stabilization and formation of market institutions went on almost concurrently. Naturally, this considerably complicated and prolonged the reforms. And the absence of a real state (political institutions, including a system of legal order, law enforcement and so on) that is characteristic of a revolutionary epoch meant that the implementation of these liberalization measures could not be delayed.

Russian reformers were frequently criticized for their preoccupation with financial (or stabilization) policy at the expense of institutional reforms. This seems to be a bit unfair, since institutional reforms were receiving considerable attention from the very beginning of the post-communist transformation. It was simply that the institutions which had to be created in Russia were perceived by Western analysts as something given. Meanwhile, over the course of the 1990s in Russia, the fundamental institutions — without which a market economy cannot exist —were created: a democratic constitutional system, the institution of private property, free price setting, an environment of competition, financial markets, a banking sector, labor market and much else. Of course, the functioning of these institutions, their effectiveness and reliability, can and do evoke sharp criticism, particularly from detached observers. However, the problem is that all these institutions previously did not exist—and not only in practice but also in the historical memory of the people. This is different from, say, the situation in the Central and Eastern European countries, where the Communist regime had existed for only forty years, that is, less than the life of one generation.

As the new institutions were formed, other economic tasks, above all stabilization, could be solved methodically. From this viewpoint the internal logic of macroeconomic stabilization can be seen. As is well known, in Russia this task took approximately nine years (1991-1999) and went through several stages. In 1992, the

liberalization of prices was carried out, which allowed inflation to be converted from concealed (total shortage of goods) to open form, and thereby the initial precondition for stabilization to be created. This action required no institutions other than a reforming mood on the part of the government, as well as the readiness of society to pay a definite price for overcoming the 'goods famine.' But the attempt at macroeconomic stabilization in 1992 failed – neither the social nor the political conditions were in place in Russia. There followed monetary stabilization (1995), for which the adoption of a new Constitution was required, breaking the link between the Central Bank and the populist body of deputies. The independence of the monetary authorities, combined with a stabilization course on the part of the government, allowed the ruble to be stabilized. This too, however, was not stabilization. A continual conflict between the executive and the legislative branches of power prevented the balancing of the budget. At the same time, the rise of the institution of state debt allowed stability of the ruble to be ensured for some time despite the weak budget. Only the gradual overcoming of the revolutionary political crisis, together with the formation of a government majority in the Duma, allowed the task of macroeconomic stabilization to be fully solved.

The sharpest criticism of the economic reforms has been directed at the privatization program that was carried out in Russia in the first half of the 1990s. Nevertheless, it is difficult to dispute the exceptionally important role the creation and strengthening of the institution of private property also played in solving the task of financial and political stabilization.

RESULTS

First of all, *macroeconomic stabilization was achieved*. The crisis was quite protracted (lasting about ten years) but not unprecedented in economic history. Stabilization was brought about through an array of standard measures (liberalization, fiscal and monetary restraint), and its success paved the way for the resumption of economic growth. Of course, stabilization was

not achieved once and for all. An economic system is never guaranteed from mistakes by the authorities, against unsound and populist decisions.

The process of revolutionary transformation was practically completed. The restoration of the state is very much in evidence. Macroeconomic stabilization has gone in step with political stabilization. In 1999, analysis of political parties' pre-election programs showed the reference points of the main political groups to be converging, however important the differences between them. A common system of fundamental political values, which are above political dispute, is emerging. Specifically, no one calls into question the importance of private property as the basis of economic and political life (although appraisal of the outcome of privatization still arouses controversy); no one calls for an end to tight monetary and fiscal policies (until quite recently inflationary financing of the budget deficit was widely thought to be acceptable); all groups (even on the left) support the policy of alleviating the tax burden, while everyone accepts the need to shift the emphasis of policy implementation to profound institutional reform. Of course, the practical recommendations of particular political groups still widely differ, but those differences are no longer so pronounced as to constitute a threat to political stability. The ability of the authorities to secure basic macroeconomic stability is the most important characteristics, thus suggesting that the crisis has been overcome.

Putin's first presidency (2000-2004) brought new elements to the pattern of post-revolutionary political and economic stabilization. A steady pro-government majority was being formed in the Lower House – the Duma. Practically every new bill sponsored by the government could now rely on parliamentary support, which was very important for the political regime to further advance its initiatives. On the one hand, there was less political haggling over each specific bill, and hence more consistent pursuit of the government's chosen course. On the other hand, the system of relations between the government (relying on its parliamentary majority) and the opposition (the parlia-

mentary minority) was assuming the form typical of stable democratic societies.

It could be persuasively argued that *the goals of the post-communist transformation have been successfully accomplished*. This conclusion tends to provoke especially strong objections and therefore needs to be clarified. The Communist system was distinguished by three main political characteristics: a totalitarian political regime, absolute domination of state ownership in the economy, and shortage of goods as a basic constituent of economic and political life. By the end of the 1990s, the three main features of Communism had been eliminated in Russia. This certainly does not mean that Russia has fully overcome the crisis. However, severe structural problems which Russia is still facing and which make it vulnerable to external shocks are not, strictly speaking, a legacy of the Communist system. They reflect rather the development and crisis of the industrial system, and it is no accident that practically all countries which have had to cope with the transition from an industrial to a post-industrial society have faced similar problems and challenges.

To sum up, the dominant socio-economic problems confronting Russia today are the crisis of the industrial system and the establishment of the socio-economic foundation of a post-industrial society. This process defines the main challenges that the country will need to meet in the coming decade. Apart from these challenges, which influence Russia 'from the future,' so to speak, and form the objective of its development, it is necessary to see another factor which also will contribute to the overall picture of modern Russia. Revolution has a long-lasting impact on society above and beyond its influence on the current development of the revolutionary nation.

Record of Economic Reform in Russia

1. **Law on State Enterprise (Production Association)** was endorsed at the June 1987 plenary meeting of the Soviet Communist Party's Central Committee, together with a package of eleven resolutions that the Central Committee had drafted jointly with the U.S.S.R. Council of Ministers (this concerned the activities of the Council of Ministers, the State Committee for Procurements, the State Planning Committee, the Ministry of Finance and the governance bodies of the Soviet republics. It also put into effect price reforms and improvements in the banking system). The law redistributed the powers of the various ministries and manufacturing enterprises, as well as the central all-Union and republican government agencies. The customary state planning system was replaced by a 'state order' production scheme that affected only part of manufacturing and gave factories a free hand in selling a part of the manufactured products. The document provided for elections of factory managers and staff councils – a measure designed to stimulate the workers' personal responsibility and commitment to better performance. The same goal was implied by broadening the rights of factories which empowered them to make particular decisions concerning wages, as well as the assortment of manufactured products. Article 23 permitted the liquidation of loss-making enterprises – an innovation that was actually similar to market reform. This legal act gave the manufacturers a hitherto unseen freedom and introduced real market-oriented regulatory principles. It marked a real attempt to change the economic mechanism, alleviate administrative pressure, and introduce competition. Yet the law bore little fruit since state orders involved the manufacturers' full capacity, while the system of pricing and material supply remained unchanged.

2. The U.S.S.R. **Law on Cooperatives** (May 1988) permitted small-scale entrepreneurship in the so-called 'cooperatives' sector.' This law allowed for the emergence of small cooperatives and joint ventures at state enterprises or local councils. They mostly engaged in commodity exports, which sharply cut commodity supplies to the domestic market. Discounts enabled the cooperatives' managers to purchase raw materials at preferential prices and then sell their own products at much higher commercial prices. While labor productivity at the cooperatives was basically the same as at state enterprises, the employees at the worker cooperatives had incomparably higher

wages. Due to imperfect controls, many industrial executives set up subordinated cooperatives. Access to the state-supported facilities and resources, together with discounts and preferences, produced a negative effect since the cooperatives were sucking the life out of the state-run economy. The Law on Cooperatives encouraged the growth of black-market businesses, created conditions for laundering illicit money, and widened gaps between social classes.
Reforms of the Soviet economy between 1987 and 1990 did not confine to the laws on state enterprises and cooperation. As joint ventures were being set up, the government lifted state monopoly in foreign trade and expanded the powers of the state manufacturers and cooperatives in foreign transactions. A reorganization of the banking system was launched, as banks in different sectors of the economy were commercialized. The first cooperative bank was registered in August 1988, while the authorities allowed the manufacturing enterprises and organizations to begin issuing securities. In March 1989, several specialized banks (for example, Promstroibank, which was connected with the construction industry, and Agroprombank, the agricultural bank) changed over to cost accounting, and as of 1990, their transformation into commercial banks began. An All-Union Currency Exchange was set up in August 1990.

3. The Russian President's **Decree on Lifting Price Controls**, signed in January 1992, set free the bulk of commodity prices and service fees, except bread, milk, alcohol, communal utilities, transport fares, and energy resources. The decontrol of prices made it possible to eliminate the oversupply of cash, that is, the amount of cash funds accumulated by 1991 that exceeded the actual supply of consumer goods. The measure had a side effect, too: it annihilated the savings that the people had made over the years. The government failed to avert the crisis of cash circulation in the initial phases of the reform – inflation ran away faster than the printing press could spew out fresh bank notes. That is why the authorities relied on a monetarist policy as a tool of financial stabilization.

4. Another document appeared in January 1992 as the President signed a **Decree on Trade Liberalization**. It permitted anyone who was willing to engage in commerce the right to trade; great changes took place in foreign trade. The government lifted its quotas on exports of finished products, but kept in place quotas for energy resources and raw materials. At the same time it was forced to lift restrictions on imports as the excessive cash produced a strain and the market experienced a commodity deficit. Eventually, a zero import duty was established, which opened the floodgates to foreign consumer goods of variegated quality. Decontrolled imports catalyzed the spread of private trading at the beginning of 1992.

5. In December 1991, the President issued a **Decree on Accelerating the Privatization of State-Owned and Municipal Enterprises**, and the Presidium of the Supreme Soviet [then parliament] endorsed **The Main Provisions of the Program for Privatizing State-Owned and Municipal Enterprises in 1992**. Control over its implementation was vested in the State Property Committee, which issued its own orders and drafted government resolutions pertaining to privatization.
In June 1992, the Supreme Soviet endorsed a **Law on Privatization** of medium-sized and large industrial facilities, and a presidential decree issued in August 1992 marked the beginning of the first stage of privatization using vouchers (checks). This model envisioned that large and medium-sized state-run manufacturers and organizations would turn into joint-stock companies that would subsequently go public. The employees would receive shares, and to enable the broader population to participate in the process, the law introduced vouchers that were supposed to symbolize the equality of the start-up conditions. The people were expected to exchange their vouchers for the shares of enterprises, which would make them legal owners of these enterprises. Since few people were ready to study the details of privatization, the establishment of Check Investment Funds began throughout the country. Its goal was to accumulate big packages of vouchers from the general population and invest them in shares of the most profitable enterprises in a bid to attain the highest possible yields. Decisions on locking company stakes in federal ownership or selling them would be taken by the government and the State Property Committee. Both agencies would also appoint the dates of the transactions. A total of 70 percent of Russian manufacturing enterprises were handed over to public ownership by July 1994, and the government's share was reduced to 35 percent.

6. On July 22, 1994, the President issued a decree endorsing **The Main Provisions of the State Program of Privatizing the State-Owned and Municipal Enterprises after July 1, 1994**. The decree marked the second stage of the changeover to private ownership, or "privatization for cash." From that time on, the enterprises or their shares were sold strictly for cash, and were sold at cash auctions, specialized auctions, commercial and bidding contests, or by closed subscription (i.e. through private placement of the shares). The stock market began developing rapidly, together with a system of institutional investors and a stratum of people who enjoyed ownership rights. Apart from sales, several in-depth forms of privatization emerged, including **loans-for-shares auctions**, the transfer of federal stakes to the regions in order to cover the federal debt, conversion of debts to securities, etc. The loans-for- shares auctions evoked the broadest response from the public, as they brought to life several financial-industrial empires.

7. The federal **Law on the Privatization of State-Owned Property and the Guidelines for Privatizing Municipal Property in the Russian Federation**, which the President signed in July 1997, stipulated a shift from an emphasis on fiscal aspects and amassed privatization to individual projects, where the efficacious use of privatized property would matter. As of July 1997, the government and various divisions of the State Property Committee would draw up annual lists of the enterprises and organizations to be sold off, thus helping the advance of selective privatizations. Apart from the authorized capital and balance value, the price of each property package also included its market value. This encouraged the sale of the stakes at higher prices. The privatization of the Russian telecommunications monopoly Svyazinvest is a good example. Top officials at the State Property Committee began speaking about "a new type of privatization," where property was handed over to those who had offered a better price.

8. Russia's business climate improved after the endorsement of the new **Tax and Customs Codes** in late 2000. The tax scale was cut to 13 percent from 30 percent to become one of the lowest rates in Europe. This move allowed many sectors of the economy to move into broad daylight and out of the shadows. Customs duties were also reduced. Already in 2001, the Russian budget thrived on taxes and customs duties. In November, a new financial agency, the Committee for Financial Monitoring, was set up to control financial flows in Russia and expose particular business people who evaded the payment of taxes or laundered illicit money.

9. A new **Land Code** reaffirming the right to the private ownership of land and specifying the patterns of its sale was endorsed in September 2001. The only category of land that it refused to put up for private ownership was farmland. But in June 2002, the Russian Parliament endorsed a **Law on the Sales of Farmlands** which made them available for transactions, as well.

10. The **Law on the Unified Social Tax**, passed in June 2004, provides for lowering basic Unified Social Tax rates, while changing the regressive scale. The maximum rate is expected to decrease to 26 percent from 35.6 percent. This measure is expected to make small and medium-sized businesses to bring their revenues out into the open. However, the law is somewhat skewed as the regressive scale implies reduced tax burdens for the wealthy only. Earnings of 280,000 rubles a year will be subject to a 26-percent tax rate. However, 280,000 rubles to 600,000 rubles per year will be subject to a 10 percent tax rate, while anything over 600,000 rubles will be taxed at 2 percent.

Prepared by Alexander Terentyev

A Battle Between Business and Bureaucracy

Yevgeny Yasin

The current situation in Russia seems to be a bit of a paradox – the economy is developing at record-breaking rates, while a serious conflict is flaring between the government and the business community, especially big business. It may seem that this conflict has subsided because it is no long the big story on the television newscasts or on the front pages of the newspaper. It may also seem that there is no problem since the random reports in the media about government pressure on business fail to cause alarm. This is not so.

The year 2003 witnessed two major events that brought the relationship between the government and business into the limelight. First, there was a whirl of developments around Russia's oil giant YUKOS and its CEO, Mikhail Khodorkovsky, who found himself behind bars. Second, the right-wing liberal parties, the natural heralds of big business interests, failed to secure seats in the State Duma during the December parliamentary election. These events will necessarily have long-term, variegated consequences.

The problem is rooted in the methods of, and circumstances around, the progress of Russia's market reforms.

The circumstances have much significance, since the reforms coincided with a severe economic crisis. This occurred because the old government-planned system came to a complete halt, and the nascent market system failed to adjust itself appropriately due to the past state institutions frustrating the reform. The market demanded

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an intense transformation of the economy, which went by the name of "shock therapy" at the time. The complexity of this transformation was heightened by the nature of a militarized economy, which largely conditioned the structure of society and the positioning of political forces. As recipients of generous government subsidies, army personnel and representatives of the defense industry, not to mention the agricultural sector, dominated Russia's elite.

Nevertheless, the wave of democratic reforms in 1992 to 1995 introduced the institutional foundations of a market economy.

1. At the beginning of 1992, price controls were lifted and the planned system of government handouts was dismantled;

2. The national economy was opened to the world and a market exchange rate of the ruble was introduced in 1992;

3. Amassed privatization by way of property vouchers was carried out from 1992 through to the middle of 1994;

4. Financial stability was attained in three stages, although inflation was curbed only in 1995;

5. A system of taxation was shaped;

6. A two-tier banking system emerged.

A genuine market economy had begun, although not without a hitch. Its initial stage was marked by a huge decrease of industrial output, which was primarily the result of the legacy of structural irregularities, as well as a restrictive monetary policy aimed at slashing inflation.

It is noteworthy that no relationship between business and government could be documented at the time, since business was practically non-existent. What Russia had at the time was a group of top executives from the state-run enterprises – the so-called 'red directors.' Most of these individuals were pondering possible changes in the situation; they believed that the reformers' zeal would wane and the status quo would be quickly restored.

Furthermore, in the aftermath of the 1987 Soviet law on cooperative societies, new entrepreneurs appeared. Although they began reveling in money, their influence was very small, while the government was beginning to show some benevolence toward them. It took them quite a while to gain strength.

Russian society overcame the unexpected shock of the profound change and started to repulse it. However, at the same time, it showed no willingness to revert back to the past.

The essence of the problem discussed herein is that the process of remaking the socialist planned economy into a market economy produced a peculiar adaptive model of a transitional economy.

This model has the following specifics:

1. **The weakness of the state** in the wake of revolutionary changes.

The vital institutions of the state – the government machinery, the security service, the army and the police, the Court and the Office of Public Prosecutor – all had been modeled to serve a totalitarian regime. The new authorities could by no means consider them to be reliable supports. Yet they were also unable, or reluctant, to launch a profound transformation of these institutions. All of this was happening inside a large state with huge obligations, albeit somewhat devalued by inflation. The government had just enough strength to provide more freedom.

2. **Poor legislation,** insufficient for a market economy and state governance. In fact, the legislative system had to be built from scratch, and Western legislative patterns were taken as models. In some instances, the lawmakers disregarded the specificity of Russia's transition period. The laws had noticeable flaws, which could not be made up for by court decisions, as the case law was non-existent. A graphic example of the situation was the MMM financial pyramid. Its founder blatantly cheated innocent people with promises of a cash bonanza over the television; the law at the time did not contain any provisions for prohibiting this sort of activity. They would go into effect some time later.

3. **The limits of economic freedom were broad** from the very start: anything that was not prohibited by law was considered permissible. The prohibitions, in fact, left out a multitude of things that should have been forbidden. Later, however, while the country was experiencing negative scenarios, prohibitive acts did appear, but along with absurd orders and instructions. For example, the first cooperatives were free from taxes, and in 1992 the government lifted all import duties.

4. **Bureaucracy was getting stronger** against the backdrop of a weakening government. As case decisions could not be supported by law, the decision-making would pass to the bureaucracy of different executive ranks. The role of bureaucracy, traditionally strong in Russia, rose to new heights, while the democratic government proved unable to control it. Furthermore, lacking experience in economic and state governance, it was compelled, more often than not, to hand the levers of governance over to others. A vivid example of this was the early resignation of Moscow's first mayor, Gavriil Popov, and the handover of all the levers to Yuri Luzhkov.

5. **Rampant corruption.** This was widespread during the Soviet era as well, but at this point it grew to the extreme. The above mentioned Gavriil Popov declared that government officials should be allowed to engage in business activities because they could not receive decent salaries. So corruption did not boil down to taking bribes – striving for the success of their businesses rather than performing their duties, state officials granted privileges to their partners. The first years of the reform actually saw **privatization of the state power.**

6. **The black economy thrived.** Virtually all companies and private individuals resorted to illegal transactions to some degree. And tax evasion was not the only reason for doing so; more significant was the redistribution of financial revenues, property appropriation, etc. Even now some 20 million Russians, or roughly a third of the country's workforce, are self-employed, that is, they do not pay taxes and nobody pays social funds for them.

The harsh transformation environment, together with the broad liberalization of the economy, forced every Russian citizen to make a choice: use the newly opened opportunities for enrichment and win a place for himself among the new elite, or strive for survival. Those who took a wait-and-see attitude – and quite naturally, many people did – lost the game. Yet both enrichment and survival strategies promoted a black economy.

7. **Organized economic crime** came into being as simply a racket, but later transformed into what the sociologists term "business through the use of force." Such activities as private security services and collecting debts actually replaced the functions of gov-

ernment agencies. Some time later, organized crime began to decrease; some of the previous offenders received a legal status in business or in some power agency, while others were quite physically removed. Part of the services they offered were handled by the police, otherwise known as 'werewolves in police uniforms' [the code name of a much-advertised operation to cleanse the ranks of Moscow's corrupt police department in mid-2003 – Ed.]. This did not appear overnight, as the raids against the business community, organized by the prosecutors, the police and tax officials have always been highly instrumental in fighting with competitors.

8. **Low juridical culture,** the people's tolerance for corruption, bureaucratic arbitrariness and crime, as well as 'legal nihilism.' These features date from the centuries-old tradition of social hierarchy that was shaped during the czarist and Soviet rule when the will of the superiors unconditionally prevailed over law. The Russian rank-and-file do not trust either the law or the courts; they believe that the 'mighty people' will gain the upper hand over them anyway. Quite simply, they believe that seeking justice is a futile thing to do, and that bribes are much more efficacious. This belief among the Russians creates a lucrative environment for arbitrariness, corruption and crime. After all, the state officials are as incompetent as the citizens allow them to be.

9. **Poor tax collection.** From 1992 through 1999, companies would pay as much in taxes as they would find acceptable for their businesses. Shortly before Russia's financial default in August 1998, the tax authorities signed agreements with the biggest corporations, including Gazprom, on the rates of taxes that they were supposed to pay. The move could be explained by restrictive fiscal policies aimed at keeping inflation in check, commonly accepted barter deals and payments in kind, the proliferation of non-payments, wide use of money surrogates, as well as by legislative flaws and tax breaks. Naturally, the corporations cultivated diverse schemes for reducing their tax payments. The rule seemed to be, 'the bigger the company, the greater its willingness to observe the law' – and the more sophisticated its schemes of "tax optimization."

A poor system for tax collection resulted in the government's failure to honor its financial obligations. At the same time, it served to undermine its trustworthiness and weaken the Russian state, which at that time was being torn by separatism, the arbitrariness of the regional authorities, and standoffs between the legislative and executive branches of power.

10. **Concentration of the most valuable pieces of former state property in the hands of the few** is listed here as item number ten. This position stresses a fairly modest role that the shortcomings of privatization had in shaping Russia's model of economic transition. Whatever the method of partitioning state-owned assets, the result will never be synonymous with justice. During the period of privatization, it seemed prudent to provide for a balance of interests of all social groups. Yet, it was obvious that handing out equal shares of property to everyone was equally unacceptable, as such a move might impede the emergence of effective owners and the future progress of the economy. A concentration of capital seemed to offer a more rational solution, although it had one obstacle: nobody had enough financial resources to buy out property at reasonable prices. As a result, the authorities dropped the idea of registered privatization checks and opted for privatization vouchers that were subject to sales. This choice helped make the amassed privatization process go relatively smooth. The realization that a huge part of state property had fallen into the hands of a few people who had bought up the vouchers and shares of the newly born joint-stock companies came only later. Some of those selected people had managed to build capital on soft loans from Russia's Central Bank, as well as on the gaps between external and domestic prices for commodities in foreign trade transactions, export quotas, or financial speculations. By 1995, those people pooled into a numerically small but powerful stratum that was objectively interested in the success of market reforms, strengthening of private ownership, and in making the economic transformation irreversible. As for the rest of the social strata, including small businesses, former managers of state-run enterprises and employees, they cared little for the outcome of the reforms. Most people in Russia were overwhelmed by the strug-

gle for survival, for which they blamed the reformers. In the meantime, the reformers needed allies.

This was the time when the so-called oligarchs (i.e. the people with the financial clout who had obtained the levers of influence on government policies) had moved to the forefront. It was a time when the notion of 'state oligarchic capitalism' appeared as a regime based on the merger of top-level bureaucrats with big business displaying the aforementioned traits. The rise of that sort of capitalism was crowned by bidding with securities at documentary pledge auctions. As a result, the businessmen and oligarchs who had supported Boris Yeltsin in the 1996 presidential election appropriated at low prices the industrial facilities that turned out highly competitive products – the oil companies TNK, Sibneft, YUKOS; the non-ferrous metal producer Norilsk Nickel; etc. The appropriation was carried out on the conditions they themselves had named. Also, they were given an opportunity to get control over or create major television channels.

However, that was not the only way of building large corporations. Assets in non-ferrous metallurgy and aluminum production were consolidated through the accumulation of reserves derived from tolling and other schemes. In ferrous metallurgy, powerful companies emerged on the basis of the Cherepovets, Novolipetsk and Magnitogorsk steel smelters without any competitive bidding. Two large oil producers, LUKoil and Surgutneftegaz, were also formed on different patterns. That is why President Putin is not quite correct in saying that a group of five to seven people were appointed billionaires, and they took the companies for their own in violation of the law.

11. All of the above factors, in addition to the powerful influence of big business and a corrupt bureaucracy on the economy, produced **inequitable conditions for competition** which aggravated the disproportion in wealth distribution and fuelled social differentiation.

12. **Inequitable distribution** and a glaring contrast between the wealth of the few and the poverty of the majority are boldly manifest in the gap between Russia's 10 percent of the top rich compared with the 10 percent of the poorest people (the decile rate).

According to official statistics, this index measures 14.5 times. The situation resembles that in the U.S., the only difference being that the income group representing Russia's middle class would fall into the income bracket of the poor in the U.S. More accurate estimates indicate that the real gap is even greater. International data suggests, however, that the countries with a similar Gross Domestic Product may have far larger gaps in wealth distribution. The problem is that in Russia the decile rate reached 4.9 times back in 1990.

As a consequence, the majority of the Russian people have developed a **negative attitude to the market reforms of the 1990s.** They mistrust the state, hate the rich, and crave for property redistribution in order to achieve more justice. Nonetheless, the current economic growth is the direct result of the reforms and the private initiative they have awakened. Moreover, big corporations account for the greatest part of that growth. However, the economic growth also results in increase of revenues and wealth. This intensifies people's demand for property redistribution, a situation which certain politicians are only too happy to agitate.

There can be no doubt that an economy with the characteristics detailed above has a limited potential for development. While Boris Yeltsin was still in office, attempts were made to rescue the country from the 'institutional trap' (a term offered by Russian academician Victor Polterovich) that the Russian adaptive model had created. As Putin took office, however, the efforts to overcome that problem acquired a new dimension. From the very start, Putin declared that all of the oligarchs would be equidistantly alienated from the Kremlin. After some time, two of the oligarchs – Vladimir Gusinsky and Boris Berezovsky (both controlling critical mass media sources) found themselves in exile. Putin then subdued the ambition of the regional authorities by building "a vertically integrated system of state power."

When this was done, Putin was forced to confront two more serious challenges in domestic policy. Number one was economic modernization, completion of economic reforms, and removing Russia from the trap of the adaptive economic model. Number two was the consolidation of the state and bringing law and order into the economy.

The reforms and economic modernization were partly described above. As for the consolidation of the state, it was precisely in this area that the signs of a conflict between the government and the business community appeared. Its history goes back to 1997, when the broadcasting media magnates Gusinsky and Berezovsky unleashed a war of words against the boisterous reformers Anatoly Chubais and Boris Nemtsov. The two media oligarchs won the battle, while the political leaders at that time preferred to take their side. They believed that the methods used by Gusinsky and Berezovsky were unavoidable under the conditions at that time; the political situation necessitated making concessions and compromises, as well as reconciling with the political clout of big business in the agencies of power. The alliance between the politicians and businessmen in 1999 resulted in Vladimir Putin's ascendancy to the presidency. This augmented President Yeltin's political course for some time, while helping to secure positions for his associates.

Next, Putin had to tackle the dilemma: either consolidate the state in **the evolutionary way** by developing genuine democracy and conceding to big businesses' political influence, or resort to **forceful measures** by putting stakes on the law-enforcement agencies, security services and bureaucracy.

Obviously, the evolutionary path takes more time and effort. It means that the state must risk introducing democracy in a country that possesses an undeveloped political culture and tough competition between the political forces. These represent the moods of different social strata, including some that may be very dangerous for the country's modernization, such as, for example, those from the pro-Communist, pro-nationalist, traditionalist, or populist camps. Furthermore, big business in Russia acted in its own interest and would often lobby those decisions that contravened its national goals. This situation posed extra problems for the government, and heightened the level of uncertainty in the country that it could not afford to have. Yet, international experience proves that prosperity can be attained only by democratic nations with market economies, provided their governments reckon with

the adopted laws of democracy and make no exemptions for themselves. This is especially true of post-industrial states.

As regards business, the evolutionary method states that the government relies on natural, spontaneously appearing trends in the economy and in society, which produce a demand for legality, commitment to obligations, transparency, and, last but not least, the protection of property rights. The number of business people who are direly interested in those institutions which support a market economy continually increases. The business community understands that it is necessary to have these institutions in order to draw loans and investments, use the advantages of a good business reputation, or scale down transaction costs. The value of credibility based on the account of mutual interests grows, too. This kind of credibility embraces relations inside the business community, between businessmen and employees, as well as between businessmen and the government.

If the government relies on these trends and pushes them delicately in the right direction, and duly treats the interests and apprehensions – or even the phantom aches – of the business community, it will have an opportunity to make use of additional reserves of business activity and the growing trust among businesspeople.

In other words, it is credibility and not high crude oil prices that creates the main resource of Russia's economic growth. Credibility serves to increase investment in modernization, and turn the majority of Russians into investors.

Many people believe that **forceful measures** and an undue reliance on bureaucracy promises rapid success. These methods are consonant with Russian traditions, and most people regard them as customary tools for achieving order. Russians apparently continue to believe that normalizing the situation is impossible without indiscriminately handing out punches and kicks. The typical thinking with Russians seems to be that first law and order must set in, and then Russia can go over to establishing democracy, if need be. Yet the very use of forceful measures, even if formal democratic procedures are observed, resembles some sort of post-revolutionary chaos, because it narrows the limits to the

country's development, vests power in bureaucracy, and eventually consolidates the institutions of arbitrariness and corruption.

More importantly, the latter logic of action aggravates the conflict between business and government and turns it into a long-term factor. The adaptive transitional model of the Putin administration has embedded a special feature: **all Russian businesses are illegitimate or at least have the feeling of being illegitimate. They have grown accustomed to a situation where the government may prove their illegitimacy if it so desires, and it will not even bother providing any proof of guilt.** As one classic Russian fable goes, "I find you guilty anyway – because I want to eat." That is why the businessmen are likely to perceive any moves "to straighten the situation out" through the use of force as arbitary acts which are undertaken to deprive them of money or ruin their enterprises. And excessive force makes forcible methods an accepted norm of law, undermines credibility, and ruins the prospects for developing the economy.

Following the equidistant alienation of the oligarchs which led to several of them seeking exile under the threat of criminal persecution, in addition to the attempts of the Prosecutor General's Office in 2001 to revise the privatization of Norilsk Nickel, it seemed that the parties to the conflict reached an agreement to change over to evolutionary development. The business community agreed to treat the cases mentioned above as 'occasional excesses', while the government agreed to close its eyes to the dubious means surrounding the rise of Russian business. Large corporations joined the Russian Union of Industrialists and Entrepreneurs in order to voice their interests and maintain contact with top government officials.

The situation changed dramatically after Mikhail Khodorkovsky, CEO of Russia's major oil company YUKOS and a major businessman who was partial to the modern style of management, was arrested. Most business people regarded this event as a turn to forcible methods. The case coincided with operations that were launched against corruption and criminality in law enforcement agencies. The campaign was designed to show that the government had begun putting things in order. These events occurred during an election race, and it was viewed as a move that

Russia's Economic Elite as Seen through the Eyes of Public Opinion

What motivates the big businessmen?	**%***
The desire to make capital in order to ensure a worthy life for oneself and one's family, independent of circumstances	50
The desire to make capital in order to gain power and further enrich oneself	32
Greed for money	31
The desire to become regionally or nationally famous and to influence decision-making processes in the economy	22
The desire to prove one's ability to become rich and to rule people's destinies	19
Business is a narcotic: the more one gets involved, the more addictive it becomes	10
Business is a way to express oneself and realize one's abilities	7
The desire to make capital and thus help the country overcome its crisis and support the needy segments of society	4
Undecided	4

** The sum of the values exceeds 100 percent, as those polled were allowed to give two answers.*
Source: the Institute for Complex Social Research

Who are the oligarchs?	**%**
People who made their fortunes dishonestly	40
People whom no one has elected or appointed, but who possess great power in the country	20
CEOs and the owners of very large companies	15
Simply super-rich people	14
People who have worked their way up into the nation's 'influence' leaders owing to their intellect and talent	5
Undecided	6

The analytical report was prepared by the Institute for Complex Social Research of the Russian Academy of Sciences, and the Moscow Office of the Friedrich Ebert Foundation

was intended to beef up the positions of the pro-presidential forces. The persecution of YUKOS's top managers, which involved keeping them in custody before trial under rather dubious charges, and other actions that could have otherwise been regarded as the start of a "clean hands" campaign, had a clear political taint. They illustrated the practice of selective justice and were marked by encroachments on the norms of law. No doubt, some businessmen pinned their hopes on the redistribution of property, using their high-rank connections, but in general the

Russian business community viewed the authorities' action as a threat to itself and grew adamant.

The government tried to lighten the negative impressions. Not conceding in the YUKOS case and insisting that it was an individual instance, it appointed several liberal officials to the administration after its former chief, Alexander Voloshin, had resigned. As President Putin addressed a congress of the Russian Union of Industrialists and Entrepreneurs, he reiterated that the privatization results of the 1990s would not be revised, except for overt cases concerning the violation of the law. He also made an important concession on the buyout of land that was occupied by privatized industrial facilities. Following these events the relationship between business and the government dropped off the front pages of news reports.

The conflict, however, has taken a definite shape and remains unresolved at the moment. Experts tend to interpret it as a conflict between business and bureaucracy, or between the financial and administrative resources.

However, it is now obvious that the instances of businesspeople being persecuted were no accidents, even in the situations where they had legal grounding. Russians do not believe that encroachments on the law per se are the real grounds for instituting criminal cases and would always look for "weightier" reasons. The changes in the relationship between business and the government, the achievements in establishing state control over the mass media and the methods used to manipulate the elections — all add to the picture of what is called "controlled democracy" and signify the government's move toward more forcible methods.

The outcome of the December 2003 State Duma elections reflected the aftermath of the policy of controlled democracy, including the monopoly of the executive power (as the pro-presidential United Russia party got a constitutional majority in parliament), the strengthening of nationalistic and populist forces, and a notable weakening of both leftist and rightist opposition parties. What is more alarming, the situation will be enduring.

A graphic example was the attempt to pass a bill which practically outlawed public meetings near the buildings of government

organizations. The obedient majority of MPs stopped right on the verge of grossly violating the Constitution.

A new wave of discussions occurred after Khodorkovsky had sent an article from jail. Time will show whether it was an act of repentance or a manifesto of the new liberals. However, the very fact of its publication, which contained expressions of commitment to the presidency as a state institution, as well as a criticism of liberal reformers and businessmen for their reluctance to heed the national interests and aspirations of the people testifies to the persisting conflict between business and government. Ultimately, this makes everyone a loser. It follows from Khodorkovsky's letter that the Russian business community is promising to develop a sense of social and national responsibility. The fact that the article was published and a discussion around it began — which could not have occurred without the authorities' initiative — is indicative of the government's flexible stance, as if it were saying: enough with hazing the oligarchs! That is, at least for now. However, by acting this way, it has involuntarily recognized the political nature of the persecutions.

Forecasting the impact that future developments may have on the Russian economy is problematic, yet there are signs that the economy is unlikely to produce unfavorable short-term reactions to the recent changes. The waves of emotion around the YUKOS case are subsiding, and Khodorkovsky's article was meant to whip up public interest on the situation. There will be one more wave when court hearings of the YUKOS case begin. But whatever its outcome, those events will not have a lasting effect on the Russian economy. The business community must go on living and working, thus, it will act pragmatically, while keeping in mind that the authorities are always ready to recall anyone's sins — be they real or fictitious — in order to make business obedient.

Foreign investors will probably display an even calmer reaction to the events. Following the Moody's international ratings agency in its footsteps, other agencies may do an upward revision of Russia's investment ratings by the end of 2004. All the indices of the Russian economy look too good to be true, and although the

ruble is growing against the U.S. dollar, this is the result of high oil prices. It is obvious that foreign investors will find Russia attractive as long as the interest rates on the Western market are low: an inevitable rates growth in the U.S.A., Japan or Europe will immediately strip Russia of that advantage. As for now, Russia may well use the favorable situation.

No long-term choice of policy line has been made. However, if it is made in favor of forcible methods, its effects on the efforts to modernize the Russian economy will obviously be harmful. But let us hope that in the next few years of Vladimir Putin's second term in office the government will keep a nice balance between the evolutionary and forcible methods of development. Obviously, this policy line will entirely depend upon the reputation and sense of responsibility of the President – the incumbent President; but who will follow Putin?

In fact, a victory by either side in the war between business and bureaucracy would be tantamount to Russia's failure. The most reasonable solution is to bring relations between them into the format of law and predictability. On the one hand, the law must restrict the business community's ability to lobby decisions and impose the selfish interests of certain business groups on society. On the other hand, the government must begin moving toward democratization, genuine division of powers, freedom of the mass media, elimination of electoral manipulations and the creation of an environment for political competition. Only then will society be able to control bureaucracy, and only then will Russia have a chance of achieving success in the global post-industrial economy.

Leave and Make Room

The opposition in Russia has fulfilled its mission

Dmitry Furman

The presidential regime in Russia has put an end to opposition parties, both on the left and on the right. There is no room for them in the new system of non-alternative power. It goes without saying that the president and his minions do not need them. Moreover, the electorate does not need these parties, since voting for parties that are unable to come to power is always disappointing.

The regime easily liquidated the right and left opposition in Russia only because they had always been unviable and doomed to an early death. Their real function was to help the regime grow stronger and then die.

In the regime's establishment, the right parties played the main, active role. But the present 'party of power' is in no way right. It is just a party of power, as the Soviet Communist Party (CPSU) was, despite the fact that it did have leftist roots in the distant past. This party is an evolutionary result of the democratic movement which won in 1991, like the CPSU was the direct successor to the Russian Socialist Democratic Workers' Party (Bolsheviks). The incumbent Russian president was appointed successor by the leader of the democrats who came to power in 1991 – this succession is even more direct than that between Lenin and Stalin.

Of course, the party has transformed completely after being in power for almost 13 years. Interestingly, the present right opposi-

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tional party does not 'recognize' it. This situation is reminiscent of the many Bolsheviks who remained loyal to 'Lenin's precepts,' but who later were driven to the sidelines of political life. They eventually formed the 'Trotsky-Bukharin opposition' and did not recognize Stalin's party as their own. However, the transformation of the present 'party of power' began as soon as it came to power in 1991, like the Bolshevik party began to change in 1917.

The heroes of the 1917 socialist revolution who were forced out of the party spoke about its 'transformation.' They talked about Thermidor and Bonapartism, but they never realized that the way to Stalin and their own way to death began with the seizure of power by a revolutionary minority and with the dissolution of the Constituent Assembly. In the same way, the Right, which now find themselves in the opposition, do not realize that the path to the Putin regime began in 1991 when their party seized power without the nation's consent. The Belovezha Forest agreements on the Soviet Union's breakup (no matter whether it was possible or necessary to try to preserve the Soviet Union) in 1991 were precisely such a seizure of power behind the nation's back. Two years later, in 1993, the party of 'democrats' reached a point of no return in its transformation when it shelled the rebellious government members who were holed up in the parliament building. At this point, it had burned all of its bridges.

In actuality, Putin has done nothing special – he has just removed the scaffolding from the already built building and added some finishing touches to it. As for the building itself, it was Yeltsin as opposed to Putin who was responsible for its construction, as well as all those who applauded each stage of the construction project but who went into opposition when they saw the building without its scaffolding. Now they spend much time reminiscing about the wonderful times when they had begun the construction of a bright future with so much enthusiasm. The present right opposition is a party of nostalgia for 1991 which has failed to understand anything, just like the Trotskyites were a party of nostalgia for 1917 who did not understand anything.

Russia's Economic Elite as Seen through the Eyes of Public Opinion

Who or what stands in the way of Russia's successful development?	%*
Government officials, bureaucrats	62
Incompetence of the federal government	41
Oligarchs	35
Incompetence of local governments	23
Russian national character and mentality	16
Foreigners, the West	15
The Boris Yeltsin clan ("The Family")	14
Old Soviet traditions	12
Part of the population who cannot earn money	10
Russia's economic elite as a whole	10
Reformers	7
Jews	6
Communists	5
President Vladimir Putin and his team	4
Undecided	4

The Analytical report was prepared by the Institute for Complex Social Research of the Russian Academy of Sciences, and the Moscow Office of the Friedrich Ebert Foundation.

** The sum of the values exceeds 100 percent, as those polled were allowed to give several answers. Source: the Institute for Complex Social Research.*

The Right took an active part in the construction of the incumbent regime, while the Left, who bitterly hated them, gave them their assistance. If the Right are a party of nostalgia for 1991, the Left are a party of nostalgia for the Stalin-Brezhnev past. Whereas the present Right opposition has never understood how the Putin regime emerged and why they have found themselves on the sidelines, the present Left fail to understand why the Soviet system collapsed and why the Soviet Union broke up.

The present Communists' role in building the incumbent regime was creating an obviously unrealistic and unacceptable alternative to the past, something like a monarchic alternative in the 1920s. ("Stalin is bad, but still this is not a return to czarism," was the attitude. "Yeltsin and Putin are bad, but still this is better than the Communists.") In this way, they, too, helped create the

regime of non-alternative power which the 'democrats' were actively in the process of building. And now, when the government is increasingly acquiring a traditionalist, Soviet nature, the left opposition is losing its bearings, in much the same way as in Stalin's times when the opposition of nostalgia for the monarchy began to lose its bearings.

In those times, the Bolsheviks who remained loyal to the ideals of 1917 met in the GULAG with the monarchists who remained loyal to the czar. Today, when customs are not that brutal, the personal fate of 'true democrats' and 'true Communists' may not be as gloomy, but from a political point of view it is the same.

Both oppositional camps have contributed to the construction of the present regime, and now, like "the Moor [who] has done his duty," they can go. Both camps belong to the past and have no future. They are unable to accomplish the main task facing this country: going over to democracy, that is, enabling the Russian people – who have never elected their governments – to start electing them, as is done elsewhere in the civilized world.

But this problem will have to be addressed sooner or later. And the death of the present oppositional camps does not postpone a solution – on the contrary, it brings it nearer. This is because dying oppositional groups make room for new political forces that will be more adequate to the task.

However, such forces are not yet seen on the horizon. The contours of new opposition are nowhere to be seen. Yet, generally speaking, we can guess what form it will take, proceeding from the task it will have to address.

This must be neither left nor right opposition per se, but precisely democratic opposition. It must be led by people who will understand well that a normal society must comprise both the Right and the Left, cosmopolitans and patriots; that democracy does not mean a victory of some people over others, rather, it means that all of the actors play according to common rules of the game. This means that even a very unpleasant, yet democratically elected, parliament must not be dissolved. To put it bluntly, even a very hungry person must not eat his neighbor.

To come to power, this opposition must be very strong and, naturally, be a party of a majority. However, this must not be just a majority, but an overwhelming and serried majority. Although one can hardly imagine the present regime annulling elections and going over to undisguised authoritarianism, it is obvious that when this regime senses a real threat, it will not stop at such a trifle as the large-scale rigging of general elections. It would be naive to expect that the first rotation of power can be implemented simply by winning 51 percent of votes and receiving power on a silver platter. To come to power, a new democratic movement must be strong enough to paralyze the regime's resistance, like the Shevardnadze regime was paralyzed in Georgia.

Obviously, forming such opposition and implementing Russia's first rotation of power is an immensely difficult task. The incumbent regime in Russia is very strong, and we are now at the zero point of a cycle, when the former opposition has already disappeared and new oppositional forces have yet to be formed. The formation of new opposition cannot be achieved by the next elections in 2008 – this is a task for future decades, for the next generation.

But even when this momentous event arrives, the first rotation of power will still not be a final transition to a stable democracy. The opposition's first victory will be only the beginning. One must wait until the winners themselves lose elections and admit their defeat in a calm manner, and until those who defeated the winners go from the political scene, as well.

Only after the completion of several such rotations will the rules of the game be adopted by the entire society; at that point, no one will think of violating them. So the decades that divide us from the victory of the yet unborn opposition must be followed by at least one more which will be needed to achieve a stable democracy.

We are now only at the beginning of this very long and very difficult journey. The first step requires that we understand what kind of a journey it is going to be and that it will have to be made because we simply have no alternative.

It Is Too Early to Relax, Russia

Svetlana Babayeva, Georgy Bovt

Presently, there is a general consensus that it is time for Russia to make a breakthrough into the future. It is almost perfectly clear today what needs to be done, and equally clear how it should be achieved. The greatest paradox, however, is that after all those perestroikas, reforms, elections/re-elections, and, theoretically speaking, fifteen years of post-totalitarian development, a question is looming large: who should Russia make the breakthrough with?

FREE MAN AS AN EMASCULATED SPECIES

"We've managed to do a lot of things together... Now the closest goal of the next four years is to transform the potential we've gained into a new energy of development... We often say that the head of state has responsibility for everything in Russia. The statement remains valid, but given the full recognition of my personal responsibility, I'd like to tell you that this country's flourishing and success must not depend on one man or one political party only... We must have broad support to continue changes in the country. I am confident that a mature civic society would be the best guarantee of the continuity of change. Only free people living in a free country can achieve genuine success. It's the foundation of Russia's economic growth and political stability, and

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Of 140 Bentleys sold in Eastern Europe, 100 belong to Russian businessmen.

we'll do our best to let every individual display his talent... To help the growth of a multiparty system here, we must boost personal freedoms of the people".

That was President Vladimir Putin speaking at the inauguration to his second term in office. He mentioned "the free people living in a free country." Could it be that he had developed a sense of loneliness standing atop of the pyramid of state power, which he himself had built over the previous four years?

Many people around Putin have been speaking about the need for demanding citizens, or rather, the deficiency of demanding people. Any country seeking a worthy place for itself in the world must have them. It sounds a bit like a theme of free people becoming emasculated after fifteen years of freedom.

"In the past four years, we faced somewhat different tasks, which we've mostly solved by now, and the current task is to build up civic society, to raise a layer of active people," said a Kremlin political technologist. "I hope we'll get that layer thanks to our efforts – in eight to twelve years from now, if not by 2008. Then we'll be able to say we've acquired a new type of citizen."

But the bitter truth is that nothing changes under the Russian sun. Let us recall what the 19th century historian Vassily Klyuchevsky wrote about Peter the Great's attempts to mold a new Russian elite: **"Peter the Great hoped that his thunder-like authority would evoke a desire to act among the servile society and the slave-owning nobility would implant European science and education in this country as a condition for a free social initiative..."**

Did he actually succeed in his desire? 200 years later it would seem that he did. Peter managed to forge respectable elite, but it was later overthrown, exiled and destroyed in concentration camps by the revolting slaves. Back in Peter's time, there were two Russias. One of them spoke French and excelled in science, gentility and European culture, while the other, impoverished Russia lived by daily chores. They were destined never to join together...

AN UNDERSTANDING OF GOOD AND BAD

A top executive of a Russian company affiliated with a large Western banking group made the following comment on great shifts in the formation of new business ethics in this country. He admitted huge changes in the investment climate on the whole, but remarked that progress in the field of ethics had been far less. "Mentality can quickly change, but not the soul. Well, **the Russians have the right to have their own ethical values and they must not be criticized for it.**" Perhaps it is true that he should not criticize us, but what about ourselves? Bernard Sucher, chairman of the Alfa Capital asset management company, made a more outspoken statement. "What is the main barrier to investing in Russian business?" he asked. "Most importantly, **this country does not have a settled system of social values. There is no general understanding of what is good and what is bad, nor is there any prevailing realization of some basic notions – justice, honesty, equality before law, or personal independence**," Sucher went on.

Here is the main peg and the Achilles heel of investment – morality. It so often happens that foreigners understand the gist of the problem, despite the banal catchphrase that "common yardsticks" are useless as units of measurement. The essence of the

problem is more significant than the characteristics of the Russian being, described by classical writers of the 19th century. It does not boil down simply to the laziness of an aristocrat wasting days and nights on his sofa, or to reveries about spending hours in useless contemplation like swans drifting on a pond. What is more, it has nothing to do with corruption or embezzlement. Alas, the situation is much worse than that. What is good and what is bad? What is virtuous and what is sinful these days? What is the retail price of honesty and justice? There are few places in the world where the moral accents are so grossly misplaced as in Russia. Moreover, it would be difficult to name a place where the fly-by-night parvenus have a more powerful impact on a country's social and economic life as in Russia.

NEW RUSSIAN PARVENUS

And I ask him: "Why do you sell expired foods?" And he tells me: "Why not? These folks come and buy them all the same..."

This was a dialog between a successful politician and a successful businessman who owns one of Moscow's largest retail networks. Another case: A woman patient comes to a plush Moscow clinic and pays a fortune for her treatment – only to encounter a total disregard on the part of the medics. Her complaints that she paid a lot of money for her treatment fall on deaf ears.

"There is a strip of forest near our township, and people have long wanted to enclose the land and privatize it," says a relatively well-off man.

But I told them: "Let's not close it off, let's make it a public park. If we just put up two-meter-high fences around it, other people won't have a place where to walk, and they'll eventually commit outrages upon our houses."

And the other guys ask me: "Are you mad? Those people will foul the place up if it is turned into a public park."

"Well that is true," I tell them. "That is why we'll have to hire a company to keep it clean. And later, we'll have to hire a security company. It will keep law and order and stop those who smash bottles or pass water in the bush. That's the only way for

us to turn people into normal citizens and to show them that we, too, are humans," I said.

"You know, the guys stared at me as if I were an idiot," said the inhabitant of the luxurious neighborhood. Nevertheless, he is now pressing ahead for a law that prohibits the rich from privatizing everything, while snubbing their less well-off compatriots.

It is hardly worthwhile recounting such trivial stories anymore. The fact that those who made fortunes in the reform years now bury the rules, principles and ethical norms into oblivion can be seen with the naked eye. Fairly recently, many people pinned fantastic hopes on the middle class – ostensibly the very pillar of democracy and civic society. It did bring a new morality with it, but smashed the hope. The wealthy "achievers" and successful "winners" do not give a hoot about anything. Look at their unruly driving, or the mounds of garbage piling up around their mansions and only slightly more modest cottages. Ask the workers at their enterprises how they feel (a not uncommon answer will be "completely bad," as demonstrated by the spate of hunger strikes in recent months), or the many thousands of customers of their services (usually of a dismal quality). The parvenus do not let this unsettle them. Let the deluge come here and now, but let them stand astride it.

What is the portrait of an advanced achiever, a successful businessman or politician, a cosmopolitan proprietor or manager, who has traveled half of the world, has a good apartment, two or three good cars and a mansion not far from Moscow? What kind of expression does he wear on his face? Predictably it is not a pleasant one – because he has become indifferent.

And now it is morning and where is he? In his kitchen with a floor area of 15 square meters ("I wonder how people manage to live with a kitchen of just five meters," asks his wife or girlfriend, whose memory has erased her recollection of kitchens from the Soviet past). Our new middle-class man is browsing through a brainless glossy magazine with pictures advertising new models of automobiles. He does not read newspapers – he just looks at the headlines of the topics that may concern him. He does not give a hoot about anything outside those topics. They are too burdening

for the brain if you think about them. "And what for," thinks the achiever as he gets into his car.

When he drives, he has the attitude of a king and never cares for what is happening to the right or to the left of his car. Now he has crossed the lane right in front of someone else's windshield. Well, it's the other guy who's a fool – he should have stayed away. Now he has parked the car in the second lane off the sidewalk and blocked a tramline. Trash, it's convenient for him, and may others go down the drain!

It is possible that the reader has developed a mental image of a bully with his hair shaven off at the nape of the neck who happens to own a BMW. Unfortunately, you would be mistaken. The individual we are describing could be a Soviet-style politician in a suit worth three grand, a well-established lecturer from a bustling commercial college, a top executive of a flamboyant TV channel, someone from a thousands-strong horde of Russian showmen, a successful political technologist, or a career-making manager from any branch of business. One may think at first we must rejoice at watching them – their normal rebirth into bourgeoisie has begun, as some would think. But many others disagree with it. "What is happening to them is understandable: those people have relaxed after years of tiring work, but it's too early for them to relax," says a leading political technologist. He could not be more correct. Some may think that those who have achieved success must be preoccupied with promulgating the new quality of life. As a result, the less successful Russians may realize the importance of not defiling the stairwells in their apartment blocks, or demanding too much from the municipal authorities, whose thieving has become legendary. The wealthy can teach the lowly and base that smashing bottles on the beach is no good, because the fragments of glass may cut the feet of their own children tomorrow; dumping garbage in the forest is not a wise thing to do, because you may want to walk there some day yourself. However, this is not the case. A parvenu is unwilling to perform this social task. He goes outside his two-meter-high fence and throws away the discharge of his everyday activity. The victorious achievers' conduct may

suggest that they will disappear from the country in the same manner that the small greenish humanoids dematerialize in the rosy morning haze. In the meantime, the losers' conduct is no better.

"PATRIOTISM" AS THE HIT OF THE FIFTH YEAR RUNNING

The most ironic (and perhaps, bitter) side of this story is that the parvenus give the impression that they have genuine affection for their Motherland. The more successful a parvenu, the higher his brows raise when he hears some speech that he believes to be unpatriotic. "Patriotism" is a hit of the fifth political season running. "Bah, you don't like your Motherland," they say with a hawkish look in their eyes.

But what is the essence of their patriotism? Subtract stereotyped philippics against American hegemony, and it will be nothing. A variety of politicians, public figures and, certainly, mass media have re-commissioned a Soviet-era method: the power of the anti-American charge is directly proportionate to the tastelessness of their own social and political performance (on television, it surfaces in programming and newscasts). Some people may get an impression these days that the main all-Russia achievement boils down to the occasional victories of Islamic terror in Iraq. Soviet ideologists would label this the "national liberation struggle" – one of its goals was to divert attention away from the pitiable standards of life. What is its aim nowadays? Perhaps it is to divert attention away from the lack of content in their actions?

Overt or covert criticism of the U.S. or the European Union often reveals inherent psychological complexes and is interspersed with emotional (due to a shortage of content) appeals to follow the President's decisions, which most of the zealous patriots do not fully understand. After shouting out what they believe they should, they get into their BMWs, Audis or Mercedes with their flashing lights and dash off to some government-owned or private dachas, ignoring the traffic rules and passing by the streams of plebeian-carrying cars, who have been halted by the road police and who have had to cancel their appointments. Back at the dachas, the parvenus become increasingly

absorbed with patriotism. Outside their fences there lie mounds of long-forgotten garbage, teenagers soak themselves in beer by the shabby kiosks and get high, while young girls offer commercial pleasures. Now, that is a different country than the traditional image of the Motherland, is it not? Albeit ruled by the same President.

Why is it happening? Whence did Russia get a huge number of untalented, unprofessional and cynical people, who are nonetheless sure of their correctness? No answer. They appeared en masse and received nice positions. But probably they had existed before, and they just made their presence vociferously known of late.

What is most astonishing is that the ones who offer resistance to the onslaught of smug plebeianism are the reform losers; they react from old Soviet habit. Old ladies, half-hungry themselves, feed stray dogs, because neither the authorities nor private companies care to build animal-shelters. A former teacher turned babushka can yell at a driver, whose limousine is parked across two lanes of traffic, or a moderately achieving idiot who is chewing fried sunflower seeds and spitting shells around himself in the metro. The police will not do it. They stand with absent looks on their faces in the metro – and let the deluge of beer inundate the power line on the tracks. The courts are dozing off. Occasionally, we will hear about some public organizations, but it is impossible to find them. The trade unions are non-existent; the government has other business to do; the TV men extol the President. They have had such a long journey through the freedom of speech and over the heads of their former fellow-journalists to reach the broad streams of advertising revenues that extolling the President is now their primary pursuit. TV's second most important task is to pour out fun and distraction. The word *Anshlag* [*All Seats Sold Out*, the name of a popular TV gag program] has become a common noun, and the country has been flooded with promotions for leisure time in the foamy pools of "the right beer you need." This also is too premature!

All these things are a subject of moral norms rather than legal acts, of the moral dimension of a man's environment. The latter is split, because the consolidation of the elite takes the form of building enclosures and creating a "ghetto for the upper class."

GHETTO FOR THE UPPER CLASS

"Most of all, people want stability," a high-ranking Kremlin man stated recently, as if disagreeing that a realization of one's own needs and goals is an acceptable approach to stability. "Now people can plan their future," he added. They can plan buying a car or redecorating their apartment, and the fact that the market economy has made it possible is great. Yet there are no benchmarks, as usual. To make things move in this country, it is necessary to frighten the people a bit or put them into a straight line. Both have been done, and here now we have stability. How is it managed? Well, rather haphazardly, it seems. Most people whom it was meant for used it for speedy enrichment, and did so in the traditionally Russian, repugnant form.

"It has always been that way here," says a well-known historian. "Recall the drunken revelries of the 19th-century merchants. It was no less abominable than today's grabbing. It had a bad finale then..."

What finale are we heading for this time? "**Most people simply don't believe in this country's future, they feel like they are spectators here, and that's why they behave the way they do**," says the historian. "Look through your telephone book and see how many of your friends have left. Leaving doesn't mean the emigrations of the 1980s. Quite often, these people come here and earn money, but they've left Russia all the same. They have houses and families there, and they also observe different rules of conduct." That is, they know how to behave.

"And **that is where the elite has consolidated – in the total lack of trust in this country**," says the historian.

A government official had this to say: "All of them are on a long-term business mission here. They walk, speak, earn money here, but they fend themselves off from reality as much as possible."

"Squeamishness is the word to describe their treatment of the ones who're poorer than them," – that is how an economist with fair knowledge of government officials and businessmen (who are the same people in many cases) describes the elite's condition.

To draw the bottom line, the President does not believe regional governors and the people around him, the governors do not

believe Moscow, businessmen have no trust in the government, which responds with reciprocity, and all of them together have no trust in the country they work and live in. One must say, however, that the feelings are profusely reciprocal. Millions of squeamish parvenus... They are seeking to make their sojourn longer. They strictly guard their caste that has virtually unlimited resources and separate themselves from the dirty outside world. "One of the big shots in the Russian White House was told in the course of the latest government restructuring that his new job and status did not presuppose decorating his official car's license plate with a big Russian national tricolor," relayed one insider. "The guy called into the offices of the big bosses and raised real hell, demanding that he continue using the car with a flashing light and tricolor – and he got his way!"

"When you're riding on the wrong side of the road with a flashing light, you have a feeling that you are in a different life," says one wealthy Audi owner. "You begin looking at life from behind the tinted glass from a different angle. And you begin cutting your encounters with the 'former' life to a minimum. You leave your elitist apartment or gated community, go to the restaurant where you have an appointment, get out of the car, and soon you find yourself in your customary world again. The different life takes the space of two meters between your car and the door of the restaurant. It doesn't take ages to cross..."

WHO CAN THE KREMLIN RELY UPON?

To give feasibility to the reforms that Putin and his team have launched, or are about to launch, Russia must get a layer of grateful 'reform consumers,' otherwise it is no use taking the trouble. As a Kremlin official noted recently: "It will take just a few steps to establish full authoritarianism – and the people will support them." So the temptation is great.

But Putin's team is focusing on different things – efficient and moderately thieving bureaucrats, a competitive public utilities market, an efficient law enforcement system or at least its semblance, defense of property rights, a sensible tax system, and a

mobile, state-of-the-art military. Where is the obstacle? Again, **the very people who must be the most interested in these changes simply do not give a hoot. They view almost any project as a budget to be partitioned, and any program, as a tool for beefing up their own importance or capitalization**, so to speak. Phrases like, "he paid 10, 20, 50 million to get the job" has become common hearsay among the bureaucrats. Incidentally, 50 million is the price of a ministerial position these days. The figure is fresh. A bureaucrat is actually a businessman, but with more opportunities which tempt him into petty tyranny and venality. Many are unable to resist such temptations.

The reform initiatives demand a consumer. All the population needs quality medical services, while many people between the ages of 5 to 40 need quality education. Russia's 145 million nationals need quality armed forces. At the same time, everyone earning between 100 rubles and 100 million rubles stands in need of a rational tax system. It might seem that the people earning 100 million rubles must be in the first ranks of those rallying for better services, a more humane law enforcement system, more safety for their children (in every aspect – from roads to the environment). They should not sit idling until the government changes itself and begins making changes. Unlike the other one-hundred million Russians or so who desperately want justice, or have gotten used to its absence, the well-off class can exert influence in life, expedite changes and channel them in the right direction. Even if they do not control the levers of power, they have resources. And yet they do not give a hoot. They are squeamish come-and-go parvenus living in ghettos for the upper class.

They have learned how to justify their fly-by-night nature over the past four year. A show of fright in the face of the authorities has become all the vogue. In a justification of their silence they refer to Mikhail Khodorkovsky, saying: "Well, look at that smart guy, look where he is and where we are." It looks as if we are living in the year 1937. But even then many had fewer fears than now.

When Peter the Great decided to drive the dull Russian nobility into a more European lifestyle and create a semblance of eti-

Russia's Economic Elite as Seen through the Eyes of Public Opinion

What social groups do the members of the economic elite derive from?	%*
Former Communist Party elite	47
Former Young Communist League officials	25
Former sales executives	6
CEOs of former state-owned enterprises or institutions	31
Criminal groups	35
People who made their initial capital dishonestly	50
Security officials	14
Former government officials of the Boris Yeltsin times	30
New businesspeople	20
Former scientists and people in the arts	1
Undecided	5

The Analytical report was prepared by the Institute for Complex Social Research of the Russian Academy of Sciences, and the Moscow Office of the Friedrich Ebert Foundation.

** The sum of the values exceeds 100 percent, as those polled were allowed to give several answers. Source: the Institute for Complex Social Research.*

Mikhail Gorshkov, Director of the Institute for Complex Social Research:

The elite of the czarist times, as well as Stalin's cadres, are conceived of most favorably by the public. The most negative assessments among those polled were given to the economic elites of the Leonid Brezhnev era (the 'epoch of stagnation') and the times of Yeltsin's reforms. The czarist elite is believed to have possessed such qualities as enterprise, decency, honesty, nobleness, charity, and reliance on their own experience. Stalin's economic elite, on the other hand, was described as the most industrious; they cared for the interests of society and were law-abiding. At the same time, this group was the most obsequious toward the authorities and the most merciless toward its subordinates.

The economic elite under Brezhnev was characterized as sluggish, non enterprising, idle, superficial, and badly organized.

According to public opinion, Yeltsin's elite possessed the entire range of negative qualities: selfishness, indifference toward the interests of the state and society, self-interest, venality, indecency and a readiness to violate laws for high incomes.

The economic elite under Putin is regarded as the most energetic and enterprising. Furthermore, it ranks the highest in professionalism and purpose with regard to the introduction of international economic experience gained throughout history. In terms of enterprise, it is equated with the czarist elite. Yet, it is ranked second after Yeltsin's business elite in terms of its readiness to violate laws for high returns. Perhaps, this was why only every sixth Russian polled stated that the economic elite under Putin had changed for the better over the last few years, while every third Russian said it had changed for the worse and become more thievish and irresponsible. But generally speaking, this elite received positive assessments.

A majority of Russians believe that the present elite possesses levers of influence on the country's economic life not through its own efforts, but because it happened to be 'in the right place at the right time.' According to the polls, the Russian people believe that this elite are not businesspeople who have achieved success by working hard and owing to their talent; they are viewed as lucky people who made fortunes under the Yeltsin government when state property was sold cheap and private companies received access to the country's natural resources.

quette, he organized the noble assemblies – free gatherings of people for entertainment and unrestrained discussion of business. They proved instrumental in **implanting new culture from above**. The nobles were required to arrive at these assemblies in European dresses only, smoke tobacco (an attribute of civilization at the time), amuse themselves with dancing European dances, and play chess (Peter did not like card games). Any well-off landlord was obliged to lend part of his house for public entertainment at least once a year. Several halls would be given over to dancing, society games, smoking and social chatting. A secret agent from the police would keep record of all the people coming, and no one was allowed to miss these events without a solid reason. The assemblies would later grow over into children's holidays, home concerts and balls. All of these traditions totally disappeared in later epochs.

Here is an example of how one particular book, entitled *The Decent Visage of Youth, or Instructions for Everyday Manners* (quite naturally, a translation from German), published during Peter's rule, interpreted the notions of good and bad. "Do not walk on the streets with your face down to the earth and your eyes dropped, do not look at other people askance, but look at them with gaiety and unending good-natured pleasantry; when you meet a person you know, stop three steps away from him and take off your hat courteously instead of looking back at him after you have passed by; do not dance in top boots; when in society, do not spit inside a circle of people, spit outside it; do not blow your nose or sneeze loudly in a room or in a church; do not pick your nose with your finger, do not wipe your lips with a hand; when sitting at a table, do not lean with your arms against it, or roam with your hands aimlessly, or lick your fingers, or gnaw bones; do not pick at your teeth with a knife; do not scratch your head; do not chomp like swine; and do not speak with your mouth full, for this is what peasants do." What matters is that virtually all of these rules were assimilated, although some recommendations are still topical.

Let us get back to our question: Who is Putin going to rely on? Who are those "free citizens of a free country?" No doubt, one can take comfort in the incantations that after fifteen years of free-

dom the people of free spirit and flesh run around in abundance, which is a downright lie. There are none! We behave as if Nikolai Chernyshevsky, a Russian democratic thinker of the mid-19th century, had never stated 150 years ago: "A nation of slaves! Everyone from top to bottom!" Free people must be bred, and bred forcibly – like the small Singapore city-state – bred over several decades to automatically conform to cleanliness and politeness (to say nothing of a high economic efficiency). In Singapore, a person will face a penalty of $250 to $1,000 for spitting on the street, or for forgetting to flush the water down in a public toilet. Of course, this is an Asian extremity, but the streets there are clean and you will never see an illegally parked car.

"Culture should be implanted," said a high-ranking member of the Putin team, one of the advocates of "free people in a free country." "Back in the Soviet times, some people would also defile stairwells in the houses, and you would always see four-letter graffiti next to slogans like *Guard the Socialist Property*. Do you think they voiced discontent with socialist property that way? Trash. Simply, there are people with a vandalistic itch in every culture, and this does not exclude the West. Nevertheless, the authorities there have tighter controls, and most people have been brought up with the idea of preserving the environment they live in."

"The government, too, must moderate itself and show people that it is serving them," he went on. "It's true that we need a reform of the judiciary, and a genuine reform of our law enforcement system, instead of empty statements about the need to put things in order. **We need mechanisms that will change man as such.** Even mortgage loans make people more responsible."

WHERE IS THE SUPPORT?

Who could Putin rely on? Here are a few considerations.

1. **Self-regulating public associations.** He could order the business community (given the presence of private business in Russia, which exists simultaneously with the much more powerful bureaucratic business) and all of the more-or-less notable figures within the political spectrum to join those associations. These would

include groups like nature conservation societies, insurers' societies, philanthropy organizations of different orientations, university and college associations, landlords' societies, school councils or neighborhood security groups. In the 21st century, all of this may sound like Soviet-era banality, but is there any other remedy against moribund Russian life? Czar Peter also compelled the nobility to attend his assemblies. Nor was the institute of the *zemstvos* (late 19th century county councils) set up under pressure of the freedom-loving general public. In what concerns freedom, the Russians were mostly speechless. However, the necessity of being together — albeit a forced necessity — will first result in small undertakings, and then something greater will automatically follow. It is essential that such associations be given a scope of competence and a set of powers in order to end the dominating Russian myth that "nothing will come out of it all the same."

Special attention must be given to the Russian youth and sports associations. The Americans — not such a poor nation — have a special program which states that a basketball court must be built in the yard of each apartment block of the poor neighborhoods. The more such facilities are constructed, the fewer youth gangs, drugs and homicides. Also, these facilities prevent the black ghettos from eventually engulfing the ghettoes for the upper class.

2. The skeptics have often described the Russian **judiciary system** of late as *basmanny* justice [a derivative from the Basmanny district court of Moscow that has taken a number of controversial, politicaly motivated motions that have been widely publicized]. The judiciary is a rather closed and numerically limited caste, but unlike all other elements of the law enforcement system, it can be reformed somewhat more energetically and without huge expenses. The whole story does not boil down to money, however. In some post-Soviet countries, like Lithuania, a Supreme Court judge may get a monthly pay of $4,000. But who can guarantee that an average Russian judge, should he or she be given the same salary, will pass verdicts as unbiased as the ones passed by judges in a country that has recently become a member of the European Union? Financial rewards are not the whole story; the mindset of people is also important.

The law enforcement system as a whole will not get any new strategy unless society reduces (dictatorially or in some other way) its level of tolerance for even minor violations of the law. This would include all types of violations, which the surviving fish-eyed werewolves in police uniforms overlook (and why shouldn't they, since the presidential race is over?). Forget the talk of free citizens in a free country until the country gets a normal police force, whose presence will impress the rank-and-files in the good sense of the word.

3. **Church.** Let religion be separated from the state, but if it can prevent someone from planning a crime in the morally disoriented country, so much the better. If it finally discards the Soviet-era commands about engaging in charity – and many church bureaucrats find this so convenient – and stops emanating myrrh-scented PR, this will send a signal that it is becoming more adjusted to modern times, as opposed to the days of the schism of the 1660s.

4. There must be some kind of **national encouragement message**, something more significant than the five-minute TV reports about the President, intermixed with criticisms of the "global hegemon." Certainly, it is much easier to gush about Putin, haze the foes and giggle at the profanity of the TV audience while sitting at a cozy dacha in some elitist place west of Moscow. This giggling is prone to risks, though. We do need some abetment – different from the Soviet accounts about the tons of grain threshed, the acreage of farmland plowed, or the output from the coal mines, heavily seasoned with stories about the rise of national liberation movements around the world. The encouragement we need should be bigger than simply filling our pockets, it must make us think and call for action – call those who still care. Otherwise the *anshlag* performance "Stability and Happiness in the Motherland" "where everything has changed over the past four years" runs the risk of turning into a fancy. No doubt, the change has swept everything and everyone, many people are less fearful and have acquired a sense of confidence, but even the authors of the system must admit privately: "This system is too vulnerable."

5. Therefore, it is necessary to stabilize it through a **new class of people – a free, demanding and aspiring people**.

Do not make the nation feel that "you're not a worthy human and you're hopeless without a flashing light and a tricolor on the backside of your automobile." However distasteful the idea of civic organizations may sound to some people, we will have to organize them or at least lend them our support. Nothing is going to happen otherwise: many people will not bud of their own in the depths of society. First, the latter is impotent; second, the will to conceive them was clubbed down for too long. Consider the past four years, full of craving for vertical subordination. Now it has happened, everyone is standing in a straight line. Let us now make a step toward comprehension. Once we comprehend, we will be able to make demands, and action will follow. There will be discussions surrounding such notions and the displeased ones will raise their voices. However, if it is possible to overpower the fear of a strong opposition (which will hardly appear now) these debates will help the government correct its plans; it may even thank, however quietly, the opponents later.

All of this will give rise to a class of people who really need the reforms, as well as everything that Putin has done in the past four years, and what he is supposed to do in the next four years. If he succeeds, history textbooks will depict him as a president who managed to avert the disintegration of Russia and who stopped the oligarchs from dictating our lives. Period. After all, it is either the destroyers or the builders who make history. Staying motionless is the abode of the mute.

The Chechen Path to Russian Statehood

Alexander Dugin

Over the past few years, Chechnya has been going through a painstaking process of military and political settlement. This process was by no means a particular case. President Putin contemplated Chechnya as a model which was to demonstrate to the world the desired type of Russian statehood and the principles and values it would be built upon. Otherwise, there would be no justification for the severe fighting against separatism.

The Soviet Union disintegrated relatively peacefully, but what grounds does the Russian Federation have for defending its territorial integrity? What ideology, what mission, what justification? Putin had to use Chechnya as **an example by which to demonstrate the new essence of Russia's statehood**. This means that Chechnya was a problem pertaining to content rather than to technique, to the destiny of Russia as a state and a nation.

Putin responded to the challenge in the following manner: Chechnya, controlled by the federal troops, would be forced to assimilate the Russian legal and administrative norms. It would also receive the same type of democratic civil society that other parts of Russia have accepted. The country was forced to pay a large and bloody price: the fight for democratic norms and civil law, which are now viewed as sacred goals, resulted in mass deaths and enormous torment. Actually, the second Chechen campaign,

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as well as the political process of 2002-2004, might prompt a conclusion that the administrative system of each Russian region, given all of its pros and cons, is so invaluable that it is worth the deaths of thousands of men and pools of blood.

Putin was expected to substantiate the essence of Russia's new statehood system, however, he chose to delay it. Instead, he insisted on the "No" part of the program: "Say 'No' to separatism!" "Keep up territorial integrity or die!" He offered a tough stance, but it was only half the answer. The "No" part of the program was made perfectly clear, while the "Yes" part remained obscure.

Akhmad Kadyrov was the backbone in this whole structure. **The success of the operation, code-named "Kadyrov," was to underscore the legitimacy of modern Russia as a whole.** It was simply not permitted to fall apart, and no special explanations were provided. The Kadyrov model signified the essence of Russian statehood.

With Kadyrov as a leader of the region, Chechnya was made to fit pan-federal Russian standards. The federal government made an inordinate effort to align the bleeding region with other parts of the country. It fully mobilized to focus its military and administrative resources on the task. The effort was reinforced by the unbending will and strong power instinct of Akhmad-hajji Kadyrov, who by force and persuasion impelled the members of different *teips* (clans), *virds* (religious communities), and even separatist groups, to recognize his personal power. This he presented to the Kremlin as the Chechen element of the vertically-integrated Russian Federation.

Kadyrov was the main element of Russian statehood. He bolstered the grounds for severe fighting against separatism, the legitimacy of tough anti-separatist measures before the eyes of the West. He maintained a balance of compromise between the Russian federal legislative norms and the uniqueness of Chechen society that does not tally with those norms. The essence of the Kadyrov regime boiled down to demonstrating to everyone that **Russia's statehood has the ability to tame any forms of internal resistance and is therefore valuable and efficient.**

But there were forces that lurked in the shadows, forces that waited until that moment when the system of Kadyrov's rule had taken hold and acquired a façade of stability and steadiness. They waited until Kadyrov had become indispensable for the Kremlin not only in Chechnya but nationwide, as well as on a global scale – when it would seem to the world that **Russia had handled the rebellious region**.

The explosion that ripped through the Grozny stadium on May 9, 2004 was aimed at the most vulnerable element of Russia's system – the legitimacy of its values and techniques. Alas, it reached its target. If we had regarded Kadyrov and his system as point one on the political scale, we would have to admit that we are now thrown back to zero or even minus one. It was in our hands, but we lost it. This means that Putin will again have to substantiate the essence and value of Russia's statehood, as well as provide proofs of its efficiency and ability to contain the problems. It literally comes down to this: tell us what the essence of that statehood is, and we will decide if defending its integrity makes sense. Furthermore, we will set an appropriate price for it.

Any solution to the current Chechen crisis will depend on the efficiency of the technology used, promotion campaigns and media strategy. The solution will also have to include political agreements between the federal government and Chechen teips and groupings. But most importantly, it will need **a new substantiation of values and efficiency of the Russian state as a whole**.

The previous system proved to be technologically advantageous and efficient, but devoid of content and rather fragile. Efficiency is always short-lived, and once it breaks away from content, its results become adverse to the projected ones. This is comparable with modern-day political PR campaigns – they contain quick mobilization, swift and impressive actions, hammering-out of the desired results, and then – a pause until a new campaign starts, all of which is equally senseless and efficacious. However, there was no time for a pause this time, and the problem revealed its bare essence. In a way, Putin's resolute motto "Say 'No' to separatism!" has proven to be insufficient: the Kadyrov formula uncovered a shaky foundation.

President Putin is facing a fundamental choice. Kadyrov's elimination compels him to provide a definite "Yes" or "No" answer. It might have seemed to Putin at the time that the issue was closed and could only be addressed on the technological level. However, it is now understandable that such an approach was not correct. We are witnessing a rather painful failure of the **strategy of substituting effectual technologies and PR simulations for a real meaningful policy** – something that has become a trademark of part of the President's team. They have succeeded in this strategy on other occasions, although their success proves to be transitory and dubious. Today, Russia is hinged on Putin in much the same manner that Chechnya was hinged on Kadyrov. Putin is really the only political actor, and he attained this status by sophisticated PR technologies. But how fragile the state of affairs is! Real stability is different from its virtual representation.

Putin is now choosing between essence and technology. Both options involve risks, dangers, and unpredictable consequences. Such is the Chechen path to Russian statehood – strewed with mines, ambushes, corpses, crimes, blood, and tears. But time goes by swiftly and the date of the presidential election in Chechnya is approaching. Something has to be done, because one must not sit idling.

People who care about the destiny of new Russia are in suspense. Too many things depend on the Chechen situation. Who will Chechnya be entrusted to? What option will be chosen? What is on the cards? Every nuance in the Chechen issue abounds in huge historic import. It is one thing if the problem is delegated to the Kremlin's political pundits, and quite another thing if it is devoted to the patriots of the Motherland and proponents of Eurasian unity. All subsequent steps and consequences will follow the logic of the chosen course; and as a chain of developments unfolds, its inertia and pressure will preclude radical changes in the situation.

Oil: A Gift or a Burden?

"Oil workers, produce more oil for your Motherland!"
A Soviet poster. 1948

"The Russian government, which has proclaimed the ambitious goal of 'doubling the GDP,' does not have a national program for a real economic breakthrough. Meanwhile, the oil clock is ticking – oil has been gradually losing its global position to other types of fuel in heat and electric power production"

The Unbearable Lightness of Petrodollars

Konstantin Sonin

The second term of Vladimir Putin's presidency began under very favorable economic conditions. High oil and gas prices, both key assets of the Russian export industry, permit his government to boost Russian living standards with direct money transfers and engage in structural reforms at the same time. However, as the experience of other countries suggests, governments do not hurry to introduce reforms when the economic climate is looking good. In other words, why toil too much if everything is alright? Political leaders rest on their laurels, while the voters (if we are speaking about democracies) do not try to wake them up, since they see no reason for concern. In such situations the authorities pay little attention to expert warnings about the dangers of chasing short-term advantages and postponing reforms. Harvard University economists Jeffrey Sachs and Andrew Warner attribute this to the public's false sense of security that emerges during periods of affluence.

The 'contentment-with-prosperity' effect can be observed both in imperfect democracies and in truly authoritarian states. No dictator will conduct painful reforms if the population does not demand them.

And vice versa: as soon as a period of austerity arrives, reform expectations grow in the society alongside a desire to replace its leaders. Prof. Danny Roderick from Harvard University states that

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as a crisis emerges, the advantages and losses of any policy acquire a new dimension. Democratic leaders react to such problems faster and refrain from any overly radical moves. However, the less democratic a country is, the later its leaders will respond to the situation. As a result, their reactions are usually quite harsh.

WHAT ARE THE OBSTACLES TO GROWTH?

There is a standard set of reasons why the abundance of natural wealth impedes economic growth (which is a widespread trend). These include the struggle for natural rent between different groups. Next, there is what is known as 'Dutch disease' when the value of a country's currency rises, thus making manufactured goods less competitive with other nations. Finally, there is the inherent volatility of the world commodities markets, which especially hurts economies with non-diversified exports. All these factors are greatly conditioned by government policies.

Savings and investment surveys show that countries rich in natural resources are unable to sacrifice short-term political gains for long-term economic efficiency. They prefer to channel revenues into wage increases instead of investing in education or new technologies.

The records of many countries prove that a sudden emergence of an additional income source lets the government postpone long-pending reforms. Many such examples are discouraging – Sudan, Nigeria, Venezuela, Algeria, Libya and Azerbaijan. Oil revenues in those countries enabled their governments to protect the local industries from foreign competitors far longer than the rules of economic efficiency required. In resource-rich Central African countries, such as Niger, Mali and Chad, the main problem was a very low level of savings and, therefore, investment. The quality of investment left much to be desired, too. In Nigeria, for example, the government funneled oil export revenues into industrial development, but it did it so inefficiently that, even despite an annual six-percent growth rate of investment during two decades, the national industry remained stagnant. In Saudi Arabia, the ineffective application of oil export revenues brought about a

serious imbalance on the job market: in 1998, almost 90 percent of the local population was employed in the state sector.

There is a positive example, however. Norway invested surplus oil export revenues in education and a stabilization fund. Yet, Oslo, too, has problems that are related to its oil market orientation. Norwegian exports have become frozen at about 40 percent of the country's gross domestic product. This is a very good figure by international standards, but it was attained before oil revenues started pouring into the economy. It means that oil has not increased the rate of exports, but has only replaced some of the traditional export items.

POSTPONED TRANSFORMATIONS

Russia can learn a lot from the example of Mexico, which has a similar political system. It is a big federal state with a single megalopolis that concentrates the financial wealth of the country. For almost 60 years the country was ruled by one party, although some principles of elective democracy were still observed. For example, neither presidents nor congressmen, elected in a non-competitive environment, were allowed to remain in office for longer than a fixed term.

In the 1950s, the Mexican economy grew at a very fast pace, but after the import substitution policy had exhausted its potential, the country felt the need for reforms. At that very time, there arose a favorable situation on the world commodity markets. After the oil price hikes of 1973, Mexico found that exporting oil (which had previously been almost completely consumed on the domestic markets) was the simplest and quickest way of enriching the nation. As former president José López Portillo, who ruled at this time, stated: "Oil is what secures our independence and compensates for our drawbacks." The inflow of petrodollars brought cheap foreign bank loans with it. In the period from 1976 to 1979, more than half of all loans given to the developing world went to five countries, including three oil exporters. Obviously, any country which is suddenly inundated with wealth must not indulge in borrowing sprees, but rather save money or pay back its previous

debts. But is there any politician who would dare tell his fellow citizens that the feast will end some day?

In the early 1980s, a global economic slump was followed by a drastic dive in the price of oil. In 1982, a new candidate from Mexico's ruling party, Miguel de la Madrid, ran for the presidency under a slogan for change. His program of reforms was aimed at reducing state interference in the economy, liberalizing trade, and carrying out privatization and deregulation. The reforms, which should have been carried out ten years before, were successful, although very painful.

Alexei Kosygin

Russia also experienced periods when a sudden emergence of additional revenue sources let it postpone long-awaited reforms. The most vivid examples are the reforms that were proposed by Soviet Prime Minister Alexei Kosygin. Launched in the mid-1960s, after a new team of Soviet leaders came to power, the reforms were actually a reaction to a decrease in living standards which had triggered strikes and protests in the country a few years before. The reforms were intended to increase the effectiveness of the centrally planned economy by stimulating economic agents. Among other measures, the industrial enterprises were anticipated to independently manage part of their profits. However, in the late 1960s, rich oil and gas fields were discovered in Western Siberia. As a result, the much-needed reforms were stopped and later shelved, as the Soviet economy was flooded with petrodollars. The consequences of stalling the reforms were felt soon enough, with Soviet agriculture hit the hardest. As the country was now able to purchase grain from abroad, there was no need to reform the national system of collective and state farms (*kolkhozes* and *sovkhozes*). As a result, in 1974-1985, the agricultural growth

rate in the Soviet Union was far below the figures of the developed countries, and almost three times below the world's average. By the mid-1980s, the Soviet Union ranked 90th in the world in grain production and 71st in potato production.

A new attempt to reform the country was made 15 years after the beginning of Kosygin's reforms, in the first few years of Mikhail Gorbachev's perestroika (restructuring) policy. By that time, the crisis of the Soviet economy had become all too evident, especially after oil prices plummeted in the early 1980s. A top official at the Soviet State Planning Committee said in 1988 that "if we had not discovered the Samotlor [oil field], we would have been forced to start perestroika 10 or 15 years before." Meanwhile, it can be debated what would have become of the country had the Kosygin reforms continued. Could they have saved the Soviet Union? Most likely, the Kosygin government would have been forced to face the fundamental issue of ownership, in much the same way as Gorbachev did. Yet, there is the possibility that the Soviet economy would have entered the period of radical reforms in a far less decrepit state than it did in the late 1980s.

The international community has a very limited ability to influence the oil-exporting countries and encourage radical reforms there.

Generally speaking, the international community has a very limited ability to influence the oil-exporting countries and encourage radical reforms there. Experts of the Carnegie Endowment for International Peace pointed out that the international community, as a rule, avoids pressuring the oil producers. Such a policy was pursued vis-à-vis Iraq until Saddam challenged the world in 1991 by occupying Kuwait. Saudi Arabia is still free from any excessive Western pressure. In Sudan, the government received the right to extract oil only after it concluded an agreement with the opposition forces operating in the country's oil-rich regions. According to the agreement, Khartoum cannot use oil revenues to beef up its military potential, that is, to increase allocations for the struggle against

the opposition. Nevertheless, the country's defense spending soon doubled, and the international organizations that were the guarantors of the agreement preferred not to interfere, although they had long viewed Sudan as a potential 'rogue nation.'

OIL AND DEMOCRACY

Moisés Naím, Editor of the *Foreign Policy* magazine and Venezuela's former minister of trade and industry, knows very well the specificity of the development of the naturally rich countries. He asserts that not a single 'petrostate' has been able to make oil into a source of prosperity for the majority of its population. "When oil revenues flood a nation that has a weak system of democratic checks and balances, dysfunctional politics and economics ensue," Naím wrote in *The New York Times* (December 4, 2003). "A lot of oil, combined with weak public institutions, fuels poverty, inequality and corruption. It also undermines democracy."

The government of a country where the budget is mainly formed by oil revenues feels no need to actively collect taxes from numerous small and medium-sized businesses and, therefore, no need to stimulate their growth and heed their political demands. This situation provokes growing inequality, which is the curse of all naturally rich countries, and hampers the political activity of the middle class, the basis of democracy.

Leonard Wantchekon of New York University discovered the following correlation: "A one percent increase in [a country's] resource dependence as measured by the ratio of primary exports to GDP leads to a nearly 8 percent increase in the probability of authoritarianism."

Even in democratic countries, reliance on oil revenues bolsters centralized power, since oil, as a strategic resource, often falls into the hands of one state-owned company. In weak democracies, it may lead to the establishment of a truly authoritarian regime, as happened in Nigeria where the share of oil in the GDP grew from one percent in the 1960s to 90 percent in the 1990s. Only well-developed democracies with strong civil and political institutions are protected against such a scenario.

In Norway, for example, the growth of oil revenues produced a totally opposite effect. For the previous five decades it had been ruled by one (Social Democratic) party; since 1981 it has been alternately run by Social Democrats and Conservatives.

Dependence on the export of natural resources may have grave economic consequences; the higher the dependence, the higher the risks. Likewise, failures of economic policies in the authoritarian states are far more catastrophic than in democratic countries.

Windfall incomes and the strengthening of the state (similar to the processes that are under way in Russia now) are prone to one more danger — the flagging responsiveness of the political system to the demands of the citizens. The situation may arise where the citizens feel the need for reforms, but the imperfections of the political mechanism bar them from exerting sufficient pressure on the politicians.

The above considerations suggest an unfavorable conclusion for Russia: resource-rich countries have less chance to become full-fledged democracies than other states. On the other hand, the experience of other resource-rich countries does not allow one to measure the probability of Russia becoming an authoritarian state.

Russia is a "normal country," as Andrei Shleifer and Daniel Treisman described it in *Foreign Affairs* (March/April 2004). It is normal in a sense that its crime level, media independence, and life expectancy are almost the same as in other states at a similar level of development. The trouble is that, from the point of view of its democratic stability and the ability of its political system to correct its own flaws, Russia is a borderline state. It is too rich for a Chinese or Korean-style modernization — and too poor to resist politicians' attempts to embark on that path.

The West's Energy Security and the Role of Russia

Nodari Simonia

THE SITUATION ON THE INTERNATIONAL OIL AND GAS MARKETS

Despite some very pessimistic forecasts concerning the prospects of the oil industry, the role of hydrocarbons in the development of the world economy will continue to be decisive for another several decades.

The energy security of the highly developed countries will depend on the availability of reliable hydrocarbon sources. These countries are the main oil consumers, whereas a small group of developing and transitional states are largely responsible for the export-oriented oil production. The United States, for example, accounts for 25.4 percent of the world's oil consumption and a mere 9.9 percent of the world's oil output. The developed countries of Northeast Asia (Japan, South Korea and Taiwan) do not produce oil, but they consume 11 percent of the global oil supply. After 1993, fast-developing China joined the group of net importers and now consumes 7.4 percent of the world's oil (together with Hong Kong), while extracting 4.8 percent of the world's total oil output.

The Middle East, the world's leading oil exporter, extracts 28.5 percent of global oil supplies, but consumes only 5.9 percent. Russia follows right behind with 10.7 percent of the world's oil output, but it consumes even less oil than the Middle East with 3.5 percent.

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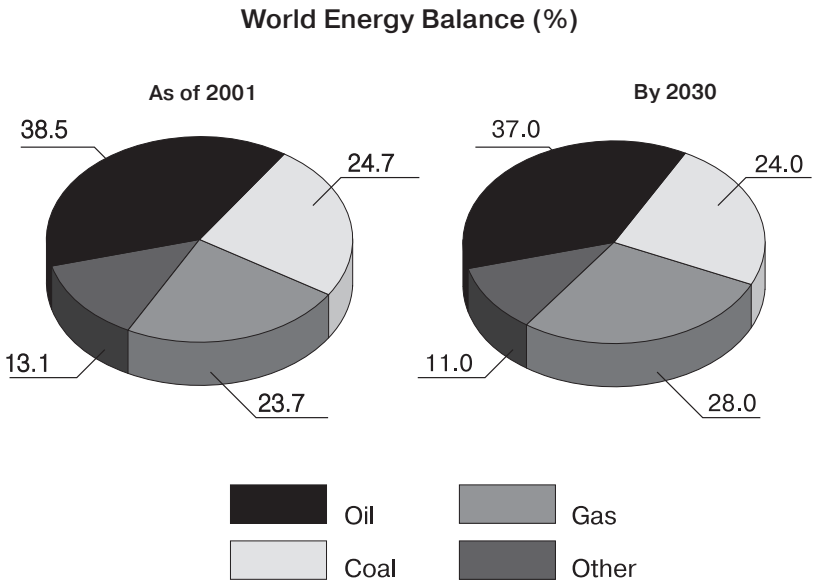
Not that long ago, oil replaced coal as the world's main source of energy. Now we are witnessing the beginning of a new era when natural gas will replace oil. Energy production from oil pollutes the environment two times less than peat or coal, but natural gas is three times environmentally cleaner than oil. However, natural gas will overtake oil as the world's primary energy source only after the process of turning gas into a global commodity gains momentum.

Although natural gas is a relatively new commodity on the local and international markets, it is already obvious that it is characterized by the same geographical disproportion between production and consumption, as is characteristic of oil. The United States, for example, is one of the world's two top leaders in gas production (21.7 percent of the world's output), but it consumes more than it produces (26.3 percent); the consumption and, consequently, the import of gas by the U.S., keeps steadily increasing (actually all newly built electric power plants in the country use natural gas). The 15 older members of the European Union depend on natural gas imports even more – they consume 15.2 percent of the world's gas output, although they produce only 8.3 percent of the world's total amount. Considering the depletion of Europe's own gas resources, its reorientation toward natural gas, and the increasing convergence of its gas and power-engineering sectors, Europe's dependence on gas imports will continue to grow at a slow but steady pace.

The developed countries in Northeast Asia fully depend on the import of liquefied natural gas in the same way they depend on oil imports. For example, Japan, South Korea and Taiwan consume 4.4 percent of the world's output. China in 2002 produced and consumed equal amounts of natural gas (1.3 percent together with Hong Kong). However, fast economic growth, together with the conclusion of long-term contracts for gas supplies, are turning China into a net importer.

Russia far outpaces other countries in the production and export of natural gas; it accounts for 22 percent of the world's gas production. And although its domestic gas consumption



Source: *Oil and Gas Journal,* February 2, 2004, p. 19.

stands at 15.3 percent of the world's figure (ranking second after the U.S.), its export potential (the difference between extraction and consumption) exceeds the aggregate export potential of three regions in the world – the Middle East, Africa and Latin America. In 2002, the Middle East produced 9.3 percent of the world's gas and consumed 8.1 percent. The main producer – Saudi Arabia – consumes all the natural gas that it extracts, while Iran consumes slightly more gas than it produces. Until recently, only Qatar and the United Arab Emirates enjoyed a natural gas surplus, which they sold to neighboring countries. The export potential of Africa is somewhat higher, but only due to Algeria. In the Asia-Pacific Region, three countries boast the largest export potential – Indonesia, Malaysia and Australia (6.2 percent against 3.4 percent).

Now let us examine how export hydrocarbon resources are distributed among their major consumers.

In 2002, Western Europe as a whole was the main importer of oil and related products. The bulk of these imports came from three regions: Russia and the Commonwealth of Independent

States (214.6 million tons), the Middle East (161.1 million tons), and North Africa (122.5 million tons). Europe is demonstrating an increased interest in the African continent, which seems to be part of a strategy for diversifying its oil import sources there. In the last few years – especially during the presidency of George W. Bush – Europe has faced bitter, even aggressive, competition in the region from U.S. corporations.

The U.S. accounts for 26 percent of all imports of oil and related products (561 million tons), but the Americans eventually formed a diversified structure for their imports. The greatest amount of oil and related products (171.7 million tons) are imported from Canada and Mexico – Washington's partners in the North American Free Trade Agreement (NAFTA). South and Central America account for 119.2 million tons of oil shipments to the U.S., while Africa accounts for 69.1 million tons. Europe provides 57.0 million tons; Russia and the CIS, 9.8 million tons; Asian-Pacific Region, 12.8 million tons; the Middle East, 114.7 million tons. Through such a strategy, the U.S. has protected itself against catastrophic developments, for example, in the Middle East. Furthermore, unlike Europe, the U.S. has 'alternative' oil and gas reserve fields in Alaska, although development in this sensitive region remains blocked by U.S. legislators. However, the U.S. government could easily overcome this resistance should an emergency situation arise with regard to the global energy supply.

Of the total amount of oil and related products exported from the Middle East countries, 62.3 percent goes to the Asia-Pacific Region. For example, Japan released figures for the year 2003 demonstrating that its import of crude oil supplies from the Middle East was 87 percent.

The global situation with regard to natural gas supplies is somewhat different. Presently, natural gas is transported largely by pipelines, which reduces the distribution of this commodity to the regional level. The amount of liquefied natural gas being transferred by sea has not been very substantial: in 2002, the figure stood at 150 billion cubic meters, compared with 431.35 billion cubic meters of gas transported to the global markets via pipelines.

Table 1. Oil

	Percentage of world consumption	Percentage of world production
Oil importers		
The United States	25.4	9.9
Western Europe	19.3	7.7 (Norway)
Northeast Asia	11.0	0.0
China (including Hong Kong)	7.4	4.8
Oil exporters		
Middle East	5.9	28.5
Russia	3.5	10.7
Africa	3.4	10.6
Central and South America	6.1	9.4

Source: *BP Statistical Review of World Energy. June 2003*. BP p.l.c., L., 2003.

The bulk of liquefied natural gas is consumed by countries in Northeast Asia (Japan, South Korea, and Taiwan) – 103.8 billion cubic meters. Western Europe consumes slightly more than 39 billion cubic meters, while the U.S. (including Puerto Rico) consumes more than 7.1 billion cubic meters. The dependence of global consumers of liquefied natural gas on supplies from the Middle East is much less. Although there have been signed contracts for gas exports in the region, it will be several years before the development of gas production begins there. Presently, the export of liquefied natural gas from the Middle East slightly exceeds 33 billion cubic meters. The largest suppliers of liquefied natural gas are the Asian-Pacific countries (Indonesia, Malaysia, Australia and Brunei) which provide over 74 billion cubic meters; African countries, such as Algeria, Nigeria and Libya provide 35.35 billion cubic meters.

The largest consumer of natural gas is Western Europe; it imports 240 billion cubic meters. The main suppliers of natural gas to Europe (including Central and Eastern Europe) are Russia (128.2 billion cubic meters) and Algeria (29.38 billion cubic

Table 2. Natural Gas
Proven oil reserves (percentage of world reserves)

North America (NAFTA)	4.6
Europe	2.9
Russia	over 30.0
CIS (Central Asia)	3.7
Saudi Arabia	4.1
Iran	14.8
Qatar	9.2
UAE	3.9
Africa	7.6
Central and South America	4.5

Source: *BP Statistical Review of World Energy. June 2003*. BP p.l.c., L., 2003.

meters); Algeria also supplies 26.13 billion cubic meters of liquefied natural gas. The second largest importer of natural gas is the United States which imports 109 billion cubic meters of gas from Canada.

To assess the prospects for the development of the global oil and gas markets, one must take into consideration one more factor: the amount of resources that the hydrocarbon-producing countries possess, together with their ability to maintain the current consumption levels, as well as its predicted growth. The Middle East now boasts the largest proven oil reserves: in 2002, they were estimated at 685.6 billion barrels, or 65.4 percent of the world's oil reserves. Provided that oil extraction is maintained at its present level, the oil reserves will last for another 92 years. Saudi Arabia alone can exploit its oil reserves, which comprises 25 percent of all oil in the world, for the next 86 years.

For the short and even medium term, however, the Middle East will remain the most unstable region in the world – a large 'medieval island' in an ocean of fast-developing industrial and post-industrial economies. The problem for the Middle East is not only the nature of its political regimes, but the socio-eco-

nomic nature of the society. The problem cannot be solved by sending U.S., NATO or UN armed forces into the region. This is the reason why, perhaps, a majority of developed countries have begun searching for alternative sources of hydrocarbon resources.

South and Central America can alleviate the situation for a short period of time, and only for the U.S. Africa has even less proven reserves, and these will last for only 27.3 years if extraction is maintained at the present rate. The situation is worse in the Asia-Pacific Region where hydrocarbon reserves will be depleted within 10 to 14 years. In Europe and the CIS, the largest proven oil reserves are in Russia; these will last for less than 22 years. Norway, ranked second in Europe for oil reserves, is far behind Russia with one percent of the world's proven reserves. All of the other countries in Europe and the CIS, some of which are often cited in the press and even in scientific studies as potential alternatives (e.g. Kazakhstan and Azerbaijan), each possess less than one percent of the world's reserves. These factors make it obvious that all of the talk about the West's desire (especially in the U.S.) to establish democracy in the Middle East is just a smoke screen, and a rather transparent one, which cannot conceal the true motive – their interest in the Middle East's oil reserves. (The Americans, for example, did not hesitate to establish close relations with the harsh dictatorship in Equatorial Guinea as soon as large oil reserves were discovered there.)

Russia is an indisputable leader in proven natural gas reserves with over 30 percent of the world's total amount. If Russia continues extracting gas at the present rate, its reserves will last for more than 80 years. By comparison, the other countries in Europe and the CIS, taken together as a whole, account for only 8.7 percent of the world's reserves. Norway's reserves may last for 33.5 years, while gas fields in Britain may be depleted in less than seven years. Kazakhstan, Turkmenistan and Uzbekistan together possess 3.7 percent of the world's natural gas reserves, but only Kazakhstan can exploit its gas fields for another 100 years or longer. In any case, all the above countries can only meet

Europe's short-term natural gas requirements. In the long term, Russia has no serious rivals when it comes to natural gas reserves.

Russia is far ahead of second-place Iran, which possesses 14.8 percent of the world's gas reserves. Iran's natural gas supplies will last for at least 100 years. However, political considerations have caused Western corporations to set their sights on Qatar with its 9.2 percent of the world's gas reserves; these are expected to last as long as Iran's reserves. Another Middle East country attractive to foreign consumers is the United Arab Emirates (3.9 percent of the world's gas reserves), whereas Saudi Arabia (4.1 percent) consumes all of its natural gas reserves itself.

In Africa, only Algeria, Nigeria and Egypt have large, proven gas reserves. In Asia, Indonesia and Malaysia – major exporters of liquefied natural gas to Japan, South Korea and Taiwan – have only 1.7 and 1.4 percent of the world's gas reserves, respectively, which will last for 37 and 42 years, respectively.

In North America, the situation with its proven reserves of natural gas is similar to that with its oil reserves. The three NAFTA member countries account for 4.6 percent of the world's reserves, which will be enough for 9.4 years. Neighboring countries in Central and South America (4.5 percent of the world's reserves) will hardly be of much help to them. Gas reserves in Central and South America may last for 68 years, but this gas will more than likely be used to meet the growing regional demand. The small country of Trinidad and Tobago may be the only exception. Although it has only 0.4 percent of the world's gas reserves, this amount far exceeds the country's domestic needs. The U.S. has already concluded several contracts with it for supplies of liquefied natural gas.

So, America, together with the large corporations representing its 'gas interests,' will offer bitter competition to the West European and Northeast Asian countries within the international gas markets. This factor, in addition to the fast-growing demand for hydrocarbons in China, suggests that Russia will play an ever growing role in ensuring a normal balance between supply and demand on the world's natural gas market.

MERGERS AND TAKEOVERS

Changes on the world energy markets, and the toughening of environmental requirements in the Western countries, forced the international oil and gas companies to take appropriate measures. These factors also prompted the EU leadership to draw up specific electricity and gas directives.

The problem of dwindling oil reserves, together with dropping oil prices in the mid-1980s, and again in 1997-1999, provoked several waves of mergers and takeovers within the oil and gas industries. During the first wave, Texaco took over Getty Oil, while Chevron took over Gulf Oil. The second wave was characterized by a series of strategic mergers and takeovers: British Petroleum took over Amoco, and then eventually ARCO. This was followed by Exxon taking over Mobil Oil to become the world's largest oil and gas corporation. These heavyweights were joined by France's Total SA after it took over Elf Aquitaine and Belgium's Petrofina SA. Finally, Chevron and Texaco completed the process for their merger. The strategic goal of these mergers and takeovers was to consolidate efforts and funds in order to find and develop new oil and gas reserves in remote regions. These are usually in areas with harsh natural conditions, or in deep-water fields that are more difficult to develop.

The new strategy was further prompted by natural gas gradually becoming a global commodity. This tendency helped to initiate the 'gasification' of the heavyweight players, that is, their evolution from oil corporations into oil-and-gas and, finally, gas-and-oil corporations. Royal Dutch/Shell Group offers the most glaring example of this transition. It has the largest share of gas (48 percent) in the overall ratio of its oil and gas resources, and in the next three to four years the company may finally shift toward gas. This move would naturally correspond with the contracts the company has recently concluded, as well as with its officially proclaimed reorientation toward natural gas (John Barry, named chairman of Royal Dutch/Shell in Russia, made a statement to this effect last summer at an annual conference organized by the Renaissance-Capital Investment Group). Shell is followed by

Exxon Mobil, whose gas reserves are actually equivalent to Shell's. However, Exxon Mobil's gas/oil ratio is slightly different at 45/55 percent. Nevertheless, Exxon Mobil is confidently leading the other majors in gas production. BP is placed third among the world's oil corporations in gas extraction (its oil/gas ratio is 52/48 percent). Also, BP now accounts for 30 percent of the world trade in liquefied natural gas. Other majors are also beginning to move in the same direction (for example, Chevron Texaco and ConocoPhillips).

However, the tectonic shifts on the world energy markets have been marked by an important new trend in the last few years. The EU's adoption of electricity and gas directives in 1996-1998, and more importantly, the actual start of their implementation, was a major factor for the new wave of mergers and takeovers in the world's energy sector. In 2001-2003, a fundamentally new energy policy began to take shape in Europe. The EU's strategic orientation toward the most environmentally safest fuel – natural gas – has resulted in the ever-increasing use of gas turbines at newly built electric power plants. Consequently, this has led to an increasing convergence in the production and marketing of gas and electricity.

Recently, the national gas and electricity companies were confronted with fundamentally new challenges, such as the liberalization of the energy markets, their greater openness to third parties and the privatization or commercialization of state-owned energy corporations. In order not to go bankrupt, or become easy prey for a takeover by other companies, the national corporations had to adapt to the new situation and meet those challenges. The national European corporations had to be consolidated and made more competitive before they entered the world energy markets. As it turned out, the anti-monopoly requirements set by the Brussels officials often motivated the national energy companies to restructure and extend their businesses by exceeding the national frameworks. This was accomplished through diversification, or the convergence of the gas and electricity sectors.

At the same time, and irrespective of these European tendencies, the United States experienced a negative situation that was provoked by the unsuccessful deregulation of its gas industry. What evolved was an energy crisis in California, and the collapse of several energy corporations, among them the huge Enron company. These events prevented American businesses from taking an active part in the third wave of mergers and takeovers which had already begun in Europe. As a result, the assets of Enron, El Paso and other energy companies continue to be sold, and are being purchased by independent U.S. oil companies. In other words, the energy business in the U.S. is being restructured, but there is a 'European' nature to the third wave of mergers and takeovers.

This wave has resulted in the rapid rise of some national energy companies in Europe to the majors' level. Germany's supercorporation E.ON AG, which emerged in 2000, provides a prime example. In the course of the third wave it took over Britain's Powergen (only a year before this company had taken over the U.S. company LG&E Energy), Sweden's Sydkraft, Britain's TXU Europe Group, and U.S.-owned Midlands Electricity in Britain. However, E.ON AG's main transaction in 2002-2003 was its merger with Germany's Ruhrgas, which took a year and a half to finalize. It was necessary for E.ON AG to overcome strong resistance from the local authorities, Brussels regulatory bodies, as well as its German and European rivals. Finally, under the slogan of Germany's "national energy security," E.ON AG established a full-fledged, vertically integrated corporation that is capable of successfully competing on the European and global markets. This was a blow to Brussels bureaucracy which had fought for many years to divide the functions and businesses of the national energy companies.

Another blow to the EU's energy liberalization strategy hit the very heart of the liberalization process, and in the most exemplary country in this respect – Great Britain. The previous policy of splitting businesses, as well as destroying the monopoly of the vertically integrated British Gas Corporation, only weakened the British positions. This is why, in the course of the third wave,

British companies were consistently the victims of takeovers. The only exception among the major transactions between 2001 and 2003 was the merger of the gas distributor Lattice Group and the electricity transmission company National Grid Group. But this intra-British transaction only emphasized the failure of all previous efforts to demonopolize the energy sector in the country.

Throughout this period, companies merged and took each other over en masse. This process involved the national oil, gas and electricity companies from various countries (German, French, Spanish, Italian and so on). This gigantic restructuring of the European energy sector is not yet over. However, many experts now conclude that this wave of mergers and takeovers will result in an increase in regional monopolization, together with the formation of an oligopolistic structure of the global energy market. Its main actors will comprise several traditional majors, plus three to five newly established European super actors with global ambitions.

WHAT THE WEST WANTS FROM RUSSIA

The energy majors' strong interest in Russia is easily explainable. Today, these companies own a total of almost six percent of the world's oil reserves that are concentrated in the more developed and 'ripe' oil fields. According to the Oil and Gas Journal, the largest five majors now control only 15 percent of the oil and gas markets, and all of them must address the problem of decreased production, as well as geopolitical and geoeconomic risks from OPEC. At first, the majors tried to apply the mechanism of production-sharing agreements (PSA) in Russia. In the 1960s, Indonesia concluded production-sharing agreements with relatively small independent oil companies from the West (above all, the U.S.); this practice was followed by several other countries. These agreements served as 'rams' for destroying the world monopoly of the 'Seven Sisters' – the past companies which made up the majors. Later it was the majors who sought the rights to PSA for gaining access to Russia's oil and gas wealth.

However, the imperfection of Russian laws impeded PSA implementation. It was only after the government of Yevgeny Primakov got through the State Duma 22 amendments to the law (in a one-week period of time) that the first (Sakhalin) agreements were put into effect. Later, however, some Russian oligarchs (above all, those who had no roots in the oil business and who viewed it as another field for speculative financial operations) launched another massive PR campaign against PSA in the press and inside of the State Duma under pseudo-patriotic slogans, accusing the government of 'selling out the Homeland.' However, the majors soon realized that the true reason for the fierce resistance to PSA in Russia was not the rejection of foreign capital per se, but the fact that there was no room for speculative oligarchs in the state-majors link of the PSA mechanism.

The oligarchs began to bargain with the majors, and offer themselves as partners in future joint ventures. This was possible since they had successfully blocked PSA. Furthermore, they had successfully acquired numerous licenses to develop oil and gas fields, but were unable to do this on their own. As a result, the majors were offered a Russian variant of a merger, which was different from those described above. It was proposed that a foreign company would not fully merge with a Russian company in order to create a new joint venture, but would only merge its Russian assets into it. For the same reason, unlike PSA, such transactions cannot be described as direct investment. For example, the funds that the majors put up are simply pocketed by the Russian owners. Unfortunately, no one knows where this money will be later invested.

Brussels also has a strong tendency to view Russia as a source of cheap hydrocarbons, but here the emphasis was placed on natural gas. The EU's gas directive was prepared and adopted without the participation of the main natural gas suppliers, nor without taking their interests into consideration. This was done in order to introduce the spot market mechanism around the world, as well as destroy the system of long-term contracts which has been the only reliable basis for energy cooperation between Russia and the EU.

It has also been a solid guarantee of the energy security of the EU member states themselves. Later, however, realism prevailed; furthermore, the energy crisis in California, together with Britain's failed deregulated system, apparently served as good lessons.

Russia and the EU have now reached a more or less acceptable compromise on long-term contracts. Yet, the two parties are still far away from a comprehensive solution to the gas problem. The European Union fully ignores the obvious fact that gas is Russia's natural competitive edge. It demands that Russia raise its domestic gas prices, thus interfering in its internal affairs. The EU hopes that this move will reduce the price of exported gas; it does not care that an increase in domestic gas prices would bring the Russian economy to its knees. Furthermore, such a move would hurt the Russian population, a majority of which already lives on the verge of poverty. Furthermore, the West has repeatedly given Russia rather dubious recommendations that it should liberalize its gas sector and break up Gazprom. Interestingly, this pressure is being made amidst the aforementioned process of takeovers and mergers that are occurring throughout Europe, together with the formation of large, vertically integrated corporations.

WHAT RUSSIA WANTS FROM THE WEST

Representatives of the developed countries have repeatedly stated that the West is interested in a strong Russia. However, these declarations are at variance with the practices of many leading states. When in the last few years Russia began to establish order in its economy, and work out a strategy for its economic development that corresponded with its national interests, the U.S. and the EU immediately grew cold toward it. The same thing occurred when Russia attempted to implement this strategy in order to prevent the uncontrolled embezzlement of its natural resources.

The *Expert* magazine, in a February issue, made the following fair remark: "The present coolness in relations between Brussels and Moscow was caused by the failure of Europe's strategy which the EU had hoped would have created a weak Russia." Apparently, the West cannot tolerate the idea that the epoch of Boris Yeltsin's flab-

by and pliant authoritarianism (which for some reason is still persistently described as 'democracy') has become a thing of the past and that from now on Russia will keep upholding its national interests in a polite yet rigid way. In February 2004, Russia's foreign minister pointed out that someone "deliberately or not, is leading us away from the strategic long-term tasks, the accomplishment of which we must focus our main efforts on" (quoted from Germany's *Frankfurter Allgemeine Zeitung*).

It is true that the Russian economy is not operating at its full potential, and the country is faced with a major dual task: optimizing and modernizing the industrial sector and, simultaneously, laying the foundation for a new IT or post-industrial environment. This is why Moscow is very interested in developing its energy cooperation with the West. However, this cooperation should not result in Russia becoming a raw-materials appendage of the West, as it was in the 1990s. (Norway avoided this fate by pursuing a prudent economic strategy.) This cooperation must be built on a mutually advantageous and equitable basis. The parties must take into consideration each other's interests, although they may not fully coincide: the West's interest in reliable and stable supplies to ensure its energy security, and Russia's interest in developing its economy and improving the well-being of its population.

Russia has been making active efforts to fulfill its contribution to this cooperation. In the last few years, it has been stepping up the production and export of oil and natural gas. In 2003, oil output increased to 421 million tons, compared to 379 million tons in 2002. According to expert estimates from the UBS Investment Bank and Brunswick UBS, oil output will reach 457 million tons in 2004, and 568 million tons by 2008. And although Russia will hardly repeat its 2003 record-high growth rate (11 percent) in oil production in the near future, even the 4.8 percent increase in the absolute physical volume, planned for 2008, will still be a high figure, especially as the expected increase in oil exports will be 50 to 100 percent higher than the production growth rate. In 2003, Russia exported 4,259,000 barrels a day. According to the *Oil and Gas Journal*, in 2008 this figure may reach 6,648,000.

Russia has been consistently removing the bottlenecks in the oil transportation system. The Transneft Corporation, for example, is successfully completing the construction of the Baltic Pipeline System with a terminal in Primorsk. According to the 2002 plan, its throughput capacity was expected to reach 18 million tons of oil. Last year, the oil output was increased to 30 million tons, and in 2004, the system's capacity will be further increased to 42 million tons. By 2005, this figure will reach 50 million tons. Other Russian companies, such as LUKoil, Surgutneftegaz and Rosneft, are also building oil terminals along the Baltic coast. An application for the construction of another oil terminal was submitted by TNK-BP and approved in February 2004.

The production of natural gas in Russia has been growing as well: in 2003, it amounted to 2,053 billion cubic meters. Russia has markedly increased gas exports to Western and Central Europe: in 2002, this figure stood at 128.6 billion cubic meters, while in 2003, the figure increased to 132.9 billion cubic meters. However, problems continue to hinder further progress. For example, there has been the reoccurrence of illegal gas siphoning from Russian pipelines that travel through neighboring CIS countries. This has forced Russia to take measures in order to ensure the uninterrupted flow of gas supplies to Europe. Gazprom and Finland's Fortum, for example, will conduct a feasibility study for the construction of a 5.7-billion-dollar North European gas pipeline that will bypass all intermediate countries on the way to Europe. The proposed pipeline will be built on the seabed to the German coast, and there are plans for it to extend to Britain as well. The first phase of the project is planned to be completed in 2007.

By the end of 2004, Gazprom will complete the construction of a gas pipeline from Yamal to Europe; the pipeline travels via Belarus and will be the sole property of the Russian company. Finally, within the framework of a Russian-Ukrainian consortium that was established in October 2002, Gazprom has prepared two variants of a feasibility study for the construction of another gas pipeline. This one is planned to transport gas from Russia and Central Asia into Western and Central Europe.

Russia's efforts in the realm of energy production do not rule out the participation of foreign capital in large-scale energy projects. On the other hand, Russia is now taking another look at its position concerning the activities of foreign companies in the country. As a result, it is likely that Russia will discourage speculation on the energy market, together with the unauthorized large-scale strategic (the word 'strategic' seems unnecessary here) transactions which are damaging Russia's national interests. However, direct foreign investment that is used for locating and developing new oil and gas fields, together with outside participation in the construction of new pipelines, will only be welcome.

The World After Oil

Vladimir Milov

World oil prices have been consistently high since the end of 1999; this is an unprecedented long period of time. This situation prompts an analysis of two questions: What long-term effects will high oil prices have? What will happen following the collapse of oil prices? The price for the main oil grades, including Brent oil, has been consistently exceeding $25 a barrel. This is causing the analysts to speak seriously about the start of a lengthy "era of high oil prices."

Obviously, there are clear geopolitical implications for the price levels of the world's primary source of energy. First, oil exporters (above all, the Middle East countries, with Saudi Arabia and Iran being the leaders) can seriously influence the global geopolitical situation. Second, oil prices introduce new forms of international confrontation which is rooted in the developed oil-importing countries' struggle for control over energy resources (the Iraqi war is a graphic illustration). Third (this factor being particularly important for Russia), high oil prices give a renewed impetus of economic development for the transitional economies and emerging markets. Although the threat of the 'Dutch disease' is always present, these economies still have an opportunity to draw nearer to the most developed economies in the natural course of events. Finally, another factor affecting the redistribu-

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Baku oil field, the late 19th century. Oil fountains formed pools of oil which people collected by soaking rags in it and wringing them into pots. Photo from the book *The Empire of Nobels*

tion of economic influence in the world due to high oil prices is the weakening of the economies of the world's leading geopolitical nations, since the bulk of them are net oil importers.

Therefore, some countries entertain high hopes on oil prices, while others anticipate stagnation. How justified are these prospects in the long term? Too many analysts are unduly concerned about the situation; even U.S. Federal Reserve Chairman Alan Greenspan said recently that world oil prices will remain high for a long period.

Are these predictions correct? How justified are the current super-high prices, and how long can they stay at such levels? Are there factors that could send prices plummeting in the foreseeable future? What would this plunge look like and what implications are there for Russia?

WHO CALLS THE TUNE?

Despite my deep respect for Mr. Greenspan, I must say that there are no profound grounds for the statement that global oil prices will remain high for an indefinitely long time. To understand how solid the prospects are for consistently high prices, it is necessary to analyze the world oil market structure somewhat deeper than many analysts tend to do. As a rule, they proceed from standard parameters related to real commodity flows, such as oil demand dynamics, oil production by main oil producing countries, and strategic and commercial oil stocks in the importer countries.

But it is erroneous to believe that current world oil prices depend on the relationship between real demand and supply as on the classic commodity market. This is no longer the case. Since the end of the 1980s, the prerogative of world price formation for oil and refined products has been determined by three trading floors – the New York and Singapore mercantile exchanges (NYMEX and SIMEX) and the International Petroleum Exchange (IPE) in London. Physical trade volumes on those three exchanges offering uninterrupted round-the-clock trading, amount to less than one percent of the total international oil trade volumes. Rather than trading on commodities (a mere 1-2 percent of all deals), they trade on derivatives – futures contracts for oil supplies. So, world oil prices are determined today not by trade in commodities, but by trade in financial instruments. Even though these prices take account of the risks on the real oil market, they are mostly based on projections and momentary fluctuations in the global economic and political situation.

The structure of supply and demand on the world oil market in 1999 through 2003 witnessed no real problems in oil supply, nor are they expected in the future. Even during the "tough" years between 1994 and 2003, oil shortages never exceeded 2.6 million barrels a day, or 0.1 percent of commercial oil stocks in the countries grouped in the Organization for Economic Cooperation and Development (OECD) (current shortages can be easily covered by oil in stock), while during most years they ranged between one million and 1.5 million barrels.

It is not surprising under such circumstances that the actual availability of oil on the world market is not a crucial factor in oil price formation – most decisive is speculative trading by financial investors. Oil market analysts generally believe that financial derivatives traded on international oil exchanges have become a safe and sound capital investment now that interest rates have remained low in the Western financial systems, above all in the U.S. Federal Reserve System.

Algeria's energy minister stated recently that oil prices could go down substantially if the U.S. Federal Reserve increased its rate. Speculation on the oil market could then become less attractive for investors than on the traditional financial markets. Some economists believe that a market bubble is emerging on the international oil exchanges, similar to the one which occurred on the American stock market in the late 1990s.

Speculators have effectively taken advantage of all trends and even rumors that are more or less significant for the world market: first there is the 'Iraqi factor' (even though in 2003 the market failed to receive only 686,000 barrels of Iraqi oil a day and the gap was rapidly filled by other producers); OPEC's repeated refusal to increase oil production quotas (even though cartel members have never strictly observed agreements on quotas); strikes in Nigeria and political instability in Venezuela.

At the same time, the market remained indifferent to much more significant factors, such as Russia's soaring oil production and exports (growth by nearly 2.5 million barrels a day over five years), which in 2003 easily (by more than 120 percent) offset the decline in Iraq's oil output. Nor was the world oil market overwhelmed by the spiraling growth in oil production by the Middle East member countries of OPEC in 2003. At this time, aggregate oil production in Iran, Qatar, Kuwait, the Emirates and Saudi Arabia grew by over 2.4 million barrels a day up from 2002, i.e. a reported 14-percent rise.

Naturally, the world oil market is influenced by objective factors, as well, and to a certain extent they instigate high prices. These include the ever-growing demand for oil in Asia-Pacific

nations, above all in China, as well as oil field depletion which has intensified in the major OECD oil-producing nations – the United States, Britain, and Norway. It is obvious, however, that while the world oil market depends too much on unpredictable speculative games at a time when there is actually no oil shortage, the risks are very high that world oil prices may plummet in the near future. If capital starts flowing away from international oil exchanges, neither cuts in oil production quotas by OPEC, nor a steady growth in Asia's demand for oil will help. Something similar already occurred in 1998 when global oil prices hit rock bottom, not due to an excessive supply of real oil (oversupply amounted to only 400,000 barrels a day), but due to the crisis on the international financial markets, the crisis of expectations, and, consequently, the price crisis on the oil futures market.

If such a scenario reoccurs, oil prices may drop not to a critical level in terms of the profitability of commodities producers, but rather to a level that reflects oil's 'real value,' which helps cover the average production and transportation costs, and has a reasonable profit margin, as well. Prices can stay at such levels for a long time. However, such a scenario would just make oil – which is now a 'superprofitable' commodity having 'geopolitical significance' – a profitable commodity, but yielding no extra dividends.

HOW MUCH IS OIL REALLY WORTH?

If we estimate the real value of oil based on an analysis of production costs, the average world prices for main oil grades – the so-called 'port prices' – will not be more than $8-$10 a barrel in the foreseeable future. This holds true even if certain trends that drive up prices are taken into account, such as the depletion of key oil fields (mostly in the Middle East), higher oil production costs in new regions (on the sea shelf) and the use of advanced technologies. This means that even when taking into account freight costs, the global oil market can be quite profitable even with stable prices ranging from $15 to $18 a barrel for main oil grades.

In such a case, Russia will certainly find itself in an unfavorable position: given that distances are very long between the oil production sites and the ports, and that crude must be carried along pipelines (other oil exporters are spared this problem), extra costs amount to approximately $4-$5 a barrel. But even under these conditions, oil exports will yield Russian oil companies ample profits. At the same time, the state budget will be seriously impaired from such a drop in prices. With the existing mineral production tax rates and oil export tariffs, the state budget bears all the risks if the price of Brent oil drops to $20-$22 a barrel. This situation will also negatively affect the oil sector's ability to reallocate capital into other economic sectors. Under these conditions, only internal savings and foreign investment can serve as sources for Russia's economic modernization and development, while the government's financial system will face yet another serious test.

To a certain measure, oil prices have grown due to the weakening of the dollar: the dollar rate's decline during the past few years has prompted OPEC to consider raising the price range from $22-$28 to $28-$36 a barrel. This may lead to certain adjustments in the nominal price level, but the dollar's weakening is not a factor that can really send oil prices spiraling.

Will oil producers' resources be sufficient for another round of 'price wars?' Can unpredictable global developments (for example, an escalation of internal tensions in Saudi Arabia, in addition to the Iraqi conflict) result in extra shortages of oil on the world market? In theory, that is possible. But over the past few years the world oil market has not grown more dependent on OPEC (even though oil production has declined in the developed nations): in 2003 OPEC's share in global oil production was lower than during the past decade on average (39.7 percent and 41-42 percent respectively).

New players have entered the market, and there is much hope being placed on Brazil and Kazakhstan (they already produce more than 2.6 million barrels of oil a day, or 3.5 percent of the world's output). At the start of this year, China's authorities intro-

duced investment restrictions in a number of sectors in order to curb an overheating of their economy. Thus, China's oil demand growth may slow down, which will have a serious impact on the market (in 2003 China accounted for more than 40 percent of growth in global demand for oil).

Finally, the fate of Libya remains uncertain. As the West has softened its attitude to Libya, Muammar Qaddafi's long cherished dream of regaining his country's 1970 oil production figures (more than 3.3 million barrels a day compared with less than 1.5 million today) may come true. This would take two or three years to attain. The Western world is likely to lure Libya into energetically increasing its production and possibly even pulling out of OPEC.

It cannot be ruled out that political pressure will be exerted on Venezuela and Nigeria to force them to withdraw from OPEC. OPEC itself is not free from internal contradictions – oil production quotas it fixes have never actually been observed, while the financial position of its leading member countries (Saudi Arabia, in particular) has substantially worsened over the past years. It is very doubtful that those countries can afford to engage in heated price wars that drive prices down.

How realistic is the forecast that prices may plummet in the coming years? Proceeding from the above factors, this is unlikely to happen, but such a scenario is still quite realistic. It is also possible, of course, to provide reasons in favor of other scenarios, but those must be taken with a grain of salt, as well. In other words, we are entering a risk zone here.

THE WORLD AFTER OIL

Is it possible for oil to retain its leading position among global energy sources in the long term? It looks like its days (or rather years) are numbered. Naturally, global oil reserves are sufficient for oil to remain a significant energy resource for another 30-40 years. However, no one doubts that oil resources are exhaustible in principle. Earlier theories claimed that resources would be rapidly depleted (according to those theories, the world should have used up its oil resources by the start of this century), but they

have not been confirmed. The global community still has some time for a global restructuring of the world political and economic system, making it possible to mitigate the effects of an 'energy revolution.' Still, oil has been gradually losing its global position to other types of fuel in heat and electric power production, while remaining the unchallenged leader only as a motor fuel.

Meanwhile, an 'energy revolution' will likely continue. Too many factors compel the developed nations to look for systemic solutions that would reduce their economies' dependence on organic fuel: growing oil prices, depletion of their own organic fuel reserves, and foiled attempts to gain control over areas that are rich in energy resources (i.e. Iraq). This factor has already induced the developed nations to search for a 'new energy sources agenda' to be implemented after 2030. A sort of 'global energy revolution' is about to occur, which will permit the developed nations to do without organic fuel as a main source of energy, while promoting large-scale use of alternative energy sources.

It is clear that various natural renewable energy sources (solar, wind, water, and geothermal energy) cannot serve as a real alternative to oil, nor as a driving force of the 'global energy revolution' since their potential is quite limited. Hydrogen energy is seen as the main alternative to organic energy and its development is coming to the foreground. Hydrogen energy is promising for a number of reasons: hydrogen resources are virtually limitless; technologies for using it as a source of energy have reached a highly advanced level (applied research is required to broaden the range of application of hydrogen-based fuel cells); hydrogen energy is highly efficient and productive. Fuel cells are a universal source of energy. They can be used in power generation, as motor fuel, as well as in our homes. Actually, they are a ready substitute for oil.

Governments and private businesses in the developed nations have already begun energetically investing in the development of hydrogen energy (in 2003 the U.S. administration allocated $1 billion for the purpose, and Japan has started large-scale production of motorcars powered by fuel cells). With a sufficient scope of applied research providing for the use of fuel cells in everyday life,

and with special incentives to promote investment in the broader application of fuel cells, hydrogen energy may become widespread by 2030. After 2030, hydrogen as a source of energy will be able to replace traditional organic sources of energy in 30 to 40 percent of applications. According to the International Energy Agency's estimates (*World Energy Investment Outlook, 2003*), by that time per unit capital costs of fuel cell-based energy capacities will decrease to a level that would let them compete with traditional power-generating capacities.

In principle, this 'revolutionary' scenario in the sphere of energy could put the Western nations beyond the reach of the rest of the world in terms of economic and technological development, not to mention geopolitical influence.

Are there reasons for Russians to panic? No. If the country's leadership is really concerned about diversifying the structure of its national economy in favor of high-technology manufacturing sectors, Russia will be able to do away with its critical dependence on the oil sector, promote its economic development and find its niche in the global high-technology production related to the field of 'new energy' somewhere between 2020 and 2030. The oil sector (with account of depletion of the main oil fields) will increasingly transform into a normal sector of the economy with annual production rates between 250-300 million tons of oil a year, and its main target will be meeting domestic demand.

But will the economic policy pursued by the Russian authorities allow the country to prepare for this course of events? So far, the authorities have not shown any other intention than presenting the results of restructuring accomplished in the 1990s, and the effects of the most favorable situation in the world oil market as their own achievements. Further structural reform in the country's economy has yet again been delayed for the sake of ephemeral political stability. The government, which has proclaimed the ambitious goal of 'doubling the GDP,' does not have a national program for a real economic breakthrough. Meanwhile, the oil clock is ticking.

Transforming the Middle East

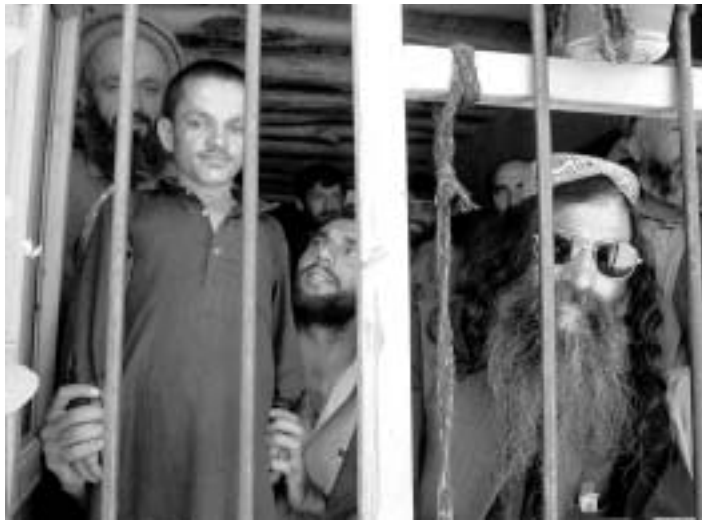

Photo by Arkady Dubnov

Captive Talibs. Punjsher Valley.
August 2001

“Regional efforts to implement the Broader Middle East Initiative must be supported by assistance from the international community. However, one needs to keep sight of the peculiarities of the region and avoid the temptation of formulating quick fixes that are bound to fail. Regional initiatives, however well-intentioned, might lead to new problems if they are not well planned”

A Broad View of the 'Broader Middle East'

Recep Tayyip Erdoğan

Today, an important defining character of our regional and international problems is complexity. Indeed, the most acute problems that the global community faces today defy simplistic explanations and solutions, and demand that all countries join together in a united effort. Such a collective approach will certainly do more than any single country can achieve on its own. Therefore, Turkey believes in the merits of a multilateral approach that benefits from the collective wisdom of the international community. Turkey and the Russian Federation are two countries that can contribute to and benefit from such an approach in their region and beyond.

The situation in the Middle East is proving to be a waste of valuable human and material resources that are necessary for the development of the region. Excessive expectations, and a sense of deprivation, coupled with longstanding political conflicts, have cast a pessimistic mood across the region, not to mention among the observers from outside the region. Ironically, what the region requires is exactly the opposite – simple hope.

Today the region seems to be experiencing one of its worst periods in recent history. The Arab-Israeli conflict seems far from being resolved, while the situation in Iraq has not improved enough to give the Iraqis or the international community real hope. But there is a promising dynamic emerging. The peoples and governments of the region recognize the need for reform, which will be assisted by the declared willingness of the international community.

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There are various interpretations regarding the 'Broader Middle East' initiative, which has been on the regional and international agenda in recent months. Given the ambitious nature of the initiative, the scale of problems and the traditionally skeptical perception of the peoples of the region toward Western policies, it is not surprising that the Broader Middle East initiative was questioned from the very beginning. However, we need to avoid mystified descriptions and assess the initiative basing on its own merits, whether these are positive or negative. As a country that is directly influenced by the developments in the Middle East, Turkey necessarily approaches the initiative both realistically and constructively.

It has to be said from the outset that, long before the Broader Middle East initiative became the subject of every other newspaper article or televised debate, Turkey had been articulating its ideas and vision for the Middle East in various forums, including the meetings of the Organization of Islamic Conference (OIC). Turkey wants to see a more democratic, free, and peaceful Middle East that is well governed and has an efficiently functioning economy. This should not be mistaken as idealism. Turkey's own interests require peaceful and stable neighbors that it can interact with positively at all levels. Turkey's aspirations for the region, therefore, are harmonious with the positive objectives of the Broader Middle East initiative.

Terrorism is one of the complex issues that are increasingly being associated with the region, as well as with the religious beliefs of its people. Unfortunately, the phenomena of radicalism and extremism will probably always exist in human society. Thus, terrorism is likely to threaten various parts of the world in the foreseeable future, as well. Yet, conflict, violence and terrorism are products of man's political ambitions, however misguided. As we reject the rationale of terrorist methods used to gain political ends, we should also reject claims to act in the name of any religion.

In fact, as different social groups start breathing the air of democracy they gradually become shareholders and eventually protectors of the democratic system. What is important is to facil-

itate the mechanisms that will eventually deliver to the people not only economic rewards, but also the political and social benefits of this system. Participatory and non-discriminatory structures enhance democratic socialization and create a sense of ownership and responsibility toward the political system. In such an environment, economic activity becomes more rational and public services become more efficient. This is not an easy task, for it is also related to state-society relations. However, the Middle East can ill afford not to address this problem.

In trying to find solutions to their problems, the countries of the Middle East must benefit from the intellectual wealth of their people. This human potential prospers when free and democratic structures begin to establish themselves within society. Similarly, the rule of law, transparency and accountability contribute to societies' common good and make regimes stronger in the long run.

It is therefore encouraging to observe that the call for reform has been gaining ground in the region both at the popular and official levels. When Turkey began to underline the need to "put our house in order" at the OIC meetings, it struck a very important chord. Indeed, if the region longs for political, economic and social development it should work to accomplish that task itself. This basic point is now clearly recognized and plans to address it are already in the making. Most recently, various governmental and non-governmental gatherings in the region debated the issue of reform and development, culminating in the relevant declaration of the Arab League Summit which met in Tunis in May 2004.

Regional efforts can and must be supported by assistance from the international community. However, one needs to keep sight of the peculiarities of the region and avoid the temptation of formulating quick fixes that are bound to fail. Regional initiatives, however well-intentioned, might lead to new problems if they are not well planned.

By virtue of its historical links and affinity with the region, Turkey has a perspective on this issue which it has shared with others from the very beginning. In this respect, local ownership, voluntarism and gradualism are key principles. Any excessive

imposition will be counterproductive, while the cultural and political sensitivities of the region should not be overlooked. At the same time, generalizations should be avoided. The multi-cultural and multi-ethnic texture of Turkish and Russian societies helps us recognize these sensitivities more easily.

Moreover, the effort should be comprehensive. It should include political, economic and cultural/educational considerations, as well as the various security dimensions. However, too much emphasis on the security dimension will be unhelpful. The project should be inclusive, open to those who are willing to benefit from it.

Equally important is the political atmosphere prevalent in the region. Iraq, and the entire region, needs to feel that improvements are being made. This will greatly contribute to a better reception of international initiatives toward the region.

We also need to recognize that no regional project can succeed while the Palestinian issue remains unaddressed. This should not mean that reform is wholly dependent on the Arab-Israeli conflict. One has to accept that, even if this problem were solved today, the reforms needed in the region would not come automatically. Therefore, the work on reforms must start without delay. However, if negative developments can be reversed and the settlement of the Arab-Israeli problem is made an achievable objective in the eyes of the people, this will substantially reinforce the prospects for reform in the entire region.

These points were made clear not only by Turkey, but also by countries in the region and others, like the EU, who are willing to contribute. Gradually, the discussions on the Broader Middle East that have taken place at international levels, such as within the G-8, NATO and the EU, began to include various comments aimed at making this initiative workable. Countries in the region were able to provide their input as well. Statements from the U.S. also acknowledged the importance of these discussions and consultations. The end product of this multilateral approach, as exemplified in the G-8 plan of support for reform in the region, demonstrates the sincere will of the international community to

assist in the region. The G-8 exercise, where the Russian Federation had an important role as well, heralds positive developments for the future, provided that the principles adopted therein are carefully implemented. In this context, Turkey co-chaired the Democracy Assistance Dialog, one of the G-8 mechanisms aimed at bringing together civil society and government representatives to share their experiences on democratization.

Similarly, other ways of helping the region have been discussed constructively within NATO over the last few months. The recent NATO Istanbul Summit offered modest, but useful, mechanisms for practical cooperation in the defense and security fields on a voluntary basis to the countries in the region.

International meetings addressing the Broader Middle East initiative demonstrated once again that, although differences do exist, dialog can produce converging positions. True, history provides scant reasons for the people of the region to be enthusiastic about what they perceive to be "outsider designs." However, this must not lead to the rejection of every foreign initiative. Trying to create conditions to benefit from the various international efforts in a rational way and direct them according to the region's real needs should be the way forward. Countries in the region must show greater self-confidence and positively involve the international community.

We hope that the Broader Middle East initiative will live up to our expectations. However, in order for the initiative to produce positive results soon, both Turkey and the Russian Federation need to work together to help stability and peace in their region. One of the ways that Turkey contributes to a more congenial atmosphere in the region is through the very foreign policy approach it follows.

As an advocate and initiator of regional cooperation, Turkey strives to make use of interdependence as a confidence-building mechanism that helps form common interests favoring peaceful relations. Turkey and the Russian Federation are major actors in making regional cooperation a success story, especially in the Black Sea region. Increased international interest in the Black Sea region demonstrates the value of the Black Sea Economic

Cooperation (BSEC), as well as the timeliness of our efforts to further develop the BLACKSEAFOR capability. Most of the acute problems in our region are complex and transnational, but we have the power to check them if we join forces and act promptly.

Turkey believes in managing conflicts through a problem-solving approach. A static outlook in foreign policy which presents interacting parties as ultimate adversaries is bound to lose against a dynamic approach which offers to tackle problems through win-win solutions. This latter approach helps regimes in the region to feel more confident in interacting with the international community, while remaining within international law. Turkey's affinity and historical ties with the regions surrounding it facilitate such a process. Most recently, Turkey's credentials as a stability producer were proven again during the Cyprus issue.

We have to encourage the establishment of a culture of reconciliation as the basic working ethic among countries in our region. The frozen conflicts around us will not simply wither away with time. We have to face them openly, constructively and with renewed vigor.

Turkey's multi-faceted orientation has assumed greater relevance as the defunct geopolitical divides of the Cold War era are being replaced with renewed dynamism at the regional and global levels. Turkey is uniquely situated to act as a political, economic and cultural interface between the regions it neighbors and the West at large. This role will be facilitated as Turkey's accession process to the EU is advanced.

The shift in geopolitical priorities has put an additional emphasis on the Mediterranean region and the Middle East in its wider sense. The same dynamics has also brought Central Asia and the Caucasus to the forefront. Both Turkey and the Russian Federation recognize that, as a result of this dynamics, the West and the East have been brought closer together, not necessarily by choice, but by strategic exigencies. Both countries are located in the center of this reality. Therefore, both have an interest in contributing to a smooth transition of the geopolitical landscape, extending from the Atlantic to Central Asia and beyond.

Forced Democracy and the Repercussions

Alexander Aksenyonok

After successful democratic changes in Central and Eastern Europe and the collapse of dictatorships in Asia and Latin America, the international community has focused its attention on the Middle East.

Why is the Middle East so fertile for international terrorist activities conducted under a religious guise? For the U.S. administration, the answer to this question at first seemed very simple: a majority of Arab or, broadly speaking, Moslem regimes, are bogged down in obscurantism; economic and political reforms have stalled or are merely imitated; and the economic situation in those countries is worsening, creating a suitable ground for terrorism and various kinds of extremist sentiments. Hence the conclusion: the Middle East must be urgently rebuilt on democratic principles through political and market reforms, which have already justified themselves in other regions.

However, Iraq's example has shown that unilateral actions to impose democracy on a backward region may provoke social upheavals. Furthermore, the experience of building new states in various parts of the world (Kosovo and Haiti, for example) with the help of multinational forces has been controversial, to put it mildly. A transition from one social structure to another that is

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more adapted to the requirements of globalization is always painful; expediting the process can only cause complications.

STALLED DEVELOPMENT

The vast Middle East region, stretching from the Atlantic to the Persian Gulf, which has a total population of almost 300 million people, has in the last two decades delayed its historical transformation. Per capita incomes in the region have remained stagnant, while in other developing countries with comparable economies they have been growing by three percent on average. Meanwhile, per capita income distribution in the region is very uneven – from U.S. $335 in Mauritania to U.S. $30,000 in Qatar. From 1981 to 2002, the contribution of Arab countries to world trade decreased from 9.6 to 3.2 percent, which attests to the region's low integration into the global economy.

Foreign investment in Arab countries has been steadily decreasing, while labor productivity has been on the decline, as well. Unemployment has reached a dangerous level, exceeding 25 percent of the manpower in some countries. In Algeria, where unemployment is even higher, idle young people are easy prey for terrorist recruiters. The UN's Arab Human Development Report (2003), which sparked heated debates, named three of the primary obstacles to the Arab world's development: increasing gaps in freedom, women's empowerment and knowledge across the region.

Political structures in a majority of the Arab countries are as rigid as the economic structures. The post-colonial construction of independent statehood was completed by the last decade of the 20th century with the formation of rigidly centralized power. Following military coups which broke out across the region in the 1950s-1960s this power helped achieve political stabilization amid the formation of national identity in each Arab country. The ideology of Arab nationalism, which called for the unity of the entire 'Arab nation,' is now history. The idea of a nation has ceased to be an abstract illusion and is now increasingly associated with a specific state within the framework of its historical borders.

From the point of view of the formal criteria for liberal democracy, accepted in the West (although even it widely differs), the incumbent political regimes in the Middle East are autocratic. In other words, there are no such things as handovers of power, division of powers, or legal opposition. The electoral system is far from being recognized as free and just. Even in the more developed countries, such as Egypt or Syria, institutions of popular representation are only intended for rubber-stamping bills drafted by the government. Arab oil monarchies (Qatar, the United Arab Emirates) have been making timid moves to modernize their political structures, as well as make their governments more open. Yet the largest country in that Arab subregion, Saudi Arabia, since the kingdom's establishment in 1932, has been run as a family business with no electoral institutions whatsoever.

DO NO HARM

Most people tend to agree that a majority of Moslem countries suffer from a deficit of democracy and free enterprise, but when it comes to proposing recipes for changing the situation for the better, heated debates arise. The first reaction to the U.S. Broader Middle East initiative showed that the idea of forcing Western values on the Moslem world evokes a critical response in Europe and meets with skepticism or total rejection in the Islamic world.

The ambitious plan for rebuilding the entire region, from Mauritania to Afghanistan, provides for a series of measures to help Islamic countries with the preparation and holding of free and fair elections, the drafting of laws, parliamentary training and the establishment of independent mass media. It also pledges assistance with the formation of political parties, nongovernmental organizations, restructuring of the educational system and other attributes of a civil society. The economic section includes reforms aimed at releasing the private initiative of small and medium-sized businesses, reducing state regulation and liberalizing the business climate.

The initiative's main provisions seem to be copied from the large-scale and successful reforms that have been held in post-Communist countries in Central and Eastern Europe over the last

decade. Furthermore, Washington resorts to its time-tested financial channels – the National Endowment for Democracy, whose budget President George Bush has promised to double to U.S. $80 million, and a special division of the U.S. Department of State, whose 2005 budget is planned at U.S. $190 million.

However, such a simplified approach to Middle East problems does not conform to local realities. The region has civilizational special peculiarities, ages-long history, a deep-rooted mentality, and governance and public life traditions that are different from those in the West. It would be more fruitful to follow the 'do-no-harm' principle, separating what must be reformed from traditional elements of life that do not impede the modernization processes.

Unlike Eastern Europe, which has always been susceptible to the political culture and historical traditions of the West, the Middle East, which has experienced aggressive wars and colonial rule, first tasted national self-determination quite recently. Whereas in the integrating Europe the notion of 'foreign interference in domestic affairs' is becoming an archaic concept, the Moslem East accepts the funding of its political parties from abroad with tremendous unease (incidentally, in the U.S. such funding is punishable by law). From the point of view of the regional mentality and traditions, regular handovers of power through general elections and the presence of organized opposition mean the weakening of centralized control and a split in the army which has always symbolized national sovereignty in the East. Middle East countries – however different in forms of government – usually have strong and charismatic rulers. The public's mindset does not view their rule as autocracy but rather as a way of national and state existence. Egypt has a strong presidency; Syria has its Baath party, which has been ruling the country for the last four decades; there is Algeria where the presidents are traditionally 'made' by the military; Arab parliamentary monarchies (Morocco, Jordan), not to mention Saudi Arabia – all of these are examples proving the aforementioned rule.

The bitter experience of the first attempts to reform the region also attests to the tenacity of political traditions and the way of life

in the Middle East. Between the two world wars, under the influence of the British and French colonization, constitutional forms of government were established in the largest and best developed territories of the former Ottoman Empire (the Nile Valley, Mesopotamia, Palestine), with some participation of representative systems. By the 1950s, there emerged independent states in the region – Egypt, Iraq and Syria, whose political systems were patterned after Western ones. Many prominent Orientalists admit that those 'great experiments' were ill-conceived. Bernard Lewis wrote that a political system brought ready-made – not just from another country but from another civilization – and imposed by the West on rulers friendly to it could not adequately correspond to the nature of the Islamic Middle East society. According to another authoritative Orientalist, Edward Hodgkin, political parties established in the 'Arabian climate' were mainly 'tadpoles', that is, organizations with very large heads and very small tails.

The Broader Middle East initiative was copied from the reforms held in post-Communist countries in Central and Eastern Europe.

The Arab political regimes produced by the colonial epoch in the 1950s-1960s were later swept away by a wave of military coups (Egypt in 1952, Iraq in 1958, Syria in 1962), which can be viewed as forms of national-liberation struggles, considering their consequences and the extent of popular support. Outside factors did not play the leading role in these dramatic changes on the political map of the Middle East (the East-West confrontation in the Third World was only beginning then). Those past regimes fell because the ruling elites were no longer supported by their own people. Isolation from their national roots, together with a policy of Westernization and a propagation of liberal values in unprepared societies, sparked mass discontent and gave rise to nationalist movements.

Equally abortive were the attempts to impose foreign models of development on the Middle East countries during the period of Soviet-U.S. rivalry in the region. Egypt, Syria, Iraq and Algeria (Arab states in the Soviet Union's zone of influence) rejected the

Communist ideology and built their own style of socialism. Their leaders borrowed from Soviet practices only what helped them consolidate their influence and build states with a strong 'power vertical,' that is, the concept of a ruling party and the principle of the state sector's supremacy. Meanwhile, these political and economic levers worked differently in Arab countries. Egypt had the amorphous Arab Socialist Union; Syria and Iraq were ruled by two branches of the split Arab Socialist Renaissance (Baath) Party; Algeria was formally ruled by the National Liberation Front which served to conceal the behind-the-scene rule of the military. The state sector also played the leading role in the Arab economies, but in a way that was different from the Soviet administrative command system. Arab nationalization reduced the scope of private property, yet it remained decisive in production relations, especially in farming, the services sector, construction, light industry and trade. Manpower was concentrated largely in the private sector. In Egypt, for example, between 1962-1970 the state sector accounted for not more than 2.7 percent of agricultural production, although the state made a 97 percent investment in agriculture. In other purportedly socialist-oriented countries, things were almost the same.

The United States was no more successful than the Soviet Union in planting its own models of government and political power mechanisms. Democratic reforms were the most advanced in Jordan and Morocco, although outward attributes of democracy (Western-style parliamentarianism and a multi-party system) did not drastically change the autocratic nature of the monarchies in those countries. Their tenacity and adaptability to the changing outside world were largely explained by the personal qualities of their leaders. Jordan and Morocco, in the period of their national growth, were ruled by wise leaders – Kings Hussein and Hassan. These men were believed to be descendants of the Prophet Mohammed and were figures of great charisma.

Meanwhile, the oil-rich territories of the Persian Gulf, which were in the zone of Western influence, became a showcase of well-being and a life of luxury. However, the changing economies of the Gulf countries, and their ossified political systems which have sur-

vived since medieval times, have come into dangerous conflict. In Saudi Arabia, absolute power still rests on the centuries-old alliance between the Al Saud family and the Al ash Shaykh, religious leaders professing Wahhabism, an austere form of Islam.

As we have seen, the reforms in the Middle East in the colonial and subsequent periods have shown how delicate and difficult this process can be. It cannot produce quick results. Reforms must be conducted gradually, with patience, paving the way for democratic changes and raising the population's cultural and educational standards. Instead of destroying outdated foundations, the latter must be gradually and consistently reformed from the inside, while preserving national traditions – religious, social, family and cultural. Any assistance that is provided to the Moslem countries must also include patient, lengthy interaction with old and newly born political elites and influential religious figures.

THE COST OF MISTAKES

What are the reasons for the suspicious and occasionally hostile attitude of the Arab people to changes imposed on them from the outside? Middle East countries generally ranked as undemocratic (Egypt, Syria, Tunisia, Algeria, Saudi Arabia and others) fear that the United States is accusing their regimes of rejecting reforms as a pretext for military and political pressure aimed at replacing unwanted rulers. Washington's messianic rhetoric only adds to these fears. Iraq is not the only example. The strong pressure and economic sanctions leveled against Syria and Iran, compared with Washington's good relations with undemocratic Saudi Arabia, Tunisia and Algeria, cause Arabs to think that it is not 'love for democracy' that is behind the U.S. policy but rather political considerations which the Americans establish unilaterally. Some European policymakers predict an opposite effect of the stick policy. Outside pressure makes evolutionary reforms more difficult, while the 'besieged fortress' syndrome only plays into the hands of those who oppose reform.

Many Arab countries, whose leaders feel the need for change, have been discouraged from launching sweeping reforms by the

unfortunate examples of other regions, most notably in the former republics of the Soviet Union and Yugoslavia. The very high cost of the Soviet perestroika period and the first stage of the democratic reforms in Russia – the breakup of the state, sharp economic decline and the chaos of political structures following the collapse of the Soviet Communist Party – make sensible people in the Middle East think of ways to minimize the negative effects of a transitional period.

Another argument against hasty reforms imposed from the outside is the experience of the U.S. itself, which helped rebuild state structures in other countries after World War II. According to U.S. expert estimates, only three of 16 such attempts were successful: in Japan, Germany and Panama. The success in Haiti proved temporary: in 1994, 20,000 U.S. military troops helped 'democrat' Jean Bertrand Aristide return to power. Ten years later, Washington and Paris demanded his resignation, which finally helped end a bloody civil war in the country.

Prospects for democratic reforms in the Moslem world will largely depend on the outcome of the military campaign of the United States and its allies in Iraq. The authors of various kinds of scenarios for Iraq's postwar development must have underestimated many historical and psychological factors (America has never had very reputable Orientalists). The U.S. committed political mistakes from the outset, and their desperate attempts at correcting the situation are inflicting a huge cost against the Iraqi people, the Americans and the international community.

The overthrow of the Baathist regime, which was the rule of one party, triggered the collapse of the entire political system in Iraq and all attributes of statehood (it reminds one of the collapse of the Soviet Communist Party and difficulties of the transition of Russia and other post-Soviet republics to democratic rule). Filling the vacuum of power in Iraq has proven to be much more difficult than the military operation. The primary problem is finding a national political alternative that would be acceptable to the Iraqi majority. The interim Governing Council, which consisted mostly of opposition members who had spent years in exile and whom

no one in Iraq knew, was generally viewed as a puppet quasi-body of the occupation forces.

Another aggravation was the impulsive decision to dismiss all Iraqi servicemen and policemen, which left about one million men and their families without a means of subsistence. Outlawing the former ruling Baath party was another mistake which added to political destabilization. Since practically every Iraqi family included Baath party members, to outlaw these individuals only served to produce a feeling of collective guilt. This is what the anti-Nazi coalition, and the Germans themselves, had avoided after the victory over Nazism in World War II.

Baath members include people who are not responsible for the crimes of Saddam Hussein and his administration. They tend to hold moderate political views which resemble West-European social-democratic ideas. In order to counter the rise of militant Islamists, these people should be invited to participate in the stabilization processes, especially on the eve of elections planned for next year.

Finally, some problems of the transition period could have been avoided had the confessional balance not been so drastically upset. Formally, the prevalence of Shias in Iraq's provisional political structures reflects the Iraqi population's composition, but it arouses fears among Sunnis, many of whom have already joined the resistance movement – not because they are loyal to the former regime but because they fear oppression and revenge. The developments in Iraq have shown that the reliance on the Shia majority, intended to win over radical Islamists, proved to be ill-conceived. The differences between imam Muqtada Al-Sadr, who launched armed resistance in Iraq, and moderate leaders of the Shia community are rather tactical. The former displays impatience, anticipating events, while the latter, who are more experienced, prefer seeking power by parliamentary methods. They remember too well the suppression of two Shia uprisings in the last century. So, whether or not the forthcoming elections bring democracy to Iraq remains an open question.

CHANCE OF SUCCESS

In the last decade, examples of international intervention that was aimed at forcing individual countries to establish peace and rebuild national statehood, show that such actions have the best chances for success if they are organized in a multilateral format. If they are approved and controlled by the UN Security Council, then it does not really matter who commands the operation. The United Nations Transitional Administration for Eastern Slavonia, Baranja and Western Sirmium (UNTAES), headed by U.S. retired major general Jacques Paul Klein, efficiently handled Eastern Slavonia's integration into Croatia: it carried out demilitarization in the region and helped organize democratic elections for the local government bodies, thus ensuring fair representation for the ethnic Serb population who are a minority in the region.

Another example of a well-organized operation is the one being conducted by a multinational force in Bosnia, which has been proceeding for several years now. Although it is a NATO operation, it was supported by the Security Council. This organization has levers of influence that allow it to correct ill-conceived political actions, as well as to make important decisions on the basis of international consensus. The multiconfessional institutions of the Bosnian state, established in the last few years with international assistance, have proven to be efficient, despite the difficulties of inter-ethnic relations among the Moslems, Croatians and Serbs. This is a great success in peacemaking activities, achieved through UN-approved multilateral agreements which outlined the contours of statehood, internationally constructed later. Yet, it is still an open question whether or not the Dayton pattern of statehood construction will stand the test of time. Does the present calm mean the establishment of genuine ethnic reconciliation in the region? Is it possible that the fragile compromises will collapse once the multinational force leaves Bosnia?

In Kosovo, the situation is different: military intervention was launched there without a mandate from the UN, which became involved only later. Local government bodies established in Kosovo have actually legitimized encroachments on the rights of the ethnic minority (Serbs) and, moreover, legalized Albanian

militarized structures which seek independence through terror. As a result of this 'democratic construction,' the tragedy of ethnic Albanians, used as the pretext for NATO strikes against Serbia and its invasion, has been replaced by a Serbian tragedy. For the last five years, hundreds of thousands of Serb refugees have been denied the possibility to return to Kosovo, while the multinational force is unable to curb the Albanian extremists.

THE OTHER SIDE OF THE MEDAL

There are now many measures in effect for combating international terrorism in general and militant Islamism in particular. These include military confrontation (Iraq, Afghanistan), secret service operations, security measures and other uses of force. No doubt, these are required and inevitable actions, but they are only one side of the medal. The other side – constructive political and ideological activities – is not actively pursued enough. The streets of Moslem societies continue to be covered with banners and posters carrying radical interpretations of Islam. In view of this, the international community should not seek to divide Islam into radical and moderate zones. This artificial division would only be a disservice to those religious figures who advocate depoliticizing Islam. None of them can openly declare their moderate views – such are centuries-long traditions. But making the issue of democratization a subject of open theological and secular discussions – for example, discussions about models of government and state systems in the Moslem world – would be another thing.

This would help create favorable conditions for Islam modernizing itself, which is now fettered by dogmas of the past centuries. According to Egyptian scholar Ahmed Kamal Abul Magd, a transition from psychological attachment to the past to a clear vision of the future cannot be carried out without solving a number of problems pertaining to the Islamic teaching and practices, especially the system of rule in Islam.

The problem now confronting the Moslem theologians and scholars is that Islam, however universal it may be considered, has never created any integral concept of statehood. Koran and Sharia

contain only very general provisions which can be interpreted and used in practice in different ways, and depending on changing circumstances. An Islamic state is a myth used in the contemporary world for achieving one's political goals by force. The first Moslem community established on the Arabian Peninsula around Medina existed in its original form for not more than three decades. The late 7th century saw a departure from the theocratic nature of the supreme power, as had been practiced by the first 'faithful' caliphs who had combined both religious and secular features. Full authority went to the sultans, although formally the supremacy of 'God's will' was proclaimed. Later, the Arab Caliphate turned into a typically Oriental despotic regime, and by the beginning of the 20th century this form of state, artificially maintained from the medieval times, remained purely nominal and ceased to exist after the breakup of the Ottoman Empire.

Calls for renewed Islam are not something new, yet all of them contain arguments substantiating the need for more democracy based on religious legitimacy. In the 1970s-1980s, Arab scholars introduced the following approach: original Islam only worked out the fundamental principles for a state system and political democracy, but it is the people who must determine ways and methods for implementing them in practice. According to Kuwaiti professor Mohamed Fathi Osman, there must be a clear distinction between the hard-and-fast fundamentals of the Islamic form of state power, and those models that are prone to change. Syrian lawyer Dr Mohammed Salim Al'awa, in his monograph *The Political System of Islamic State*, also proposed distinguishing provisions of Islam that are mandatory for contemporary Moslems from those that existed in specific historical conditions but that have now lost their force. By way of example, he described the modern state system in Morocco as a refined blend of Islamic traditions and pragmatic modernism.

Finally, it is necessary to take into consideration foreign-policy factors that affect the situation in the region. The present psychological atmosphere in the Middle East is not in favor of democratic changes. Arab leaders are well aware of the sentiments reigning among ordinary people, which have been growing

increasingly anti-American and, to some extent, anti-Western. For a majority of Arabs, the occupation of Iraq and Washington's unbalanced policy toward the Israeli-Palestinian confrontation, blend into one front of struggle for upholding their outraged national and religious dignity.

Following the bloody events in Iraq in April and George Bush's statement of support for Ariel Sharon's plans, it will take much time and effort to create an outside political environment that would be favorable for reforms from the inside. The domestic foundation of changes, which the Broader Middle East desperately needs, suffers most of all from a series of mistakes in the U.S. Middle East policy, as well as from the superficial black-and-white attitude to problems of the Moslem world. The Secretary General of the League of Arab States, Amre Moussa, in his address to the 2003 Davos forum in Jordan, described the present situation in very plain words: all Arab countries want to cooperate with the United States, but they are not sure of the Americans' real intentions; Arabs know that they should change, but changes must not be imposed from the outside – they must originate from the people, since democracy is not a gift from the U.S. or Europe.

The situation in the Middle East, swept by protests mixed with the feelings of disappointment, humiliation and anger, is approaching a critical point. Throughout its post-World War II history, it has remained a region of interstate confrontation and military coups. Now, when the frameworks of the Arab-Israeli conflict have been reduced to the Palestinian problem, there has arisen the 'Iraqi puzzle." This situation has complicated the struggle against international terrorism. Whatever attitude one may have about the U.S. military operation in Iraq and the attempts to impose democratic values on Moslems by force, the international community must, in the long run, proceed with concerted efforts in all interrelated fields. These would include the struggle against terrorism, political and diplomatic activities, ideology, culture, education and religion. In this way it will create prerequisites for a democratic transformation of the Greater Middle East in a natural way, without skipping crucial historical stages.

Prospects for the Iraqi Settlement

The way the situation in Iraq has been developing is the result of a whole range of factors. Each of them is either a consequence of the U.S. military operation to depose Saddam Hussein or a trace of the operation's impact. Another factor, which deserves special analysis, is the interrelation between the developments in Iraq and the election campaign in the United States, which is now entering its most intensive phase. These processes have a mutual effect on each other.

RESISTANCE TO THE OCCUPATION

It would be erroneous for us to conclude that the armed resistance to the occupation regime is a struggle being waged by Saddam supporters. Contrary to Washington's expectations, Saddam's arrest has not reduced the resistance.

One center of resistance and extremism in Iraq is the so-called Sunni Triangle, an area populated largely by Iraqi Sunnis. It is a scene of the most frequent attacks on the U.S. military. The Saddam regime relied on the Sunnis, yet they are not an explicitly pro-Saddam force. Their resistance is rather explained by fears that the occupation regime, if it remains for long in Iraq, will reduce the Sunnis' status to a second-rate minority.

There is no Baathist resistance in Iraq that is organized as a pro-Saddam force. Some of Saddam supporters act on their own

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This publication summarizes a situation analysis held in April 2004 at the Moscow State Institute of International Relations and headed by Academician **Yevgeny Primakov**.

initiative. But on the whole, the Baath party cannot be considered an organized force opposing the occupation; it is more an organization capable of rallying various resistance groups. A similar conclusion can be made with regard to Saddam's army, the National Guard, the paramilitary *Fedayeen Saddam* (Saddam's 'Men of Sacrifice') and police. None of these structures has become the nerve center of general resistance.

If the resistance to the occupation had been put up under pro-Saddam slogans, and involved members of the Saddam administration and groups of the population that the Saddam regime relied on, the U.S. could have hoped for serious international support, even from some Arab countries. However, the resistance has been increasingly involving broad segments of the population who were not comfortable under the overthrown regime.

Protests by the Shias are particularly sensitive for the U.S. Shia religious leaders, who have returned from their exile in Iran, are united in the Supreme Council for Islamic Revolution in Iraq, which for a long time was headed by Mohamad Baqir Al-Hakim. At first, the Council, which had a strong military force (the well-trained Badr Corps), did not conceal the fact that it wanted to establish an Islamic state in Iraq. At the same time, it maintained neutrality toward the U.S.-led occupation forces. Later, however, the influence in Iraq gradually passed to groups and organizations that opposed the coalition troops, most importantly, the Mahdi Army, which is controlled by Shia imam Muqtada Al-Sadr.

In early April, the Shias actually launched a national war of liberation. The Shias, who comprise over 60 percent of the Iraqi population, were discriminated against under Saddam. Therefore, when planning the operation in Iraq, the U.S. hoped for Shias' support in establishing a secular state in the country. As it turns out, the occupation troops are opposed by both the Sunnis and Shias. The Shias' struggle experiences many ups and downs, but if Iraq retains the present system of power (which a majority of the population regard as occupationist, even despite the formal handover of power to a national government) the resistance will involve an increasing num-

ber of Shias. Now they can no longer be described as U.S. allies or even 'fellow travelers.'

There are several explanations for this trend. First, the Shias are very suspicious of the Americans. During the first Gulf war (1991), the Americans declined to support a Shia rebellion, and the latter was mercilessly quelled by Saddam. Second, when conducting operations against the radicals, the U.S. occupation troops made air and land attacks on two Shia religious centers, Najaf and Karabala, killing many civilians. Third, the Shias oppose U.S. plans for postwar Iraq. They insisted on direct elections before the June 30 transfer of power, which would have helped them to win a decisive majority in the legislature. Fourth, the Shia political movement is being overtaken by radicals who enjoy increasing support among the population. Fifth, there are signs of a possible convergence of the Shia and Sunni resistance movements.

Iraq's federalization, together with the formation of a Shia autonomous region within Iraq, would not solve the problem. Such a model can satisfy the Kurd population, but not the Shias, who populate not only south Iraq, but also Baghdad and other areas of the country. Besides, their goal is to seize central power.

The federalization of Iraq would bring the 'Iran factor' into the foreground. Many of the Iraqi Shia leaders were in exile in Iran's religious center of Qum and have links with the Iranian Shias. The formation of a Shia autonomous region in Iraq would also have a negative impact on the situation in Iran, boosting extremist religious sentiments there. In turn, such developments would increase trends toward an Islamic state in Iraq. Shia autonomy is a more serious threat for the U.S. than a model in which the Shias would make the core of Iraq's government: even a predominance of Shias in the central bodies of the legislative and executive branches would be weakened by the influence of Sunni and Kurdish political groups. Kurds, for example, have already secured a provision in Iraq's interim Constitution (adopted on March 8, 2004) which grants them the power to veto any bill.

KURDS – RESERVE OF THE OCCUPATION FORCES?

When planning the operation against Iraq, the U.S. counted on the 'Kurdish factor,' hoping to manipulate the Kurds' hatred toward the Saddam regime and the differences between Kurds and Arabs in Iraq. Two issues stand out as top priorities for the Kurds: delimitation of control over the oil-rich areas of Kirkuk and Mosul, and the return of Kurds who were evicted in northern Iraq by the Saddam regime. The solution of these two problems in the Kurds' favor would reinforce their positions, while removing from the agenda, at least for the near future, the issue of an independent Kurdish state. The Kurds already have autonomy in Iraq, which they received under Saddam.

But it would be very difficult, if not unfeasible, to solve the problem by incorporating Kirkuk and Mosul into the Kurdish Autonomous Region. It is possible that the Arabs would agree to joint control over the Kirkuk and Mosul oil fields, but the Kurds reject this proposal. Kirkuk is the oldest Kurdish town and was once the historical and religious center of the Kurdish civilization. But soon after rich oil fields were discovered in the area in the 1960s, the Iraqi regime began to Arabize those territories and evict some of the Kurdish settlements. Now the area is populated by many Arabs, and there are frequent armed clashes between them and the Kurds.

During the military campaign in the spring of 2003, groups of Kurdish *peshmarga* (suicide fighters) actively cooperated with the coalition forces. But now such cooperation will continue only if the U.S. takes the Kurds' side in their conflict against the Arabs. However, such a move would seriously complicate Washington's relations with the Arabs, as both the Shias and Sunnis hold a common position on this issue. All of the Iraqi Arabs strongly protested the U.S. decision to include in Iraq's interim constitution (drafted under U.S. control) a provision giving the Kurds (who make up 10 percent of the Iraqi population) the right of veto, as this provision has placed Kurds on an equal footing with the Shias (60 percent of the population) and the Sunnis (30 percent).

The manipulation of the Kurdish factor by the Americans in post-war Iraq has been complicated also by the situation inside the Kurdish movement. The Kurdistan Democratic Party, led by Massoud Barzani, and the Patriotic Union of Kurdistan, led by Jalal Talabani, are being challenged by the growing influence of the Ansar al-Islam movement, which has united radical Islamists from among the Iraqi Kurds. The movement is supposedly supported from Afghanistan.

Turkey is yet another factor that is limiting Washington's room for maneuver with the Kurds. Initially, Turkey opposed Kurdish autonomy in a federal Iraqi state. However, if the situation in Iraq deteriorates, Ankara may agree to autonomy for the Iraqi Kurds, but only if two conditions are met: Iraqi Kurds will not demand the formation of an independent state of their own, and the Kurdish autonomous region will not include Kirkuk and Mosul. Turkey fears that the inclusion of these two towns will give the Kurds more temptation to proclaim their autonomous territory an independent state.

Some analysts believe there is a real threat that Ankara may invade north Iraq if it finds a proposed model for settling the Kurdish issue unacceptable. This could happen if Turkey feels a threat to its own integrity. The Turkish population includes a large community of ethnic Kurds. The strengthening of Iraqi Kurds' positions may provoke radical Kurds in Turkey into stepping up their activities. Oil is one more factor that is of much importance to Turkey.

THE IRAQI BATTLEFIELD AND INTERNATIONAL TERRORISM

The U.S. administration has repeatedly said that Iraq's invasion by the coalition forces marked a new, important stage in the war against international terrorism. But the assertion that Saddam had given shelter to members of al Qaeda or other extremist Islamic groups was either misinformation or a mistake. Saddam is a strongly pronounced nationalist who mercilessly suppressed all attempts to propagate radical Islamism in Iraq. Moreover, a

stronger influence of radical Islamists would inevitably mean an end to his dictatorial, yet secular regime.

After Saddam's overthrow, Iraq has become a magnet for international terrorists who are infiltrating the country and creating a bridgehead for new attacks. International terrorist groups, mainly al Qaeda, will seek to maintain extreme instability in Iraq for as long as possible in order to get a foothold on the territory. Iraq is more convenient as a terrorist center than Afghanistan: it is bordered by countries with strong extremist tendencies.

So, there are different groups among the forces of resistance to the U.S.-led coalition in Iraq. Their motives are different, too, but the preservation of the occupation regime may force these groups closer together.

POSSIBLE SCENARIOS OF DEVELOPMENT

The most probable way for the situation in Iraq to develop is a division within Iraqi society. This may split into the collaborationists who are cooperating with the coalition forces and the government, and the anti-occupation forces. This division may become aggravated by other conflicts. The destruction of Saddam's regime has upset the balance between major ethnic and religious communities on which Iraq's unity and stability rested. The Shias, Sunnis and Kurds now seek to fill the power vacuum.

Despite the ongoing convergence of different groups of resistance, there remains the threat of an ethnic and religious division in the country. This would pose a serious danger after the occupation forces' pullout, and may even result in a civil war.

An analysis of the possible ways for achieving stabilization in post-Saddam Iraq suggests the following conclusions.

First, it is unlikely that stability could be achieved if Iraq became an Islamic state. If general elections are held, a majority in the legislature will go to the Shias who may create a political system similar to that in Iran. However, Iran's record shows that such a political system can ensure relative stability for only a short period of time. Besides, there are strong sentiments in Iraq against Islamic models for the state and society, thus imposing such models on the country

by force would divide it. At the same time, the general tendency in the Arab world does not bolster 'state Islamism.'

Second, there is little hope for achieving stabilization unless there is a sharp increase in the number of Iraqis ready to cooperate with the occupation authorities. This variant is possible, but only when an effective nationwide political force appears, which would cooperate with the U.S. Hypothetically, former members of the Baath party could be the core of such a force. Under the previous regime, a majority of the two-million-member party joined it for career rather than ideological considerations. Therefore, the party united the more active and effective segments of Iraqi society. The Americans made a mistake by outlawing the Baath party and not trying to attract its members whom they could use as political support.

From the outset, Iraq's interim Governing Council failed to win popular support. Now, the new Iraqi government, which was formed under U.S. control and has replaced the Council, is facing the same problem. As a result, it will take much time and money to create real prerequisites for stabilizing the situation in the country.

Third, the growth of resistance to the occupation troops is largely due to the lack of progress in rebuilding the destroyed infrastructure, soaring unemployment, and the inability of the occupation authorities to take effective security measures. Unless the authorities solve the unemployment problem and raise salaries, they will not be able to cope with the Iraqi population's animosity and resistance to the coalition forces.

Meanwhile, the country's social and economic problems are very difficult to solve. Iraq's revival as a major oil exporter is also unlikely to bring about an early stabilization. In order to increase oil output and export, control over the entire fuel and energy sector must be given to those who are interested in Iraq's restoration and who are aware of its present political tasks. The bulk of Iraq's oil reserves, however, are in Kirkuk, northern Iraq, and in the Shia-populated south. The recovery and development of the Iraqi oil industry requires much time and investment.

The situation has become even more difficult after Iraq ceased to receive humanitarian aid under the Oil-for-Food program fol-

lowing the lifting of sanctions against this country. Besides, Iraq can hardly expect large-scale foreign aid that is required for its revival.

Iraq's economic strategy, worked out by the Governing Council for the period until 2005, was intended to ensure economic growth through market-economy measures. These were intended to lift price controls, privatization, and reductions in subsidies for state-owned businesses. However, the strategy's authors hoped for revenues from oil exports and foreign aid, while the funds coming from both sources may prove much less than planned. The lack of stability and security may reduce economic activity still further. It may require five years before Iraq fully meets its requirements for basic goods and services.

SEEKING MORE ALLIES

The failure of Washington's policy for a unilateral settlement of the Iraqi crisis has caused it to seek a more active role for the United Nations in the stabilization process. Initially, President George W. Bush ruled out UN involvement, but now Washington views it as a means to silence international criticism of its military actions in Iraq as unlawful, and to win political and financial support from many UN member states. Cooperating with the UN is broadening the Bush administration's room for maneuver, which is especially vital now on the eve of presidential elections in the U.S., and amid growing anti-war sentiments among American citizens.

At the same time, the U.S. administration is unlikely to fully replace the occupation troops with a UN peacekeeping force. The replacement may be partial if hostilities increase and if an increasing number of casualties is inflicted on the coalition troops.

Replacing the coalition troops with a NATO force, or involving many more countries in the U.S.-led coalition, is also unlikely.

Moreover, the latest developments in Iraq (mass Shia protests, the aggravation of the situation in the Sunni Triangle and the hostage-taking of foreign nationals in Iraq) have caused U.S. allies in the anti-Saddam coalition to refrain from giving unconditional

support to the U.S. administration. Some of the allies have reduced or even terminated their military presence in Iraq. At the same time, some of NATO's new member states, wishing to demonstrate their loyalty to Washington and seeking closer relations with it, may decide to send their troops to Iraq.

In June 2003, President Bush urged Arab countries to join the coalition forces. However, the Arab regimes fear that such a move would destabilize the situation in their countries, already swept by anti-American sentiments fueled by the U.S. position on the Palestinian-Israeli conflict. The U.S. may try to involve moderate Arab regimes in Iraq's postwar settlement, but this involvement would be reduced only to investment and supplies. Also, the U.S. administration may seek Arab support in forming Iraq's government structures.

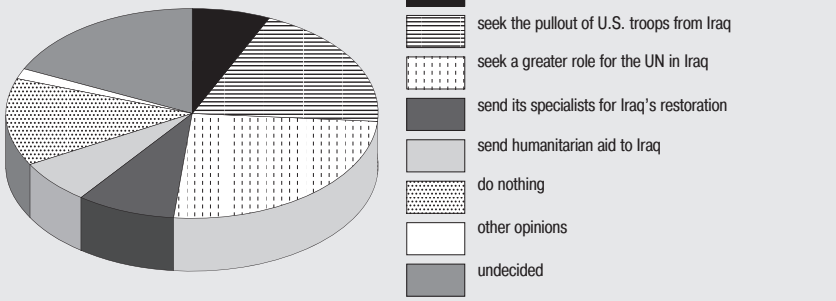
LIMITS FOR CHANGE IN THE U.S. POLICY

The increased resistance in Iraq has already caused the U.S. to toughen its policy. If this move proves effective, the U.S. will hardly make further concessions to the international community. If not, Bush will have to seek more compromises.

The situation in Iraq is a major factor in the U.S. election campaign, although economic issues have always been a priority for U.S. society; the present economic growth and the decline in unemployment rates are expected to win many votes for Bush. Yet, even the economic achievements do not guarantee his reelection to a second term.

It is unlikely that Bush will withdraw his troops from Iraq before the presidential elections. The U.S. president stated that the aggravation of the situation in Iraq and the growing casualties will not make the U.S. pull out from Iraq. Apparently this statement reflects the real position of the White House. A U.S. pullout would be viewed as a defeat of Bush's policy and would reduce voters' support. Therefore, the appeals from some U.S. public figures to 'immediately leave Iraq' will hardly be heeded in the next few months. According to public opinion polls conducted by authoritative organizations, even the scandalous failure of

How should Russia defend its interests in Iraq?



The public opinion poll was conducted in September 2003 by the All-Russian Center for Public Opinion Research.

Washington's attempts to prove that Iraq possessed weapons of mass destruction brought about an insignificant (2-4 percent) and short-lived decline in Bush's popularity rating.

In a bid to win more votes, the Bush administration is expected not to change its position on Iraq but to employ some surprise moves. These may include a decrease in gasoline prices, which almost doubled recently, or the announcement of Osama bin Laden's arrest shortly before the elections.

RUSSIA'S ROLE IN THE IRAQI SETTLEMENT

It goes without saying that Russia is interested in an early stabilization in Iraq, together with the handover of all power in Iraq to the Iraqis. However, these goals cannot be achieved by simply withdrawing the U.S. troops from Iraq without handing over the governing functions to a UN mission.

It would be in Russia's interests if Washington returns to the position of multilateral actions in crisis situations and gives up its unilateralist policy, graphically manifested vis-à-vis Iraq. However, considering the political situation in the U.S., the above changes can be achieved not through a U.S. defeat in Iraq, but through an evolutionary move in which the Bush administration begins to work

with the UN. This turn has already begun, and Russia must support it and make it irreversible through its active and, at the same time, well-planned participation in the Iraqi settlement.

Above all, Russia should take avail of its good bilateral relations with various parties to the conflict, especially the friendly relations between the Russian and U.S. presidents.

Russia's relations with European countries may also play a major role in the Iraqi settlement. During the latest Iraqi crisis, Europe divided into opponents and supporters of the U.S. operation in Iraq. Attempts to play on these differences would be counter-productive. Russia should seek to influence the European Union member states, most importantly, Germany and France, to remain opposed to any unilateral approaches and the use of force against any state. It must strive for the support of collective actions through UN mechanisms for stabilizing the situation in Iraq. Such actions should not be anti-American; indeed, they should be worked out jointly with the U.S.

Another factor that may play a major role is Russia's traditionally good relations with the Arab countries, especially since their positions on the Iraqi crisis coincide with that of Russia. Involving Arab states in the peace settlement in Iraq would have a positive impact on the larger part of the Iraqi population.

Political forces in the Iraqi society, to which power could be turned over, must be identified through multilateral efforts. This may be done by an international conference on Iraq.

Such a consensus must be sought under the UN aegis, which would solve the problem of legitimacy and authority necessary for the efforts to rebuild Iraq.

Russia's potential is not reduced to negotiations and conferences. Russia can participate in Iraq's restoration, specifically through business contacts – especially in industries where Soviet and Russian specialists have worked.

Russia's military involvement in the efforts to settle the crisis in Iraq would be possible, but only if Russia has a UN Security Council mandate and if the UN takes over as the primary actor in the Iraqi settlement. But even then the deployment of Russian troops in Iraq would remain an open question.

Afghanistan Under Lease

Arkady Dubnov

One night, an Afghan friend of mine and I were thumbing for a taxi on the outskirts of Kabul. He had lived in Moscow for many years and we knew each other quite well. The drivers would slow down one after another, flash their lights at us and then dash off. Finally, one of the drivers put his head out of his window, shouted a few phrases, and sped away.

"What did he say?" I asked.

"He said, you're one of those who slaughter the dogs that the Americans throw to us," my friend replied.

"We're dressed as Europeans, and he thought we're from among the Afghans who are servicing the American contingent," he went on. "The cab drivers hate the Americans and have contempt for their fellow-countrymen who work for the Yankees."

Any correspondent knows perfectly well that talking to cab drivers is the best method of getting acquainted with the local atmosphere once you enter an alien city. Specific details will come up later – mostly to confirm the first impressions that you get from chatting with the first driver you meet.

People in Kabul really dislike the Americans. The keepers of *dukans*, or small street cafes, would say: "Now we can see the difference between the Russians and the Americans. You Russians are simple and unpretentious, and you treated us as equals. As for

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the Americans, we don't even know how to approach them, they don't treat us as people."

"But the Afghans warred against the Russians."

"That's true, but the Russians helped us. They taught us, built schools, roads and hospitals. We don't hate them."

ILLUSIONS ASIDE

That real and formal power in Afghanistan is not identical becomes clear once you set foot on Afghan soil. Kabul airport is not adorned with portraits of Hamid Karzai, the head of the interim administration, but rather with numerous leaflets featuring Mohammad Mirwais Sadiq, who died in March 2004. He held the post of Commercial Aviation and Tourism Minister under a quota that the interim administration had issued to his father Ismail Khan, a widely known field commander and governor of Herat. Mirwais Sadiq was killed in a clash between supporters of his father and the troops reporting to Kabul. The details of the incident are not exactly known. However, few people in Afghanistan have doubts that the man fell victim to an unsuccessful attempt by the central administration and its American patrons to dislodge the recalcitrant "Herat lion," a nickname that Ismail Khan received during the years of Soviet intervention. The developments in March peaked in the restoration of his authority, and one of his protégés, formerly the head of education in Herat, moved to the minister's office in Kabul.

So, what kind of a political power settled in Afghanistan after the victorious U.S.-led war against the Taliban in the fall of 2001? Debates around the issue are especially intensive now that the U.S. presidential election is drawing near. In this connection, it is important to consider an article entitled *Afghanistan Unbound* by the acclaimed U.S. journalist Kathy Gannon (*Foreign Affairs*, May/June 2004). In it, she dwells on the opportunities that the U.S. lost and the Afghan lessons it ignored. "How exactly did things get so bad so quickly? How did the fall of the Taliban – a great victory for Washington, and one that seemed to herald a new dawn for a battered country – lead to the return of the old status quo?"

Kathy Gannon investigates how the infamous field commanders and Northern Alliance leaders – Marshal Mohammad Fahim, who became defense minister, General Abdul Rashid Dostum, whom Hamid Karzai appointed as special envoy to Afghanistan's Northern provinces, and all the others who share responsibility for the atrocious murders of the mid-1990s – returned to power. Gannon also asks why Karzai is unable to do anything about it.

She must certainly know, however, that Karzai making allies with Fahim was an important achievement for the former as a political leader. Today, Fahim acts as a guarantor of support to the interim administration on the part of the law enforcement agencies. Fahim had to pay a dear price for his loyalty, though – he lost most of his supporters in Punjsher. Fahim has refrained from traveling to that region because the locals may think he sold out to the Americans.

Gannon criticizes Washington for picking allies from the personalities who terrorized Afghanistan even before the arrival of the Taliban, and who espoused an ideology as radical as theirs. She wonders how one could admit a situation, where the militarily weak Pushtoon majority stands in opposition to the strong Tajik, Uzbek and Hazara factions. While saying this, she justly indicates that this weakness partly stems from the fact that the Pushtoons are led by the former exiles, who returned to Afghanistan after decades of living abroad, mostly in the U.S.

Gannon is generally very critical of the George W. Bush Administration's Afghan policy, and her most critical remark goes like this: "The United States is betting that the same men who caused Afghanistan so much misery in the past will somehow lead it to democracy and stability in the future. The evidence, however, suggests that the opposite is happening. Opportunities have been lost, goodwill squandered, and lessons of history ignored."

Her criticism is absolutely valid if she renders Washington's ideas correctly. Yet it is doubtful that the U.S. decision-makers really have faith in the Afghan field commanders' commitment to democracy. I would risk suggesting that Ms Gannon's attacks on

the White House and the Department of State are unjustified. The Americans had no illusions about the Afghan *mojaheds* from the very start, and extremely simplistic people only could hope in earnest that General Dostum, Marshal Fahim, Commander Sayyaf, or their accomplices, could become the heralds of Afghan democracy. U.S. policies in Afghanistan reveal a totally different pragmatic approach, which stipulates that anything that brings results is good for that country. As an Afghan once said to me: "One cannot buy us out, one can only lease us for a while."

TERM OF LEASE

Strictly speaking, the claims that the Northern Alliance leaders teamed up with the U.S. in fighting al Qaeda and its patrons from among the Taliban in September 2001 are not quite correct. In actuality, it was the U.S. that joined the Northern Alliance, which had borne the main burden of the war before the 9/11 tragedy.

It is worthwhile noting that many Afghan Tajiks are asking themselves what could have happened had the legendary leader of the Northern Alliance, Ahmad Shah Masud, remained alive. (Let us recall that his assassination on September 9, 2001 was a bloodletting prelude to the attack on the WTC in New York.) The answer they give is this: the power in Kabul would have been different, since the U.S. would have had difficulties coming to agreement with Masud – he had no interest in strengthening the people who had supported the Taliban. Soon after the charismatic *mojahed*'s killing the Talibs were blamed for his murder. However, they disappeared shortly later, and success shone to the part of his disciples who had befriended the U.S. An investigation of Masud's murder began some two years ago, but it has died down quietly somehow. Another interesting thing: Masud used to tell people – including in conversations with the author – that he was not warring against the Talibs, whom he could always come to terms with, but with the Pakistani Army. This was true, since the armed units of the Pakistani Armed Forces made up the military core of the Taliban movement. As for Islamabad, it had Washington's backing, and although Masud did not mention the fact, he always bore

it in mind. Does this mean that the U.S. had no interest in defeating the Taliban at the time?

A definitive answer is scarcely possible, but there were numerous attempts when U.S. diplomats tried to tame the Talibs. Contacts between the U.S. emissaries and "Islamic students" were reported soon after the latter had come to power in Kabul in 1996. A little later, Washington's interest toward the Taliban certainly grew when Taliban-ruled Kabul and Teheran began to develop bitter contradictions. Their relations went into a tailspin after the Sunni Talibs killed Sheik Abdul Ali Mazari, a leader of the Afghan Shiite community. An enemy's enemy does not have to necessarily be your friend, yet Washington could not ignore the emergence of another potential to deter the Iranian *ayatollahs.*

The Afghan situation has one more aspect influencing U.S. policy. From the very beginning, domestic resistance to the Taliban came from the Northern Alliance, which is a coalition of Afghanistan's ethnic minorities – the Tajiks, Uzbeks and Hazaras, whose leaders, primarily Ahmad Shah Masud, made use of an undeclared support from Moscow. The latter offered tangible military and technological aid to the Alliance, often through its CIS allies, Tajikistan and Uzbekistan. For this reason, the U.S. was uninterested in the Alliance's domination in Afghanistan.

It was much later that the antiterrorist cooperation between Moscow and Washington acquired definite contours. This happened after the Taliban leaders, who had lost hope for international recognition, allowed Osama bin Laden to deploy bases on the Afghan territory, and the al Qaeda network became the main headache for the U.S.

Operation *Enduring Freedom* began on October 7, 2001, and ended in a quick collapse of the Taliban. I have no intention of downplaying the role of Washington's victory, but the truth is that the Taliban units were not defeated: they simply pulled out of Kabul. They did it the same way as the units of Masud's *mojaheds* had left Kabul five years earlier under the Taliban's onslaught. In the fall of 1996, the Tajiks loyal to Masud returned to their mainstay – the Punjsher Valley, while the Pushtoon Talibs returned to

the southern and southeast provinces of Afghanistan adjoining the Pakistani border in the fall of 2001. As a result, both the Tajiks and Talibs saved their potential; victories turned defeats are typical of Afghan feuds. The Pushtoon tribes' resistance was overpowered by millions of U.S. dollars that the Pushtoon leaders had received as bonuses. But let us recall that one cannot buy the Afghans, one can only lease them. Is the term of lease now expiring?

NO ONE IS VIRTUOUS

Kathy Gannon's assertion that Pushtoon intellectuals who have been "faceted" in the West and may act as operators of democracy in Afghanistan if assisted by the U.S., appears to be questionable. No doubt, Hamid Karzai or Finance Minister Ashraf Ghani did not take part in the civil war, nor instigate repressive acts against civilians, but they bear a share of the responsibility for the Taliban regime coming to power.

Karzai makes no secret of the fact that he was one of the people behind the Taliban's inception, but dissociated himself with the Taliban after they had disillusioned him. That is what Hazrat Vahriz, former editor-in-chief of Kabul's most popular newspaper *Sedai Mardom*, says. Vahriz, 35, from Hazara, embodies the new breed of Afghan politicians. He was compelled to go into hiding during the Taliban rule, but is also critical-minded as regards the *mojaheds*. No one is virtuous in today's Afghanistan, not even the former exiles, says Vahriz. Ashraf Ghani was a highly positioned official at the World Bank back in the U.S. He tried to convince Washington of the importance of making agreements with the Taliban, while the President of Afghanistan's Central Bank, Anwarul Haq-Ahadi, formerly a teacher in the U.S., sent a telegram of congratulations to the Taliban on the seizure of northern Afghan provinces, calling them "the country's worthiest sons."

Many in Afghanistan fear that the attempts by the Pushtoon elite to demonize the leaders of the ethnic minorities – the Tajiks, Uzbeks, and Hazaras – as villains of the tragic last decade are highly dangerous and prone to divide the nation with new confrontations between the Afghans. Fairly recent Soviet, and earlier

British, experience shows that there is no external force to cope with the internal Afghan discords.

Ironically, Kathy Gannon finds that it is precisely this approach – the removal of criminal field commanders like Dostum, Sayyaf, Rabbani and others from politics – that can put Afghanistan on the track of democracy. Even if her assessment is justified, many Afghans, divided along the ethnic and regional principle, view the *mojahed* leaders as the only remaining authorities (or simply breadwinners or guarantors of physical survival) and defenders against repression by the Pushtoons. The residents of northern Afghanistan may still have fresh memories of the Arab mercenaries, who fought together with the Pushtoons, slaying whole families of ethnic Uzbeks. That happened before 9/11, however, and few outside Afghanistan gave the events much attention. Many people prefer to forget about what happened there after 9/11, as well. Take, for instance, the Talibs' rebellion in the fortress of Kalai-Janghi near Mazar-i-Sharif, where they were placed in November 2001 after laying down their arms in the Konduz Province. I happened to be a witness of the bloodbath that occurred there, as Dostum's soldiers suppressed the Taliban revolt. The U.S. Air Force, which Dostum called up for support, played a large role in the event, turning the rebellious fortress into a semblance of Pablo Picasso's painting *Guernica*.

A few months later, details surfaced of a mass carnage of Talibs that Dostum's forces had imprisoned at Shibargan. Dostum never got punished for those crimes, nor was there any investigation into the accuracy of horrendous carpet bombardments. No doubt, anything is possible in war, all the more so in an Afghan war, but is it admissible to expose some crimes and hush up others?

Or, is it worthwhile blaming the West for what Ms Gannon calls vesting power in the figures who had caused so much suffering to the people? Does she really think that the chieftains, having virtuous morals and capable of exercising real power, can be found in Afghanistan? Suppose Hamid Karzai is that very person; staking him as the person who can rally the Pushtoons around him is also an illusionary act. A short while ago, in April, Karzai

appealed to the former Talibs to forget their old feuds and join the ranks of builders of a new Afghanistan. He said all the members of the Taliban movement, except 150 persons accused of crimes, were entitled to full amnesty. The Talibs responded without delay. Their representatives, based in areas bordering on Pakistan, said cooperation was impossible until all of the foreign invaders had left the land of Afghanistan. The Talibs also made reference to the democratic movement, threatening death to all women daring to take part in elections. Responsibility for conniving at such immorality as elections would be shared by their husbands, the Pushtoon leaders said.

MONEY FOR DEMOCRACY

Quite possibly, Kathy Gannon would have had less grief over the chances that America ostensibly lost had she watched the sessions of Loya Jirga, convened in Kabul in spring 2004 to endorse a new Constitution of Afghanistan. She would have seen then how costly and effort-consuming the endorsement of the Basic Law's democratic norms by this Council of Elders turned out for the Americans. How hurtful it was for many deputies of Loya Jirga when they discovered that the U.S. had paid bigger royalty fees to some of their fellow-deputies for correct voting than to them. Yet the U.S. paid less money this time than in 2001 for the Afghans' renunciation of war.

How much spending and how many peacekeeping contingents will the effort to keep peace require, even though it is superficial? On the one hand, the world is developing an understanding that the money and troops will be needed in abundance, although the expenditure for Afghanistan is way beyond the resources earmarked for the regions of the world bearing far fewer threats to international stability. On the other hand, even that money does not reach the Afghans in full — it is the Western companies that assimilate Western aid packages. Western managers get Western-size salaries and ensure Western living standards for themselves, letting a small number of Afghans pick up what is left from their feast.

A remarkable thing about Kathy Gannon's article is that she never mentions Russia. As she writes about international aid to Afghanistan, she means Western aid only. This is rather odd, to say the least, considering Russia's assistance in the overthrow of the Taliban, the amount of construction projects that the *shuravi* [Russians] completed in Afghanistan since the 1960s, and the numbers of Afghans to whom they provided an education. Naturally, to build democracy is an expensive enterprise, especially in Afghanistan, while Russia does not always have enough money for its own democracy. What is more, Moscow has no right to become an official sponsor of the Afghans, since Russian law prohibits financial aid to any country that has not paid off their debts – and Kabul owes $10 billion to Russia by the most moderate counts.

Nonetheless, Russian officials believe that inviting Russian specialists to assist with restoration projects in Afghanistan as part of international aid could ensure real and rapid relief for its people. The bulk of the country's ruined infrastructure was based on Soviet technologies, and Soviet geologists carried out minute research of its mineral resources. The Afghans themselves have great interest in Russia's participation – they know perfectly well that cooperation with Moscow offers much greater benefits to them. But so far, not a single contract has been offered to the Russians in Afghanistan.

Many of Kathy Gannon's conclusions, based on a liberal and idealistic outlook of the Afghan reality, are open to disagreement, yet one cannot but agree with her favorable assessment of the Taliban's experience with suppressing the drug industry. She is quite correct when she recommends that the U.S. make use of that experience. She does not explain why the Talibs' anti-drug practices proved efficacious; however, the Talibs understood specific aspects about the Afghan national character. Also, they knew how to influence it. It looks like the people trying to teach democracy to the Afghans should study it somewhat better as well.

Widening Europe

The “Friendship of Peoples” fountain in Moscow

“It is widely believed among Russia’s political, business and intellectual circles that a policy toward integration with other CIS members is incompatible with a policy toward a strategic partnership with the EU. These circles will hardly cause the Russian president to give up his European policy, yet their efforts may prove enough for sinking the idea of concluding a new PCA”

Rethinking Russia-EU Relations

Yuri Borko

The tenth anniversary of the Partnership and Cooperation Agreement, signed between Russia and the European Union on the island of Corfu, Greece, was celebrated this June. This document, which reflects the Parties' ideas and expectations of ten years ago, remains the basis of Russia-EU relations. The PCA was ratified in 1997 for an initial period of ten years. The Agreement's future is defined in Article 106: "The Agreement shall be automatically renewed year by year provided that neither Party gives the other Party written notice of denunciation of the Agreement at least six months before it expires."

It is highly unlikely that either Party will give such notice to the other before 2007. Therefore, there are no grounds to worry about the PCA's future, and when the time comes the Agreement will be automatically renewed. Yet, the content and effectiveness of the Agreement raise many questions.

Over the last ten years, Russia and the European Union, not to mention the entire world, have seen so many dramatic changes that the PCA has ceased to be an adequate political and legal foundation for Russia-EU relations. Thus, there is no use extending this document: with the passage of time, it will depart more and more from reality, from the content and forms of relations

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between the partners. The legal basis for these relations must be completely renewed.

First of all, the new document should receive a new name – a **Strategic Partnership Agreement**, for example, between the European Union and the Russian Federation.

The first argument in favor of a new agreement stems from the analysis of the PCA. The Agreement conformed to the initial phase in Russia-EU relations, which was the establishment of their partnership and cooperation. This phase has passed. As it stands, the PCA does not serve the task of consolidating and further developing these relations on the basis of a strategic partnership. The new stage in the development of Russia-EU relations needs a new legal foundation.

A more important argument is that a new agreement would give a **powerful political impetus** to Russia-EU cooperation. The EU itself took a similar approach when it developed from one stage to another, each based on a new agreement: the European Coal and Steel Community (1951), the treaties on the establishment of the European Atomic Energy Community and the European Economic Community (1957), the Single European Act (1986), and the EU treaties of Maastricht, Amsterdam and Nice (1992, 1997, 2000). This experience has proven instructive as each time the European integration faces a crisis, the participating nations reassess the situation and amend their integration strategies.

A similar situation has arisen in relations between Russia and the EU. On the one hand, over the last three years it has entered a stage of practical cooperation. On the other hand, whenever the partners proceed from long-term goals and projects to urgent tasks requiring immediate decisions, their embraces give way to a standoff. Moscow and Brussels are bogged down in debates on vexed questions, while frequently engaged in mutual accusations. The range of differences between Russia and the EU is very wide – from accusing each other of trade protectionism, to mutually exclusive approaches on the settlement of conflicts in the former Soviet Union (Moldova and Georgia, not to mention Chechnya). The Parties are engaged in fierce bargaining on these issues, and

mutually acceptable compromise solutions are achieved by the sweat of their brow.

It must have been the sentiments of dissatisfaction and concern that were behind the decision of the EU December 2003 summit to ask the Council of the European Union and the European Commission to assess all aspects of EU-Russia relations, and make proposals for cementing a strategic partnership and ensuring adherence to the values inherent to it. The assessments and recommendations were proposed in two documents – a Communication from the Commission to the Council and the European Parliament on relations with Russia (February 9, 2004), and Conclusions of the Council of the European Union on relations with Russia (February 23, 2004). The documents reiterate that the EU views Russia as its strategic partner and that it is ready to create four 'common spaces' with it. The Parties' next move could be establishing a High Level Group, together with special expert groups, with a view to drafting a new fundamental document – **a Strategic Partnership Agreement**.

So, the validity and expediency of a decision to replace the PCA with a new agreement seems obvious. However, there are lingering doubts that a new agreement will materialize for several reasons.

First of all, the partners are not prepared for such an idea. The documents of the European Commission and the Council of the European Union name the PCA as the basis of the Parties' interaction. And although both documents are intended for the medium term, they do not raise the issue of the PCA's future after it expires. Nor are there any signs that this issue is being discussed in the Russian government.

Another reason is the unfavorable climate in Russia-EU relations. The situation is not critical (as European and Russian media sometimes assert), yet the Parties' mutual discontent and tensions in their relations are obvious. The atmosphere could improve through a major success, such as Russia's accession to the World Trade Organization on mutually acceptable terms. An even more attractive idea, perhaps, would be a 'package' solution of a range of outstanding problems through mutual concessions. The afore-

mentioned documents, adopted at the first meeting of the Permanent Partnership Council, can be viewed as a step in this direction. So, removing obstructions to the development of cooperation is task number one.

Yet, this is not enough. Both Parties have grounds for not rushing to assume more challenging commitments than those stemming from the PCA. These are long-term brakes, so to speak.

Let's start with Russia. Its first 'brake' involves the unresolved dilemma of choosing a strategic choice. President Vladimir Putin has singled out two priority fields in Russia's foreign policy – strategic partnership with the EU, and the restoration of Russia's influence in the post-Soviet space, specifically through the establishment of economic and political blocs under Russia's leadership. The latest such move was the Agreement on the Creation of a Common Economic Space, signed by the presidents of Belarus, Kazakhstan, the Russian Federation and Ukraine on September 19, 2003. There has been no official statement yet as to how these two fields can be combined. In principle, they can and must be combined, but this requires a finer tuning of the foreign-policy instruments than presently displayed by Moscow.

Meanwhile, it is widely believed among Russia's political, business and intellectual circles that a policy toward integration with other members of the Commonwealth of Independent States (CIS) is incompatible with a policy toward a strategic partnership with the EU, toward integration into the Common European Economic Space and close coordination of foreign-policy and security activities. These circles will hardly cause the Russian president to give up his European policy, yet their efforts may prove enough for sinking the idea of concluding a new PCA.

Another 'brake' is the lack of clarity about Russia's future gains and losses once the Common European Economic Space (CEES) is created. These gains and losses have never been calculated; moreover, calculations of this kind would be very approximate and unreliable, since it will take Russia 15 to 20 years to prepare for CEES membership, that is, provided economic reforms are conducted consistently and actively, and economic growth rates

remain stable and high. In addition to the economic aspects, there is no real clarity on legal aspects, as well.

Europe already has the European Economic Area which comprises the EU states plus Norway, Iceland and Liechtenstein. In the next ten years, it is expected to include another seven or eight countries. This space functions on the basis of *acquis communautaire*, as the entire body of European laws is known. The creation of the CEES will mean Russia's actual integration into the European economic space, and there is no doubt that the EU will not change CEES standards for Russia's sake. At the same time, even Russian proponents of the 'European choice,' together with its accession to the CEES, object to Russia's full adoption of *acquis communautaire*.

The third 'brake' is the obvious wish of the European Union to increase its influence on the European and Transcaucasian members of the CIS, together with its negative attitude to any integration initiatives of Russia in the post-Soviet space – which some Western European countries interpret as a revival of Russia's imperial ambitions. A CEES that includes Russia, but not Ukraine and Belarus, is an economic and political absurdity. Furthermore, it would probably be impossible to create a CEES in such a reduced format. This is why the future of the CEES largely depends on whether or not Russia and the EU are able to find common ground in their approaches to relations with the CIS European members.

The EU has barriers of its own, too. During the first few years after the PCA was concluded, its limited implementation was wholly attributed to the crisis in Russia. Now it has turned out that the EU's cooperation potential is limited, too. When the EU made a series of strategic decisions in 1992-2000, it underestimated the difficulty of simultaneously implementing them. Actually, it is difficult to say in which area of strategic concern things are better now. Plans for the entry of Britain, Sweden and Denmark into the EU's Economic and Monetary Union were ruined by the results of a referendum in Sweden, in which a majority of the population said "no" to their government's proposal for introducing the euro in place of the Swedish crown. The outcome of the Swedish referendum caused London to postpone its plans to enter

into the EMU. A terrorist act carried out by Islamic extremists in Spain put into question the future of the Schengen zone, not to mention a common space of freedom, security and justice, now being created in the EU.

The rift within the EU which has been caused by the different positions of EU member states on the U.S. military actions against Iraq shows how far away the EU is from adopting common foreign and defense policies. A program for building within a decade, "the world's most competitive and sustainable dynamic knowledge-based economy," a goal adopted at the EU March 2000 Lisbon summit, will obviously not be fulfilled within the planned period of time, and the economies of a majority of the EU member states, most notably Germany and France, are overcoming a period of stagnation with great difficulty.

Finally, the last but not the least important factor: the transformation of the EU-15 into EU-25 on May 1, 2004, has opened a new chapter in the EU. Its main efforts will be focused on completing the expansion process (presently, there are three more official and five potential candidates) and adapting new members into the EU's single domestic market. This will also include the Economic and Monetary Union, legislation, and decision-making and enforcement mechanisms. These efforts will take at least 10 to 15 years to complete.

Considering the scope of political and economic difficulties, as well as the amount of spending involved in the above processes, the EU leadership may delay to replace the present PCA with a new agreement with Russia that would provide for the Parties' broader mutual commitments. Another argument for the postponement may be the increased difficulty of establishing a common approach of the 25 EU member states in its relations with Russia. Each individual EU state has different interests in relations with Russia; the state of these relations differs with each EU state. The aforementioned Communication from the Commission to the Council and the European Parliament on relations with Russia stresses the need for a "more coordinated EU policy" toward the European Union's largest eastern neighbor. Finally, it is not ruled

out that the opposition to the PCA's renewal would come from the EU members which, like any other bureaucratic structure, tends to accumulate a certain degree of inertia.

Besides the more internal reasons, which will unlikely be made public, the European Union may have other arguments against revising the PCA, namely its critical assessment of some tendencies in Russia's development – the growth of authoritarianism, human rights violations, encroachments on the freedom of mass media, etc. If Russia succeeds in maintaining its present economic growth rates, these tendencies will not stop the EU countries from boosting their trade with Russia or making investment in this country. The signing of a new PCA would be, above all, a political act testifying to a higher level of mutual trust and concord between Russia and the EU. However, if the above trends in Russia intensify, while evoking a negative public reaction in the EU countries, their governments will not agree to greater cooperation. Therefore, progress in building a rule-of-law state, consolidating democratic institutions, developing a civil society and ensuring human rights would be the best confirmation of Russia's desire to build a strategic partnership with the EU. As the ancient Romans said, this is a sine qua non – an indispensable condition.

On the whole, Russia's and the EU's approaches to mutual cooperation have many nuances determined by domestic difficulties, persisting mutual mistrust and the unpredictable international situation. So the final choice has not yet been made. A decision to begin work on a Strategic Partnership Agreement, and create 'common spaces' between Russia and the EU, largely depends on whether or not the Parties display the political will.

Despite the abovementioned 'brakes,' the arguments for concluding such an agreement are much weightier. Although these arguments are well known, it would be helpful to remind ourselves of them again here.

1. The growing economic interdependence of Russia and the EU. Russia does not have an alternative trading partner that would be able to replace the integrated Europe. The EU countries have no alternative to Russian fuel supplies, particularly natural gas.

2. The mutual interest of Russia and the EU in social and political stability. In contemporary conditions, Russia and the EU, which are immediate neighbors, are much like communicating vessels. In other words, neither the Schengen agreement nor any other barriers can stop the virus of social disease, ethnic conflict, religious intolerance, crime and so forth spreading between their borders. Any efforts to counter these threats will be effective only if Russia and the EU establish very close cooperation.

3. The Parties' common interest in ensuring security in Europe and adjacent regions. Security must cover all aspects, including the aforementioned social and political imperatives, the supply of energy and other resources. These security measures must also cover environmental protection, crisis management, not to mention the struggle against the new evil of the 21st century – international terrorism, which is threatening to plunge the entire international community into chaos.

4. Russia and the EU share similar positions on major issues pertaining to the formation of world law and order. This includes the need for a stable system of international relations, crisis management methods, not to mention the UN's role in these efforts.

The influence of these factors on Russia-EU relations will keep growing. Actually, Russia and the EU member states have no alternative to their strategic partnership, but this does not necessarily mean that they cannot have other strategic partners. The peculiarity of the international situation that has taken shape after the breakup of the bipolar system is that each large and independent actor on the international stage has, or wishes to have, several strategic partners. Russia and the EU have such partners. Now the Parties should display their political will by establishing a strategic partnership between them, and a new Russia-EU agreement would be a convincing demonstration of such a will. As the first step toward such a decision, the Parties could set up a joint expert group to make an in-depth analysis of how the present PCA is being fulfilled, and to compare the PCA's content with the accumulated experience of cooperation and challenges of the new century.

Structurally, a new agreement could be structured much the same as the present PCA, with a Preamble, a Cooperation Program, as well as Institutional, General and Final Provisions.

1. The new Preamble would contain all the provisions from the previous one that pertain to the Parties' commitment to promote international peace and security, to cooperate in the framework of the United Nations and the Conference on Security and Cooperation in Europe (CSCE), to implement all principles and provisions contained in the Final Act and other documents of the CSCE, to respect human rights, and to act in accordance with the principles of a market economy and democracy. Naturally, the matter at issue is not textual but conceptual identity, and the preservation of the PCA's spirit rather than letter.

All other provisions of the new agreement must be formulated anew, taking into consideration all the changes that have taken place in Russia, Europe and the world, as well as the accumulated experience of Russia-EU cooperation. The new Preamble must include the following crucial provisions, stating:

– that Russia and the EU are establishing a strategic partnership;

– that the goals of this strategic partnership include the creation of four common spaces;

– that the creation of a new system of international relations requires the efforts of all the states acting in the framework of the UN, which must retain its role as the main integrator of these efforts;

– that one of the main goals of the Parties' cooperation is countering all manifestations of racism, chauvinism and xenophobia, including all kinds of extremism, above all in Europe, no matter what ideological or religious disguise they may have;

– that Russia is a country with a market economy;

– that trade relations between the EU and Russia are based on the principles and standards of the World Trade Organization (which Russia will have joined by that time).

2. The Program for Russia-EU Cooperation would be better set out in four sections devoted to the construction of the four common spaces. This will require regrouping specific areas of cooperation, and as a result, the program would look more integral and harmonious.

A section devoted to the creation of the CEES should cover all the areas of economic cooperation, from trade and customs to the harmonization of economic legislation and the coordination of economic policies. It should also specify joint efforts to liberalize the movement of goods, services, capital and persons.

Another section, which could be named *Common Space of Freedom, Security and Justice*, would include areas of cooperation aimed at ensuring free movement of persons and their rights on the territories of the EU countries and Russia. This section would also cover issues pertaining to the application of the Schengen visa regime and the readmission agreement, as well as transition to a visa-free regime and the free movement of persons. The same section would cover cooperation in combating transborder crime, conducted under a recent agreement between Russia and the European Law Enforcement Organisation (Europol). It is more than probable that this section will include one more major area – cooperation in justice, specifically in such issues as the improvement of judicial legislation, the state of penitentiary institutions, and so on.

Finally, this section should include cooperation in developing public ties. This area of cooperation and a transition to the free movement of persons are interrelated: the freedom of movement, settlement and occupation is not an end in itself, but it helps to enhance labor efficiency and promotes better self-realization, people-to-people contacts, rapprochement between nations and, in the long run, the formation of a European identity.

The section *Common Space of Cooperation in the Field of External Security* would formulate a program for Russia-EU interaction in this field, specifying its main areas (the UN and general issues concerning the new world law and order; security and cooperation in Europe; regional conflicts and crisis management; peacemaking, rescue and humanitarian operations), as well as methods and mechanisms. The same section would be devoted to the struggle against international terrorism.

The section *Common Space of Research, Education and Culture* would take into consideration the experience gained by the EU and Russia in these fields over the last decade.

Apart from the four sections, the new agreement may retain the PCA's introduction but under a different name: *Common Principles and Goals.* Consequently, it would be supplemented with new provisions.

3. The final section of the new agreement. Its first part, concerning the institutional system of Russia-EU cooperation, would be altered the most, because this system has changed since the PCA entered into force. In particular, the Cooperation Council should be changed for the Permanent Partnership Council. Furthermore, the functions of all joint institutions must be formulated to a higher degree. The new agreement should, perhaps, provide for the establishment of an EU-Russia Public Forum which could become a platform for regular meetings of the non-governmental organizations. This would provide the venue for discussing vital issues of cooperation and working out recommendations for corresponding decision-making institutions of Russia and the European Union.

Why Invent a New Model?

Review of the discussion at the Russian Economic Forum

Relations between Russia and the European Union were a top priority for Russia's foreign policy in the first half of 2004. The active and constructive efforts of the two parties helped them solve the most acute of their outstanding problems by the summer. Russia agreed to extend the Partnership and Cooperation Agreement (PCA) to the new EU members, while the European Union eased its position on Russia's accession to the World Trade Organization. However, the parties have yet to work out a long-term model for their bilateral relations.

These relations were the focus of discussions held within the framework of the Russian Economic Forum, convened in London in late April. Russian speakers at the discussions included **Sergei Karaganov**, Chairman of the Presidium of the Council on Foreign and Defense Policy and Chairman of the Editorial Board of *Russia in Global Affairs*, and **Alexander Livshits**, Deputy Director General of the Russian Aluminium Company and member of the *Russia in Global Affairs* Editorial Board.

Karaganov told the audience that Russia-EU relations, the way they had been developing since June 1994 when the PCA was signed, had largely exhausted themselves. Much of what the parties hoped for ten years ago had not materialized, while many objectives had proved simply unfeasible. Karaganov believes that the EU bears much responsibility for the lack of headway in relations between the parties. The EU has not demonstrated a real interest in Russia becoming its full-fledged partner, while it has reneged on its policy of rapprochement with Russia, proclaimed in 1999, Karaganov said. Europe is trying to impose on Russia its own agenda, which does not always meet Russian interests.

In the meantime, the European Union is spending much of its energy addressing domestic problems

posed by the EU's expansion and complex institutional reforms. The EU itself is an overly bureaucratized organization which has lost its dynamism. Furthermore, it is increasingly unable to respond to growing external challenges.

The EU member countries have made no progress in formulating common foreign and defense policies. This poses difficulties for their outside partners, since they do not know the EU's position. Brussels often says one thing, while major EU members say something the opposite. Moreover, these members often fail to reach agreement on fundamental issues between themselves. The EU's expansion has only aggravated this problem. On the whole, the European Union is presently an inadequate partner for Russia, Karaganov summed up.

But, he added, Russia is also responsible for the failures in cooperation. Economic reforms in Russia have not been proceeding the way Russia and the EU had expected them to. Furthermore, there are some unfavorable tendencies in Russia's political model.

Nevertheless, Karaganov expressed confidence that the interests of both Russia and the EU coincide to a much greater extent than they diverge; therefore the parties "are destined to find mutually acceptable forms and methods for their cooperation."

Terence Brown, Director General of Lending Operations of the European Investment Bank, agreed that the EU lacks dynamism; its overly bureaucratization is a source of concern for many Europeans. However, he pointed out that the EU is not a static organization, but rather a changing once, and that the European integration is a process rather than a result. Brown admitted that European relations with Russia have been on the periphery of Europe's attention over the past few years, since the EU's primary task had been preparing and implementing its greatest enlargement in history. Now that the EU has more closely approached the borders of Russia, it will redouble its efforts to develop contacts with this country. However, he added, Russia must do its 'half of the job' as well. Moscow has not always displayed enthusiasm in building its relations with the EU as it has in recent days.

Brown described the exchange of critical statements and documents between Moscow and Brussels in early 2004 as very useful, noting that the parties should express their dissatisfaction openly, instead of trying to hide it in order to make a favor-

able impression. The challenges now confronting the EU and Moscow do not know state frontiers. These are environmental and public health problems, not to mention organized crime. Furthermore, and perhaps most importantly, Russia and the European Union are united by a major political issue, namely their common devotion to multilateral approaches to the settlement of international conflicts.

Brown said that, although the present legislative basis for Russia-EU relations (the PCA) needs some corrections, it nevertheless offers healthy possibilities for making headway.

Alexander Livshits proposed not inventing new, unknown models for Russia-EU relations, but choosing an already existing one. The following are four models that the EU uses to build special relations with its outside partners:

(1) Providing the status of a candidate member, which later becomes a full-fledged member.

(2) The European Economic Area which unites the EU with Norway, Iceland and Lichtenstein. The EEA Agreement binds these countries to adopt a majority of EU norms and standards in exchange for access to the common market.

(3) Relations with Switzerland which are built on an extensive package of bilateral agreements in various fields.

(4) The free trade zone which unites the EU with other countries, among them South Africa, Egypt and Israel.

Livshits said it is only the first model that cannot be applied to Russia, as the size of this country makes any discussions about its EU membership not very serious.

However, instead of choosing one of these time-tested models, attempts are being made to invent something new – a fifth model for the Common European Economic Space. Theoretically, this idea is not bad, Livshits noted, but it lacks definite deadlines, plans and objectives. Furthermore, it will not stimulate efforts to increase relations. The CEES format should be preserved as a platform for negotiations, but after Russia joins the WTO one of the above standard models should be discussed. At that point, the one that suits Moscow the best should be chosen, he said.

He described a free trade zone between Russia and the EU as the most optimum model. It would provide for a very specific plan of action that both parties should take. Russia's entry into the WTO will be a crucial moment, since after that

time, many economic problems in bilateral relations will be addressed on the basis of WTO rules. Livshits noted that Russia should not hope for any special concessions from the EU.

Laurent Ruseckas, Director of the Emerging Europe & Eurasia Practice at Eurasia Group, made emphasis on the lack of progress in Russia's energy market reform, which he described as an obstacle to cooperation. Western partners are interested in an early liberalization of domestic energy prices in Russia and would like to see Russia permit Central Asian fuel into the European market through its pipelines.

Ruseckas said he was sympathetic with the Russian government's position that oil and gas reserves are Russia's natural competitive advantage on the world market. This advantage is counterbalanced by the great distance of its pipelines, as well as Russia's harsh climate. Yet, Russia should not abuse this natural advantage, as full-scale energy cooperation with Western partners is in the interests of Russia, too.

Ruseckas pointed out that Russia-West interaction in the post-Soviet space, which both Russia and the EU regard as their 'near abroad,' is of major importance for both parties. The forthcoming elections in Ukraine, due in October, may become a turning point. Ukraine has repeatedly declared its desire to integrate into the Euro-Atlantic structures, but it will have little chance for that if its present system of government – undemocratic and corrupt – persists. Ruseckas said Ukraine's integration into the Western structures is a very sensitive issue for Russia, and it is difficult to say what Moscow's reaction would be if Kiev launches serious preparations for joining NATO. Russia would more easily tolerate a Ukrainian move to integrate into the EU.

Summing up the discussion, its chairman **Quentin Peel**, International Affairs Editor of *The Financial Times*, supported the view expressed by some of the speakers that it is very difficult to say what the European Union will be in seven to ten years. Its relations with Russia will depend on very many factors, both external and internal. Russia is undergoing serious changes, as well, and it is also unclear what their outcome will be. This is the reason why it is difficult to forecast a formula for future Russia-EU relations – they simply run up against too many unknown factors.

Baltic 'Laboratory' for the Wider Europe

Igor Yurgens

The spring of 2004 will figure in the history of Russia-EU relations as a period of major achievements and resolute steps toward rapprochement. Two consecutive and highly important documents were signed which symbolize the new quality of Russia-EU interaction. In late April, a protocol extending the EU-Russia Partnership and Cooperation Agreement (PCA) to the ten new EU member states was signed. During the Russia-EU summit in Moscow in May, the parties signed a protocol on Russia's accession to the World Trade Organization (WTO).

The preparation of these documents was difficult: the parties exchanged tough statements, and at times it looked as if a crisis was on the horizon. Yet a compromise was eventually reached. Commenting on the situation, EU Trade Commissioner Pascal Lamy said that storm clouds were gathering, but now the weather has improved.

The success of the negotiations and the experience gained from them inspire hope that the complicated issues that will inevitably emerge between Moscow and Brussels in the future will be addressed on a mutually beneficial basis. The ratified documents are proof of progress on stubborn problems that the parties had been unable to solve for years. Thus, a line has been drawn under the previously thorny relationship that stalled progress on a whole

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range of essential issues. These obstructed the broadening of ties between Russia and the European Union.

Clearly, future relations will not be idyllic, but this is normal where interaction between major players in the global arena, like Russia and the European Union, is concerned. Today, it is impossible to fully assess the advantages and disadvantages of the EU getting closer to Russia's borders. However, the strategic benefits of a substantial broadening of economic, political, cultural and scientific ties on the continent are obvious.

THE ATMOSPHERE IS SHOWING IMPROVEMENT

Russia's interaction with the Baltic nations of Latvia, Lithuania and Estonia is an essential element for the creation of a common European economic and political space. This spring witnessed a historical moment for the Baltic states as they became full-fledged members of the European Union and NATO. Accords between Russia and the EU were good news for the Baltics. Had an unexpected 'storm,' such as a trade war, broken out, Russian-Baltic relations would have been dealt a heavy blow yet again.

Fortunately, this did not happen. At the same time, a new cooperation model has yet to be forwarded. Unlike the previous trade agreements signed with Lithuania and Latvia (but not with Estonia), the PCA calls for the introduction of most favored nation regimes in trade, including free access to financial markets, internal waterways etc. Still, having joined the European Union, the Baltic nations have isolated themselves from Russia by the Schengen visa accords, high land transit tariffs, and quotas for supplies from Russia, which comprise a substantial share of Russian exports.

Despite Russia's tenuous relations with the Baltic states (less noticeable with Lithuania, more so with Latvia), contacts in the economic, financial and security spheres have intensified over the past few years in comparison with the previous decade. This is the result of objective economic and social processes.

It is worth noting that Finland, Sweden and Denmark greatly promoted those ties when they chaired the European Union (in

1999, 2001 and 2002, respectively). The leadership of these countries helped to draw the attention of politicians, the world public and businesses to the potential of Northern Europe, including north-western Russia. This, in turn, helped consolidate the foundations for cooperation between the EU and Russia, as well as settle stubborn problems.

The political atmosphere improved following September 11, 2001 when Russia and the United States initiated the war on terror as close allies. Anti-NATO rhetoric immediately weakened in Russia, while anti-Russian nationalistic forces in the Baltic states alienated part of their Washington supporters. Nevertheless, tensions continued to intensify for ethnic Russians living in the Baltic nations. This situation had a particularly negative effect on relations between Russia and Latvia.

For the current problems not to impair long-term strategic considerations, Russia and the Baltic nations will have to reinforce their efforts to promote bilateral and multilateral partnerships. Unfortunately, the history of bilateral relations can be of little value. Nevertheless, all of the parties will have to search for mutually acceptable solutions to their problems.

Kaliningrad has been the focal point of many outstanding issues related to the whole region's future. Moscow has made its choice clear: it wants Kaliningrad to be a flagship of the Russian economy, as opposed to some sort of a distant military outpost. Clearly, Kaliningrad has retained a role in Russia's defense planning, and this significance has grown more pronounced following NATO's enlargement; the Russian enclave serves the unique role in Russia's early warning system. Thus, given the current level of relations between Russia and NATO, maintaining the system and making it more efficient would be in the interests of both Russia and the West.

The problem of transit to Kaliningrad via Lithuania has yet to be fully resolved. Now that the passenger transit issue has been settled more or less successfully, Russia is insisting on the need to facilitate the clearance of cargoes. It is also looking to reduce cargo transit tariffs. Since May 1, 2004, the cost for a long-haul

truck to travel to Kaliningrad and back again is $250. This price far exceeds the cost prior to Lithuania joining the European Union.

Cooperation in the transit of goods and energy resources via the Baltic states is a key element of regional integration. The construction of new ports, the modernization of old ports in Russia and the commissioning of the Baltic Pipeline System (BPS) will substantially increase the region's economic potential. In the near future, the BPS will reach its planned capacity of 40 million tons of oil a year, and oil export volumes may further increase.

In the opinion of many Russian analysts, and particularly the leadership of the Transneft state pipeline monopoly, Russia's oil business will not require the services of the Baltic states' seaports, since its demand will be fully met by Russian pipeline and transshipment capacities. However, not all of the Baltic and Russian specialists share the view; they point to the geographic attractiveness of ports like Ventspils, for example. Regardless, both the consumers of services and the population at large must benefit from the fact that more than 20 ports in the region will be competing with each other.

Presently, there are heated debates concerning Moscow's reluctance to use the pipeline running to Ventspils, which is one-third owned by Transneft. These controversies are rooted in contradictions between Russia and other countries, including Europe, in the field of energy. The YUKOS case has clearly demonstrated that the Kremlin intends to retain strategic control over the country's natural riches – above all, its hydrocarbons – and use them as levers in Russia's foreign policy.

This position certainly runs counter to the European Union's interests: the EU is seeking to create an internal market of energy consumers, while forcing the energy producers, including those in Russia, to compete with each other for those consumers. As a result of these differing approaches, the EU-Russia energy dialog has stalled, while problems have emerged in Russia's energy dialog with the United States. Furthermore, talks on Russia's accession to the WTO proceed in a "two steps forward and one step

back" fashion. Therefore, it is obvious that the transit of energy resources across the Baltic states is just one feature of a much more complex problem.

SCHOOL OF INSTABILITY

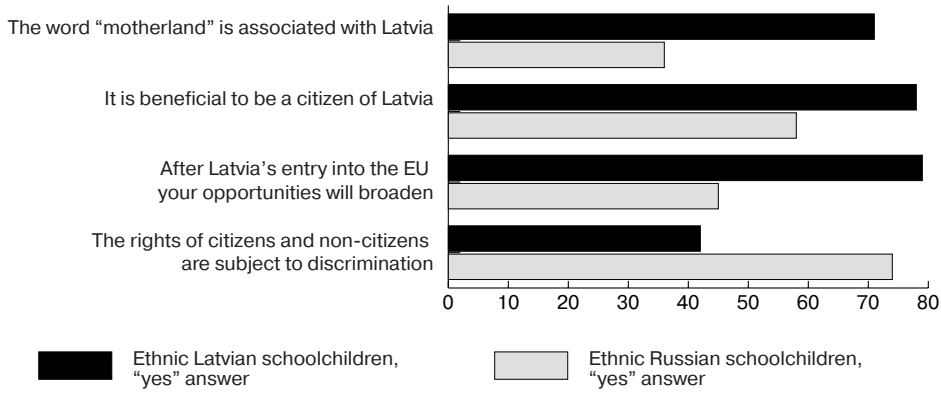
The status of Russian-speaking communities in Latvia and Estonia remains a serious problem. The legacy of the Soviet period and the difficult period of the 1990s has not been overcome. The problem remains and there is the risk of destabilization, even if its gravity has subsided.

Ethnic Russians in Latvia, Lithuania and Estonia have accepted the new rules of the game. Their repatriation to Russia has almost ended. In the early 1990s, 70,000-80,000 individuals annually arrived in Russia for permanent residence, while in 2000 this figure dropped to approximately 1,000. There are grounds for saying that the migration situation has normalized, especially when we take into account that about 400 Russians migrated to the Baltic countries during the same period.

The ethnic Russian communities, as well as the native population, are forced to endure all of the inherent hardships associated with a nascent democracy. However, unlike Lithuania, which from the very start of its independence granted citizenship to all those who lived there, the situation for ethnic Russians in Estonia and Latvia has been knotty.

Russia is still dissatisfied with the pace of naturalization of ethnic Russians in Latvia and Estonia, as it is beginning to noticeably stall. Following some liberalization of tough legislative requirements concerning citizenship in 1998 due to pressure from Russia, the OSCE and the Council of Europe, 14,000 to 15,000 individuals acquired Latvian citizenship annually. However, in 2001, only 8,000 out of 500,000 non-citizens received Latvian citizenship. Estonian citizenship was granted to just 3,500 out of 220,000 non-citizens in 2000 and 2001. In both countries, restrictions on permanent residency are still in place. Furthermore, the violation of social rights, as well as bans on particular professions for non-citizens, have still not been removed.

Perceptions of Modern Latvia



The poll was conducted in January-February 2004 under the project "In a United Latvia We Are Different" financed by the European Commission.

Moscow's relations with Riga became aggravated last winter in connection with Latvia's numerous Russian schools. Latvia's educational reform called for teaching exclusively in the Latvian language from September of this year. In the wake of heated debates and protests by the Russian-speaking community, Latvia's Saeima (parliament) adopted a law which stipulated that 60 percent of all subjects will be taught in Latvian beginning with the tenth year at school (Latvia has a 12-year secondary education).

Reaction by Latvia's Russian-speaking community was flatly negative. Latvia's initiative united previously isolated groups and radicalized them, while young people who are more traditionally inclined to protest radically set the tone. An additional factor which helped to stir up tensions in Latvia is that neighboring Estonia has opted for a more flexible approach to a similar reform. Estonia has decided to postpone its school transition to the Estonian language until 2007, and has granted municipalities the right to decide whether or not a particular school should move to the new mode.

As a result, Latvia is on the verge of a very real ethnic conflict, which adversely affects its relations with Russia. A moratorium on

reform could ease tensions: a postponement on this decision will provide the necessary time to conduct serious talks with the biggest organizations of students and teachers. This point of view is shared by the OSCE and the Council of Europe. It should be realized that the school reform aimed at the integration of ethnic minorities into Latvian society was perceived by Latvia's ethnic Russians as an integral part of the government's discriminatory policy. They regard the restrictions on the use of their mother tongue as a problem equal to the loss of citizenship.

Both Riga and Brussels will have to look for answers to these intricate questions, especially given that similar problems have also emerged in Estonia and Lithuania, however less pronounced. It is to their own benefit that the Baltic nations find civilized solutions to the problems faced by their Russian-speaking minorities. Yet Riga and Tallinn have done little so far to make the non-citizens believe that the authorities are capable of protecting them, as opposed to infringing upon their rights. Latvia and Estonia have done far too little to turn Russian ethnics into patriots of their countries. The risk remains that Latvia and Estonia will develop into countries split into two ethnic communities, with each of those communities voting on ethnic grounds.

'NORTHERN DIMENSION'

Multilateral cooperation could make its weighty contribution to the strengthening of stability in the region, including the development of Russian-Baltic relations. It took the European Union's Northern Dimension program rather long to take off, but it got off the ground at last. Today, eleven countries in the Baltic Sea region are within its sphere of activities.

According to the Nordic Council of Ministers, which deals with the Northern Dimension on a permanent basis, the program has substantial economic and political potential. In some form or other, integration processes in the region – which includes north-western Russia – have been underway for 12 years, that is, since the time the Nordic Council opened its information offices in the Baltic nations and Russia. At that time, around 40 spe-

cialists got engaged in creating networks for establishing ties with governmental and public organizations. The Nordic Council began financing projects involving small and mid-sized enterprises, as well as exchanges between nongovernmental organizations. The project's annual budget is around 100 million euros, 20 percent of that sum has been spent on north-western Russia and the Baltic states.

Between the years 2004-2006, the Northern Dimension plan of activities calls for the implementation of initiatives that are aimed at advancements in the economic, social and environmental spheres of the Baltic region.

In the economic sphere, priority has been given to improving the proficiency of the specialists, stepping up financial assistance for research and development projects and creating modern infrastructures. The activities of the Baltic Sea Region Energy Cooperation (BASREC) association are aimed at bringing Russia into the energy chains of the EU and the Nordic nations, broadening the EU-Russia energy dialog and exploring the opportunities for further integration of power supply systems in the region.

The Northern Dimension Environmental Partnership (NDEP) projects are particularly topical for Russia. The European Council fully supported NDEP during the Göteborg summit in June 2001, and NDEP has accumulated more than a billion euros for its projects. The Nordic Investment Bank established by the Nordic Council of Ministers, the European Bank for Reconstruction and Development, the World Bank, the European Investment Bank and the governments of Sweden and Finland have also made their contributions. In 2003, Russia also agreed to finance NDEP programs.

Water purification, energy-saving and other NDEP projects have been drawn up. The implementation of some of these proposals has already started in Arkhangelsk, Kaliningrad, Murmansk, St. Petersburg, the Leningrad Region, Novgorod and the Komi Republic. The biggest funds are to be spent on completing the construction of a protective dam in St. Petersburg

(more than 400 million euros) and water treatment facilities in the city and its region (around 200 million euros).

While pooling the efforts of countries in the region for addressing particular problems, the Northern Dimension promotes understanding among politicians, businesspeople and public figures. On a small stretch of Europe, they have been testing methods for the creation of four common spaces – economic, humanitarian, internal and external security. Those four spaces will constitute Wider Europe in the future, and Russia will be a part of it. The significance of this regional 'laboratory' can hardly be overestimated: this is where the compatibility of culture, history, traditions, climatic and natural specifics, educational and economic development levels creates unique chances for real integration.

For this approach to be successful, it is necessary for us to persistently work for the future, while reducing the risks of political conflicts that have their roots in the past.

European Sentiments in the Slavic Triangle

In April-May 2004, the All-Russia Public Opinion Research Center (VCIOM), in cooperation with the Novak Sociological Center (Belarus) and the Donetsk Information and Analysis Center (DIAC) (Ukraine), carried out a project to study the public opinion of Russians, Belarusians and Ukrainians. The survey was conducted on the basis of a nationwide representative sampling (a total of 1,600 persons were polled in Russia, 1,062 in Belarus and 2,096 in Ukraine). The survey had the following three objectives: 1) to determine how Russians, Belarusians and Ukrainians rate the economic situation in their respective countries, as well as their own social status; 2) to get a realistic picture of what the representational respondents think of the political institutions and the state of democracy in their countries; and 3) determine what the people of Russia, Belarus and Ukraine think about the prospects of cooperation between the three Slavic states and the European Union nations. The second wave of the polls is planned to be conducted in September 2004 under the "Barometer of Integration" project, and may include Kazakhstan.

LIFE SATISFACTION

Most of the respondents in the three countries gave generally negative assessments about their life. However, as indicated in Table 1, the degree of satisfaction with life in Russia and Belarus is somewhat higher than in Ukraine (in Russia and Belarus, 46 and 44 percent of the respondents respectively rate their life more or less satisfactory, while in Ukraine the percentage is 34 percent). Moreover, the number of people in Ukraine who are completely dissatisfied with their life is twice as great as in Russia and Belarus (31 percent against 17 and 13 percent, respectively).

Considering the overall European drive toward integration, which involves the post-Soviet space, a comparison of the data obtained in Russia, Ukraine and Belarus with the results of the Eurobarometer survey in the EU countries is of no small interest. Eurobarometer's 2003 survey showed that the degree of life satisfaction among the citizens of the EU countries is considerably higher than among the citizens of the three Slavic states (see Table 1).

Table 1. Are you satisfied with your life?

	Russia	Ukraine	Belarus	EU countries
Completely satisfied	9	6	8	19
Rather satisfied	37	28	36	60
Rather dissatisfied	36	33	40	17
Completely dissatisfied	17	31	13	4
Undecided	1	2	3	1

The majority of Russians, Ukrainians and Belarusians described their financial position as average (55, 47 and 50 percent, respectively). The percentage of Russians who believe their financial position to be good or very good (11 percent) is higher than in Ukraine and Belarus, and, conversely, Russia has fewer people than the other two countries who believe their financial position to be bad or very bad (33 percent). The percentage of people who think the financial position of their family is bad or very bad is the highest in Ukraine at 45 percent (see Table 2).

Table 2. How would you estimate your family's financial position and the economic situation of your country?

	Russia		Ukraine		Belarus	
	Family financial position	Country economic situation	Family financial position	Country economic situation	Family financial position	Country economic situation
Very good	1	1	1	–	1	1
Good	10	8	6	2	7	6
Average	55	49	47	27	50	49
Bad	27	34	34	50	33	31
Very bad	6	4	11	18	8	8
Undecided	1	5	1	3	2	6

Assessing the economic status of their country, Ukrainians see it in a still more negative light – 68 percent rated it as bad or very bad. Only 27 percent gave it an average rating, while two percent of the respondents said it was good. The Russians and Belarusians are less critical in this respect, and the average and positive ratings (58 and 56 percent, respectively) exceed in total the negative ones (38 and 39 percent) (see Table 2).

In each of the three states, the more financially secure the respondents are, the more optimistically they view the economic situation in their country. However, in Ukraine, unlike Russia and Belarus, even people with a good financial position assess the economic situation of their country as bad. In both Ukraine and Russia, people gave higher ratings to their financial position than to the economic situation in their countries. In Belarus, these ratings are practically identical (see Table 2).

More than 20 percent of the people polled in all three countries named soaring prices, inflation, the economic position and unemployment as the problems that evoke their greatest apprehensions. The Belarusian and Ukrainian people are more concerned about unemployment, while the Russians and, again, the Belarusians have a greater fear of inflation.

Amongst the problems that are specific to each of the three countries, Russia ranked crime (34 percent against 23 percent in Ukraine and nine percent in Belarus) and terrorism (15 percent compared to one percent in Ukraine and Belarus, each) as their greatest concerns. In Ukraine, people are seriously concerned about their pension and healthcare systems (21 and 16 percent), while Belarusians give higher priority to the housing problem (20 percent).

Although people in the EU countries are much more satisfied with their present situations than the Russians, Ukrainian and Belarusians, they all face many common problems. The only 'European' problem that is not given priority in any of the three Slavic countries is immigration. Interestingly, the Europeans are more concerned about unemployment than the three Slavic nations, but when it comes to terrorism and crime the numbers are about the same (see Table 3).

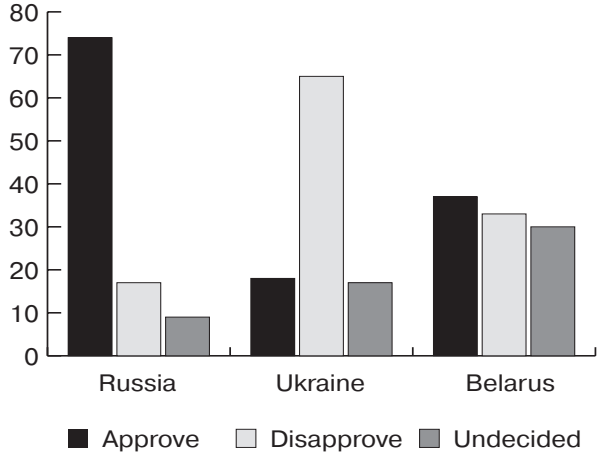
Table 3. What, in your opinion, are the major problems facing your country at present?

Problems	Russia	Ukraine	Belarus	EU countries
Crime	34	23	9	28
Price growth, inflation	30	23	39	19
Economic position	26	38	32	27
Unemployment	22	40	39	42
Housing	16	7	20	4
Terrorism	15	1	1	12
Healthcare system	12	16	10	16
Pensions	12	21	13	11
Educational system	6	3	4	7
Defense, foreign policy	4	2	5	2
Public transport	3	1	1	2
Environmental protection	3	3	7	2
Taxes	3	9	9	7
Immigration	1	2	1	14
Undecided	3	1	3	1

POLITICAL INSTITUTIONS AND DEMOCRACY

The survey revealed an even greater difference of opinion among the three countries on the functioning of their political institutions as compared with their assessments of the economic and social situation. The poll showed that a majority of Russians (74 percent) approve of the performance of their president, Vladimir Putin, while most Ukrainians disapprove of the performance of their president, Leonid Kuchma (65 percent). The opinions of the Belarusian population regarding their head of state are divided almost equally in half: Alexander Lukashenko's policy has actually an equal number of supporters and opponents (37 and 33 percent, respectively) (see Graph 1).

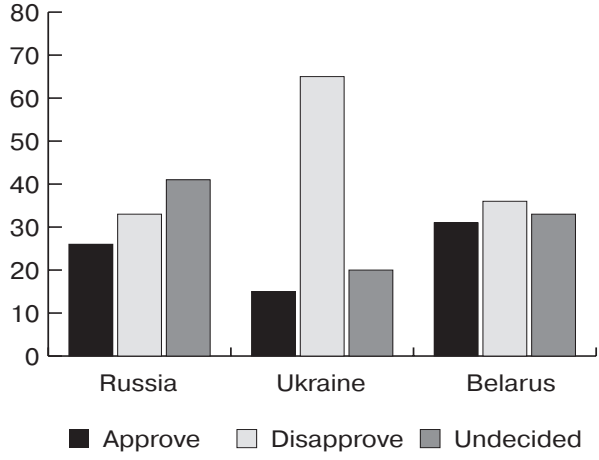
Graph 1. Do you approve of the performance of the president of your country?



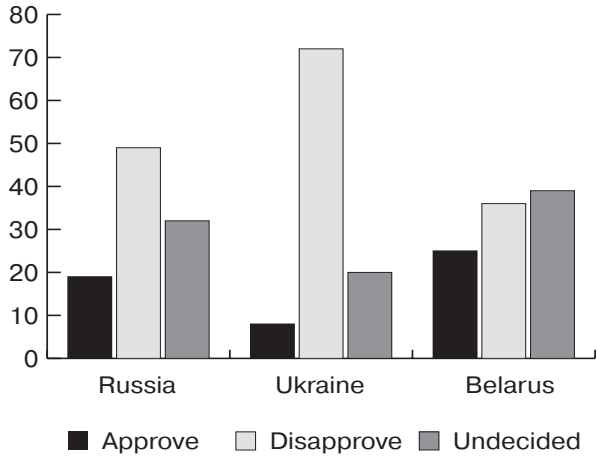
The performance of the Russian president is mostly supported by the younger generation, while the president of Belarus enjoys the support of the older generation. The attitude toward the Ukrainian president was essentially the same throughout the population.

In assessing the performance of the government, Belarusians were almost divided into two equal parts. Among the Ukrainian people, a majority (65 percent) do not approve of their govern-

Graph 2. Do you approve of your government's performance?



Graph 3. Do you approve of your parliament's performance?



ment's performance, while a large percentage of Russian citizens (41 percent) remain undecided about the performance of their new government led by Mikhail Fradkov. However, among the respondents who have already formed an opinion, dissatisfaction with the government's performance is slightly higher (see Graph 2).

There is generally an attitude of disapproval with the performance of the legislative branch of power in all three Slavic countries; the negative rating is the highest in Ukraine (72 percent). In Russia, almost half of the respondents disapprove of the State Duma's performance. In Belarus, there is a higher percentage of people who disapprove of their parliament, but this is by a very small margin (36 and 25 percent, respectively) (see Graph 3).

In all three Slavic states, the lower the income of the respondents, the less they approve of the above institutions' performance.

On the whole, the Ukrainians have a high level of mistrust with their government institutions. The Russians and Belarusians place a high degree of trust in their presidents, but mistrust their governments and parliaments.

These attitudes shed some light on the respondents' assessments of the state of democracy in their countries. In Ukraine, the rating of democracy is lower than in Russia and Belarus, and still

lower than in the EU. In the European Union, satisfaction with democracy is rated at 42 percent; Belarus, 38 percent; Russia, 34 percent. In Ukraine, the percentage was only 16 percent. At the same time, 39 percent of people in the EU are dissatisfied with the performance of their democratic institutions. Nevertheless, the degree of satisfaction with the level of democracy is the most essential difference between the EU and the three Slavic countries (see Table 4).

Table 4. To what extent are you satisfied with the state of democracy in your country?

	Russia	Ukraine	Belarus	EU countries
Fully satisfied	5	–	10	4
Partially satisfied	29	16	27	38
Not very satisfied	33	31	30	28
Completely dissatisfied	22	40	20	11
Undecided	11	12	13	19

Above all, people assess the effectiveness of democracy by how well the democratic institutions implement basic rights and freedoms, above all, the right to a decent life. In Russia, Ukraine and Belarus the degree of satisfaction with democracy is higher among the high-income groups of the population, and vice versa. In Russia, 68 percent of the people who think their financial position is rather good are satisfied with how their democracy works. In Ukraine and Belarus, the difference in assessments is less pronounced, apparently because the social differentiation in those countries is not as distinct as it is in Russia.

At the same time, it would be wrong to believe that people – Russians, Belarusians, Ukrainians, or those living in the EU – estimate the level of democracy solely by the 'thickness of their wallets.' This is particularly the case in Europe where an unprecedentedly high level of general satisfaction does not prevent people from criticizing the state of democracy in their countries. In Russia, Ukraine and Belarus, the peoples' satisfaction with their

present situations and democracy is very low, yet general satisfaction is higher than is the case with democracy. The gap is the greatest in Ukraine (see Table 5).

Table 5. Respondents' satisfaction with life in general and with the state of democracy in their countries

	Russia	Ukraine	Belarus	EU countries
Life satisfaction coefficient	–7	–20	–9	+58
Democracy satisfaction coefficient	–21	–55	–13	+11

This critical attitude toward democracy stems from many factors, above all the political and economic situation in a given country, and its perception by different groups of the population.

In Russia, it is the young and well-educated citizens who are the most satisfied with the state of democracy in their country, while in Belarus satisfaction with democracy is expressed by old people and people with a low level of education. Young people with high and higher educations in Belarus are not satisfied. In Ukraine, dissatisfaction is widespread among all age and education groups. Interestingly, in Russia the difference in opinions on this issue among age and education groups generally coincides with that of the EU countries: in Russia and the EU, young people and well-educated respondents are more satisfied with the state of democracy in their countries than the less-educated and older people, although in the EU countries this difference of opinion is less noticeable.

In spite of the differences, both 'developing democracies' and 'democratically developed' countries have something in common, as shown by surveys conducted in Russia and Europe. This is the level of dissatisfaction with the performance of a majority of the traditional democratic institutions and procedures: elections, parliaments, trade unions, political parties, mass media, and so on. A source of special concern involves the crisis of 'participation democracy,' that is, the growth of political apathy and conformism which is actually widespread.

INTEGRATION PROCESSES IN THE PUBLIC EYE

An overwhelming majority of the people polled in the three Slavic countries believe that there are grounds for rapprochement among the peoples of Russia, Ukraine, and Belarus, while only six percent of the respondents in Russia and Ukraine, and 10 percent in Belarus, said there were no grounds. In the opinion of the people polled, the main grounds for rapprochement were the common historical background of the three states, family bonds between their citizens, and the community of the countries' economic interests. For Russians, the common historical background is of primary importance, while for the Belarusians and, most notably, the Ukrainians, common economic interests come first. Other rationales for a Slavic rapprochement include the closeness of the three countries' cultures, languages, as well as the political factor – the concurrence of the countries' political interests and the will of their leaders. Russian respondents gave more priority to the closeness of the three cultures and languages, whereas the Belarusians and Ukrainians placed more emphasis on the community of political interests.

Thus, while there is a common foundation for rapprochement among Russia, Ukraine and Belarus, their peoples place emphasis on different factors for this to occur: Russian people give more importance to common culture and languages, whereas the Ukrainians and Belarusians emphasize rational motives for an integration – economy and politics. Interestingly, an outside threat is no longer considered a major motive for the rapprochement of the 'Slavic triangle': it was mentioned by only 4 to 9 percent of the respondents (see Table 6).

A comparison of opinions expressed by the different social groups shows that the commonality of economic interests is more emphasized in Russia by high-income people, while in Belarus and Ukraine, it is more often mentioned by the medium- and low-income people.

Table 6. What factor can best promote the rapprochement of Russia, Ukraine and Belarus at present?

	Russia	Ukraine	Belarus
Common historical past	33	22	30
Family ties between the citizens of thes e countries	28	30	25
Common economic interests	25	42	33
Similarity of cultures	19	11	13
Similarity of languages	13	9	8
Common political interests	13	17	17
The political will of the countries' leaders	10	11	12
Outside threat	7	4	9
Religion	5	6	5
Nothing can promote the rapprochement of the three countries	6	6	10
Undecided	6	7	6

Despite the existence of prerequisites for the rapprochement of the peoples of Russia, Belarus and Ukraine, the attitudes of their population to the form of this integration may differ. One-half of the Russian population (51 percent) are content to live in their own country and do not seek any state or supra-state unions or associations. On the other hand, a majority of Ukrainians and Belarusians lean toward various forms of union (only 32 and 28 percent, respectively, are content to live in their own country). For Belarusians, the most attractive kind of integration would be with the United Europe (28 percent), while Ukrainians would prefer to participate in a union with the Slavic countries and Kazakhstan (23 percent). Interestingly, 15 to 19 percent of the respondents would welcome a revival of the Soviet Union, whereas its successor, the Commonwealth of Independent States, is much less popular – only 7 to 11 percent of those polled are content with this union (see Table 7).

Table 7. Many countries today seek to unite; others are striving for independence. If you were to choose, where would you like to live?

	Russia	Ukraine	Belarus
In a United Europe	11	15	28
In a union of Belarus, Kazakhstan, Russia and Ukraine	9	23	17
In the Commonwealth of Independent States	7	11	7
In a reanimated Soviet Union	19	19	15
In your own country	51	32	28
Undecided	4	0.1	5

In all three countries the desire to live in a United Europe is more common among young and well-educated people, while the wish to live in a revived Soviet Union is a more popular idea amongst the elderly and those with only an elementary education. In Russia and Ukraine, those who are in favor of the United Europe include mostly high-income people, whereas in Belarus the situation is vice versa.

On the more specific issue of expediency (or inexpediency) of accession to the European Union, Russians, Ukrainians and Belarusians displayed a great similarity of opinion. About one-third of the population in each of the three countries supported joining the EU, and about the same number wanted the establishment of partner relations with the EU, but without actually acceding to it. Between 10 to 14 percent of the population were flatly against the idea of integration of the Slavic countries with the EU. The number of 'Euroskeptics' is slightly higher in Russia, and that of 'integrators' is higher in Ukraine. A large part of the respondents in those countries (18 to 21 percent) were undecided about this seemingly simple question (see Table 8). Apparently, this is because the position of the European Union itself on this issue is not very clear to the majority of Russians, Ukrainians and Belarusians. Specifically, many Russians, as follows from the survey, doubt that the EU is eager to see Russia among its members.

Table 8. How should your country build its relations with the European Union?

	Russia	Ukraine	Belarus
Strive to become a full-fledged EU member	32	36	35
Strive to establish equal, partner relations with the EU without joining it	34	32	34
Should not strive to join the EU	14	14	10
Undecided	21	18	21

In all the three countries, those who are in favor of a full-fledged EU membership include mostly people with higher education. The gap in opinions proved the greatest in Belarus where entry into the EU was supported by 44 percent of the respondents with higher education and only 15 percent with elementary education. In each of the three countries, young people outnumber old people among EU membership supporters. In Russia and Ukraine, EU membership supporters include mostly high-income people, whereas in Belarus they are mostly low-income people.

The results of the survey show that the respondents' attitude toward the EU and European institutions does not correlate much with their assessment of the performance of democratic institutions in their own country. At least, the viewpoint that EU membership is sought largely by people who are dissatisfied with democracy in their countries is not given empirical evidence in the survey. Belarus is again the exception; in Russia and Ukraine, EU membership is sought by people who find the level of democracy in their countries as generally satisfactory.

On the whole, the survey shows that the public consciousness in the three countries reflects a desire for rapprochement with Europe. On the other, there is a desire to retain freedom of action on the international stage. The same is true of the integration processes within the post-Soviet area. People in Russia, Belarus and Ukraine are sending signals to their governments that they are not against integration into internation-

al or trilateral Slavic institutions, if this integration would have a favorable effect on life in their country. At the same time, it is absolutely clear that the Ukrainians, Belarusians, and particularly the Russians, greatly cherish their sovereignty and would not like to make any rash steps into joining any state or supra-state unions. This is especially true since the negative experience of the CIS is going to have effects for quite some time.

The survey has also shown that the present level of life satisfaction and of confidence in state institutions and democracy as a whole, is much lower in Russia, Belarus and especially Ukraine than in the countries of Europe.

In conclusion, these findings suggest that a high level of life satisfaction can be achieved only with the development of democracy. The EU experience shows that stable democracy is the requisite condition for economic growth, as well as for the growth of living standards.

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