



RUSSIA in GLOBAL AFFAIRS

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It is becoming increasingly obvious that decisions made by the end of the Cold War still shape the international situation. Since there is not much optimism about the current state of affairs in the world, there are many discussions as to whether politicians missed some rare chances at that time. In its actions toward Gorbachev in 1989-1991, the U.S. administration was guided by the rule “Give nothing, take everything, demand more.”

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The years of the Putin presidency saw controversial processes in the law enforcement system. The team of the new president will have no other choice other than to step up attacks on corruption and organized crime. The authorities will have to fight with embezzlers and gangsters at an outpacing rate. Otherwise not a single national project or program will ever bring the expected benefits.

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It is difficult to imagine how a country that has a huge and ethnically diverse population that does not feel united can experience stable development. Russia has not been “Soviet” for a long time and is gradually becoming an increasingly non-Russian country; however, the governing officials often behave as if they do not see the tectonic shifts that spark open conflicts and clashes.

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Any hopes to resolve the problems facing Russia today by derelict methods of state mobilization are a sheer illusion. Russia has lost its traditionalism and the goal it faces today is not so much to move forward, but, rather, to restore a balance between the elements of state and society that have already been reformed and those that still remain intact. It cannot be ruled out that ethnic consolidation in Russia could open up the road to the rise of a political nation – the way it happened in most European countries.

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From the point of view of the vital and long-term interests of Russia and the EU, it would be more preferable for them to conclude a Strategic Partnership and Cooperation Agreement than a modified and improved PCA in the form of PCA-2. However, in the last three to five years, Brussels has been less inclined to look for mutually acceptable compromise solutions.

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If all customs checkpoints between the EU and Russia are taken into account, we have – at every minute around the clock – lines of trucks stretching for tens of kilometers. A common goal should be that no truck is forced to wait more than four hours in a line before customs formalities begin.

Economics as a Catalyst for Politics? *Susan Stewart* 193

It has become fashionable to speak of a “crisis” in relations between the EU and Russia. However, this language obscures the fact that developments in the political and economic spheres have been proceeding in quite different ways. It is possible, if not necessarily likely, that the new constellation of the political elite in Russia will take a more cooperative line toward the EU and the West in general.

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It is difficult to call Russia and the EU strategic partners. However, due to the many interdependencies, the EU and Russia have considerable potential for fruitful cooperation on all levels of their relationship. If both sides make use of this potential, there is a realistic chance that a substantial strategic partnership might develop in the future.



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Choosing a Path

Fyodor Lukyanov, Editor-in-Chief

The recent Russian presidential campaign was void of intrigue, but that does not belittle the significance of the election. Although Vladimir Putin is not leaving politics and will remain in power as the prime minister, a new stage is beginning in the country's development. **Dmitry Furman** points out in this issue that the very fact that the Russian leader was replaced in accordance with the Constitution is an event of historical significance and a step toward the construction of democratic institutions.

The results of Vladimir Putin's rule are the leitmotif of this issue.

Discussions about whether a new Cold War is possible between Russia and Western countries have become a distinguishing feature of the last few years. **Anatoly Adamishin**, in his very interesting article, writes about the sources of the present situation in the world and the lack of understanding between Russia and the West. This outstanding Russian diplomat, who took part in major Soviet-U.S. negotiations in the late 1980s and early 1990s, insists that in those years a chance was lost to make the end of the Cold War into a joint project for the future. He places a great deal of the blame for that on

the West, which sought to take avail of the changes in the Soviet Union to consolidate its own positions.

There is a growing feeling that the lessons of the Cold War, which have never been learned, are one of the reasons for the unsatisfactory situation that we are seeing today. Adamishin's article provides a good beginning for discussions about those lessons, which we would like to start in our journal in the next few months.

Putin's foreign policy cannot be viewed in isolation from objective global tendencies, **Timofei Bordachev** and the author of this introduction believe. Some of the peculiarities of Russia's conduct are due to internal subjective factors, but on the whole Moscow's foreign policy has blended well into the global picture of universal rivalry.

Alexander Rybas analyzes what Russia has achieved in the global arms market amid conditions of growing competition, while **Alexei Grivach** and **Andrei Denisov** write about the difficulties faced by the 'energy superpower' — a definition that became a trademark of Russia during the Putin presidency.

Two other stable idioms of the last few years — 'dictatorship of the law'

and ‘the power vertical’ – are the focus of attention of **Vladimir Ovchinsky** and **Ivan Sukhov**. **Emil Payin** analyzes at what stage the formation of a united nation is in Russia and what this process is based on – national traditions or the inertia of the past.

At the initial stage of his presidency, Putin said that a European choice was his priority. The results of the eight-year interaction between Moscow and Brussels are the subject of articles by **Vladimir Pankov**, **Kari Liulto**, **Sabine Fischer** and **Susan Stewart**.

Putin’s years were marked by heated debates about the direction Russia was moving in. Some analysts insisted that the country had swerved away from the correct path and had “gotten lost” in the difficulties of the transition period. Others argued that the “time of troubles” and of false reference points was over and that the Russian state had finally embarked on the right track.

Alexander Lomanov in this connection points to a phenomenon that has not been sufficiently analyzed by political researchers – transition without a destination. Until recently, the experience of Central and Eastern European countries was taken as a model for the transformation of totalitarian political regimes and planned economies. All of them adopted the Western model of a state system and viewed integration

into European institutions as their main goal. Russia and another great power – China, which is also going through comprehensive reforms – have ruled out subjugated development and limited sovereignty for themselves but, at the same time, have declared their desire for democracy and a market economy.

It remains an open question whether Moscow and Beijing will succeed in achieving the same goal that other countries have reached, by following their own, unorthodox paths.

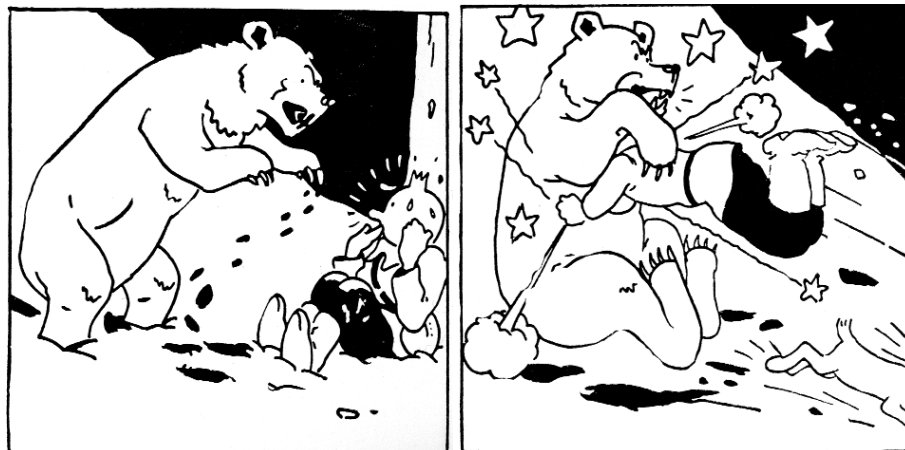
Arkady Moshes analyzes Ukraine’s unique transition to democracy.

Despite unfavorable prerequisites, Kyiv has been consistently following the path laid out by Central and Eastern European countries, which increasingly differs from the trajectory of movement in the other post-Soviet states.

Martin Gilman writes about external economic conditions for the present national transformations. He warns that the world is returning to an era of growing inflation, which will have an impact on general global development and on the prospects for individual countries, including Russia.

Our next issue will focus on the problems of xenophobia and on the search for national harmony in Russia, on who can and must become the engine of the country’s modernization, on the prospects for U.S. National Missile Defense, and on other issues.

Transition in Progress



Tintin's adventures in the Land of the Soviets. Belgium, 1929

“ There is an impression that the attack on “authoritarian capitalism” points not only at the swelling potential of Russia and China, but also at the West’s reclining confidence in its own strength. An attempt to find an answer to the question about the role that Moscow and Beijing play in international development in the ideological sphere makes the perception of events simpler and squeezes it into prefabricated schemes. ”

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The Fork in the Road in 2008

A Change of Power or a Change of Paradigm?

Dmitry Furman

The history of a country, like the life of an individual, goes through long periods when there are very few or no chances at all to overhaul the foundations of its existence. Such periods alternate with shorter phases when an accidental combination of circumstances offers opportunities for making a choice that would predestine the nation's development for dozens of years in the future. Mikhail Gorbachev's *perestroika* was a time when Russia's future depended heavily on haphazard and personal factors. 1991 was a year especially rich in alternatives. It was the year of Boris Yeltsin's election as Russian President, the abortive coup attempt, the failure to sign a new Union Treaty and the signing of the Belavezha Accords, which formally dissolved the Soviet Union. I strongly believe that the year 1991 offered practically no chances for a return to Soviet power and socialism or for a rapid rise of a genuine democracy in Russia. Yet there were a huge number of options ranging from maintaining the Union in some form or another for many years to come to a Yugoslav-type bloody war between Union republics, and from an almost democratic system dominated by a single party to a military dictatorship. The Belavezha Accords slashed the array of choices abruptly.

An unpredictable situation "rich in alternatives" (even though less in scope) has emerged once again in Russia in 2008.

Dmitry Furman, Doctor of History, is Chief Researcher at the Institute of European Studies of the Russian Academy of Sciences.

THE EMERGENCE OF IMITATIONAL DEMOCRACY IN RUSSIA

The Belavezha Accords were a pivotal point in Russian history as they marked the inception of the current Russian political system of ‘imitational democracy.’ They rounded off the shaky period of Russia/Union – Yeltsin/Gorbachev dual power and transferred full authority to Boris Yeltsin, the leader of the democratic anti-Communist movement, who had become president of Russia (still as part of the Soviet Union) earlier in 1991. Russian society was not prepared either culturally or psychologically for genuine democracy and this created an opportunity for turning the declared democracy into a form that was authoritarian in content. The use of the Belavezha Accords as a tool for Yeltsin’s ascent to power made any other option for the country’s development highly improbable.

As a matter of fact, Yeltsin dissolved the Soviet Union without any popular mandate for it (only Ukrainian President Leonid Kravchuk had a mandate after a referendum). Moreover, the dissecting of the Soviet Union stood in outright contradiction to the results of the March 1991 all-Union referendum regarding the destiny of the Union State. This meant that the opposition got a trump card for accusing Yeltsin and his democratic associates of an ill-conceived policy and, on top of that, of destroying the country and of national betrayal. So for Yeltsin, keeping power (or ceding it in a way that would guarantee handing down power to a successor he would appoint) and the warding-off of the political opposition became a “categorical imperative.” The case in hand now was not Yeltsin’s willingness to translate his political course into life or to indulge in power, but putting his personal freedom and even life at stake.

Yeltsin’s team was unable to discard the principles of democracy it had proclaimed – and it was equally unable to follow these principles either. There were no alternatives to building a Third-World-type imitational democracy. Furthermore, as the creation of a system of that kind implies incessant encroachments on the principles of democracy, i.e. unlawful and unconstitutional acts,

every new step makes it more problematic to abandon this course. While it would be still possible — although very difficult — to imagine that after the Belavezha Accords Yeltsin could have ceded power to an opponent rather than to an appointed successor, the forceful destruction of the national parliament in the fall of 1993 made this prospect completely unimaginable.

Winners cannot go back on their victories, they can only move forward toward a further consolidation of power. The specific mass mentality among Russians makes this approach a convenient and handy one. Russian society does not have a very strong ability for self-organization and is apprehensive about freedom; and so at the initial stage an imitational democratic system — embodied in the personal power of a president to whom there is no alternative — suited the country perfectly. Russia's political maturing was eventually subjected to a tough logic that stems from the very nature of the imitational system and admits that there is a limited choice of options. From that moment on, little depended on Yeltsin or his successor.

THE LOGIC OF RUSSIA'S DEVELOPMENT AFTER 1991

A detailed analysis of all aspects of the logic of imitational democracy would take too much space, therefore I will only provide a brief summary here.

Expansion of the sphere of non-alternativeness. The need to maintain a non-alternative system of presidential power presumes a persistent widening of control over political life and the elimination of threats on “the approaches that are even further away to find.”

First and foremost, the establishment of the system of a non-alternative presidency means that there will be a conflict with other branches of power leading to their subordination, or an actual elimination of the distinctions between them. This happened in 1993, when Yeltsin forcefully disbanded the parliament (amid very weak resistance in society) and ensured the adoption of a Constitution that thoroughly suited his rule. A president can-

not do without a Constitution in today's world, although any Constitution can be inconvenient for his or her personal rule.

The delivery of a Constitution that slashed the powers of the legislative branch was the first important step. Other measures naturally came in its wake. Since even a weak parliament is a threat if it falls into the hands of the opposition, it was necessary to gain control over the entire election process so that it would produce a priori acceptable results. This implies the "accountability" of regional and local agencies of power, which must guarantee the desired results of voting. The system of political parties, too, must be accountable. The latter thesis admits the existence of a fictitious and listless opposition, and of a pet party that echoes the presidential power-wielding camp and which becomes the dominant party. Presidential control spreads over to the mass media, and the judiciary turns into a *de facto* liege of the executive branch. Privatization is used as a tool for creating owners dependent on presidential power and who are interested in preserving that power. Oligarchs desiring independent political roles are nipped in the bud.

Yeltsin resolved major problems that emerged in the course of the evolution and strengthening of this non-alternative presidential power, and yet his successor Vladimir Putin inherited some of them. These problems logically follow one another. Had Yeltsin not been ill, had he not faced a tough choice between dying as president or giving up power, and had he continued ruling, he himself would have had to resolve the problems that Putin faced later. The evolution of other post-Soviet countries, like Belarus and Kazakhstan, testifies to the natural logic of these processes. They all had to cope with the same types of problems and had to do so in much the same way and order. The differences in the models of post-Soviet development largely stem from objective factors, such as specific national cultures or available resources, while subjective factors play a relatively small role.

Yeltsin and Putin had very different personalities, yet they were building the same system. Kazakh President Nursultan Nazarbayev and Belarusian President Alexander Lukashenko have

little in common, yet the Belarusian and Kazakh systems have much in common. It is true that both Yeltsin's and Putin's personal traits could determine the style of resolving the tasks they faced, but not the essence of the tasks. For instance, Yeltsin's impulsive and rough manner influenced his choice of the bloody form in which he suppressed the disobedient Supreme Soviet (parliament) in 1993. Other CIS presidents, who disbanded their parliaments, did so without bloodshed. Still, Yeltsin could do nothing else than dissolve parliament. The practice of drawing contrasts between Yeltsin and Putin, so popular with Russian liberals, grows out of a misunderstanding that the difference between the Yeltsin and Putin eras is essentially the difference between various stages of the system's development (like the Leninist and Stalinist stages of the Soviet government) and the personal traits of the two leaders had but a minor role in this. (Their personal differences are linked to the laws of the system, too, and it was quite natural for Yeltsin to choose a person with qualities different from his own to resolve the tasks of the next phase of development.)

Social/economic development and its pace. In the post-Soviet social and economic development, natural logic also prevailed over subjective and personal factors. There was a natural logic in a privatization that boiled down to the de facto handing out of lumps of state property. This created a class of owners dependent on the powers that be. There was a natural logic in the use of semi-lawful methods of control over the owners, when the ones who were politically loyal got more incentives while the disloyal ones were driven into bankruptcy. And it was naturally logical to grab control over the most profitable key branches of the economy.

The cyclic nature of Russia's economic development also reveals internal logic. The transition from socialism to a market-based economy could not but entail a downhill industrial recession and plummeting living standards, and this was the case with all post-Communist nations. In all of these countries, economic recession was eventually followed by economic growth. It was based on how individuals and all of society adapted to new forms of economic life and on how new skills and habits developed. In

Russia, this process was made easier by the presence of huge oil and gas resources and a jump in world energy prices – an accidental factor that is not part of the logic of development.

In this context, contrasting the “democratic” Yeltsin and the “authoritarian KGB” Putin is incorrect in the same way that associating the ruinous economy of the early 1990s with Yeltsin and the ensuing economic growth is with Putin. Had Yeltsin been alive and healthy now or had he nominated, say, former railway chief Nikolai Aksyonenko instead of Putin as his successor, economic growth would have begun all the same. The people would have either admired Yeltsin’s wisdom or would have compared Aksyonenko’s wise policies to Yeltsin’s vicious ones.

Evolution of foreign policy. One more fallacy related to the personification of natural stages in the country’s development is the conviction that under Yeltsin the West forced Russia to its knees and that Putin made the country stand up again.

In reality, although there is a difference in Russia’s relations with the West under Yeltsin and Putin, it is much less significant than it is generally believed. During Putin’s presidency, Russia began standing up against the West on diverse issues and in various regions, above all in the territory of the former Soviet Union where this opposition has often resembled a local Cold War. But here, too, the changes are only slightly related to the personalities of the first Russian president and his successor.

The proclamation of a new independent, democratic and market-oriented Russia in 1991 could not but produce euphoria in relations with the West, and this thesis does not even need to be proved. But the subsequent evolution of the Russian state could not but entail a worsening of Russian-Western relations and a revival of elements of the Cold War. As the Russian system continued to develop, it kept distancing itself from the Western model. While at the initial stage some may have considered the discrepancy between Russia and the West as the aftermath of the “underdevelopment” of Russian society, eventually it became obvious that it had nothing to do with “underdevelopment,” but lay in a different vector chosen for the Russian political system’s evolution. Russia’s

course essentially precludes a possibility of the country's full-fledged integration into Western institutions, which cannot invite a hearty response with the West. Moscow, on its part, shows natural discontent with Russia's low rankings in the West, as well as with sermonizing by the United States and Europe.

Given this situation, the discord in Russian-Western relations can only keep growing and Russia's willingness to stand up to the West looks only natural. Add to this Russia's "Great Power" disposition and traditional active geopolitical role, its legacy of a great power (nuclear weapons and a permanent seat on the UN Security Council), less financial dependence on the West as a result of the end of the transformation crisis and high energy prices, and the accumulation of huge financial reserves, and you will see that Putin's personality plays but a small role in how Russia's foreign policy has changed. The re-emergence of the Cold War in Russian-Western relations – albeit in a milder and non-ideological form – after the period of euphoria was as natural as the emergence of imitational democracy after 1991 and the economic rise that followed the economic recession during the transition period. Foreign policy just proved to fall in line with the overall natural course of post-Soviet transformation.

The above analysis explains that the events in 1991 carried the germ of today's Russia. In 2008, Putin broke the internal logic of the country's evolution when he decided to step aside after his second term (as the Constitution requires) and to become prime minister under his successor Dmitry Medvedev.

GETTING TO A FORK IN THE ROAD

In a genuine democracy, the Constitution is stable and state power regularly shifts from person to person and from party to party. In an imitational democracy, the power of a certain person (or a quasi-dynasty in which each ruler appoints a successor) does not change, while the Constitution can be changed based on a calculation of the here and now. This game does not have permanent rules, but it does have permanent winners capable of changing the rules. A number of post-Soviet presidents – Nursultan Nazarbayev,

Islam Karimov, Imomali Rakhmon, Alexander Lukashenko and Askar Akayev — have on many occasions changed new Constitutions or “fixed” old ones with amendments that are always targeted at consolidating presidential power, lifting restrictions on presidential terms, etc. Kazakhstan, for example, has lived under three different Constitutions during Nazarbayev’s rule, and amendments to them were passed on more than ten occasions. Kazakhstan’s basic law is being violated all the time. Yeltsin ruled under two Constitutions, the second of which he custom-made for himself to get maximum levers of power. This allowed him to make radical changes in the system of governance without formally encroaching on the law. Yet the Constitution limited the president to two terms, since the end of those two terms was very far away when the Constitution was approved. Being in poor health, Yeltsin did not try to revise this restriction and resigned even before his second term expired. Putin is young, energetic and extremely popular, and he enjoys a much greater control over society than his predecessor did. A constitutional amendment enabling him to stay in office would have posed no problem for him, yet he vowed to follow the Constitution and leave office — something that obviously goes against the wishes of bureaucracy and the people. This is the first time in post-Soviet and all of Russian history when a ruler has voluntarily given up power.

There is no use in discussing the reasons for Putin’s move as another man’s mind is a closed book. It is the aftereffects and not the motives of this decision that are of the most concern for us.

In the first place, Putin’s decision marks a step toward the modernization of Russian mentality that was fashioned by centuries of Tsarist autocracy, which suggested that “once a Tsar, always a Tsar.” Second, it implies divesting supreme power of the sacral and personified properties. Third, it sets a precedent whereby a ruler submits himself to “a piece of paper” — the Constitution. His action raises the significance of law and makes it practically impossible for future presidents to extend their powers beyond two terms. Term restrictions for the highest office of power are something that Russian history has never seen before.

More than that, the powers of the new president will from now on be limited by the presence of an active predecessor, who is in good health and who will take away with him part of the awe that he inspired in his fellow citizens while at the helm of government. Putin's decision leads Russia away from the path typical of other imitational democracies, such as Kazakhstan and Belarus.

On the other hand, the system becomes less certain and less stable as it lacks full power and even shows signs of the emergence of a real division of powers. Putin's decision to become prime minister under President Dmitry Medvedev – seemingly meant to help the latter at the start, but which de facto weakens his “undivided” authority and even creates elements of dual power – only magnifies this instability.

This means that once again – the first time since 1991– Russia has come to a fork in the road; that is, at the opportunity to choose between different options. What are these options?

THE UNFOLDING OPPORTUNITIES

Imitational democracies are highly controversial (their form stands in a dramatic contrast with their content) and are thereby unstable and not durable enough. The more formal and predictable elections are, the less legitimate the government is (since only genuinely democratic elections can make the regime legitimate). Furthermore, tightening control over society only weakens the feedback from society to the authorities. Such regimes are inevitably doomed – sooner or later, with some kind of consequences. And I don't think there are any alternatives here – few people would imagine that a chain of presidents handing the reins of power down to one another will last until the end of the 21st century. But if such regimes have an inescapable end, then there should be important alternatives regarding the form, term and aftershocks of their collapse.

The “post-Soviet experience” shows that liberal imitational democracies are less durable than more rigid “democratic” regimes which completely suppress the legal opposition. Leonid Kuchma's regime in Ukraine was weaker than Lukashenko's

regime in Belarus. The former tumbled, while the latter is flourishing. Askar Akayev's regime in Kyrgyzstan also collapsed, while Islam Karimov's regime in Uzbekistan is in its prime. These facts lead us to the conclusion that the tougher you are, the more stability you have. The problem is that this conclusion, which most post-Soviet presidents seem to have arrived at after a series of 'colored revolutions,' is valid only in part, since a stabilization of this type implies great risks.

Imitational democratic regimes fell quite peacefully as the result of 'colored revolutions' timed for various elections. In the case of "soft" regimes, the opposition acted as an organized legal force capable of controlling masses of people and conducting negotiations. The parties to the political process recognized the Constitution, claims by the opposition that the authorities rigged the elections were easy to verify, and the election results could even be annulled. Manifestations of spontaneous and forcible events in such revolutions are minimal.

In case of more rigid regimes, like those in Uzbekistan and Kazakhstan, this option for development can be practically ruled out. A legal opposition is practically non-existent, elections have fully turned into a rite and no one has any hope in them. A regime thus prolongs its life, but its collapse will be catastrophic. The CIS has seen only one instance of a revolution in a country with a rigid regime – in Uzbekistan, which involved disturbances in the city of Andijan in 2005. It was a spontaneous explosion among masses of people who organized protests and put forth radical slogans. However, countries outside the CIS abound in instances of rigid regimes collapsing in disarray (the difference in the forms of collapse of more and less rigid regimes can be easily seen from the examples of the Somoza dictatorship in Nicaragua and the Institutional Revolutionary Party in Mexico).

A more significant alternative relates to the aftermaths rather than the forms and dates of a regime's downfall. There are two options here – either the country changes over to a genuine democracy after the collapse of the imitational democratic regime or it gets another imitation, although of a different type,

after a certain period of anarchy (something that happened in Indonesia after the fall of its first president, Soekarno and the ascent of his successor, Suharto, or what is evidently taking place in Kyrgyzstan now).

Naturally, the chances for changing over to genuine democracy are greater if society has assimilated more democratic values. A shift toward genuine democracy depends on the general process of development or modernization. It is clear, for instance, that in spite of the totalitarian nature of Communist rule, people in the former Soviet republics stood much closer to democracy on the cultural, social and psychological plane in 1991 than in 1917; they continue to assimilate democratic values under post-Soviet imitational democratic regimes. Any imitational democratic regime alludes to democratic values and thereby facilitates their taking hold in the mass consciousness. There is hardly any doubt that today's Russia, with its experience of a market economy, ideological pluralism and practical political struggle, albeit restricted by the authorities, is much better prepared for democracy than the Russia of 1991, whose experience was confined to the Soviet government and tsarist autocracy. The more liberal an imitational democratic regime is, the greater its allusions to legitimacy are; and the broader the space of freedom it leaves, the more it lubricates the adoption of democratic freedoms. This means that it naturally rebounds to changing over to a genuine stable democracy and avoiding anarchy, from which there would be only one way — through a new totalitarianism.

It is worthwhile to look at the alternatives that sprang up after Putin's move in precisely this light. If developments had continued in the same way as before 2008, the existing system would have broken apart and the series of presidents handing power down to one another would have fallen apart and there would have been a disastrous aftermath in Russia. Of course this does not mean that Putin's decision to abide by the Constitution, which will most likely be reinforced by the clearly visible "legal orientation" of his successor, will secure a non-crisis transition to democracy in the future. The first ascent to power of a person who is not

a designated successor is a crisis in itself. Yet in any event Putin's decision helps minimize the risks of an inevitable crisis and makes sure that this will be the last crisis before Russia becomes a genuine democracy.

Naturally, the unstable situation that Putin has created by his decision may have other outcomes, too. The system may see a further strengthening of legitimate foundations and experience a distancing from the mainstream trends of imitational democracies; a "personality reaction" cannot be ruled out either. The unfolding opportunity for the smooth development of democracy is just an opportunity and whether it materializes or not will depend on the steps taken by Medvedev, Putin and many others.

Transition Without a Destination

The Problems of Chinese and Russian Integration
into the World Order

Alexander Lomanov

Comparative transitology had its heyday in the 1990s, when intense discussions focused on the specificity of a historically unprecedented sweeping transition to a market economy and democracy from an economy based on state planning and a totalitarian political system. It was fashionable then to compare the success of gradual market transformations in the People's Republic of China and the failures of Russian reforms that had started off in the spirit of Eastern European "shock therapies."

As the turn of the new century approached, the problems of transition withdrew backstage in the wake of an outpouring of numerous new problems. The situation with the countries in transition became quite clear as well. Central and Eastern European countries that closely followed economic recommendations from the 'Washington Consensus' and attuned themselves to Western partners in politics scored big successes, while Russia, with its inconsistent reforms and nostalgia for past glory, did not. At the same time, China continued to move along the path it had chosen at the end of the 1970s, by opening its economy broader and broader to the West.

Now the topic of transition is making a comeback, although in a different aspect, as Western political scientists with a conservative

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tint are showing a growing tendency toward drawing a line between so-called ‘liberal’ and ‘authoritarian’ capitalism. Adherents of this theory claim that China and Russia embody the latter tendency, which defies the cornerstones of Western civilization.

So what actually happened? China’s steady rise got a hitherto unforeseen addition in the form of Russia’s rapid growth that was supported by an unprecedented hike in world energy prices. The visibly increasing political and economic potential of these two countries sent a reminder to Western analysts that Beijing and Moscow insist on a sovereign choice of paths for development and consider a subjugated status unacceptable.

Both powers renounced the Soviet-style system of economic planning and put themselves on the path of a market economy, while the same process in other post-Communist states had an obvious and uncontested external guide. The prospect of joining European-Atlantic institutions was the main lever of influence there, and integration into Western economies implied the inevitable assimilation of democratic values and compliance with military security standards.

Russia and China have vehemently rejected this model of external “management by objectives.” They have been quite successful in effectuating a “transition without a destination” or, in other words, a type of transformation that does not envision a merger with already existing organizations on terms set forth by the latter. This phenomenon has put up a serious challenge to contemporary political scientists, and although the concept of the “end of history” — that underlay the developed world’s politics after the Cold War — has already revealed its flawed nature, no new concept capable of explaining the ongoing processes has surfaced to date.

ENDLESS HISTORY

As the Communist camp in Europe collapsed in 1989, Francis Fukuyama’s postulation about “the end of history” — represented by an eventual victory of economic and political liberalism in the minds of the people — looked quite convincing.

Fukuyama forecast, for instance, that pro-democracy manifestations in China would inescapably grow into a movement to change the political system. “Chinese competitiveness and expansionism on the world scene have virtually disappeared,” he claimed, adding that: “The new China far more resembles Gaullist France than pre-World War I Germany.” As for the children of the Chinese elite who studied abroad, they would not let China remain the only Asian country untouched by the democratic process after they returned home.

However, the Chinese Communist Party clamped down on anti-government demonstrations on Tiananmen Square in June 1989; but it learned a lesson from the bloody drama at the same time. The rather ephemeral union of workers, peasants and soldiers was replaced with a genuine and unbreakable bloc of the political, business and intellectual elites, which gets plausible benefits from the existing system and has a paramount interest in preserving it.

Fukuyama dismissed as nonsensical the supposition that once Russia shook off its Communist ideology, the country would start developing right from the spot where it had been left by the tsars before the Bolshevik revolution. He thought it unimaginable that Moscow, which had grasped fashionable ideas in the economy at the end of the 1980s and kept speaking about “common human values,” might return to a foreign policy that the Europeans had shelved as obsolete several decades prior to that.

Yet just a few fragments of the broken-up empire moved “to the other side of history” after the Soviet Union’s disintegration, as there was a chance for a full merger with the West. As soon as Russia started emerging from the disarray of the 1990s, one could see clearly that it would remain for a long time – or maybe forever – on “this side” of the threshold of the “common European home” (at least in the way that it is being viewed today). The problem is more profound than the huge difficulties with matching the criteria for accession to Greater Europe and the huge resistance on the part of new recruits who bear grudges against Moscow because of their socialist past. Russia does not conceal its lack of willingness to integrate into Europe. It is regaining confi-

dence in its own strength and would like to get back the positions lost during its geopolitical and economic decay. Russia views itself as an independent political and economic player. The West has obviously lost both tough levers of influencing Moscow — above all, financing and loans — and soft levers in the form of ideas and promulgated objectives.

Robert Kagan, a U.S. neo-conservative ideologist, wrote in *The Washington Post* in April 2006 that the struggle between liberalism and autocracies, which began in the 18th century, is entering a new round, since the great autocratic powers of Russia and China are rebuffing liberalization with increasing strength. They have replaced the free world's former opponents — the petty Middle Eastern dictatorships, which were targeted by the “Bush doctrine.”

In subsequent publications, Kagan sought to prove that the struggle between liberalism and absolutism along the line dividing tradition and modernity — like Islamic fundamentalism and the West — is receding into the background, while the battle of ideas between the great powers is moving center stage. This is because the main threat comes from leaders in Beijing and Moscow. They are confident that autocracy is better than democracy, since strong state power creates chances for stability and for the country to flourish. Kagan aired the conviction that the U.S. must redouble its efforts to promote democracy on a global scale to counter the global alliance of autocracies that was being formed.

Israeli scholar Azar Gat voiced a similar idea in the *Foreign Affairs* journal, where he pointed out the rise of “authoritarian capitalist great powers.” “The end of the end of history” lays the grounds for giving up the view of Islamic fundamentalism as the most serious threat, since it does not presuppose as much a viable alternative to liberal values as the Chinese-Russian tandem does. A similar thesis underpins the theoretic preamble of the Freedom House report *Countries at the Crossroads 2007*, dedicated to the “ambitions and limits of the 21st century authoritarian model.”

The conclusion that China and Russia pose a greater danger than Al Qaida seems absurd, but the emergence of this scheme is easy to explain. Today's world has become too complicated to

understand, while identifying a worthy ideological enemy allows the West to map out a new line for a global standoff, a far simpler and more comprehensible one than the struggle with the shapeless threat of international terrorism.

The West's inability to integrate the largest countries – Russia and China – became evident by the middle of the current decade. A growing zeal to substantiate the new ideological confrontation – the general contours of which might replicate the systemic standoff of the 1940s through the 1980s – has bluntly shown that the much-desired new world order has not come into being.

TO INTEGRATE OR TO DESTROY?

The desire by both Russia and China to have an impact on the world system has a duplicate nature. On the one hand, the two countries want to conserve the old institutions and to prevent their complete invalidation in order to maintain their international influence. Both countries defend the Westphalian understanding of state sovereignty and the UN's leading role in international affairs. On the other hand, they continue to search for new mechanisms, which they would profit from, and give up the ones that they do not find advantageous. This mostly concerns Russia.

Moscow is building up the conviction that the global situation does not meet its interests, does not facilitate the strengthening of stability and requires changes because of the risks of generating conflicts. China's foreign policy talk spins around assurances of respect for the existing world order, since involvement in economic globalization has brought significant dividends to Beijing. Chinese propaganda puts special emphasis on two “unprecedented” phenomena mentioned at the 17th National Congress of the Communist Party of China in 2007: “The world today is undergoing extensive and profound changes, and contemporary China is going through a wide ranging and deep-going transformation. This brings us unprecedented opportunities as well as unprecedented challenges, with the former outweighing the latter.”

China is optimistic about assessing general global tendencies – the influence of developing countries is growing; the tendency

toward multipolarity is irreversible; and the global balance of forces promotes stability. This situation prompts China to engage in a gradual democratic reform of the status quo instead of challenging it. “This will give China the international peaceful image of a responsible big country, not a rebel,” says Dr Guan Li, deputy director of the International Strategy Institute of the CPC Party School.

Discussions about China’s place in the world evolve around the thesis that the country will ascend without conflict to the ranks of global leaders. Zhao Qinghai, a researcher at the Chinese Institute of International Studies, recalls that historically, some big countries have used military methods in the process of their rise in order to gain new markets and resources. By challenging the effective international order, they inflicted numerous woes on themselves and the world likewise. Today’s China displays a readiness to take account of the errors made by others.

Dr Wang Jisi, an authoritative expert on foreign policy from Beijing University’s School of International Studies, suggests that as it senses its new strength, China is easily overcoming the mentality of a vulnerable and weak state, which had formed through “one hundred years of humiliation” and by recollections of isolation in the initial phase of the Cold War. China may outdo the U.S. and Japan, but it will have many more problems in the field of sustained development, the researcher says. To cushion these problems, Beijing will have to reject the U.S. model of excessive consumption and adopt the Japanese style built on economy, restraining demands, limitations on resources, and preserving the environment.

Along with this, China will apply efforts to avert the damaging impact that the “hegemony and policy of force” – so baldly seen in aggressive actions by NATO and the U.S. in the former Yugoslavia and Iraq – may wield as regards the beneficial tendencies in the development of world order. Some political experts indicate that China has no plans for gaining successes through support of U.S. hegemony. Assistant Professor Wang Yiwei, from the Center for American Studies at Fudan University, believes that

the world tolerates American domination, but with increasing strain and this domination will not go on endlessly. The rise of BRIC (Brazil, Russia, India and China) shows “that the world is not a circle strung on the Western axis.” The economic weakening of the U.S., “which today eats up tomorrow’s grains,” is becoming more and more noticeable. Wang Yiwei believes that the Americans’ “preventive strikes and unilateralism anger others. The U.S. has destroyed the traditional world order and this turns anti-American sentiment into a global feature.”

However, these words of condemnation are followed up with the conclusion that “China’s swelling power should not destroy the current world order or challenge U.S. hegemony.” Beijing must learn the ways to “avoid the risks that the U.S. hegemony carries with it, limit off elements of uncertainty that it (the hegemony) brings about, as well as adjust oneself to the existing world system, living in it and seeking points of contact in Sino-American relations.” China must neither help nor counteract U.S. domination, proceeding from the assumption that “no one will want to become a new pylon for the hegemony of the U.S.” Cooperation and the setting up of new rules of the game in conditions of globalization will produce a situation where “the genuine interests and tensions come into balance and harmonious American-Chinese relations take shape eventually.” Wang Yiwei believes that “the real challenge is to tap a new order in the world in the course of complex multilateral and bilateral games amid the continuously decreasing hegemony of the U.S.”

China is still trying to identify the best way to conduct itself in the international arena. Dr Zhu Feng of Beijing University’s School of International Studies singles out two concurrent tendencies in this search. The “activists” believe that China must expand its international influence and thus create extra opportunities for economic development and national revival. In the opposing camp the “passivists” espouse Deng Xiaoping’s strategy of “concealing the opportunities.” They call for “keeping one’s head down” so that others will not get the impression of ‘expansionist policies’ under any circumstances.

These two opposing tendencies have synthesized China's intensifying attempts to build up the resource of 'soft power' as an instrument to enhance its international influence and to set up an external environment conducive to internal development. Beijing has focused its efforts on the promotion of attractive slogans of a "harmonious world" and "joint flourishing," as well as on forming the country's favorable image through the promotion of Chinese culture.

The accentuated peacefulness of this rhetoric may look even more attractive for the West against the background of tough and compelling statements coming from Russia. China is making a gradual and smooth transition from "passivity" to a new "activism" typical of a new great power, while Russia withdrew from its post-Soviet geopolitical coma so sharply and explosively that it frightened many foreign observers. Moscow's hectic activity has not brought any immediate results so far and has complicated external conditions for the country's development in many cases. This is exactly what Beijing is trying to avoid.

WHY IS RUSSIA NOT CHINA?

Would it be worthwhile then for Russia to follow China's example and behave as quietly and modestly? This is hardly possible due to considerable differences in the initial positions of the two countries.

First, Moscow really has something to lose in the sphere of external security. Beijing was on the outskirts of global politics during the Cold War. It did not sign any strategic agreements with the West based on the principles of parity and equitability. The decay of the former bipolar system of security did not deal a blow to China's military or political prestige. This is something you would not say about Russia, which is experiencing continuously growing problems as it tries to interact with the West on an equal footing.

Second, China does not suffer from a Cold War loser complex, since it was an ally of the West in the final phases of that conflict. In 1973, Mao Zedong made an offer to Japan, the Western Europeans and the U.S. to set up an alliance against the Soviet Union. This was an important psychological event.

China sided with the future winners until 1989, when the West introduced sanctions against China in the wake of the Tiananmen Square events.

Third, the current state of affairs brought the most advantages to the Chinese and no damage, while the Russian political elite's vision of the Soviet Union's disintegration as a universal tragedy has had an impact on its foreign policy. Also, China did not lose any of its territory. Moreover, Hong Kong and Macao reverted to Chinese rule in the 1990s. The re-delimitation of state borders with former Soviet republics left Beijing with some territorial gains as well.

Fourth, Russia and China have different forms of interrelations with the West. China is more included in the world economy and trade as an assembly workshop for multinational corporations, and the foreign markets where it sells mass consumption products and purchases raw materials and sophisticated equipment have a much greater importance for it. This furnishes the Chinese elite with maneuvering skills within the existing rules (in the World Trade Organization, in the first place) and with enacting international norms against the protective actions of its partners.

Low-priced – and thus competitive – Chinese products run into restrictions on the markets of Western countries concerned about the growing trade deficit as China does not need so many Western goods at home. Its partners introduce trade restrictions in response and Beijing gets nervous because of this. Yet it does not have any other way out except for negotiations, a search for mutual concessions and identification of new markets in the Third World. As a result, this creates an environment that is competitive and works toward compromises in China's relations with Europe and the U.S.

Russia sells energy resources and raw materials and it does not have stimuli of that kind. It resolves litigious issues on the basis of a balance of forces or by political maneuvering. Since Moscow and the European Union are tied together through a Soviet-era network of pipelines, they need each other objectively – and they are developing a more and more overt disliking for each other, fearing the pressures and blackmail that both of them have up

their sleeves. The problems of economic relations are traditionally settled with the aid of big political “dealings,” which laid the groundwork for real integration at the end of the 1960s, but the miring of yet another “big deal,” which would take cooperation in the energy sector to a new level — a swap of energy assets that Moscow proposed to the EU in the middle of this decade — has spoiled this atmosphere of relations.

One more reason why China is not so upset with the West is that it did not live through the shock that Russia experienced when naïve illusions regarding the “Western model” and the “European Home” gave way to disenchantment and repulsion. Meanwhile, as long as China’s economic might grows, its political leaders are convinced that the national model of development is successful. It is noteworthy in this light that the Chinese Communist Party amended its Constitution at the 17th Congress and removed a provision on the need to “assimilate and exploit the achievements of all other cultures, including all the advanced modes of operation and methods of management of developed countries in the West that embody the laws governing modern socialized production.” The fact unambiguously shows that the Chinese need other nations’ experience increasingly less.

The Chinese party leadership has again turned to the slogan of “emancipating the mind,” which Deng Xiaoping used while launching reforms. This emancipation helped China to get rid of the dogmas of Soviet-style economic planning in the early 1980s. Now this slogan mostly targets those who long for the old type of socialism, but Chinese experts point out its alternative use, saying that it is time to shake off the shackles of “superstitious worshipping of the West.”

China’s reorientation toward the West was motivated by the pragmatic purposes of modernization. Now Beijing realizes in an increasing way that the broad presence of Western corporations in the country has failed to thrust it to the technological level of advanced nations. The technological gap is not getting narrower, as Western manufacturers are not interested in this. To achieve a breakthrough, Beijing has set itself a task of creating the country’s own innovative system.

Today's Russia is often recommended that it set sail toward a rapprochement with the West for the sake of obtaining advanced technologies. It is believed that the replication of the West's innovative mechanism, which has not been adjusted to function in conditions of political control, will automatically make Russia switch to the track of democratic development. The problem is that this does not matter for a country living off its natural resources. As for the diversification of the Russian economy and the rise of independent competitive industries in it, this prospect barely matches the interests of Western producers.

China's experience shows that hope for getting novel technologies can peg a country to the West, but only temporarily. The willingness of China and Russia to be included in global research and technology will scarcely give the U.S. and Europe reliable levers of influencing the policy of the two countries — first of all due to the reluctance of Western countries to share their top-notch technology know-how with others.

IMAGE AS A THREAT

Although one can refer equally to both Russia and China as reviving great powers, Beijing puts much more effort in displaying its fruitful right-mindedness to the world community. When Hu Jintao was just beginning his tour of duty, two remarkable attempts were made to explain the Chinese path. Both aimed to break up the abundant Western stereotypes, and both ended in a failure.

As part of the first attempt, Chinese experts formulated the Peaceful Rise concept that described the country's gradual movement along the road to power without aggression or colonial methods. The Chinese leadership thought at some point in 2004 that this postulation might ward off the 'Chinese threat theories' and calm down the international community. But in reality it only fuelled the concerns of foreigners — they would pick out 'rise' and ignore the epithet preceding it. Official Beijing dropped the slogan immediately and reverted to Deng Xiaoping's commandment for "peace and development."

In the same year, a book called *The Beijing Consensus* by Joshua Cooper Ramo was published in London. The author claimed in it that “[...] China’s rise is already reshaping the international order by introducing a new physics of development and power.” This is how the ‘Beijing Consensus’ takes shape by mapping out the path for developing countries that want “[...] to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful center of gravity” – the U.S.

Ramo said that the ‘Beijing Consensus’ was to replace the highly discredited ‘Washington Consensus,’ the recipes of which “[...] left a trail of destroyed economies and bad feelings around the globe.” He described China’s approach to development as boiling down to a desire to ensure a fair, peaceful and high-quality growth and to combine the social and economic transformation. The vague theorems of the Beijing Consensus formulated by Ramo accentuate the value of innovations and are aimed at “chaos management” through improvements in the quality of life, attainment of stability and equality in the process of development. They also presuppose the use of “[...] leverage to move big, hegemonistic powers that may be tempted to tread on your toes.”

The Beijing Consensus has a marked shortage of detailed elaboration and universalism. Innovations and “chaos management” are possible only in stable countries with efficient institutions of power. A still smaller number of parties to international relations have the potential to deter the onslaught on the part of “big, hegemonistic powers.” Nonetheless, Ramo makes claims about “the intellectual charisma of the Beijing Consensus,” whose novel ideas “[...] are rippling around the world, enhancing China’s power even as they provide other nations with ideas for their own development.” He also characterized the Beijing Consensus as a source of hope for countries seeking to defend their sovereignty and which are apprehensive of excessive dependence on developed nations.

Ramo’s theory produced an enthusiastic response in China, but the Chinese did not add it to their arsenals. Chinese economic experts indicated that the flaws of the neo-liberal reform model

did not at all mean that the Beijing Consensus – provided it really existed – might aspire to the role of a new universal concept.

The story had a different side, too, as the effort to formulate an alternative to the Washington Consensus once again put the West on alert. For instance, U.S. political scholar Joseph S. Nye wrote on this: “In parts of Asia, Africa and Latin America, the so-called ‘Beijing Consensus’ on authoritarian government plus a market economy has become more popular than the previously dominant ‘Washington Consensus’ of market economics with democratic government.” He drew the conclusion, however, that the features making the Beijing Consensus attractive in authoritarian and semi-authoritarian developing countries undermine China’s ‘soft power’ in the West.

Joshua Ramo pinpointed this sensitive issue in his new book *Brand China* (2007). “China’s greatest strategic threat today is its national image,” he wrote. This is an unusual situation for “this famously inward-looking nation.” A reassuring image may help China avoid the costs inherent in the solution of international conflicts and incite optimism in business partners. On the contrary, a dissuading image complicates conflict resolution and stands in the way of economic development.

However, Beijing “has let its ‘image sovereignty’ slip out of its control.” Now the debates on the problem unfold outside the country and without its participation. Ramo gives credit to Den Xiaoping, who decided that China would follow its authentic course, and thus there was no need to care about what other countries would say or do, yet he remarks that outlooks of this kind partly bred the current problems with the image. Globalization has brought tremendous economic success to China, but it has also created more and more problems with the practice of ignoring what other countries think about China.

Ramo suggests that a new brand of the ‘Chinese Dream’ should be generated on the basis of new opportunities and creative endeavors. He recommends enticing foreigners with the prospect of a billion Chinese who have a chance to form an individual identity and to decide on their own life independently. As a start-

ing point he takes the American Dream, which meant liberty, no aristocracy and an opportunity to translate all endeavors into life. “That 1920s intellectual adventurism is something you’ll find today all across China,” Ramo says.

Dr Zhang Weiwei from Geneva University’s Modern Asia Research Center admits the changes that have taken place in the psychology of the Chinese during the years of reform. “Every cell in a rank-and-file man has been braced, as everyone wants to develop, to earn money, to materialize their potential, and society is full of vibrant strength and opportunities,” he writes. This does resemble the American Dream at first sight, but its materialization proceeds in the conditions of a one-party political system – and add to this the influences of traditional Chinese culture that did not emphasize either liberalism or individualism.

THE RISKS OF OVERSIMPLIFICATIONS

Western quarters become more irritated with the realization that they do not have anything to motivate the trajectory of liberal development for large countries that stay outside Western alliances. China has a much tighter connection with the liberal economic order than Russia, but Beijing rejects calls to liberalize its internal political system in much harsher tones than Moscow does.

Viewed at the level of slogans, both countries are united by the willingness to become strong, affluent and respected in the world community, yet the West considers their resolve to attain all this by walking along their own paths as a menace. Meanwhile, there is still no answer as to whether or not “transition without a destination” can take Moscow and Beijing to a political and economic success.

The prospects for giving shape to a theoretically grounded and practically tested model of development that would offer an alternative to the Western one are even more obscure. Both opposing blocs had a standard universal model of a social and economic system to be shown to the opponent during the Cold War. Only the West has it now, while neither China nor Russia have any plans for imposing half-baked precepts on the West in the vein of the ‘Beijing Consensus’ or ‘sovereign democracy.’ Chinese histor-

ical sages believed that “the principle is one but it has many manifestations.” Hence today, too, political leaders in both countries quite willingly discuss the diversity of ‘sovereign’ or ‘specifically national’ ways of moving toward the good old “universal values of democracy.”

A formal Sino-Russian “anti-democratic alliance” is a sheer myth. The creation of a direct opposite to NATO or the European Union under the guidance of Moscow and Beijing and on the grounds of shared “authoritarian values” will slash the much-desired freedom of political maneuvering for both countries. In addition, maintaining the viability of such a bloc – which the Western “democratic coalition” will spare no effort to exhaust and split – may turn into a highly costly adventure. And as for the reserve of accumulated power and the ability to mobilize foreign allies, China and Russia lose heavily to the Western alliance.

There is an impression that the attack on “authoritarian capitalism” points not only at the swelling potential of the two countries, but also at the West’s reclining confidence in its own strength. An attempt to find an answer to the question about the role that Moscow and Beijing play in international development in the ideological sphere makes the perception of events simpler and squeezes it into prefabricated schemes. An examination of global problems in the democracy/non-democracy format may create an illusion of orderliness in the adversely directed processes. But the start of a systemic confrontation, unable to solve any pressing problem in the modern world, may be the price to pay for that seeming simplicity.

A Special Case?

What Stands Behind Ukraine's Commitment to "Democratic Transition"

Arkady Moshes

Ukraine, in the wake of its Orange Revolution, has earned the image of a leading post-Soviet country regarding the pace of liberal reform. However, this perception of the country is to a large extent a kind of payment in advance rather than a reflection of actual results. Kyiv would not likely be in this leading position if one looks at the current integral index that draws together the indicators of political democratization and economic reform, both of which are of crucial significance when measuring the rate of the so-called 'democratic transition.' Moreover, Ukraine is lagging behind some of its regional neighbors in several aspects of the transformation (see Table 1). Yet it is rightfully and unambiguously in the lead in terms of expectations.

On the one hand, Ukraine still says that it is committed to change along the Central European model, a factor making it radically different from other former Soviet republics where tendencies toward political and economic centralization have prevailed. Ukrainian politics is based on plurality; elections have turned into an instrument for settling political differences and presidential power is greatly restricted by the Constitution and parliament.

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Unlike in Moscow, the political leaders in Kyiv have come to a consensus on joining the World Trade Organization and launching talks with the European Union on more extensive free trade. This proves that Ukraine has accepted a universal method of engaging in international economic relations and feels confident of its own ability. Finally, Ukraine has made a choice in favor of full integration into European and North-Atlantic organizations instead of selective cooperation with them.

Table 1. Ukraine in international ratings

	Human Development Index (HDI) (2007/2008)	Global Competitiveness Index (GCI) (2007/2008)	Index of Economic Freedom (IEF) (2008)	Mass Media Freedom Index (2007)	Combined Index of Democratization (2006)	Corruption Perceptions Index (CPI) (2007)
Ukraine	76	73	133	112	4.21	121
Russia	67	58	134	164	5.75	146
Belarus	64	n/a	150	186	6.71	150
Moldova	111	97	89	65	4.96	111
Georgia	98	90	32	57	4.86	79
Estonia	44	27	12	16	1.96	28
EU member-state with lowest showings	Romania, 60	Bulgaria, 79	Poland, 83	Romania, 42	Romania, 3.39	Romania, 70

Sources: UN, World Economic Forum, Heritage Foundation, Freedom House, Transparency International

Notes: The Table shows positions, not absolute figures, in relevant ratings, except for the Combined Index of Democratization, which was designed for post-Soviet and post-socialist countries in Europe on the basis of seven separate indices. The bigger the index the lower is the level of democracy in a given country.

On the other hand, if one compares Ukraine to other post-Soviet countries with similar types of domestic and foreign policy – Moldova and Georgia – it naturally has a greater potential for

implementing its plans. It has a relatively large and developed economy, and since its declaration of independence Ukraine has managed to avoid ethnic tensions and has kept a balance of interests between regions and political groups.

How did Ukraine manage to assume the role of the engine of the democratic – and not just market/capitalistic – transformation in the territory of the former Soviet Union? It seems there were no prerequisites for this at the start. The country has a large percentage of ethnic Russians (22 percent in 1989 and about 18 percent in 2001) and a still bigger share of the population are Russian speakers, which implies Russia's strong political and cultural influence. Like other CIS countries, Ukraine's Soviet-era party and economic elite remained in power by and large after independence. The initial reforms were more than just painful – they were so ineffective that Ukraine received the status of a market economy later than Russia did.

A system based on clans and oligarchies gradually took shape in the country. The authorities mastered manipulative technologies to reproduce themselves – an illustrative example of this is the 1999 election, in which President Leonid Kuchma was “placed” to run against a Communist contender in the runoff, which automatically guaranteed him victory. By 2000, Ukraine had become a country with a governable democracy and virtual politics where the ruling elite could only emulate reforms. The main thing is that Ukraine did not have very many possibilities for becoming a full-fledged member of the EU at that time (and does not have any now either), while this very promise served as the main stimulus for and a trigger of transformation processes in Central European and Baltic countries.

There must be an answer – albeit an ambiguous and multifold one – to this question of “how.” Some of its elements are axiomatic and lie at the surface, while others are theoretical and obviously disputable. It seems, though, one can single out three main components.

The first one is the *logic of independence*. There has been a drift away from Russia after it became impossible to build a structure

of alternative leadership within the CIS. This has led to an ever-increasing need to accept Western norms and rules.

Second, there is *Ukraine's polycentrism*. If constructs of this kind do not fall apart at once, they become flexible and pluralistic. It is against this background that the Western Ukrainian region of Halychyna plays a very special role and factors like this are not found in any other country.

Third, there was *a chain of circumstances*. This means that Kyiv's choices could not have been predicted in 1992, but they can be explained in 2008.

A DRIFT AWAY FROM RUSSIA

TOWARD THE NORTH ATLANTIC CHOICE

The basic impulse that determined the course of Ukraine's development was set in many ways by the 1991 referendum, where nine-tenths of the population voted in favor of a divorce from the Soviet Union. For Ukraine, genuine independence could only mean independence from Russia and that is why Russia almost immediately found itself in the position of the main – if not the only – challenger to Ukrainian statehood. Moscow's immediate territorial claims to the Crimea aggravated the situation.

The majority of the then-ruling Ukrainian elite viewed independence as an instrumental and not as an all-sufficient goal. Those people treasured sovereignty because of the economic opportunities and power inherent in it, and not because it meant a victory over a foreign or even "occupational" force, as the Baltic countries saw it. Yet this factor does not matter much since the defense of power and property is no less a motivating factor than one's self-identity or ethnic/religious incentives.

Moscow and Kyiv were embedded in arguments over the splitting of the Black Sea Fleet and the deployment of the Russian part of the fleet in Sevastopol, over supplies and payment for natural resources and over humanitarian problems. The two countries have still not resolved these issues.

The perception of Russia as a challenger and of Ukraine's geo-strategic situation as being highly vulnerable could not but have

prompted a search for interaction with Western institutions as a counterweight to Russia's influence. That is why Ukraine signed an agreement on partnership and cooperation with the European Union already in 1994; it became the first CIS member-nation to join NATO's Partnership for Peace program in 1995; and it signed a Special Partnership Charter with the alliance in 1997. In general, Kyiv was in favor of NATO's eastward expansion, and this added to the Ukrainian-Russian divisions. The logic of building partnership relations with the North-Atlantic Alliance paved the way to signing a number of documents with the goal of Ukraine joining NATO. They were signed at the time when Leonid Kuchma was president and Victor Yanukovich was a first-term prime minister. Ukraine officially requested a Membership Action Plan for itself in 2008. All of this took place while the very idea of such membership was supported by a very small portion of Ukrainians.

It is worth noting that the West has never initiated a policy of drawing Ukraine into NATO. It is true that in the 1990s, the U.S. and NATO espoused Zbigniew Brzezinski's idea that Russia would never be an empire again without Ukraine and they gave direct or tentative support to Kyiv. But they would rather consider making Ukraine a buffer zone than including it in the Western security zone as such. This purely geopolitical approach was counterbalanced by a perception of Russia as the flagship of transition in the region and the realization — to a certain extent — that Moscow, with its traditions in state-building and resources, could take on the responsibility of maintaining stability and preventing a collapse of post-Soviet countries. All the more so that Ukraine, which was reluctant to carry out real reforms and aroused suspicions that it was supplying weapons to regimes unfriendly to the U.S. and the EU, caused serious disenchantment in the Western ruling milieu.

The situation changed in 2003 and 2004, however. After a number of East European countries joined the EU and its borders reached Ukraine, Brussels was forced to consider ways of stabilizing its new frontier. Simultaneously, Russia made an unambiguous claim to revise the status quo and launched a tougher and

more conflict-oriented policy toward Ukraine. As a result, the West's policy toward Ukraine became complicated and multi-faceted and offered more flexible responses to the calls coming from Kyiv. Still, the EU's reaction did not go beyond the format of the so-called European 'neighborhood policy.' Its very name speaks of its anti-integration essence, and yet it would not be correct to ignore the potential for a rapprochement embedded in it.

Interaction with the EU and the U.S. was not the only resource that Ukraine tried to make instrumental in its search to counteract Moscow's influence. It conscientiously sought the position of leader in the territory of the former Soviet Union. In 1992-1994, Ukraine procrastinated with a renunciation of nuclear weapons, although its inability to maintain the status of a nuclear power and the fact that this scenario was unacceptable for the West was obvious. The same reason was behind its willingness to take the reins of power in GUAM – an association of countries having serious problems with Russia.

But as betting on the alternative leadership in the CIS became more and more of an illusion and the plans for regional integration in Central Europe turned out to be unworkable after Ukraine's western neighbors joined the EU and NATO, Ukraine had no other options than the limited cooperation offered by the West.

At the same time, NATO's own experience shows that a rapprochement stimulated by geopolitical factors and taken per se does not imply a democratic change. EU membership is a different story in this sense. It looks like Ukrainian society and the political class shifted their accent to the "European choice" at the beginning of this decade. This shift envisions acceptance of reforms along European standards.

Polls taken over many years by Ukraine's Razumkov Center for Economic and Political Research show that since 2002 more Ukrainians are in favor of the country joining the EU. In the fall of 2002, when the EU was preparing its final decision on incorporating Ukraine's neighbors, the positive attitude toward a United Europe hit 65 percent.

It is also true, however, that Ukrainians have been much more critical of the European Union in the past few years. In the first place due to the EU's reluctance to respond to Kyiv's aspirations to become integrated in Europe. Still, the majority of respondents younger than 59 years old – and especially those younger than 39 years – answer with assuredness that they personally, and the country as a whole, stand to gain from EU membership. The huge changes in neighboring countries and the millions of Ukrainians who have left the country to find jobs in the West have furnished Ukrainians with the invaluable experience of assessing the advantages of the European model. The process did take some time, but most Ukrainians acknowledge the benefits of integration today, and the national debate on this problem has evolved toward a realization that reforms should be viewed as an internal necessity and not as a ticket for admission to Europe.

It is still an open question whether Moscow could prevent or at least slow down the drift of its southern neighbor. Theoretically such a possibility existed – for instance, as part of the concept “To Europe with Russia!” which Kyiv put forth at the beginning of this decade – but in reality this option was scarcely possible. Moscow failed to accept the principle of equality and its policies boiled down to bribery and forceful pressure. Nor did it find ways to attract partners for cooperation without sinking into full-scale subsidizing, which the partners used quite skillfully – and which Belarus is still doing to this day.

A transition to genuine interstate relations between Russia and Ukraine began only after the Orange Revolution in Kyiv. Moscow had to admit that the opportunities for coexistence with Ukraine in a single economic and political space and with Moscow retaining its role of the leader have been exhausted, while Kyiv had to recognize that reforms require a renunciation of privileges in the field of energy resources.

UNITED IN DIVERSITY

The main trait of Ukraine's internal structure is polycentrism. Not a single center of power found in that country is capable of

monopolizing all the power and resources or even holding the top position for a long time. Political plurality matches this type of structure best of all. This structure has not been stable, as centers of power have alternately appeared and disappeared, or at times they become stronger or weaker.

The competition between the centers of power is more pronounced in the *regional factor*. Russia has traditionally spoken of a contention between the so-called Left-Bank Ukraine and Right-Bank Ukraine – a reference to the banks of the Dnieper River. Yet the current breakdown of electoral preferences actually reflects a division between the “historical” and “newly populated” (i.e., populated after the 18th century) parts of the country. Although the full picture is far more complicated, this does not change its essence.

Regional leaders are not seeking a breach of the state – they put the emphasis on coming to power in the center and proliferating their influence through the capital city and the central agencies of power. To achieve this, even the strongest ones need allies and the skills to make arrangements with others. Attempts to preside over all others rather than being the first among equals soon lead to a political defeat – as the representatives of the largest – Donetsk-based – regional group could perfectly see in 2004 and 2007.

In addition, conflicts between regions and regional elites have an element that plays a unique role in settling the question of the European choice – *the Halychyna* [Eastern Galicia – Ed.] *factor* or, in a broader sense, all of Western Ukraine as a political phenomenon.

Halychyna is smaller and weaker than Eastern Ukraine, but it has an advantage – a homogeneous vision of the world and a cohesive self-identity. For Western Ukrainians, the country’s independence is a value in its own right and the return to Europe is as natural as for the Poles, Estonians, Latvians and Lithuanians, since the western parts of what is now Ukraine were incorporated in Soviet/Russian imperial territory only in 1939-1945. By contrast, Eastern Ukrainian leaders view independence as an instrumental thing. They are unable to create a new ideology for the

new state or to explain to their Russian-speaking voters their own choice for existence outside of the Russian state, and this compels them to rely on the political leaders from the western regions in that sphere. While the “Halychyans” can configure their nation state with the European choice, Eastern leaders are unable to combine their country’s independence and its integration with Russia (a logical end to that option would be subordination, if not territorial incorporation) and hence they have to call on their proponents to exercise an amorphous “cooperation” and “rapprochement” with Moscow.

There is ample observation to illustrate the homogeneity and consistency of Western Ukrainian politicians. Some Eastern Ukrainian leaders have joined the country’s Western power-wielding quarters on quite a number of occasions after 2004. The last person in that resounding sequence was Raisa Bogatyryova, a key figure in the Regions party, who agreed to take the post of Secretary of the National Security Council in President Victor Yushchenko’s administration. There are practically no instances of a reverse West-to-East movement. One can hardly imagine, for example, that Borys Tarasyuk, leader of the People’s Movement of Ukraine, or Rukh, would accept the post of Security Council Secretary in the administration of a President Victor Yanukovich.

Western Ukraine is thus winning the ideological competition step by step. Suffice it to recall presidential elections where the candidates would be associated either with the “Western” or “Eastern” set of values.

The nationalist daydreamer and Rukh leader Vyacheslav Chornovil received only 23 percent of the votes in December 1991 in a contest with Soviet-era party bureaucrat Leonid Kravchuk who received 62 percent. The latter got only 45 percent of the votes in a runoff election in 1994 as he tried to lean on slogans close to the hearts of Western Ukrainian voters. He lost to Leonid Kuchma — a representative of the Eastern regions who promised among other things to make Russian an official language — and got 52 percent of votes. Since Kuchma reneged on his electoral promises, he could not run as a representative of Eastern Ukraine

in the 1999 election and the campaign took place under the slogan of “preventing a Communist relapse.” In the repeat runoff in 2004, Victor Yushchenko, who was viewed as an advocate of the nationalist democratic ideology, got 52 percent against the 44 percent taken by Prime Minister Victor Yanukovich, a native of Donetsk [the cradle of the Eastern political elite – Ed.] whom Leonid Kuchma had chosen as his successor.

Since the divisions among regions are getting narrower, it cannot be ruled out that this election was the last one in which the issues of language, culture and foreign policy will play a significant role. One could predict that the 2009 election will focus on social and economic issues and have stricter requirements for the personalities of the candidates.

The nature of Ukraine’s *oligarchic system* was directly linked to the mutual positioning of different geographic and administrative regions – and not so much along the West-East line. Business empires not only embedded themselves in the country’s polycentric construction, they magnified this polycentricity. Financial and industrial groups based in Donetsk, Mariupol, Dnipropetrovsk, Kharkiv, Zaporizhia and Kyiv have incessantly looked for models of coexistence that would match the present-day reality. No guarantees of their mutual loyalty – and all the more so subordination – have ever existed. It is well known that some of the clans gave feeble support to the seemingly common candidate Victor Yanukovich. They feared that he would facilitate a steep rise of his own group.

On the other hand, big business, which from time to time overtly sponges on the government, has never been strong enough to subjugate it. The clans did recognize Leonid Kuchma’s role as an arbiter in the fighting within their own ranks, but his personal closeness to the Dnipropetrovsk group (his son-in-law, Victor Pinchuk, is one of the richest people in Ukraine) made it difficult to draw a line of division between the presidential and business aspects of his activity. Still, the financial and industrial groups proved strong enough to survive after the Orange Revolution, although protests against oligarchies were one of its driving forces.

The repartitioning of property ended with a re-privatization of the Krivorizhstal steel mill, which international steel major Mittal Steel bought from businessmen close to Kuchma.

A possible explanation for this situation is that the interests of Ukraine's big business and reformist authorities overlap today. Unlike in the mid-1990s, Ukrainians can make huge fortunes now in areas other than the selling of Russian natural gas. Liberation from "oil and gas addiction" pushes businesses to search for new markets and international legitimization of their revenues, while a gradual slimming of Russian energy subsidies makes them think of a transition to civilized rules of conducting business and modernization programs at large. It was not accidental that Victor Pinchuk became a major lobbyist for Ukraine's pro-European choice on the international scene.

Finally, systemic *rivalry between the president and parliament* also played a role in the rise of Ukrainian polycentrism. The head of state has never had an opportunity to resort to forcible policies since the very declaration of independence, however dismal the repute of various sessions of Ukraine's parliament — the Verkhovna Rada — might have been.

Against this background, the positions of the president have been gradually weakening. The 1995 Constitutional Agreement gave the president more powers than the 1996 Constitution. Kuchma's attempt in 2000 to beef up presidential power by introducing constitutional changes through a referendum failed. The referendum did take place, but the authorities did not find any legal mechanisms for enforcing its results, which once again exposed the weakness of the head of state. Next came constitutional amendments adopted during the Orange Revolution. They made the cabinet of ministers unaccountable to the president and turned Ukraine into a mixed parliamentary/presidential republic. A new redistribution of authorized powers may take place in the next few years, but full subordination of executive power to the office of president has been simply ruled out, and this feature objectively brings Ukraine closer to the Central European models of state governance.

THE POWER OF CIRCUMSTANCE

The aforesaid external and internal political environment may not have been enough for choosing and maintaining Ukraine's democratic course had it not been for an entire chain of events and circumstances, which were mostly accidental (although lovers of conspiracy theories will likely disagree with this). Let us mention a few of them.

In the first place, there was the 1994 election. What matters here is the fact that Leonid Kravchuk agreed to an early election. As a result, state power went over to the opposition – a factor that was critical for the country's future developments. Even more important was the fact that the losers stayed in the political arena. In spite of the scale of the standoff, Kravchuk returned to national politics and eventually emerged as a leader of the pro-Kuchma forces in 2002–2004. Thus a tradition of tolerance to opposition was created, opportunities for cooperation between former adversaries emerged, and the totalitarian principle “the winner takes all” was dumped.

Pressure was exerted on former Prime Minister Pavlo Lazarenko, Yulia Tymoshenko (who was closely linked with him in the mid-1990s) and on businesses affiliated with them, but this was more the exception than the rule. Yet those two people had an opportunity to take part in the 1999 election, with Tymoshenko eventually taking the post of a deputy prime minister in Victor Yushchenko's cabinet. Thus political differences did not become synonymous with personal animosities, and this laid the foundation for a flexible and steady political system.

It is worthwhile in this context to say a few words about Leonid Kuchma's personality – a most ambiguous one that still awaits a biographer to explore it. During the Orange Revolution most Ukrainians passed negative judgments on his stay in power and rejected his successor. Yet it is important that several of his decisions – whether taken by instinct or upon scrutiny – were in line with the country's general ideological and political evolution and did not contradict it.

First, Kuchma learned to speak Ukrainian and used the language in public, thus reasserting his willingness to be a president

of an entire Ukraine and not just one part of it. This was a profoundly symbolic precedent that compelled Victor Yanukovich to do the same.

Second, Kuchma refused to use force to suppress political protests. He took this line during the escalation of tensions in the Crimea in 1994 and 1995. The peninsula reverted to Ukraine's legislative realm through agreements.

Third, Kuchma had enough resolve to publish a book called *Ukraine Is Not Russia* that said the divergence between the two countries is unavoidable. He did it in spite of his frequently stated eagerness to bridge positions with Moscow and to pursue a multifaceted foreign policy.

Fourth, Kuchma did much to streamline Ukraine's relations with the West. In 2002, when his reputation in the West had already collapsed, he went as far as to suffer personal humiliation as he took part in a conference of the Euro-Atlantic Partnership Council in Prague to confirm the sincerity of his country's Euro-Atlantic choice. The participating heads of state and government were then purposefully seated according to the French alphabet, not the English one, so that the U.S. president and the British prime minister would sit at a specific distance from the Ukrainian president.

Last but not least, Kuchma dispelled fears when he resigned as required by law.

The next critical episode after the 1994 election came in 2001 when Major Mykola Melnychenko, a former presidential bodyguard, published his audio recordings. Although the outburst of oppositionist activity it produced subsided quickly enough, the 'cassette scandal' changed the context of Ukrainian politics. People started looking at the Kuchma regime as not simply immoral, but as criminal. Public opinion interpreted those recordings as proof of Kuchma's involvement in the assassination of opposition journalist Heorhiy Gongadze – even though the details of the crime, which had a serious impact on Ukraine's development, are still not clear to this date.

The scandal had specific political repercussions. As rightfully noticed by Ukrainian political scientist Mykhailo Pohrebinsky,

then liberal Prime Minister Victor Yushchenko, the West's enfant chéri, lost his chance of becoming Kuchma's successor. Pohrebinsky says that the campaign demanding Kuchma's resignation made sense only for as long as the power could go over to the prime minister, who was popular with the opposition. As Kuchma rescued himself, he had to fire Yushchenko.

The dismissal of Yushchenko, a person who was completely loyal to the president, provided the opposition with a leader and a banner at the same time. It also forced Kuchma to lean more on the oligarchs, shift the balance of forces toward the Donetsk clan, and seek ways of rapprochement with Moscow. But most Ukrainians and their political leaders did not support either of these steps.

The West, on its part, paid more attention to developments in Ukraine in general and to the 2002 parliamentary election in particular. Since Kuchma did not really want a fight with the West — it would produce greater dependence on Russia eventually — he did not use his administrative resources in that election very actively. As a result, the election propelled to parliament the radically anti-Communist Yulia Tymoshenko Bloc (7.3 percent of the votes on the party ticket). Tymoshenko thus obtained immunity and access to the public rostrum. Yushchenko's Our Ukraine party received 23.6 percent — even more than the Communists did, and became the tentative winner in the election. This circumstance made regional bureaucracies disorganized and they lost confidence in the ruling party's ability to keep the situation under control. The political process was no longer “successfully governable.”

The road to the Orange Revolution was open now. Its outcome was logical and the causes of the events in the fall of 2004 have been described in great detail. However, given the polarization of electoral preferences and the approximate parity of forces at the start of the campaign, Yanukovich's victory was not altogether impossible. Two factors eventually seem to have tipped the scales in Yushchenko's favor:

- The attempt to poison him in September 2004 that evidently gave him the people's sympathy and made behind-the-scenes arrangements impossible for him personally;

- Russia's interference in the election campaign on Yanukovich's behalf.

The latter factor caused an unparalleled protest, above all in Kyiv, where a new generation of Russian-speaking proponents of Ukrainian statehood had matured by that time.

WHAT'S NEXT?

Ukraine's democratic transition may have been reversible before the Orange Revolution, but that is hardly possible now considering the events in the years after it consolidated the nation's choice.

First, Ukraine will continue its step-by-step integration into Europe, both economically and politically. Ukraine's "European choice" will remain the core of the country's foreign policy. A breakthrough may be possible by the introduction of broader free trade between Ukraine and the EU – although this will not take place earlier than 2012 or 2014 – and a major liberalization of travel restrictions may come in its wake. Ukraine's self-adjustment in the European system of energy security will continue. Ukraine will co-host the European Football Championship in 2012 along with Poland and this will give a boost to Ukraine's infrastructure, raise the level of its compatibility with Europe and, most importantly, will help the country foster the image that it is an inalienable part of Europe.

All of that will not furnish Kyiv with sufficient grounds for making guaranteed claims to a full-fledged integration in the EU and relevant influence inside it, yet it could open up the prospects for a Norwegian style of integration, suggesting incorporation in the European economic space combined with NATO membership. It looks like Ukraine would be quite happy with this.

Second, the country will not discard political plurality and the democratic electoral system. After three successive opposition victories in the elections of 2004, 2006 and 2007 the situation apparently pleases all political forces, as it leaves them a chance to regain power.

Third, external conditions, including a growth in prices for energy resources, will continue to dictate the need for economic reforms.

Developments in Ukraine pose a serious challenge for Russia, since the historical paths of the two countries are diverging. While previously the case in hand was confusion and the sorting of economic issues between political leaders, today one can speak of a growing misunderstanding between the two societies which still speak one language and have similar customs, but have different values and view their future differently.

Currently, this challenge is confined to sporadic outbursts — compensation for devalued Soviet-era bank deposits, paying child benefits that exceed those paid in Russia by several hundred percent, and an upcoming military reform that will abolish mandatory military service — that are easy to cushion off. But if the reforms facilitate Ukraine's transition to European social policies in general and, correspondingly, improve people's lives, the challenge will take on a systemic character. As people in both countries continue to keep close contacts, contrasting the two “verticals of state power” and “electoral democracies” will be inescapable. This factor may appear more crucial than the now hypothetical shifting of the borders of the Euro-Atlantic zone toward Ukraine's eastern frontiers.

It does not pay to make far-reaching forecasts though. The rate of Ukraine's further transformation may be too slow and it is too early to judge its overall success. It is unclear where the limit of the Ukrainian economy's adaptation to new prices for gas lies. Polycentrism may degenerate into endless blocking among political forces and a desire to untangle all the knots through elections may breed populism. A liberal political system does not guarantee efficient governance, while systemic corruption can reduce the reformers' efforts to naught. Also, it is equally unclear now if the EU can offer Kyiv a policy that will correspond to the progress of reforms.

In other words, the intrigue is still there. Ukraine may simply remain an exceptional case in the territory of the former Soviet Union — an interim transitional type, a country treading after its Central European neighbors, but never catching up with them as regards the development of democratic institutions or the degree of economic modernization. And yet it may implement the declared “European choice” in one form or another.

Russia and Global Inflation: The Unanticipated Crisis

Martin G. Gilman

The unexpected re-acceleration of inflation in Russia since late 2007 is bad news, especially as it was already too high to begin with. However, as a global phenomenon, the re-appearance of higher rates of inflation is even worse – it presents a serious political challenge to world leaders at a time when the international economic system is rudderless.

The problem is that the U.S., as the traditional key currency country, is, in effect, abandoning its responsibilities on the altar of domestic politics and short-term interests. As the world's largest debtor country, the repricing of risk is playing havoc with overvalued assets and causing the U.S. authorities to “panic” in an effort to forestall the possibility of a serious economic collapse. But the additional liquidity being created is the source of the inflationary pressure worldwide. Russia by itself cannot do much to stem this pressure. And each country, acting on its own, may exacerbate tensions in an increasingly fragile, globalized economy.

INFLATION UNEXPECTEDLY RE-APPEARS

One of the hard won achievements in recent years was the taming of inflation. Not just in the OECD area but worldwide. So thorough had been the eradication that many forgot how pernicious inflation can be.

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The roughly 20 years or so from about 1985–2006 have been called the “great moderation” and seemed to usher in a dawn of a new age with low inflation, low risk, and low interest rates. This significant achievement was based on a wave of central bank independence in most OECD countries and a consequent rise in the public perception of the credibility of anti-inflationary macroeconomic policy.

However, in recent weeks, there has been a stream of bad news concerning inflation. In Russia, inflation had been declining steadily from a high of 20 percent as recently as 2000 and reached its low point of 7.5 percent year-on-year in March 2007.

Then the deceleration stopped and inflation reaccelerated in the late autumn, reaching almost 12 percent for 2007 as a whole. The momentum continues unabated. In February, inflation rose further to about 13 percent year-on-year, and it could be heading toward 15 percent in the months ahead if net capital inflows resume and budget spending expands. Finance Minister Kudrin, who has been appointed the head of a government task force to urgently rein in inflation, optimistically hopes to achieve 8.5 percent this year, but no one in the private sector believes that he will come anywhere close.

This development is discouraging. It saps the patience of the population that bears the brunt of inflation and pushes the government to take desperate actions in an attempt to demonstrate its resolve to reverse the increase in the price level. It would seem that almost whatever the authorities try to do now, inflation is unlikely to revert to single digits any time soon.

Ominously, it appears that Russia's inflation problem is part of a global problem. In China, inflation accelerated last year to an 11-year high of 4.8 percent. And in the wake of the worst snow-fall China has faced in decades — which affected power supplies, closed factories, and disrupted transport — February's inflation was 8.7 percent. India's inflation unexpectedly accelerated in recent months to reach a 4 percent annual rate, fueled by food prices. Sharply higher food prices also pushed Brazilian inflation up to 4.5 percent in 2007, ending a five-year period of disinflation. And Eurozone inflation surged to a 14-year high of 3.3 percent in February, well above the ECB's target zone.

In the United States, concerns over inflation are tempered by an even more overwhelming preoccupation with what could be the most severe recession in at least a generation. The Federal Reserve, while reducing its lending rate to 2.25 percent in mid-March, only noted that inflation was a growing concern, even though the price level rose last year by 4.1 percent – the highest rate in 17 years. Recently Chairman Bernanke has indicated his willingness to further reduce rates, leading the dollar to fall to an all-time low to the Euro.

This worldwide inflation surge must surely be more than a coincidence. If so, then individual national efforts to fight it may be doomed. And a systemic change may also be happening as observed by Alan Greenspan: after years of exporting deflation, China and India may now start exporting inflation instead.

The irony, of course, is that this sudden re-emergence of inflation occurs as the world economy is slumping. Since economic downturns are normally associated with disinflation, the situation seems contradictory. How can there be too much liquidity if some major economies are entering a recession?

The fact is that in large parts of the financial system market liquidity is in scarce supply. The supply of credit is tightening and the price of risk is going up. But at the macroeconomic level, liquidity remains abundant.

The world is still flush with savings as it has been for several years. One striking example of this: the giant current account surpluses of the oil exporters including Russia, and of other emerging markets including China, which represent surplus national savings.

To some extent, the liquidity paradox is an illusion, deriving from the fact that we use the word liquidity to describe several distinct ideas. As investors have discovered in recent weeks, macro liquidity (plenty of savings) does not guarantee cheap and available credit, or micro liquidity (ease of buying and selling in markets).

WHY IS INFLATION HAPPENING NOW?

To understand, start with key role of the U.S. as the hegemonic financial power. U.S. monetary policy is transmitted to other countries via exchange rate regimes where rates are aligned or

pegged to the dollar, as well as by the U.S. dollar's role as the ultimate "safe haven" currency and unit of account for major world commodity markets.

With the repricing of risks that began with the subprime mortgage meltdown last summer, there has been a severe impact on asset values as the U.S. enters an election period and as baby-boomers with inadequate savings start to retire. This has led to a rapid easing of monetary policy by the Fed, and loose money is transmitted to the rest of the world. In turn, this feeds a global commodity boom, with the further assistance of distorted subsidies for grain to produce ethanol and of supply constraints.

The American authorities seem ready to do almost anything to avoid a financial market meltdown. This is perhaps understandable given the importance of the financial sector to the global economy and the fear that, with today's high prevailing debt levels, a financial meltdown could easily result in a severe recession

But it suggests that, in the long run, the authorities are losing some of their anti-inflationary discipline. Short-term American interest rates are, at 3.4 percent, now below the headline inflation rate of 4.3 percent. It is unusual, in the last 20 years at least, for short rates to be negative in real terms. Nevertheless, the Fed is cutting at a time when the U.S. budget is in deficit (a situation that the fiscal stimulus package will exacerbate) and when the dollar has been falling for much of the last 12 months. It all adds up to a pretty loose economic policy.

Why is it so important? We should recall what Keynes wrote in 1919: "Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

In this context, we could imagine a hopefully unlikely but plausible scenario: economic decline and volatility would lead the U.S. to abandon its guardian role of the key reserve currency in

an effort to support its domestic economy. There could be a wave of political populism with the foreigners to be blamed. In essence, the U.S. would try to monetize its debt problems away — much as the Russian authorities were considering in early August 1998. In this case, the U.S. rapidly loses its pivotal role as financial hegemon, especially since it is the largest debtor country. In turn, this would accelerate a process already underway in the 21st century for the economic center of gravity to shift to the East and South. In the interim, this could lead to instability at best with multiple centers of economic power. But it is unlikely that the US would willingly accept — or even comprehend — its diminishing role.

There is usually inertia in economic relations outside of times of war. Once a currency is widely used for official and private transactions around the world, and once it is widely held as a reserve currency, its use is likely to continue. However, that situation can change. If a central bank fails to sustain confidence in the future value of its currency, participants in the global market will eventually find substitutes for the currency. One of the consequences of globalization is that substitutes do exist for any currency if policymakers allow its purchasing power to deteriorate.

Even then, historically, changes may occur only with a long lag. For instance, even after the United Kingdom ceded its position as an economic superpower early in the 20th century, the pound remained an important international currency. In the present context, this inertial bias favors the continued central role of the dollar. However, this may not be the relevant precedent as the UK remained a major creditor nation, while the U.S. is now the world's largest debtor. Doubts about the future soundness of the dollar could bring a swift change in its preponderance in global finance.

In the meantime, in order to maintain their pegs to the dollar, foreign central banks have been forced to print their own currencies to buy all the dollars accumulated by their exporters. This has resulted in upward pressure on consumer prices in their respective nations, with annual increases now reaching alarming rates. Bernanke's message of benign neglect means U.S. export-

ed inflation will likely increase even further in the years ahead, exacerbating the inflation pressures for those nations now supporting the dollar.

WHAT CAN BE DONE?

In Russia, as elsewhere, inflation is imported from Washington (although there are certainly other factors at play in each case), Russians have a particularly vivid and recent experience with inflation. Both Kudrin and the CBR Chairman Ignatyev, who witnessed first-hand the consequences of the 1998 crisis, have no desire to tolerate a resurgence of inflation.

So why is inflation occurring in Russia when no one wants to repeat the experience of trying to bring inflation under control? What is Russia to do? It seems that the government is unable to control inflation. In the absence of a truly independent monetary policy, the most powerful measure would have been to cut planned budgetary expenditures. But this is hard to do socially when the Government already runs a large surplus.

Other options are limited and all involve costs. Governments around the world are responding, each in its own way, to the re-emergence of inflation that they had so painfully brought under control in the last few decades of the 20th century.

For instance, price controls are being used, to different degrees, to control inflation in Asia, South America and Africa. It remains to be seen if these controls are as efficient as macro policy at curbing inflation, or if they simply distort market prices — but, as in Russia, where “voluntary” controls are being tried, many countries find it hard to remove price controls given the hardships and threats to social stability caused by rising food prices. Some countries have canceled plans to scale back food subsidies. The problem for Russia, and some other countries, is that there are no easy options.

Ideally, since the problem originates largely in America, it would be logical to seek the solution there. No doubt the dollar’s relative strength results from still favorable factors such as America’s political stability and military might, its large \$13 tril-

lion economy (27 percent of global GDP), deep and liquid financial markets for bonds and stocks.

The U.S. economy requires net financing from the rest of the world of over \$2 billion every day, absorbing almost two-thirds of net global savings. If central banks decide simply to withhold new purchases of dollar assets, the results would be catastrophic so the Fed has a vital interest in a strong dollar.

The willingness of individuals and governments to hold a particular reserve currency depends on how they view the stability of that currency's long-run purchasing power. A potential loss of purchasing power can erode the economic benefits associated with using any particular currency for international trade. When viable alternatives exist, individuals and governments will gravitate toward the currency with the most stable purchasing power.

The debtor position of the U.S. underscores a key point, which is that a central feature of the next couple of decades could be about the unwinding of the "dollar balances" — even in the absence of the current U.S.-led inflationary burst.

The inevitable decline of the dollar as the world's reserve currency could be a painful one. U.S. consumption and economic activity will be so constrained by the need to repay dollar liabilities owed to foreigners, as to lead to a build-up of social pressures or inflation or both. The U.S. is unlikely to pursue such a painful path willingly and we can expect some recourse to economic, financial, political and maybe even military options to avoid or delay the inevitable.

WHAT COULD BE THE CONSEQUENCES OF RENEWED INFLATION?

Central bankers in advanced economies, including the Fed, have largely lost control over money supply growth. The private sector in a globalized environment is able to borrow in countries where interest rates are lower (such as in Japan or Switzerland) and easily bring money to any destination. This increases volatility on currency markets. Meanwhile, central banks now have less power in influencing the macroeconomic situation worldwide

than they have had in the past, and more emphasis should currently be placed on fiscal policy as a tool for making macroeconomic adjustment.

In the absence of restored fiscal prudence, the United States risks undermining the faith foreigners have placed in its management of the dollar — it can continue to sustain low inflation without having to resort to growth-crippling increases in interest rates as a means of ensuring continued high capital inflows. It is widely assumed that the natural alternative to the dollar as a global currency is the euro, but faith in the euro's endurance is not assured.

The implication for the international financial order is that the U.S. risks losing its key currency role sooner rather than later. This would not be without costs to the rest of the world. The use of a universal currency like the dollar has been beneficial, and has served as a source of stability in international relations. A global financial system without a key currency anchor could be a crisis in the making.

Managing the consequences of even a small surge in global inflation could have profound effects when the political classes in leading countries are focused on domestic issues and no one is willing to play a leading role in this adjustment process. It would certainly not be the U.S. where one is still left with the reality of an unsustainable path of high budget deficits, low national saving, and high current account deficits.

The danger is that the resulting political tensions, including U.S. protectionism, may disrupt the global economy and plunge the world into recession or worse. Russia has no attractive options.

Foreign Policy – From the Past into the Future



David and Goliath

“ Thus a transition from the Cold War model to a new status quo of some kind – the character of which is yet to become clear – continues, and in this situation it would be risky for the Russian state to begin to “gather stones together” in an attempt to build a new system of relations with its outside partners. There is a great risk of being peppered with stones thrown by those who still continue to toss them. It is important, however, to know when it is the right time to start gathering stones together. ”

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About the Past That Still Continues

Anatoly Adamishin

Russia, which is becoming increasingly self-confident yet is still undecided as to where it should channel its new energy, should take a look at its recent past, especially at the acute turning point in history that marked the end of the Cold War.

That was a truly tectonic shift in international relations. It included the end of the 40-year confrontation between the East and the West, the reunification of Germany, the deliverance of Eastern Europe from Soviet domination, Mikhail Gorbachev's democratic revolution, the breakup of the Soviet Union and the defeat of the Communist ideology.

It is becoming increasingly obvious that decisions made in those years still shape the international situation. Since there is not much optimism about the current state of affairs in the world, there are many discussions as to whether politicians missed some rare chances at that time.

Archive records recently made public and memoirs of the main players give a better idea about the events of the late 1980s-early 1990s and how decisions were made on "the other side." In addition, I have found some interesting things in my own notes which I made in those years and which I have finally found time to review.

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Four decades of confrontational stagnation gave way to an explosive period – fortunately, not literally, not in terms of nuclear missile explosions, although that could have happened as well. It was an explosive period from the point of view of a wide range of possibilities with regard to the development of global politics – from military clashes of various scales to complete reconciliation between former enemies and their transition to true cooperation, with numerous intermediary tints.

The developments were triggered by Gorbachev's *perestroika*. The Soviet Union focused on a breakthrough in relations with the United States. In those years it was the axis on which all international stability balanced. I must admit that the administration of U.S. President Ronald Reagan, for all its inconsistencies and contradictions, met the Soviet initiatives with growing readiness. By the time Reagan handed over power to George Bush in January 1989, the two countries had achieved a lot – especially considering the low level from which they had started:

- The Soviet Union and the U.S. concluded their first ever agreement on the elimination – that is, not on the limitation, as had been the case in the past, but on the physical destruction – of a whole class of weapons, namely American and Soviet medium-range missiles. From this point of view that agreement was destined to remain unique. By the way, the Pentagon tried to dissuade Reagan from signing it as the U.S. Pershing and cruise missiles deployed in Western Europe gave America a huge advantage over the Soviet Union, while the Soviet Pioneer missiles, better known as SS-20, could not reach U.S. territory. U.S. hawk Richard Pearl even resigned in protest over this.

- On February 15, 1989, the last Soviet soldier – General Boris Gromov – left Afghanistan. The withdrawal of Soviet troops was in keeping with an agreement that was also signed by the Reagan administration.

- Documents were signed at the United Nations Headquarters in December 1988 in New York on the settlement of another long-standing conflict in Southwest Africa. That knot

was undone not least due to the joint efforts of the U.S. and the Soviet Union.¹

● The human rights issue was included in the agenda of the Soviet-U.S. dialog for the first time. This factor had an immediate positive impact on interaction in other areas. In January 1989, a meeting of member states of the Conference on Security and Cooperation in Europe (CSCE) in Vienna ended in success. Its failure was prevented by joint efforts of the Soviet Union and the United States, to which I can testify as I had a hand in those events. The Americans, due to the personal interference of Secretary of State George Shultz, supported the Soviet proposal to convene a Human Dimension conference in Moscow, which was worth a lot in those days.

The Soviet Union was ready to go further. Gorbachev, in his speech at a UN General Assembly session in December 1988, proposed a detailed program for improving global politics and announced plans for major practical steps: within the next two years, Moscow pledged to unilaterally reduce its Armed Forces by 500,000 personnel, as well as by 10,000 battle tanks, 8,500 artillery pieces and 800 combat aircraft. This was something that Europe was eagerly anticipating: this time, it was real *détente*, coupled with historical changes in the Soviet Union.

Suddenly, a chilly wind came from Washington. Almost immediately after the inauguration of the new president, the tone of public statements changed dramatically. Now it was warning that the true Soviet intentions were not at all obvious and that the trustful Yankees must be on their guard and must not only maintain, but build up their military — above all nuclear — might. And in general, the current behavior of America's main enemy was nothing more than an aberration. Statements like that were made in public. As follows from materials made public now, inside the administration officials went even further: Reagan and Shultz were

¹ I dare refer readers to my book *The White Sun of Angola*, Vagrius Publishers, Moscow, 2001. I view my involvement in the Soviet Union's withdrawal from that conflict — the second most intense conflict for Moscow after Afghanistan — as one of the most memorable episodes in my 40-year Foreign Ministry career.

criticized for having yielded to the charms of Soviet leaders who, as the officials warned, were simply more sophisticated than their predecessors and, therefore, more dangerous.

The foreign policy team was almost completely replaced, as if some other political party had taken over from the Republicans in power in the United States. The key figures in the new team included: General Brent Scowcroft as National Security Advisor; his chief assistant Robert Gates (former CIA deputy director; now Secretary of Defense in the George W. Bush administration); Secretary of Defense Richard Cheney (now Vice President); and Secretary of State James Baker. In his memoirs, Baker does not hide his concern that Gorbachev's strategy "was premised on splitting the alliance and undercutting us in Western Europe, by appealing past Western governments to Western publics."²

The Soviet leader needed to be stopped before his "new thinking" and "Common European Home" started driving wedges into relations between the United States and Western Europe. The Soviet threat – the main thing that bound these two regions together – was disappearing. If the Soviet Union was withdrawing many of its troops from the territory of its Warsaw Pact allies, why keep so many American troops in Western Europe? Questions of this kind undermined the U.S. military-political stronghold in Europe, namely the North Atlantic Alliance. NATO needed to be preserved under any circumstances. And take those endless disarmament initiatives! They could easily provoke difficulties with the Congress over defense spending. Finally, doubts appeared among the allies about the U.S. leading role in the world.

After the new administration came to power, it immediately took a break to take a critical look at the policy toward the Soviet Union. Naturally, the Kremlin, which had welcomed the Bush victory and had even received some encouraging signals from Washington, was not happy about that. "Everything has stopped," [Soviet Prime Minister] Nikolai Ryzhkov told Margaret Thatcher in my presence.

² Baker, James A III with T. Defrank. *The Politics of Diplomacy: Revolution, War and Peace. 1989-1992*, G.P. Putnam's Sons, New York, 1995, p. 70.

She promised to talk with Bush. Gorbachev, as follows from his memoirs, felt like a bride abandoned at the altar. Specialists in U.S. studies from the Soviet Foreign Ministry tried to allay the fears of the Soviet leaders, saying that in the long run Washington would return to the Reagan era interaction. But it never did.

The pause in U.S.-Soviet relations continued almost throughout 1989: Gorbachev and Bush would meet for the first time only in December in Malta. By that time, the cards had already been dealt and the game was actually over. Suffice it to say that the Berlin Wall would have been destroyed by that time. Washington surely knew that Gorbachev was having difficulties at home and was interested in early success on the international arena. But U.S. politicians acted in keeping with a directive which in the spring of that year had completed the revision of the policy toward the Soviet Union: "American policy must be designed not to help Gorbachev but rather to challenge the Soviets in such a way as to move them in the direction we want."³

The main target of the U.S. policy was Eastern Europe. Scowcroft wrote that "our principal goal should be to try to lift the Kremlin's military boot from the necks of the East Europeans."⁴

Moscow was still cherishing the illusion that East European capitals would produce Gorbachevs (heroes of perestroika) of their own, who, emancipated from the Kremlin's control, would bring about a breakthrough for "socialism with a human face." However, that could have happened two decades before, if the Prague Spring had survived. Now, most Eastern Europeans did not want "humane socialism," or any kind of socialism whatsoever. Moscow now had to pay for the Brezhnev Politburo's decision to send tanks into Prague, for the subsequent long years of stagnation and, finally, for decay. Who knows — if there had not been the Czechoslovakia of 1968, there might not have been the Afghanistan of 1979. Perhaps we would not have retained control

³ M. Beschloss and S. Talbott. *At the Highest Levels*. Little, Brown and Company. Boston, Toronto, London, 1993, p. 44.

⁴ Cited from Melvyn P. Leffler. *For the Soul of Mankind*. Hill and Wong, New York, p. 428.

over Eastern Europe, but if we had started perestroika 20 years earlier, we could have preserved a renewed Soviet Union.

Our other weak point was that we did not know how things really stood in other Communist countries. Our “friends” – as we called our Warsaw Pact allies – rarely reported unpleasant news to Moscow, even when they were aware of unfavorable developments. Soviet embassies, too, did not often present an objective picture of the situation in Eastern Europe – dark colors were not welcome then. Communist orthodoxy required depicting a situation the way it was supposed to be, rather than what it actually was.

The new U.S. administration started with revising the previous administration’s approach to what seemed to be an academic issue: whether the Cold War had ended or not. Margaret Thatcher had given a positive answer to this question in November 1988. George Shultz, when he stepped down as Secretary of State, “was apprehensive that the ‘new team’ didn’t understand or accept that the Cold War was over.”⁵

His apprehension was well-grounded: the Cold War continued for the new administration. George Bush announced that the Cold War “would not be over until the division of Europe had ended and Europe was ‘whole and free’.” Sometime later, to leave no doubts about U.S. goals, he added that “our overall aim is to overcome the division of Europe and to forge a unity based on Western values.”⁶ Until then, Western leaders had never made such undisguised attempts to revise the geostrategic situation in Europe. Henry Kissinger’s initiatives aimed at streamlining the changes in Eastern European countries in the spirit of Realpolitik through negotiations with the Soviet Union were rejected after some hesitation.⁷

⁵ Shultz, George. *Turmoil and Triumph: My Years as Secretary of State*. Charles Scribner’s Sons, New York, 1993, p. 1138.

⁶ Zelikow, Philip / Rice, Condoleezza. *Germany Unified and Europe Transformed*. Harvard University Press, Cambridge, Massachusetts, London, England, 1995, pp. 24 and 31.

⁷ See Matlock, Jack. *Autopsy on an Empire*. Random House, New York, 1995, pp. 190-192.

The only thing Washington wanted to negotiate were the best terms for the taking. Washington reasonably assumed that Gorbachev would be unable to keep what wanted to leave. The Americans took advantage of the difficulties faced by the Soviet leader at home and, worse still, in his own team.

From the point of view of geopolitics, Eastern Europe was, above all, East Germany. When one urged Eastern Europeans to gain freedom (which implied emancipation from the Soviet Union) and when economic aid was closely linked to “political liberalization,” the question inevitably arose: What would happen to the existence of the two German states? Until then, the East and the West had been unanimous on this issue: the status quo would be maintained. But for how long? On March 20, 1989, Scowcroft wrote in a memo to Bush that “virtually no West German expects German reunification to happen in this century.”⁸

Such an approach needed to be changed. The efforts to cede Eastern Europe from the Soviet Union focused on the reunification of Germany. There were many signs that it was initiated by Washington. It was Americans, not West Germans, who in the spring of 1989 gave the initial impetus to the movement which gained momentum so rapidly. It was from Washington that Bonn received the instruction “Go ahead, we will support you” — together with a clearly defined price: non-withdrawal from NATO. A united Germany must remain within the frameworks of Western alliances, while U.S. troops would remain on its territory.

American politicians, including former diplomats with whom I talked, strongly deny that the first word about the reunification of Germany came from the United States. One of them, who is close to the Democratic Party, even argued that the then administration was not quick-witted enough for that.

The reunification plan involved risks, considering the Soviet troops deployed in East Germany and the reluctance of Washington’s European allies to see a united Germany. Yet it could offer a lot from the point of view of intercepting the strate-

⁸ Zelikow/Rice, *op. cit.*, p. 28.

gic initiative from the Soviet Union and, still more important, it could help the Americans to channel the imminent changes in the required direction. Moreover, the specter of the Treaty of Rapallo [a 1922 agreement between Germany's Weimar Republic and the Soviet Union – Ed.] was looming over them.

For the time being, the Americans preferred not to talk about “moving beyond the status quo” even with their allies across the ocean. The U.S. would lose little from Germany's unification carried out on Washington's terms; rather they would gain from it, whereas the Western Europeans' gains were not obvious. In any case, they would have more work on their hands, while Germany would be engrossed for a long time in its domestic affairs, which the subsequent difficult absorption of East Germany confirmed.

Meanwhile, Gorbachev, struggling against fierce resistance, was conducting an unprecedented liberalization of Soviet society. However, he had very few instruments at his disposal. It was then that perestroika particularly needed understanding and support from the West – if, of course, the latter was really concerned about democracy. But, precisely at that very moment, the U.S. pushed the accelerator of two parallel processes – German reunification and the painful ousting of the Soviet Union from Europe. All is fair in love and war, even though it is a Cold War.

In the first few months of 1989, Bush advisers proposed that he reanimate the German issue from a years-long state of anabiosis. The president was advised to “get ahead of the curve” on the issue of German unification or Gorbachev “might grab it first.”⁹

In May of the same year, Bush said in an interview that, if unification was achieved at acceptable terms, that would be fine. The U.S. president also came out with a public peace initiative, making seemingly bold proposals concerning conventional armaments. The proposals were aimed at a vulnerable point of the Soviet Union – its advantage in conventional weapons in Europe – and were intended to distract attention from nuclear arms where the U.S. and NATO had an edge. The proposals

⁹ Zelikow/Rice, *op. cit.*, pp. 28-29.

were timed to coincide with a summit session of the North Atlantic Council, held in May 1989. Council members were pleased that the U.S. was regaining the role of leader. Yet, the Council's Declaration of May 30, 1989, still had a cautious wording on the German issue: "We seek a state of peace in Europe in which the German people regains its unity through free self-determination." Yet, the word was said – and said as a common position of NATO.

Now the idea needed to be "sold" to the main actors. Current memoirs about those events do not conceal that the Americans were the first to raise the reunification issue in their contacts with highly placed West German officials. Interestingly, they met with a reserved reaction. This follows even from Bush's conversation with NATO Secretary General Manfred Wörner of Germany, now declassified along with many other materials. The most the West Germans were willing to do was to politely prod the Americans to take further steps.

Although the West German government quickly grasped the new situation, it was slow to act. Horst Teltschik, Chancellor Helmut Kohl's assistant for foreign policy and security and his main adviser on German reunification, recalled later that the United States "was far ahead of the Germans at this time"¹⁰ on this issue. Compare the chronology: Bush spoke about the importance of the German issue in May 1989, while Kohl made his key statement to the effect that this issue was again on the international agenda, in late August 1989.

Why didn't Kohl and his team believe in their luck at once? Were they afraid they would scare it away with untimely actions? Did they consider it more reliable first to soften East Germany with substantial economic aid, which Bonn had already been providing for several years, and only then pick a ripe fruit? I dare surmise that some West German policymakers tried to figure out

¹⁰ Zelikow/Rice, *op. cit.*, p. 35. In those turbulent years, many things happened for the first time. I happened to be the first Soviet official to visit Wörner at NATO headquarters in Brussels. The man had a strong impression on me.

whether Bonn would gain much from a deal with the Americans, which would perpetuate Germany's membership in NATO, and whether a unified Germany could get full freedom of action. Such thoughts, if they ever existed, quickly vanished because their implementation required a different Soviet policy. Moscow, in turn, lulled itself into thinking that it had 50 or even 100 years of leeway, and that even then the issue would be decided by history.

Gorbachev's memoirs make no mention of German unification until the time when it became inevitable, even when he writes about his visit to West Germany in June 1989 and his conversation with Chancellor Kohl. We must have overestimated the importance of Old Europe's unwillingness to fight for a unified Germany. But our main mistake was that we miscalculated the strength of the East German regime. Erich Honecker annoyed many people. When, finally, he was replaced by Egon Krenz in October 1989 (weeks before the fall of the Berlin Wall), it was already too late.

Encouraged and prodded by the Americans and then by the voice of the East German population, Kohl resolutely assumed the role of a key actor. Bonn spared no money. Kohl promised to exchange weak East German marks for West German hard currency at a rate of one to one, which was actually done. Washington and Bonn kept adding fuel to their coordinated policy. East German shops began to fill up with goods from West Germany; border checkpoints between the two countries disappeared; and the two Germanys were engaged in hasty bilateral negotiations on their economic and political union. Soon these rapid developments became irreversible.

For a short period of time I was directly involved in the German affairs as I participated in the first few sessions of the "Two-plus-Four" group.¹¹ The group was set up in February 1990 to discuss international aspects of the impending unification. Due to joint U.S.-West German efforts, the group refrained from dis-

¹¹ In the spring of 1990, I was replaced by Yuli Kvitsinsky after his ambassadorship in Bonn expired.

cussing the domestic affairs of a united Germany, however hard we resisted. I assumed the new assignment inspired by what I had achieved in African and humanitarian affairs. But the fact that I was unable to influence the policy making left me with a sad feeling, which is still not over.¹² At the Soviet Foreign Ministry and the Central Committee, the tone in the policy toward Germany was set by people who had for decades worked on German affairs, and many of them were very old. One could not but share their bitterness over what was going on, but their slogan “No Retreat,” not backed with real possibilities, hanged in mid-air.

Until the very end, we did not even think of changing the status quo of our own volition and putting East Germany at risk. We preferred to wait, stepping back and snarling, until the country itself went. Charles de Gaulle’s advice that one should lead the inevitable if one was unable to prevent it was not for us.

As a result, we failed even to retreat in an organized fashion. The discord hit diplomats and even the Politburo, which increasingly often let this into the open. I think many remember the open anti-Gorbachev speech by Politburo member Yegor Ligachev about the “sellout” of East Germany. Moscow’s rivals could pick from its reaction whatever suited them best at the moment. One day, Gorbachev and Foreign Minister Eduard Shevardnadze could bargain with the West over unification terms, and the next day they could announce that they would defend the German Democratic Republic until the end.

The Soviet Union itself resembled a house divided which, as the Bible warned, cannot stand. The division went along ethnic

¹² Here is just one example: Gorbachev held a meeting in the Kremlin on German affairs on January 26, 1990, which he himself described as decisive in his memoirs. The Foreign Ministry was only represented by Shevardnadze, while the Central Committee was represented by six members. Neither First Deputy Foreign Minister Anatoly Kovalev, who headed a Foreign Ministry ad hoc working group, nor I, who was a member of this group, were invited to take part in the meeting. Apparently, Gorbachev never got rid of the habit of relying more on Communist Party functionaries than on the state apparatus.

boundaries. The Baltic nations were about to go; the Caucasus were on fire; and separatist sentiments were growing in Ukraine. The Soviet leaders were torn between snowballing problems at home – old problems which for decades had been swept under the rug, and new ones which surfaced when people became intoxicated by freedom and glasnost – and on the international arena, as there was deep inequality between the East and the West in the balance of forces. Moscow still had military might, and many of its troops were stationed in East Germany and some other Warsaw Pact countries. Yet it was here where a continuously ignored conflict lay – we had military might, built up through strenuous efforts, but could we really use it? The Soviet Army was well-trained and armed, and in East Germany alone it had over 750 cantonments, 5,000 military camps and 47 airfields, but could all those troops be moved out of the barracks? This was hardly possible due to domestic and international factors.

There was tense inner rivalry in the Soviet Union; everything was done to weaken the Center. There was even less accord among those who we believed were our allies. I remember a March 1990 Warsaw Pact conference in Prague. However hard we tried, we failed to hammer out a common approach to the German issue and even to a united Germany's non-participation in NATO. That was no wonder, since this happened one day after supporters of an actual Anschluss had won elections in East Germany.

In contrast, we were confronted by a strong and united rival. Naturally, there were differences among NATO members, but I do not believe that we could really take avail of them, especially considering our condition then. The Americans covered Kohl against the discontent of France, Britain, Italy and smaller European countries. If those countries broke ranks, they were immediately called to order. Francois Mitterrand, for example, who was the first to realize that the process could not be stopped, tried to get something for his country. And he really got it – Kohl promised, and kept his word, to speed up the establishment of a currency union within West European integration. Margaret

Thatcher held out longer than the others but, being more and more often in the minority, settled for minor concessions. U.S. observers rightly noted that those who resisted a fast reunification had respective aspirations, but lacked a policy.

The Americans tried to scare their worried allies with the possible neutrality of Germany and exploited the fact that no one in NATO wanted the American troops to leave West Germany. Kohl, in turn, frightened Washington with the Kremlin. He told Baker that if he had not put forward his plan, “the Soviets might have proposed reunification linked to the neutralization of Germany in a reprise of Stalin’s ploy in 1952.”¹³ Such a move, he asserted, “had been in the air.” (Where was it in the air, I wonder?) However, the differences in the West German-U.S. tandem were rare. For the United States and West Germany, the task was facilitated by changes in the internal political situation in Eastern European countries, above all in the German Democratic Republic, Poland where Solidarity won the elections in 1989, and Hungary.¹⁴ These changes were not in favor of the Soviet Union and, in general, not in favor of socialism, if we view them from the point of view of ideology.

The public on that side was purely pragmatic and not without treachery, to put it mildly. We, in turn, were overly ideologically minded. The “protection of socialist gains,” even when this was irrational, stood in the way of a policy that would place state interests above all. Regretfully, the Foreign Ministry apparatus during Foreign Minister Andrei Gromyko’s 28-year-long service steadily lost its ability to think and work creatively. What ministry officials called adherence to principle and what in real fact was merely a “nyet,” without any explanations, was valued more than a desire to find an unorthodox solution and to reach

¹³ Zelikow/Rice, *op. cit.*, p. 144. The conversation between Kohl and Baker took place on December 12, 1989.

¹⁴ Let’s not forget that the Hungarians opened their border with Austria in exchange for financial aid. A total of 40,000 East Germans left the country via this border.

a mutually acceptable compromise. Even in the years of perestroika it was a rule that no one at the ministry show any initiative on the issue of détente, while everyone turned up when it came to giving a rebuff.

Meanwhile, we had to peel the true intentions of our partners from under two or three layers of verbal acrobatics. In one specific case, we were obviously late: we overlooked the change in U.S. policy toward an early unification of Germany. At first, this policy was accompanied by assurances that Moscow should not take seriously some statements that were targeted at the electorate, and that in any case the keys to unification were in Soviet hands.¹⁵ What Bush or Kohl suggested to Gorbachev confidentially and especially in private was often taken as the ultimate truth. But when things turned hot, the U.S. and West Germany acted on the verge of foul: they used a whole arsenal of reticence, half-truths and promises which they knew they would never keep. Proofs of that are plenty, including in the above-cited books by Western authors. Here are just two classic examples.

Gorbachev skillfully operated the ‘Common European Home’ categories aimed at removing frontiers in Europe and advocated broader use of structures of the Conference for Security and Cooperation in Europe, both those already established and those only planned. The Helsinki Final Act not only fixed the borders in Europe, but also laid the foundation for collective security on the continent. That was our alternative to the confrontation of military-political blocs. West Germans repeatedly promised, including at the top level, that the process of Germany’s reunification would be incorporated into pan-European structures.¹⁶ Naturally, nothing like this happened, and completely different structures were put to use.

¹⁵ We believed that the famous formula of President Kennedy – which enraged West German Chancellor Konrad Adenauer – to the effect that since the Soviet Union did not allow German reunification, Germany would not be unified, was still in effect.

¹⁶ Zelikow/Rice, *op. cit.*, p. 147.

The other example is even more unattractive; it refers to solemn assurances by American and West German leaders, both confidential and public, that after a united Germany joined NATO, the latter would not move an inch eastwards. That was done to wrest consent from us for a united Germany's NATO membership, which we fiercely resisted. In addition, in the then atmosphere of rapid changes, people cherished the illusion that Europe soon would not have any military blocs at all. The newly-started transformation of NATO was viewed as confirming those hopes. In particular, NATO's summit meeting in London in July 1990 mapped out some measures in this direction. NATO showed its true self later, in 1999, when it bombed Yugoslavia, which was the first time in its history that it used military force.

In its actions toward Gorbachev in 1989-1991, the U.S. administration was guided by the rule "Give nothing, take everything, demand more." In January 1992, in his State of the Union address to both houses of Congress, Bush "declared triumphantly that the United States had won the Cold War."¹⁷ Those words were a logical consequence of that policy.

That was a delayed yet finally frank response to Gorbachev's call for cooperation. The Soviet leader viewed the end of the Cold War as a mutual victory of the Soviet Union and the United States and, moreover, of all sensible political figures of those times. Void of confrontation, the U.S. and the Soviet Union could become truly strategic partners. Menacing problems were already rising then, ranging from international terrorism to proliferation of weapons of mass destruction to extremism of all kinds and hues.

¹⁷ Beschloss/Talbott, *op. cit.*, p. 464. When the U.S. needed the Soviet Union during the first war in Iraq, Bush spoke differently: "The end of the Cold War has been a victory for all humanity" (*ibid*, p. 325). Emphasizing U.S. achievements did not help Bush, who lost the November 1992 presidential elections to Bill Clinton. The latter's catch phrase "It's the economy, stupid" diverted Americans' attention to everyday needs. "Lampooning Bush for claiming to have ended the Cold War, Bill Clinton compared him to a rooster taking credit for dawn" (*ibid*, p. 468).

The leaders of perestroika warned the Americans about them, and I witnessed that. For us, the solution of problems related to the end of the Cold War was a necessary stage which was to be followed by our joint work with the U.S. The Bush administration never went beyond the first part of that process. It was not inspired by the prospect of building a better world together, as Reagan had proposed at the end of his presidency. Apparently, it was more important to it to go down in history as the victor. What could be more convincing proof of victory than the breakup of the Soviet Union – even if this happened after the Cold War was over, this time once and for all?¹⁸ It seemed it was an hour of triumph for America, when it established itself as the full-fledged master of the world. It did not even need allied Western Europe, not to mention Russia. So, one could talk about lost opportunities only by stretching the imagination; they were simply not taken into account. The algorithm of projecting the American might onto the foreseeable future and further on was chosen consciously. The voices of advocates of a more balanced approach were shouted down by those who believed that America would have enough strength for everything.

So, what do we have as a result? Two wars with no end in sight, snowballing international problems, and a decreasing number of countries wishing to help the U.S. with solutions. There is hardly any country that has denied itself the pleasure of shooting critical arrows at the country whose popularity rating has been decreasing everywhere. Indignant Americans wonder why? After all, they have set themselves the noble goal of rebuilding the world on the principles of democracy. But, as Maximilien Robespierre, the French revolutionary leader, once said, no one loves armed missionaries.

¹⁸ U.S. Secretary of State James Baker wrote in his memoirs: “That August night [August 3, 1990], a half-century after it began in mutual suspicion and ideological fervor, the Cold War breathed its last at an airport terminal on the outskirts of Moscow” when he reached agreement with the Soviet government on a joint denunciation of Iraq’s aggression against Kuwait (op. cit., p. 16).

In conclusion, I would like to offer readers a highly hypothetical supposition. If the American administration had supported Gorbachev, would he have been able to bring his perestroika to a successful conclusion?

My answer is Gorbachev's chances would have definitely increased – especially if the Americans had come out as the leaders of political and material support for Gorbachev's reforms on the part of the West, as Thatcher urged them to do. I heard U.S. political analysts say that history could have developed differently had Reagan stayed in power. But, however important international factors could be, they were not dominant. As a poet said, there was a “little rift within the lute.”

For years, previous Soviet leaders, up to Konstantin Chernenko, had been building a system which, however, failed to stand the test of time. It was perfect in serving the interests of the ruling elite, placing it above all criticism and not making it accountable to anyone but itself. But rule without freedom doomed the country to a wretched existence. In economic, technological and many other respects, we were increasingly lagging behind the West with which we entered a bitter ideological and military confrontation. By the beginning of *perestroika*, the Soviet Union was already in a deep systemic crisis, which was barely visible to the naked eye as there was no publicity or freedom of information in the country. Gorbachev's attempts to softly change the system with economic and political reforms and put the country onto the track of social-democratic development were suppressed by the Communist Party bureaucracy from the inside.

Add to this the loss by Washington of a unique historical chance. It was overwhelmed by short-term interests and down-to-earth pragmatism. Perhaps the U.S. administration lacked the strategic farsightedness of great American presidents, like Woodrow Wilson or Franklin D. Roosevelt. By the way, the choice made by the Americans at the final stage of perestroika was not accidental – instead of supporting the reforms of Gorbachev who strongly advocated “democratic socialism,” they preferred the destructive anti-communism of Boris Yeltsin.

And even after the Soviet Union broke up (Bush was the first to learn the news from a telephone call from the Russian president) and after a new government came to the Kremlin, the U.S. did little to support Russian democrats. Instead, it took avail of Russia's weakness. The attitude toward Russia as a "defeated country" was expressed in NATO's eastward expansion, in the bombings of Yugoslavia, and in the U.S. withdrawal from the ABM Treaty. The same attitude is behind the strong unwillingness to admit that Russia's interests in the territory of the former Soviet Union have great and sometimes even vital importance for it. But the DNA of U.S. foreign policy is well-known and will hardly change any time soon.

Another more important question remains open: What path will Russia take?

In the opinion of many American experts, in order to overcome the deep crisis of the 1990s, Russia inevitably had to go through the restoration of an authoritarian regime. But perpetuating forms of a political system that closely resemble those that proved to be untenable in the period that was fatal to the Soviet Union would mean making the same historical mistake. Strength may prove to be illusory. If a country wants to feel confident on the international arena and to react to outside impacts quickly and adequately, it must build its home life in accordance with political parameters that produce the greatest economic effect and the best quality of life. This is particularly true at the present time of globalization and rapid technological progress. Russia will not get away from democracy.

History cannot be cheated – in it, like in everyday life, what must happen usually happens.

A Time to Cast Stones

Russia in the World: Vladimir Putin's Era

Timofei Bordachev & Fyodor Lukyanov

Foreign policy is apparently one of the most colorful and widely discussed aspects of Vladimir Putin's two terms as Russian president. Regardless of any subjective assessments of the course that he set in 2000-2008, everyone acknowledges that a qualitative change has taken place in the country's international positions during his presidency. Russia's activity has intensified and its presence in the international arena has become much more noticeable.

It is hardly possible to analyze Russia's foreign policy at the beginning of this century in isolation from the general tendencies of international relations. These tendencies set the frame and conditions — very stringent at times — for a country's foreign policy. The international system functions along principles that are mostly unchangeable, but it enwraps countries in an atmosphere of tougher or milder competition and sets the interests of one country against the other. It displays dynamic diversity and constantly puts countries in the face of ever more hitherto unseen challenges. Producing a reaction to them is a method of survival for a sovereign state, and these reactions often determine the participants' internal development and the style of their conduct at the international level.

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The foreign policy actions that the Kremlin took between 2000 and 2008 show up in a different light if they are placed in a global context and are not viewed from the traditional viewpoint of relationships between Russia and separate international partners.

An opinion poll done at the BBC's request in December 2007 showed that almost half of the respondents (45 percent) in G7 countries and 47 percent of those polled in another 30 countries had a favorable assessment of Putin's influence on relations between Russia and the rest of the world. Unfavorable assessments were made by 40 percent and 28 percent of respondents respectively. The same poll taken in Russia revealed an overwhelming endorsement of the president's foreign policy, with 86 percent supporting it and only four percent objecting to it.

Assessments of the impact that Putin's presidency has had on global peace and security reveal a still greater difference, as 47 percent of those polled in the G7 summed it up as bad, compared to 38 percent who thought the opposite. The corresponding indicators in the 30 other countries stood at 43 and 33 percent. As for Russia, 76 percent of the respondents here praised the Kremlin's role and only four percent called it negative.

A poll taken by the Levada Center in January 2008 showed that 60 percent of Russians believe that the country has been following a rational course in the international arena (compared to 41 percent in 2005), while the percentage of those who think that Russia's policy is confined to reacting to sudden circumstances has dropped to 21 percent from 40 percent over the past three years. Encouraging indicators grew sharply over the twelve months from January 2007-January 2008.

Sociology registers fluctuations in public opinion, while the mass media seeks to shape it. Assessments of Putin's foreign policy heritage that have been expressed in public are more often than not very emotional and over-ideologized. Everyone admits that at the beginning of the new century the Kremlin veered off the road that Russia had started down after the collapse of the Soviet Union. Some observers are happy with that, while others predict a rebirth of the 'Evil Empire.'

The disappearance of the bipolar system meant the emergence of broad prospects for the side that had won the ideological fight. But in spite of wide-ranging ambitions, the major international players proved unable to stabilize the situation after 1991 and let the system develop along its own rules.

The only thing that the most advanced layer of humankind was able to accomplish over the decade and a half that has elapsed since the end of the Cold War was to spread the European Union's and NATO's realm over a dozen or so countries that did not play key roles in international politics; to drive both organizations into a profound identity crisis; and to become mired in the muscle-ridden democratization of the 'Greater Middle East.' Now everyone is free to search for the sources of building up own strength independently.

Russia's gradual but irreversible return to the global economy and politics opened up new opportunities – and simultaneously set new requirements and structural restrictions to the national foreign policy. Finally, the nature of Russia's activity after 2000 and especially after 2003 was determined by the dynamics of its own economic and political development.

Russia emerged a full-fledged player in global politics in the first years of this century and displayed a conduct completely proportionate to that politics.

ENTERING A ZONE OF TURBULENCE

There were two factors that determined the content of Russian foreign policy in the period of 2000-2008 in practical terms.

First, internal development trends mostly forced the government to focus on a search for answers to the newest challenges.

Second, the general condition of the international system, which has hit the billiard balls of the interests of major world countries against one another more and more forcefully. The broad spread of anarchy is not a new historical phenomenon at all, but unlike in previous historical eras, the disappearance of clear international rules, which is taking place right in front of our eyes, has been magnified by objectively broadening economic interdependence.

Signs increasingly appeared in the first years of the century that the international system was entering a “zone of turbulence.” By way of capitalizing on this metaphor, which the U.S. political scholar Leon Aron used to describe Russia-U.S. relationship, one can say that the U.S.-led coalition’s invasion of Iraq in March 2003 was the biggest “air bump” of them all. This action, which ran counter to international law and the logic of rational behavior as well, made it clear as day that one could hardly count on the emergence of a more or less stable world order.

In full correlation with the quality of the international environment, Russia assimilated a build-up of its own relative strength as a principle of foreign policy to an ever-growing degree. One should especially consider the moral and physical resources for this, which Moscow had accumulated by the middle of this decade. This turn of events inevitably bred confrontational elements in the country’s conduct, especially noticeable in the regions and spheres of activity where it still had competitive advantages – in the energy sector, in governing the crucial institutions of international security, and in the territory of the former Soviet Union.

Moscow tried moving as forward as possible in all areas accessible for expansion. It also adopted a new common practice of dropping the dogmatic veneration of the principles it had formerly accepted. Since Moscow was not restricted by the frameworks of military and political blocs with Europe or the U.S., the intensification of its foreign policy was forced to take the form of saber rattling and ostentatious innuendoes against the North-Atlantic vis-à-vis.

At the same time, Russia could not ignore a growing mutual penetration in the economy and culture. As it tried to cope with a huge mass of opportunities brought up by globalization and to keep aftermaths of the latter under control, the Russian government copied much from its partners in the West and the East. The concentration of economic instruments of foreign policy under the direct or tentative control of the state came as a reaction to their growing role in international politics and broader global processes of reorganizing private-state relations.

Involvement in those processes became unavoidable for Russia as it switched over to a market economic model and as its openness to the world kept growing. Amid the rather messy international environment, it was hardly worthwhile to expect support and empathy from partners. The state was able to tap answers to some of the challenges of globalization inside the country – and it bumped into a structural requirement to spread this practice to areas outside its political borders. This immediately generated contradictions with other parties to international relations.

This is quite possibly why Russian foreign policy has become hyperactive rather than successful in the literal sense in recent years. Furthermore, the state has demonstrated a lack of readiness to use ‘soft power’ in competitive struggle – cross-border or completely nongovernmental instruments, which no one knew about at the dawn of the 1990s when the foundations of Russia’s new statehood were in the inception phase.

Judging from the platforms of the main U.S. presidential candidates, there are no signs that the world is going to become any more stable in the years to come. Washington is not changing its orientation toward securing global leadership, while the external conditions for this have worsened and the U.S. is past the peak of its opportunities. It is equally questionable – and in saying this we draw on the public statements and actions of Old World politicians – that countries will quickly learn to control cross-border processes efficaciously and without damaging their own basic functions. It is possible to stabilize separate regions and sectors of the economy (although the success in this sphere is still moderate enough), but the pot of world politics will continue to simmer for an indefinite period ahead.

Thus a transition from the Cold War model to a new status quo of some kind – the character of which is yet to become clear – continues, and in this situation it would be risky for the Russian state to begin to “gather stones together” in an attempt to build a new system of relations with its outside partners. There is a great risk of being peppered with stones thrown by those who still continue to toss them. It is important, however, to know when it is the right time to start gathering stones together.

RUSSIA AND THE UNGOVERNABLE WORLD

In each specific situation one or more group of countries in the international arena plays a decisive role that either helps to stabilize the situation or jolts it. But by and large, international processes are uncontrollable. Unlike in previous historical periods, neither separate countries nor ‘concerts of powers’ (calls for their revival were often heard in the 1990s and the early 2000s) have the ability to act as conductors on the global scale.

Implementing the New Global Order project had become impossible by the beginning of the new millennium even within the limits of a Greater Europe – widely viewed as the territory from the Atlantic Ocean to Vladivostok and from Svalbard to Mount Ararat. Russia and Ukraine – two crucial elements of the European security system – found themselves outside the framework of NATO and the European Union, the international institutions to which Western Europe and North America attached key significance. As a result, the scale of their expansion, which some experts, including Charles Kupchan, described as a unique opportunity to stabilize a new quality of the international system after 1991, appeared to be insufficient for solving such a momentous task. NATO and the EU engulfed countries whose influence on the system of international relations was indecisive at best.

The situation was further aggravated by the impossibility of making the UN a center of global power. The UN was founded in conditions of tough confrontation between two poles of power and had the goal of coordinating national interests in fairly simple and clear conditions. Now it cannot be readjusted to meet the demands of either an imperial or a multipolar world. The UN’s life as an institution of global political governance is clearly rolling toward an end, although this fact will not affect its future existence as a cluster of many useful specialized international agencies.

The attempts to impose a ‘soft’ model of hegemonistic stability in the form of the so-called ‘unipolar world’ where the U.S. and NATO would assume global responsibilities produced equally meager results. It turned out to be impossible to build the imperial order that many dreamed of throughout the 1990s and the

early 2000s. The current world has about 200 social entities and some five billion inhabitants, and even the only remaining superpower does not have the ability to maintain order in all of the corners of the empire.

A lack of ability to launch offensives by one of the sides immediately leads to growing pressures – forcible or peaceful – from others. As a result, as Thierry de Montbrial indicates, the U.S. – a potential hegemon – continues to lose its superiority, all the more so that new players are entering the international arena.

The entire period of 2000-2008 is evidence of a growth in pressure coming out of China – one more key player that is building up its economic and, partly, military power. Beijing has not shown any interest in joining communities of nations, in which membership could hurt the opportunities for China's own sovereign course. Meanwhile, the latter course has the exclusive goal of accumulating power and influence on the global stage.

China's unrelenting persistence produces a great impression on other parties in international relations, and this has become a factor that “measures the condition” of the international environment, especially if one considers China's size in the world's economic and financial sectors. And even if Beijing is not planning to start taking explicitly aggressive actions, the swelling of its military power and formation of a zone of political and economic dominance makes one suspect that China is preparing itself militarily.

Possible responses to the “Chinese challenge” (frequently overstated) range from full-scale deterrence to engaging it in various structures to coordinate interests. For example, the George W. Bush administration initially took a tough stance against Beijing, then quickly mitigated its approach. One way or another, the very growth of China's ambitions in various parts of the world has added more heat to the already glowing atmosphere of general competition.

A cautious rapprochement with the Celestial Empire, which Moscow had turned into an element of its foreign policy by the middle of this decade, was inevitable as the Kremlin could not afford to distance itself from a neighbor as strong and potent as

China. Yet all attempts to become the leader in that dialog – and Russia will scarcely agree to a non-leading role in Asia – have so far been rejected politely, while China’s “friendly expansionism” requires novel and far more sophisticated methods of counteraction than could be used toward the West, with which Russia has a historical and cultural relationship.

The last year of Vladimir Putin’s first term saw a marked transition from efforts to embed Russia into a structure of international relations formed with disregard for its will to a system based on the new rules of the game – a powerful and rigid promotion of Russia’s fundamental interests. By late 2002 and early 2003, it had become clear that Washington and leading Western European countries were by and large inclined toward conducting a self-reliant policy.

The commitment of Europe’s major powers – France and Germany – to their own vision of a “correct” world order ran into a still firmer conviction from the U.S. that truth was on its side. This brought about the notorious trans-Atlantic split in the UN Security Council regarding the necessity of a military operation against Iraq. The dominance of national priorities over collective ones showed up during the constitutional crisis of the integration process that broke out in the European Union in 2005 and 2006.

Russia drew itself into a discussion instigated by France over Iraq in 2002 and 2003 in the apparent hope of consolidating its positions, above all in Europe. Although Moscow’s zeal for gaining strength was still combined then with the acceptance of restrictions inherent in a multilateral approach, hopes for forging a steady trilateral (Paris-Berlin-Moscow) European format, one capable of widening the embrace of European integration and placing it in a new dimension, vanished very quickly. One could see clearly fairly soon that each member of the triangle pursued its own goals and had no interest in mapping out a common agenda. Russia, too, adopted the principle of “everyone’s a solo player” quickly enough.

The U.S. not only became the butt of harsh criticism after its actions in Afghanistan and Iraq encountered nationalism of an

irrepressible force, as John Mearsheimer, an important personality in the school of structural realism, puts it. The Americans also had to face the fact that their own material resources were diminishing. The fundamentally faulty approach of the so-called Neo-Cons – who were part of the American establishment and who from the very start wanted to install the U.S. as the uncontested leader – led all others to clear-cut conclusions. One could see more and more clearly that not a single country by itself or a political bloc can aspire to absolutely dominate or efficiently govern the international system.

This conclusion unavoidably stimulates other members of the international system – irrespective of their internal structure or political orientation – to beef up their relative strength measured against other countries and to employ all possible instruments and resources. In other words, a growth of general anarchy makes countries more aggressive and competitive.

As the competition gets tougher, each country tries to accumulate all of its aggregate capabilities – military, economic, demographic and others. In the broadest possible sense, the so-called ‘YUKOS case’ that came right on the footsteps of the invasion of Iraq by the U.S.-led coalition was a manifestation of exactly this tendency (which naturally does not rule out other motivations related to Russia’s internal structural specificity).

A shift toward tougher state control over foreign investment – which is more and more noticeable in the EU, Russia and to some extent in the U.S. – can be viewed as another testament to the willingness of leading countries to put themselves in “combat readiness.” Protectionist sentiments in the industrially developed part of the world were propelled by political reasons in the first place, as well as by the political and economic rise of new players, including Russia, since it stimulated market competition, both on the newly emerging and the already divided markets in equal measure.

THE SEAMY SIDE OF OUTER PROCESSES

Objective processes in the international arena overlap tendencies that have prevailed in Russia itself, either owing to their innate

reasons or to the impact of outside challenges. A discussion on what role the government should play in the economy, politics and public life determines Russia's political layout.

The cataclysms that Russia has gone through in the past twenty years or so have brought into the spotlight the issue of whether the state and its institutions are capable of stabilizing the situation in society and performing their basic functions. The destruction of the Soviet political and social model — where the state had an absolute monopoly — pushed living standards downhill and ignited ethnic and social strife. Along with this, the new Russian authorities acted within the realm of viewpoints that prevailed in advanced countries in the early 1990s, with an emphasis on free market mechanisms, and they were suspicious about the idea of government regulation.

The real goal behind the privatization of Soviet-era assets was more to break down the former system of life than to create a class of efficient owners. This goal was achieved and the previous model was eradicated. More than that, Russia laid the foundations for a market economy regulated by the mechanisms of private-state partnership. Yet by the end of the 1990s the viability of the state itself was questioned.

The political excesses of privatization — which resulted in key lumps of property falling into the hands of a narrow circle of people — predestined the inevitability of the state's revenge. As the new century was approaching, the state started to regain control over political and economic power. The man in the street supported the process of centralizing economic management, as he perceived the rising role of the state as a more reliable method of protection against the threats to security in a broader sense, which multiplied exponentially during the previous decade. One proof of this can be found in a poll that the ROMIR research center conducted in January 2004. Almost 65 percent of the respondents believed then that the state must interfere in the economy and 85 percent said that strategic industries must go over to state ownership.

It is noteworthy that those desires fitted into a general tendency toward strengthening the 'national champions' in Europe

(where France is the best example) and large-scale mergers of private corporations in different countries to the effect of boosting their global competitiveness.

The specific business activity of Russian economic flagships which arose out of the ruins of the Soviet economic system exerts a dual impact on political processes. From the very start, Russian mineral resource majors have been working not on the domestic market, but on the global market amid strong competition. Their growing international competitiveness requires logistical consolidation, which in itself negatively affects the competitive environment inside Russia.

Economists have also pointed out another contradiction: Russian corporations, which so anxiously watch the tightening grip of the state inside the country, are extremely interested in a very strong state that is able to support their external expansion when the situation concerns international business. This objective is explicitly dubious and scarcely achievable. The mounting role of the state in domestic and international economic affairs has become a political reality and, as a consequence, the flagships of the national economy have been organically integrated in the kits of foreign-policy instruments.

DEGRADATION OF INTERNATIONAL INSTITUTIONS

‘Competition’ evolved during Putin’s presidency into a notion that is most typically used to describe the world around us. It is found as necessary in the president’s annual state-of-the-nation addresses to parliament and in statements made by Foreign Minister Sergei Lavrov and other high-ranking officials. Vladislav Surkov, the chief ideologist of Russian politics, links ‘competition’ directly to ‘sovereign democracy,’ which he views as the basic concept. “Sovereignty stands for openness, rapport with the world and participation in open struggle, and I’d say sovereignty is a political synonym for competitiveness,” Surkov writes.

The prevalence of competitive motives in defining tactics toward partners inevitably pushes the Russian government —

and, frankly speaking, the leaders of other powers as well – into a situation where it has to solve “the prisoner’s dilemma” every single day. (In game theory, the prisoner’s dilemma is a non-zero-sum game where the players have to decide all the time whether it is more beneficial to cooperate with or to betray one another – Ed.) The broader the spectrum of issues presenting mutual interest and the higher the institutionalization of relations – evidence to which is found in Russia’s interaction with the Euro-Atlantic community countries – the more frequently such decision-making is required.

The mistrust that reigns among “prisoner states” has led to the ignoring of reciprocal initiatives that Russia and Western countries had come up with in recent years in a bid to achieve military/political and economic compromises. Simultaneously, the erosion of the world order with its origins in the Cold War is heading for a finale, as the last institutional foundations of that order are corroding. Moscow had tried to act as a status quo power until a certain moment in an attempt to keep at least some parts of the Soviet Union’s political heritage, but after it gained enough strength, the country dashed into a revision of international rules itself.

Russia made public in 2007 its renunciation of the Treaty on Conventional Armed Forces in Europe (CFE) – a Cold War-era fossil – and toughened its stance against the Organization for Security and Cooperation in Europe (OSCE).

Prior to that, emphasis was made during the greater part of Vladimir Putin’s presidency (roughly until July 2006) on the consolidation of this country’s positions in the world through engagement in various multilateral formats. The entire approach to foreign policy hinged on the idea of Russia’s integration into the community of advanced countries. Meanwhile, Russia’s understanding of integration, its forms and conditions changed over time and, except for rare occasions, was based on the importance of Russia getting stronger.

The G8 summit in St. Petersburg in July 2006 can be viewed as the peak of Moscow’s intense attention to international institu-

tions. Although the format of the conference hosted by Russia did not envision the discussion of anything serious, its symbolic significance alone made the spending for its preparations worthwhile. That moment also coincided with the peak of Russia's efforts to join the World Trade Organization, the highest intensification of interest toward the signing of a new basic agreement with the European Union, and the stepped-up activity in the Shanghai Cooperation Organization.

Still, the cooperative approach failed to meet Moscow's expectations and there were a number of reasons for this. First, the Western partners had unequivocally adopted an instrumental approach to international institutions and rules. No one could leave unnoticed anymore the U.S. and Europe's inclination to using Russian integration endeavors as a tool for getting one-sided benefits.

The other side of the story is that counterparts in the West and the East stuck to this line of conduct due to a general change in the global situation and not out of trivial petty calculus. This process is objective in some part, as external circumstances change quickly, while the institutional structure still gives off glimmers of the Cold War. For another part, the changes are lubricated by actions by the world's major powers with the U.S. in the lead, as the latter has long made all the strategic decisions and is acting on the 'loose hands' principle.

Russian diplomacy has ultimately adopted that principle, too. Moscow is disappointed with the meager capabilities of international regulations – either universal or effective within individual organizations – for promoting its national interests. An opinion took shape in Russia *de facto* in 2007 that the existing rules should be revised with account of a new layout of forces, or else no one should insist on their binding force.

The moratorium on the CFE treaty, which we mentioned earlier, the tough stance on the status of Kosovo that thrust the problem of determining it outside the UN Security Council format, the nomination of an alternative candidate for the post of the IMF Managing Director along with demands to reform the organization, a slowing down of the talks on WTO membership, and a vir-

tual denial of the OSCE's powers fall in line with that approach. On the whole, there is an impression that Russia regards multilateral institutions as inefficient, and since other leading powers do not show any readiness to impart new functions to them, Moscow does not plan to overburden itself with obligations either.

The spirit of competition wields ambiguous influence not only on old institutions, but also on the ones that are still in the phase of formation. Although the Shanghai Cooperation Organization is important for the diversification of Russian foreign policy, its development is perceived as a veiled form of competition between Moscow and Beijing for influence in Central Asia and far less as a forum for the joint resolution of the region's problems.

Ad hoc coalitions that have proved to be highly productive in recent years – the special formats set up to resolve well-specified issues like the six countries negotiating the Korean nuclear problem or the five countries focusing on the Iranian nuclear program – are regarded as an alternative model, which Russia has begun to turn to.

In contrast to that, measures for engaging institutions that currently exist have not produced any noticeable progress. For instance, the OSCE conference convened at Russia's demand in the spring of 2007 to discuss the CFE treaty's prospects brought about nothing. Efforts to add a pan-European dimension to missile defense discussions and to involve Russian and U.S. partners from NATO and the EU into them have been unsuccessful too, as most member-states of those organizations are interested in a bilateral resolution of the problem by Moscow and Washington and do not want to share responsibility for it, not even partly.

The degradation of institutions has affected the pillar of order in the Western world – NATO. The alliance continues to function successfully from the formal point of view, growing and building up its presence in the zone of influence of its former enemy, but in effect it shows signs of a profound conceptual crisis that could be seen vividly in September 2001 when the U.S. rejected proposals from the European partners and preferred to solve the problems of its own security without relying on the alliance.

Further attempts to brace NATO's combatant spirit and even to give the bloc a global dimension bump into reluctance from Western Europe to take part in combat operations outside the traditional zone of responsibility (and no military threats are in sight there). U.S. and NATO officials air sounds of alarm over a possible defeat in Afghanistan – the only armed conflict where the bloc is involved.

A number of participants in international relations view a multipolar world as a blessing, as they link many evils of the past few years to attempts by a single power to establish global domination. However, they ignore the fact that multipolarity arising amid a dilapidation of global institutions does not mean a reverting to stable multilateral formats. There are grounds to expect an escalating confrontation of “everyone against everyone” and the cropping up of fly-by-night alliances for solutions to specific problems.

The erosion of the clear structure of international relations stirs up general nervousness, and the reaction by leading Western nations to Russia's symbolic gesture in the summer of 2007, when an expedition to the Arctic Ocean put the Russian tricolor on the ocean floor at the geographic North Pole, served as a graphic indicator of this. Not one Russian official even hinted at the possible international legal effects of such a gesture, yet it produced an outburst of emotions under the slogan “Rebuff Russian expansionism!”

Simultaneously, all countries concerned began instantly to unfold a variety of programs with the aim of guaranteeing their sovereignty in the Arctic, since huge contradictions exist in that region not only between the West and Russia, but also between NATO members.

On the whole, mutual suspicions and mistrust have increased, which can be seen, among other things, in the willingness to tap an abutment point in the surrounding chaos and to bring back the good old format of systemic confrontation. The adherents of this “regularization” most typically clutch at an ideological justification that sets “liberal capitalism” against the “authoritarian” one. They also claim that the Russian and Western sets of values are incompatible.

Political scientist Sergei Karaganov has said that this testifies to the lack of readiness on both sides to strike a “big deal,” which seems only natural from the point of view of rational logic, i.e., the improving of conditions for EU corporations to have access to Russian energy resources and thus build a platform for a Russia-EU strategic union. Nor are the parties ready to solve other – and frequently no less crucial – issues on the bilateral agenda.

THE STATE AND ITS QUALITY

The system dooms the countries to a tough competitive struggle that can reduce to zero the beneficial results of the unavoidable mutual economic and cultural penetration or mutate it into an instrument of control over losers who have failed to adapt to the reality of globalization. That is why the Russian state faces a crucial challenge to meet the requirements for quality that multiply and get more complicated each day.

Generally speaking, the state moved in line with global tendencies during Vladimir Putin’s presidency and reacquired a greater part of the levers of economic, social and political control that had slipped out of its hands in the previous decade. But along with the new successes in that field, questions arise about the efficiency of using these newly obtained levers, as well as about the adaptability of the government machinery and its sensibility to society’s needs.

It is obvious that the current toughening of competitive conduct of states – with Russia’s intense involvement in them – combines with the ever-growing mutual penetration. Of course, there is no arguing that states continue to regulate most cross-border processes (with the exception of acts of God, such as pandemics or global warming). The control embraces spheres like the Internet, or the movement of capital. For instance, the government is physically able to control the work of web servers located on its sovereign territory.

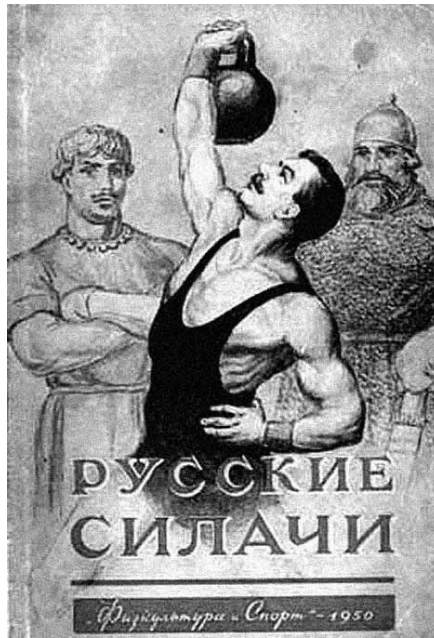
And yet globalization in the economy, politics and – partly – in culture also poses a challenge to the state. As for the global financial markets that were initially controllable by the financial

and economic authorities of major countries, they have become complicated to the extent that now they are falling out of any effective control.

Globalization does not change the rules of the game qualitatively (ideas about a decay of sovereignty, which were very popular a decade ago, look quite naïve now), but it forces countries to search for new instruments to execute their functions – redistribution of material values and legitimate use of violence. That is why the quality or – let us put it this way – sophistication in the use of sovereign rights and duties becomes a prerequisite for survival in the anarchic world of the 21st century and a new field for competition between states.

Russian consciousness still operates with an embedded idea that the state is a sovereign dispensing national interests and choosing methods to defend those interests. Globalization greatly complicates the external and internal environment, as it transforms sovereignty, but never wipes it out. To remain efficient, along with keeping hold of the helm of power and forming the political environment, today's state admits to a large degree of self-regulation, above all through reflection and coordination of various interests in the field of the public good, in the civil sector and in private enterprise.

Strategic Pursuits: Ups and Downs



Russian strongmen. Soviet brochure, 1950

“ It was difficult to imagine that a country that had just lost an ideological and economic race and had veered off the track of political and economic transformation might start claiming the same status as the winners. Nonetheless, by the middle of Putin’s presidency, Moscow felt that it was mature enough — both morally and materially — for talking to the West on conditions of parity. ”

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The Gains and Failures of the Energy Superpower

Andrei Denisov & Alexei Grivach

The phrase “the energy superpower” has a special place among the phrases that are customarily used to characterize Vladimir Putin’s Russia. It is true that Putin himself has tried to distance himself from such a description of the country he has led for two terms. “As you may have noticed, I never say Russia is an energy superpower of any kind,” Putin said in September 2006 when he met with members of the Valdai Debating Club. But then he added: “Yet we have more opportunities than almost all other countries... Everyone should realize that these are our national resources, and should stop casting a greedy eye on them as if they were their own.”

Whatever the Russian president’s attitude is toward this impressive phrase, many people associate it with his presidency, which was marked by an extreme politicization of the energy business. Natural gas – Russia’s main export – is a priori not free from the implications of political influence, but in the past few years gas supplies have completely turned into an object of large-scale strategic bargaining. As for gas transportation projects, it looks like their economic feasibility has moved to the background. Business plans have given way to the geopolitical concepts of a reviving great power.

Naturally, Russian gas giant Gazprom sets the priority of economic interests since their implementation is necessary for turning the company into a global energy corporation. And yet the

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Kremlin's political considerations have become crucial for mapping out the gas monopoly's model of conduct. It is not accidental that Gazprom's decision to change over to unified principles of price formation in trade with neighboring countries — a step quite reasonable in itself from the economic point of view — occurred right after Ukraine's Orange Revolution, which was far from an economic event. It is also obvious that the new gas prices are set for different CIS countries proceeding not only from commercial considerations.

The politicization of cooperation problems in the energy sector has had a generally bad impact on Gazprom's business development plans. Even the projects much needed for the development of the market and to upgrade Europe's energy security have bumped into fierce resistance — like the Nord Stream pipeline — or have been ruined altogether — like the plan to build gas storage facilities in Britain and Belgium. The situation with the purchase of assets in the European Union is no better. The growing political friction between Moscow and Western countries and the Kremlin's path to limit foreign investment in Russia's strategic industries have led to a virtual blocking of access for Gazprom to large assets in Europe.

Another egregious example are the consultations on purchasing Centrica — Britain's biggest gas distribution company — which provoked an unequivocally discouraging reaction in society and power agencies even at their initial stage. Earlier, E.ON Ruhrgas, Gazprom's partner in Europe, refused to sell the Russian giant a large stake in the Verbundnetz Gas distribution company, the de facto monopoly operator in the former East Germany. Efforts to swap assets with a number of other European companies were also unsuccessful.

The only transaction made in that sector was the swap of a stake in Severneftegazprom, a Gazprom subsidiary that is developing the Yuzhno-Russkoye deposit, for a 15-percent stake in the Wingas distribution company. But this deal was successful only because Gazprom's status in Wingas has not changed radically — the Russian company remains a second-tier partner there.

Gazprom has pushed forward with its projects in Europe and has signed agreements on building pipelines, but on the whole its gains are confined to isolated spot buys. In contrast, the original idea was dramatically different and presumed full-scale integration through a marked change of the corporation's role in the European market.

AN ALARMED WORLD

So what happened? One should remember that Vladimir Putin's presidency had a very hopeful beginning. Russia launched intensive energy dialogs with the EU and the U.S. It seemed that Moscow had tapped a pool of steadily growing revenues and – more importantly – a lucrative place in the international division of labor, which could become instrumental in getting a worthy position in the nascent world order of the 21st century.

Yet Russia failed to choose the correct tone that would facilitate building a steady system of mutually beneficial barter relations (energy resources for technologies and access to mineral wealth for access to markets). This is due in no small degree to major changes in the global situation that occurred after Putin's election as president. The international environment has become far less stable and predictable and general nervousness has grown. The U.S. campaign to democratize the Middle East that was meant – among other things – to enhance the developed world's energy security, has failed. Meanwhile, the era of sky-rocketing oil prices that began in 2003-2004 is fueling Moscow's sense of importance and success, while simultaneously breeding an overblown and often irrational phobia of energy resource dependence in the West – above all, in Europe.

Nonetheless, today's global economy – largely based on the growing consumption of hydrocarbons – has its own implacable reality. Energy market players will either have to make arrangements among themselves or learn how to live without each other. The latter option requires a markedly innovative leap – the West should drastically reduce its consumption of energy and switch to alternative sources of energy, while Russia needs to extensively

diversify its economy away from a predominant orientation toward the export of raw materials. However, no prerequisites for such radical breakthroughs are in sight yet, and so talks and further compromises are thus far only mandatory elements of the agenda of a global political dialog between Russia and the West.

The scope of world market players includes major and fast growing importers of resources, such as China and India, and regions where gas imports are gradually increasing – like North America and Europe. It also comprises exporters: those that have no claims to a sizable increase in the internal consumption of resources – like the Middle East and Russia – falling into the group of major exporters. But Russia, too, faces the task of a profound industrial modernization that may bring changes to its energy balance and stimulate a growth in the domestic consumption of energy. For instance, the implementation of plans for the mass construction of new power generation facilities will require huge amounts of natural gas to fuel power generators, while currently the country is short of resources to meet the demand for fuel at a handful of new medium-sized installations.

The risk of Russia turning into a net importer of energy looks theoretical now, but it cannot be ruled out that Russia will find itself in the future unable to meet the ever-growing demands of foreign customers. In this light, the fears of Western consumers that they will be left with nothing after the slices of Russia's "resource pie" are doled out do not look paranoid, even though they are overstated.

A HOPEFUL BEGINNING

Until recently, the idea of an equitable dialog between Russia and its Western partners looked like little more than a tribute to diplomatic politeness. It was difficult to imagine that a country that had just lost an ideological and economic race and had veered off the track of political and economic transformation might start claiming the same status as the winners. Nonetheless, by the middle of Putin's presidency, Moscow felt that it was mature enough – both morally and materially – for talking to the West on conditions of

parity. The process of national rehabilitation was fostered by a factor typical for countries rich in resources; namely, the hike in world prices for crude oil and the associated increased value of European contracts for natural gas.

In 1999, when Putin was nominated for prime minister and then as the successor to Boris Yeltsin, a barrel of Brent crude only cost \$17.98. It had climbed by as much as \$10 per barrel the next year, which was followed by a period of international market volatility, with prices suddenly falling to \$24 or then going up to \$29. The time of a steady and steep growth in prices only began in 2004, when a barrel of Brent was sold for \$38. One record followed another in the next phase. The average annual price rose to \$54 in 2005; to \$65 in 2006; and then to \$72 and higher in 2007. In other words, prices have quadrupled over the past eight years and this trend is not expected to change. The leaps above the psychologically important mark of \$100 or even \$110 per barrel do not surprise anyone anymore and the next average annual indicator will obviously set one more record.

Export prices for the natural gas that Russia sells to the EU and former Soviet republics also went rampant, soaring to \$350 per thousand cubic meters in the first quarter of 2008 from \$64 in 1999. Gazprom's gross revenue shot up to \$38 billion in 2007 (as assessed by experts) from \$6.8 billion in 1999.

The market frenzy was coupled with a tax reform in the oil industry that ensured the maximum imaginable skimming of excessive profits to the state budget and with an overhauling of property in favor of state-controlled corporations, thus imparting a new quality to the Kremlin's foreign policy. This policy aims to streamline bilateral investments providing for an equivalent exchange of assets and support of a technological modernization of the Russian economy. However, the West demonstrated an apparent lack of readiness to accept this change in Russia's conduct, viewing it as "energy blackmail" rather than an invitation for civilized bargaining.

This turnaround did not take place overnight. Putin's first term saw the unfolding of an energy dialog with the U.S. and discus-

sions of cooperation with Europe were more fruitful than ever before or afterwards, and even with reciprocal concessions. Gazprom agreed to eliminate the ban on the reselling of Russian gas from agreements with European customers, and the European Commission acknowledged the inviolability of those long-term agreements, even though this change did not match Brussels' drive for the liberalization of the gas market. It should be noted, though, that the liberalization has triggered stern resistance on the part of corporations inside the EU.

The green light for an energy dialog with the U.S. was given in spring 2002 during a visit by U.S. President George W. Bush to Moscow. In the rising tide of cooperation in the format of the international antiterrorist coalition, the parties started mulling over new projects for creating an infrastructure for Russian crude exports to the U.S. Sometime later, an idea surfaced on producing liquefied natural gas for target supplies to the North American market.

While the energy dialog with the U.S. was largely based on political willingness rather than objective prerequisites, the European sector of cooperation was expected to bring real practice results. In 2000, Romano Prodi, then President of the European Commission, initiated the 'Russia-EU Energy Dialogue' which discussed a sizable increase in Russian energy exports to the EU in exchange for investment and technology.

The political environment for Russian investment in the oil and gas sector was advantageous at that time. British Petroleum was allowed to pool its oil and gas assets with shareholders of Russian oil company TNK and thus set up the Russian oil industry's first-ever private oil major co-owned by foreign shareholders. At the same time, ConocoPhillips received permission to get a big stake in Lukoil.

The same period saw the Kremlin's broad "easygoingness" in international politics, and this could be seen in the energy sector, too. For instance, Moscow did not react sharply when Turkey and Poland started pressing for a reduction in the amounts of gas they were supposed to take from storage facilities under long-term agreements.

BROAD JUMPS

This was a short-lived honeymoon though. In the middle of the 2000s, Russia and the West glaringly showed the futility of the conviction that policymaking has economic propellants. The level of political trust began to noticeably deteriorate – partly due to subjective factors, partly due to the growth of destabilizing tendencies in international relations.

Moscow became growingly aware of its capabilities in a new world of increasingly expensive oil where all the big powers are obsessed with the idea of energy security. This is how the idea arose of swapping energy sector assets, and offers were made to Western partners to pay for access to the development of Russian deposits with things much more precious than money – with their own markets and technology.

“If you have strong legs, you’d better engage in broad jumps rather than play chess; but if you have a big head, then chess might be better for you. So when we speak about high technologies and so on, we somehow forget to say where we’ll get them from,” the Kremlin ideologist Vladislav Surkov said in February 2006 as he explained the Kremlin’s economic policy in plain language to members of the United Russia party. Surkov pointed to the importance of “using our competitive advantages and developing them. [...] Russia’s concept of an energy superpower stands in line with this approach. Russia must get access to high technologies by exporting gas, crude oil and oil products,” Surkov said.

Gradually, the idea of such swaps took the form of scorn toward oil and gas revenues – naturally, from the angle of ideology, not budgetary policies. “We must not only think of how much money we can draw from it – because money is just paper. We’re dealing with global money issuing centers, aren’t we? Do the Americans really care for that money? They’ll ‘draw’ as much of that money as they want. What we need is knowledge, novel technologies,” Surkov said. About a year and a half later, Vladimir Putin said at his annual major press conference: “Offer us adequate assets in return. And if you think about money, no one needs those scraps any more, and this is our honest and open position.”

However, this “honest and open” position did not produce a response from the Western partners, either in 2006 or in 2008, and Moscow started readjusting it step by step. In 2005 and 2006, the government worked intensely on a new version of the Law on Mineral Resources aimed at tightening the terms for access by foreign investors to Russia’s mineral wealth by sealing off the largest or “strategic” deposits. The bill is still only on paper. Meanwhile, the idea of protectionism in the “strategic branches” of the economy is gaining popularity all over the world, including in countries that formerly took pride in their commitment to the principles of free trade.

When Russia declared energy security as its motto during its rotating presidency in the G8, it became clear that this was meant to demonstrate Russia’s relationship with the rest of the club and not the club’s relationship with the rest of the world. In late 2005, Putin chaired a meeting of Russia’s Security Council to discuss this country’s role in ensuring international energy security. He spoke in detail about the importance of joint efforts to provide traditional types of fuel for the world economy, as well as the diversification and reliability of resource supplies, including protecting them against the terrorist threat.

Yet at the same time, the government was preparing for an operation destined to show the essence of Russia’s presidency in the G8. On January 1, 2006, following a conflict with Ukraine over gas prices, Gazprom slashed gas supplies to Kyiv. The step — extremely awkward in terms of the propaganda that accompanied it — produced a far more turbulent reaction in the West than the Security Council’s decisions. Even though none of the Western customers experienced any serious problems with gas supplies and no one made claims against the seller’s right to demand that customers pay market prices, any discussions of any kind of joint efforts in energy security lost all practical sense.

The image of Russia in the minds of the European public immediately changed from “a reliable energy supplier” to “an energy gendarme,” while Gazprom got the image of “the Kremlin’s energy weapon.” Accusing Moscow of politicizing the

energy business, the West also armed itself with an exclusively political approach. The climax of that approach could be seen on the sidelines of a NATO summit in Riga in December 2006 where voices could be heard that energy disputes with NATO member-states should be considered as an aggression requiring a unified response.

As for a Russian-German strategic agreement on the construction of the Nord Stream gas pipeline – which the two countries had formalized shortly before the Russia-Ukraine price conflict and which had been viewed as a harbinger of new relations in the energy sector in Greater Europe – it turned into a pretext for consolidation for all the adversaries of a rapprochement with Moscow that could come across inside the EU.

THE ENERGY FIST

Brussels developed an *idée fixe* to goad Russia into fulfilling the requirements of the Energy Charter. An agreement appended with the Charter and signed back in the mid-1990s was called upon to cement the principles for protection of Western investments in the production and transportation of hydrocarbons and the guarantees on the part of transit countries, which had emerged in large number after the breakup of the Soviet Union, in the territory separating the regions of production – Russia and Central Asia – and the regions of consumption – fifteen member-states of the then EU. Importantly, some provisions of the agreement did not cover the territory of the EU, which means its ratification did not imply a most favored partner status for Russian investors.

The gas conflict with Ukraine and Kyiv's siphoning off of European-bound gas from pipelines confirmed that joining the agreement (Ukraine had ratified it) would not offer an efficacious mechanism of control over transit commitments. As Russia refused to accept the regulations specified in the Energy Charter, Brussels started speaking about the European Commission's right to allow investment in the EU's hydrocarbon transportation infrastructures (i.e., pipeline networks and underground storage facilities) only on the basis of special cooperation agreements.

Moscow stood firm and did not cede an inch of its political position to the Europeans, which was a matter of principle. Vladimir Putin summed up the gist of the situation at a Russia-EU summit in Sochi in May 2006, just a few weeks before the G8 summit conference in St. Petersburg. “When we speak about our full-fledged joining of the Energy Charter and the supplementary protocol on transits, what are those documents about, in fact? They are about free access to the infrastructure of hydrocarbon production and the infrastructure of transportation. OK, suppose you get that access to those infrastructures, and what do we get in return? And we hear from our partners: You get the same. And I’ve already said earlier: Where do you have the deposits that you’ll let us get to? Or where do you have gas-main lines of the kind that Gazprom boasts of having? There are none. That’s why we don’t object to doing this in the future. But we must understand what we’ll get in return. That’s easy to understand if you remember your childhood. You go out of the house into the street holding a piece of candy in your hand and someone comes over to you and says: Well, give me your candy. And you hold it tight in your sweaty fist and tell him: And what do I get for this? So we just want to know what they are going to give us in return. And suppose they don’t have anything adequate?”

The image of a greedy kid squeezing a piece of candy in his sweaty little fist did not puzzle Putin when he cited it as a model of conduct for a great country. More than that, almost simultaneously with the St. Petersburg summit, the authorities tightened their energy fist. In early July 2006, the Russian parliament passed a federal law on gas exports, which granted Gazprom – the owner of the gas supplies system – “the exclusive right to export gas.” Putin signed the bill into law almost immediately after the participants in the summit had left St. Petersburg.

It is not surprising therefore that the G8 conference produced unpretentious results. Russia came to the conference table waving a slogan that said: “Egotism in energy leads to a dead end.” This understandably meant the customers’ egotism. But while it looked quite suitable in a program article that Putin timed for the start of

Russia's presidency in the G8, no one felt like undersigning it in the summit's final declaration.

The only thing that Moscow managed to push through at the summit was to formalize on paper "the promotion of a dialog and exchange of opinions between all the parties concerned on the problems related to a growing interdependence in the energy sector and security of supply and demand" as a major global objective of energy security. The concept of a 'secure supply and demand' proceeded from the assumption that the exporter of energy resources, i.e., Russia, must have the confidence that its investment in the upstream segment will not be wasted and the resources will be in demand. Moscow obviously believed that the European policy of secure demand should have made itself manifest in a renunciation of the *idée fixe* to diversify the sources of fuel. Europe, too, wanted to make Russia give up diversification – in terms of markets.

EQUIVOCAL RESULTS

Moscow's energy diplomacy in the first years of the 21st century cannot be given a clear assessment.

On the one hand, other countries have begun to treat Russia seriously and have stopped calling into question its right to a tough defense of its national interests – including those in the energy sector. In spite of the excesses that could have been avoided and the inconsistency stemming from political considerations, the system of energy relations with other post-Soviet states has become more rational and transparent than it was five to seven years ago. There has been no quality breakthrough, but Russian companies now have a stronger foothold in the world market.

On the other hand, the atmosphere of energy relations has deteriorated; it does not help to attain the goals that the Russian government set for itself at the very start of the new century. The sweeping politicization of energy issues, fuelled by both suppliers and consumers, also destroys the foundations of the market and pushes its participants toward the logic of conduct standing far apart from the economy. A rather limited inventory of foreign pol-

icy tools – military and political influence, information opportunities and ‘soft power’ that are weaker than Western ones – has compelled Moscow to focus more on energy levers – a fact that whipped up nervousness among Western partners and heightened counteraction to Russian initiatives. For instance, the EU got down to formalizing political restrictions in 2007 on investing in the energy sector on the part of foreign state-controlled corporations.

A campaign to raise prices for Gazprom’s clients in the CIS has ended up with the logical result – ultimatums by Turkmenistan, Uzbekistan and Kazakhstan, which also demanded European prices for gas supplies to Russia. On the whole, there has been a hike in the political contest for the sources of hydrocarbons and delivery routes.

A search for a balance of interests between suppliers and consumers of energy resources will be the central tenant of global – and especially European – policies in the foreseeable future. The mutual rejection of politicized decisions in energy relations might lay the foundation for a responsible conduct typical of genuine partnerships.

What distinctive features could this conduct have?

First, the reliable fulfillment of commitments. In the past few years, Gazprom has extended agreements with its major European customers – Germany, Austria, the Czech Republic, Italy, France and others – for another fifteen to twenty years, and this is an encouraging factor.

Second, the development of transport infrastructure. Whatever the criticism the Nord Stream and South Stream projects received from some countries, they certainly play a positive role in supplies to the European market. Those who are worried about possible energy dependence on Russia should remember the cost of these pipelines, which is too high to think about using them as an “energy weapon.” Europe should look at the economic logic as it seeks to diversify its sources of natural gas and to choose alternative pipeline routes. This would be less expensive.

Third, it is high time Russia formulate the rules of the game on its own energy market and in the sphere of access to mineral

resources. Even if these rules set tough conditions for foreign investors, the very availability of clear legal regulations will become a factor of stability and predictability.

Fourth, politicians in Russia, Europe and the U.S. should discuss and resolve energy problems with a sober mind, avoiding mythical threats or breeding mutual mistrust and blackmail. In this sense, Moscow would be wise to give up speculations on creating “a gas OPEC.”

Finally, the Russian authorities should persistently implement the plans for innovative economic development that were formulated at the beginning of 2008 in a concept of the country’s development to 2020. If one uses Vladislav Surkov’s phraseology, they are called upon not only to “coach” the Russian economy in “broad jumps,” but also to teach it how to be a fairly good chess player. The implementation of those plans would, in the end, reduce the pressure that domestic demand exerts on the energy balance and, consequently, would facilitate the stabilization of the entire European market.

Breakthrough Into the Global Arms Market

Alexander Rybas

The marked consolidation of Russia's positions on the global weapons market is one of the major achievements of Vladimir Putin's presidency. Nominal arms sales and hard-currency revenues from these sales have steadily increased. These revenues stood at \$3.4 billion in 1999, while Russian state arms trader Rosoboronexport saw its arms exports reach \$6.2 billion in 2007.

Table 1. Russian arms exports in 2000-2007, \$ mln in current prices

	2000	2001	2002	2003	2004	2005	2006	2007
Total	3,681	3,750	4,800	5,400	5,780	6,126	6,460	7,200-7,500*
Sales by Rosvooruzheniye/ Rosoboronexport								
	2,970	3,300	4,000	5,075	5,120	5,226	5,300	6,200

* Source: Center for Analysis of Strategies and Technologies

At the time of this writing, no official figures on total arms exports for 2007 have been made public yet. However, as follows from past experience, independent exporters account for no less than \$1 billion in supplies. This assumption puts overall exports for 2007 at \$7.2 billion to \$7.5 billion, with arms sales for the last eight years more than doubling.

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Even more impressive is the growth of the portfolio for contractual commitments. It stood at \$6 billion to \$7 billion throughout the 1990s, while it reached a staggering \$32 billion at the end of 2007. Rosoboronexport accounted for about \$23 billion of this amount, and independent actors accounted for the rest.

It would be fair to say though that the growth of arms exports would not be that impressive if it is counted not in current, but in constant prices. The U.S. dollar was worth much more in Russia and in the rest of the world in 2000 than it was in 2007. However, one can state a marked increase in supplies in physical terms, especially if one takes into account the export of heavy-class fighter aircraft.

The Su-30MK heavy-class fighter has been the indisputable leader in sales in the last eight years. Since 1999, 100 such aircraft have been sold to China and about 50 to India (and as many component kits for the fighter's licensed production). Another 28 Su-30s have been ordered by Algeria, 24 by Venezuela, and 18 by Malaysia. In addition, several Su-30MK and Su-27 aircraft have been bought by Vietnam, Indonesia and Ethiopia. In individual years, the production of heavy fighters in Russia reached 50 units, which is comparable with the production of similar class fighters in the United States.

The last few years have seen a marked increase in demand for the MiG-29 medium-class fighter. After a difficult period in the second half of the 1990s, when supplies of these aircraft plummeted to almost zero, their export has resumed. At first, they were sold to Asian and African countries of modest means, namely Sudan, Bangladesh, Myanmar and Eritrea. Later, in 2004, Russia signed a major contract with India's Air Force for the development and production of 16 MiG-29K shipborne fighters for the *Vikramaditya* aircraft carrier (formerly Russia's *Admiral Gorshkov* aircraft carrier). Fighter supplies include demand for expensive airborne weapons and ground aircraft maintenance equipment. Accompanying contracts of this kind may reach the hundreds of millions of dollars. On the whole, aircraft account for about 50 percent of Russia's arms exports. This export structure is also characteristic of the major classical exporters – the U.S., the UK and France.

China is still Russia's largest client in the naval arms trade. Over the past several years, Beijing has purchased three destroyers from Russia, about ten submarines, and large batches of sea-launched missiles. India has purchased three advanced Talwar-class frigates and ordered three more ships. It has also launched an extensive program to modernize its submarine fleet and actively purchases shipborne antiship and air defense missile systems. In some cases, India was the first customer of such systems and actually paid for their development and production.

Standing apart from these contracts is the BrahMos project for the development of the PJ-10 sea-, air- and shore-based heavy supersonic missile. The project is being implemented by a Russian-Indian joint venture of the same name on a risk-shared basis. This is the first program of this kind in Russia. The experience gained during its implementation will be used for the development of a Russian-Indian fifth-generation fighter and a medium-class transport aircraft.

Finally, in 2004, Russia and India concluded a major and very difficult transaction for the purchase by India of the Russian *Admiral Gorshkov* aircraft carrier. The contract provides for the ship's retrofitting in order to accommodate horizontal take-offs and landings for MiG-29K fighters. New Delhi will receive the ship free of charge, but will pay for its repair and modernization. According to press reports, the contract is worth \$750 million; in addition, India will pay as much for 16 deck fighters.

China is the largest buyer of Russian air defense systems – it has ordered more than 10 battalions of the S-300PMU-1/2 long-range surface-to-air missile system. The demand for this and other air defense systems has markedly increased lately, and large contractors have appeared in the Middle East and Northern Africa. One more client is Vietnam, which has bought two S-300PMU-1 battalions.

Many clients purchase Russian armaments and equipment for the Ground Forces. The largest buyers include, above all, India, which has purchased about 700 T-90 battle tanks. Algeria is another major buyer.

DIVERSIFICATION

The very low geographic diversification of Russian arms supplies in the late 1990s was behind the country's potentially very dangerous structural weakness on the global arms market at the time. Up to 80 percent of Russian arms were sold to only two countries — China and India. At the same time, the structure of the Chinese and Indian demand was markedly different.

China imported large batches of series-produced armaments or those that had not undergone in-depth modernization, and the supplies often were to be made within a relatively short period of time. For example, Moscow and Beijing signed a contract for the development and supply of the Su-30MKK fighter aircraft to China in 1999, and the next year Russia supplied the first few fighters to the customer. The Chinese version of the aircraft was a rather simple modernization; yet, even considering this, its development took an unprecedented short period of time. In all, Russia sold 100 Su-30MKK fighters and 20 Su-27UBK combat trainers to China from 2000 to 2004, i.e. an average of 25 aircraft per year, plus component kits for the licensed production of Su-27SK aircraft.

In contrast, the Indian military ordered armaments with very high operational and technological characteristics, causing Russian science and industry to work at the limit of their capacities in the mid-1990s.

Initially, the Indian Air Force and Navy ordered small batches of armaments, while supplies were made over long periods of time. The 1996 contract for the development and supply of 32 Su-30MKI fighters graphically manifested the characteristic peculiarities of Indian imports. The contract provided for an extensive amount of research and development. New Delhi wanted the fighter's onboard equipment to include French, Israeli and Indian-made components, which involved high technical risks. The integration of foreign-made equipment with Russian systems proved to be the most difficult task faced by designers from the Sukhoi Design Bureau.

The combination of large short-term orders for series-produced systems placed by China, whose commitments involved no risks,

with India's contracts for sophisticated hi-tech systems helped Russian industries and companies that were awarded the orders in order to survive and develop. In this respect, Chinese and Indian contracts were a good blend for Russia: Chinese orders ensured extensive series production for Russian manufacturers, while Indian orders stimulated intensive R&D for new sophisticated systems.

After 2005, however, the situation changed dramatically. By that time China had achieved the initial saturation of its market, whose demand was increasingly met by the Chinese defense industry. India, which had acquired the initial experience of operating its weapon systems and which had had Russia liquidate technical shortcomings characteristic of the first trial armaments, placed new and very large orders. In addition to 172 Su-30MKI fighters, contracted in 1996 and 2000, New Delhi ordered 58 more. The Indian Navy ordered three more Talwar-class frigates in addition to the three it had purchased in 2003-2004. Rumor has it that the Navy plans to buy a third batch of Russian-built frigates.

Nevertheless, Russia had always realized that exports ensured by the demand of only two clients could not be stable. It was clear that the growth of the Chinese defense industry would inevitably bring about a reduction or even the termination of imports from Russia. The Indian market had always been open, and British, German, French and Swedish manufacturers had always been present there along with Soviet companies. In the early 1990s, the Indian military, shocked by the breakup of the Soviet Union, began a consistent policy to diversify sources of armaments. France and especially Israel have markedly increased their presence on the Indian arms market over the last 15 years. At the turn of the century, the United States also began to display a growing interest in it.

Russia took consistent efforts to diversify its clients. These efforts produced the first serious results in 2003 when Russia signed contracts with three Southeast Asian countries – Vietnam, Malaysia and Indonesia.

Vietnam ordered S-300PMU-1 surface-to-air missile systems, four Su-30MK2 fighters, and Project 12412 missile boats.

Malaysia signed a \$900 million contract for the purchase of 18 Su-30MKM fighters, while Indonesia purchased four Su-27/30 fighters and ten helicopters, worth a total \$200 million. The orders placed by the three countries with Russia in that year reached a total of about \$2 billion. The transactions caused some commentators to talk about the formation in Southeast Asia of a third pole of consumption for Russian weapons and military equipment, in addition to China and India.

However, a real breakthrough in diversifying the market for Russian arms exports came in 2006, when Russia concluded large package transactions with Algeria (\$7.5 billion) and Venezuela (\$3 billion). Coupled with contracts signed with Middle Eastern countries, the Algerian and Venezuelan packages ensured the formation of a balanced portfolio of contractual obligations. This was one of Russia's most important achievements in the field of military-technical cooperation, which is comparable to, if not more important than, a quantitative growth of exports.

GROWTH FACTORS

What factors are behind the growth in Russian exports and their diversification? Russia's broader presence on the global arms market was caused by many military-political, economic and image factors. These include, above all, upsurges of military-political tensions in the world in 1999 and 2003, the fast economic, military and technological growth of China and India, favorable trends on the oil market, which ensured a high paying capacity of countries in the Middle East and Northern Africa, and finally, the political and economic strengthening of Russia itself.

In the period from 2000 to 2005, before the contracts with Algeria and Venezuela, Russian exports grew due to Chinese and Indian demand, which increased together with the rapid economic and technological development of these booming great powers. Both China and India are world leaders in economic growth rates, which helps them to allocate more and more resources for the modernization of their Armed Forces, above all the Air Force. Both nations are engaged in large-scale programs for the purchase

and licensed production of Su-30MK combat aircraft. Apart from purchasing large batches of the fighters, they have launched expensive projects for creating basically new industries capable of making advanced fourth-generation fighter aircraft.

Both countries do not conceal their regional and potentially global ambitions. India is seeking to become a dominating military power in the Indian Ocean region “from Cape Town to Sidney.” This strategic goal, together with other factors, is behind the purchases of foreign, including Russian, naval armaments.

The contract with Russia for the retrofitting and modernization of the Russian *Admiral Gorshkov* aircraft carrier has a key role in these plans. After the contract’s implementation, India will become the world’s fourth country (after the U.S., France and Russia) to have aircraft carriers accommodating horizontal take-off and landing deck aircraft. In addition, the need to create an escort group is stimulating the Indian Navy to import new class frigates (Talwar), six of which have been ordered from Russia.

China, which does not have a strong naval tradition like India, has not started yet – at least officially – to create an aircraft carrier fleet of its own. Nevertheless, China’s force projection potential has markedly increased due to purchases from Russia. The Navy of the Chinese People’s Liberation Army has purchased Russian shipborne anti-aircraft systems, which have enabled the Chinese Navy to operate beyond the range of shore-based fighter aviation. Thus, for the first time in its history, the PLA Navy is capable of operating more than 500 to 700 kilometers from shore.

At the same time, there were also short-term factors behind the active purchasing efforts by China and India in the first few years of the new century.

India’s imports were particularly motivated by its armed conflict with Pakistan in the district of Kargil in 1999. New Delhi focused on contracts for Ground Forces armaments. In particular, it bought 40 Mi-17 transport/assault helicopters and hundreds of T-90S main battle tanks. After the Kargil fighting, India also decided to modernize its frontline aviation.

China's military-technical policy was apparently influenced by the NATO bombings of Yugoslavia in 1999, after which Beijing increased its imports of air defense systems. Unlike other defense fields where Chinese purchases were marked by a conservative approach to technical risks, the PLA was the primary customer of the latest S-300PMU-2 anti-aircraft missile system. In general, Beijing focused its attention on Ground Forces armaments after 1999.

The next stage in the growth of Russian exports, which included the Algerian and Venezuelan package contracts and the purchases of Russian military equipment by Middle East countries, was caused by other factors. These included a sharp deterioration of the military-political situation in the Middle East following the U.S. operation in Iraq in 2003, and U.S. pressure on Iran and Syria. Washington's policy of force triggered a growth of anti-American sentiment in the world, including a leftward shift in the policies of Latin American countries, above all Venezuela. These changes also contributed to the growth in demand for Russian arms.

This eagerness to buy Russian armaments was also stimulated by soaring oil prices which made it possible for Algeria, Venezuela, Iran and – indirectly – Syria to make large purchases. This factor reflects a general trend in global history, namely a positive correlation between high oil prices and a growth in demand for armaments on the global market. So in this case Russia was simply just as lucky as other exporter countries.

In Algeria and Syria, Russia has used a new and rather efficient instrument to promote its military hardware. The matter at hand is the conversion of those countries' debts to the former Soviet Union into purchases of Russian machine-building products, including military hardware. This solution has proved particularly effective with Algeria, whose resource base differs greatly from Russia's. In exchange for its \$4.7 billion debt, Algeria has endorsed contracts to the tune of \$7.5 billion.

Finally, the improvement of Russia's financial standing has enabled Rosoboronexport to use the practice – standard for other

exporters – of preferential crediting of weapons importers. For example, Moscow and Jakarta concluded an agreement in 2007 to give Indonesia a \$1 billion target-specific loan for the purchase of Russian armaments. Indonesia plans to use the loan to modernize its Air Force. Immediately after receiving the loan, Indonesia placed an order with Russia for six Su-30 fighters in addition to the four such aircraft it had purchased in 2003.

The signing of the Algerian and Venezuelan contracts meant more than just a sharp quantitative growth of Russian exports and an expansion to new markets; it signaled a radical change of the quality of Russia's military-technical cooperation. The package nature of these contracts and their unprecedented (for the Russian defense industry) volume show that Russia has switched over from sales of individual types of armaments to offers of package solutions to the military security issues of importer countries, from supplies of armaments as commercial goods to military security offers as political goods. In this regard, the growth of Russian supplies, their differentiation, and particularly the expansion of export geography mark changes in Russia's positions in the world.

Some importers have begun to view Russia's integral might as, at least, equal to that of France or Britain. Unlike China, for which Russia was a non-alternative source of armaments for a long time, Algeria and Venezuela can use the services of European exporters, which can meet a large part of their requirements.

It is only natural that Russia's success has worried its competitors and made their competition with Moscow still keener. In particular, they have tried to actively counter the implementation of the Algerian package.

Paradoxically, some objective factors must work against Russian exports, yet the latter keep growing from year to year. These factors include the exhaustion of what the Soviet Union had achieved in technology, the saturation of the Chinese market, and stepped up competition on the Indian market. This paradox means that Russia's achievements in arms sales since 2005 are due to the country's political and economic consolidation and its return to the ranks of great powers – at least, as regards its image.

GROWTH PROBLEMS

The signing of the Algerian and Venezuelan packages in 2006 and the placement of the Indian orders for fighter aircraft and battle tanks in 2007 have brought about a basically new phenomenon in post-Soviet Russia – some defense industries are operating at full capacity. Whereas in the 1990s the defense sector struggled hard to find orders, it now faces the challenge of their efficient and timely fulfillment. In a way, Russia's defense industry is now faced with a crisis of transition from occasional contracts and working below capacity to large-scale production. In addition, the industry is experiencing a shortage of manpower and state-of-the-art production assets, which adds to difficulties with fulfilling contracts.

Manufacturers that have encountered this problem include, for example, the Irkut Corporation, which builds Su-30MK fighters, Almaz-Antey (a developer and producer of many air defense systems, in particular the S-300PMU long-range surface-to-air missile system), and the Tula-based KBP Instrument Design Bureau. At present, these companies are fully engaged with orders until 2012. The reason for these changes is not only the high demand for Russian armaments on the global market, but also the compression of the country's production capabilities. Moreover, the end producers of armaments and military equipment are operating well, as a rule, and are capable of meeting the growing demand.

The problems become aggravated at lower levels of cooperation where the situation is much more difficult. Here are a couple of examples.

The demand for Mi-17 helicopters in the last few years has reached 150 machines a year. Three helicopter plants in Russia can supply 120 to 150 machines, but the production of reduction gear does not exceed 80 to 100 sets, thus impeding the fulfillment of export contracts and putting into doubt the industry's ability to meet the fast-growing demand from Russian clients. Similarly, the production of Su-30MK fighters is also limited – not so much by the capacity of aircraft plants in Irkutsk and Komsomolsk-on-Amur, as by the capacity of companies producing components (e.g. ejection seats).

Full operating capacity for many years in advance paradoxically has a negative side to it. Previously, one of Russia's advantages on the arms market was its ability to supply products within a short period of time after a contract was signed, or at least when no large-scale R&D was required. While buyers of Western, especially European, armaments sometimes had to wait for the ordered equipment for years, the Russian defense industry was often able to start delivering products within months after a contract was signed. Now, potential buyers of Russian armaments that are in particular demand – first of all air defense systems – also have to wait several years for their turn. The problem will become even more aggravated when and if the Russian Army, too, decides to place large-scale orders for new weapons systems. Then the issue of large-scale investment in the expansion of production will inevitably rise.

In the last 18 to 24 months, export contractors have been faced with one more problem, namely the fall of the U.S. dollar, since a majority of contracts are denominated in dollars. Coupled with the fast growth of production costs, wages, and energy and utility prices, this factor sharply reduces export profitability. Moreover, contracts, especially those concluded before 2005, increasingly often result in negative profitability. There have already been precedents when Russian companies have had to admit that they are unable to fulfill some contracts or entered into unpleasant negotiations with buyers on a revision of contractual terms.

All these factors show that Russia's present capabilities in promoting its armaments on the global market exceed the defense industry's ability to fulfill current and potential contracts. The further growth of military exports is mainly limited by production capacity. The technological modernization of the Russian defense sector and a marked improvement in the quality of its management must be a top priority task for the country in the next few years.

Dictatorship of Law: Interim Results

Vladimir Ovchinsky

Exactly one month after Vladimir Putin became Russian president, he stated a formula that immediately turned into a slogan. As he addressed an expanded session of the Russian Justice Ministry's collegium (the highest consultative and decision-making board in a Russian government department) on January 31, 2000, the then Acting President Putin said: "Whatever we take up today – a reform of the judiciary or state construction – we must recall the indigenous Russian traditions of justice and law and bear in mind that the dictatorship of law is the only type of dictatorship that we all should obey."

"Dictatorship of law" became a leitmotif of Putin's eight years as president, and few other things have aroused so many heated debates and passionate outbursts as the measures to translate this goal into practice. But if one is willing to sum up Putin's second term, it is important to put aside emotions and politicized assessments, which unfortunately prevail in discussions of this area of governance, and to conduct an unbiased analysis of the achievements and failures in Russian criminal policy.

Russian school of law theory (Dmitry Dril, Mikhail Chubinsky, Sergei Gogel) traditionally interprets the notion of 'criminal policy' as the one embracing all spheres of activity of the state and society that aim to curb crime. It is crime – its dynamics, qualitative parameters and structure – that measures the efficiency of criminal policy.

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TRICKY STATISTICS

Experts judge a criminal situation using data that features registered crime statistics. The latter, no doubt, does not give a true and fully objective picture of the situation. Take, for instance, the 3,583,000 crimes registered last year. The figure marks a 7.1 percent drop versus 3,865,000 crimes committed the previous year. However, it signals a 20.7 percent increase compared to the number of crimes in 2001, the first year of this century.

Professionals understand perfectly well that the officially registered crime rates have a tag in the form of so-called latent crime, which official reports do not reflect. A research paper compiled by the Research Institute of the Russian Prosecutor General's Office from 2001-2007 showed that the unpublicized portion of criminal activity stood above 20 million crimes a year over those years and this exceeds the official data by a factor of six. So, are crime rates growing or falling in reality? Given the scope of 20 million, one can manipulate specific figures however he or she pleases.

But overall, one can claim that the curves of crime rates testify to a crisis in Russia's criminal policy. The proof of this is found in an analysis of how the criminal situation has changed over an extended period of time. The first year when the number of crimes in the Russian Soviet Federative Socialist Republic climbed over one million was 1980 (1,028,000 crimes). The figure went above the two million mark and hit 2,168,000 crimes in 1991, and it hit a record of three million (3,001,000 crimes) in 1999. In other words, the figures reveal a certain pattern, under which the number of crimes increases by one million every ten years.

The crime rate dropped by half a million between 1999 and 2002, even notwithstanding efforts to introduce order in the accounting of registered crimes, but something happened between 2002-2005 that made crime grow again at a runaway rate of one million, reaching 3,554,000. As one can see, an increase typical of a decade was achieved within a mere three years. This runaway growth continued in 2006 and 2007, and it looks like the situation might be called a *Big Criminal Bang*. This surge in crime is developing against the background of unimaginable complications in

the system of registration and accounting of crimes under the new Criminal Procedures Code. There has also been a sizable decriminalization of criminal offenses in the wake of amendments introduced to the Criminal Code at the end of 2003.

Quite naturally, a general crime rate sounds like “an average body temperature per patient per hospital.” Since murders are traditionally regarded as the least widespread type of criminal activity in Russia, many criminal analysts suggest that the registered number of murders should be a benchmark for the real situation with crime in the country. The number of murders and attempted murders fell 19.1 percent in 2007 compared to 2006.

It is even more meaningful to look at the data for 2007 and 2001, which shows a drop in murders by 33 percent to 22,200 from 33,600. One might think that the progress in fighting crime is self-apparent. However, questions arise in connection with precisely this steep decline in the numbers of the most heinous crimes, and even a superficial comparison of statistical data exposes the illogical development of the situation.

The number of murders fell more than 30 percent in the first seven years of this decade, but the number of missing persons went up the same 30-plus percent, or to about 50,000 in 2006 and 2007 from 34,200 in 2001. These figures only reflected cases that were reported by families, friends or neighbors of the missing persons. The problem is that the police do not always register the reports even if they are made, and a hair-raising story in Nizhny Tagil in the Urals provides ample testimony to this. A gang of pimps in that city killed dozens of young women from 2002-2005 and then buried their bodies in the woods. An investigation revealed that the police had not even opened missing person cases for a number of the victims.

Medical statistics also look confusing. Mortality rates have been rising in the category denoted as ‘unclearly established causes of death’ since the early 1990s. This includes, among other things, the discovery of a dead body under circumstances that are not conducive to establishing the cause of death, as well as ‘unknown causes.’ This makes one think of violent actions considering Russian reality. Experts in one of Russia’s constituent ter-

ritories conducted an analysis of medical statistics and found that most of those who died in ‘unclearly established conditions’ had not been in contact with other people for a long time and their disappearance simply did not bother anyone.

It was precisely this category that most victims of the Bitsa Park killer Alexander Pichuzhkin fell into. The man killed 61 people in Moscow’s Bitsa Park and one should not be surprised then that in many of these cases nobody made any reports when the victims disappeared and nobody opened criminal cases after their bodies had been found.

Doctors state with a large degree of confidence that the ‘unclearly established’ cases cover up the deaths of members of marginal groups – the unaccounted murders of vagrants, alcoholics or drug addicts. The curve reflecting the increase in deaths of this kind has climbed much higher over recent years than the curve reflecting registered murders, missing persons and discoveries of unidentified bodies.

Whatever the case, the statistical drop in the number of murders should be looked at very skeptically. Consider the two-fold increase in murders (22,200) committed in 2007 against the background of a generally shrinking population versus the 10,000 murders committed in 1985 when Mikhail Gorbachev’s *perestroika* was just beginning.

In a formula based on 100,000 people, Russia has 1,900 percent more registered crimes than Japan, 1,600 percent more than Germany, 1,300 percent more than France, 1,100 percent more than Sweden and 250 percent more than the United States. Also bear in mind that, unlike all of these countries, the Russian authorities do not list deaths resulting from the infliction of serious bodily harm as murders (from 16,000 to 20,000 cases annually).

The worsening crime solving rates testify to a crisis in Russia’s criminal policy, too. A total of 1,807,000 criminal cases remained unsolved in 2007, while the total number of unsolved cases since the beginning of the decade stands at 9,400,000, including 3,800,000 felonies and aggravated felonies (this figure was computed considering offenses solved in recent years).

FROM “BOUNDLESS LIBERALISM”
TO “TIGHTENING THE SCREWS”

It would be improper, of course, to explain all the alarming tendencies in the criminal sector by legislative novelties alone, as anyone who knows at least the basics of criminal studies knows that crime parameters are influenced by a multitude of objective and subjective factors and by the general social and economic situation. Yet it seems that the careening of criminal policy from “a boundless liberality” to a “tightening of the screws” in this decade played a damaging role – and this careening did take place.

In 2001, Russia adopted a new Criminal Code – “the most liberal and democratic one.” Surprisingly, it did not contain one of the basic notions – “the establishment of truth” (remember the millions of unsolved crimes now). And for some reason, the most ‘democratic’ norms of the Code began to infringe on people’s rights immediately after its effectuation.

There is strong evidence to show the inconsistency of the new Code – Russia’s Constitution Court issued six resolutions from 2003-2007 that struck down 19 clauses of the Criminal Code as contradicting the Constitution. (Compare this with the old Soviet-era Criminal Code, a document standing far apart from current international standards, just sixteen clauses of which were declared unconstitutional between 1995 and 2000.) Simultaneously, the Constitution Court passed dozens of broad explanatory definitions every year, aiming at explaining the provisions of the Criminal Code so that citizens, investigators and judges could *understand* them for a start.

A single example is enough to show just how far radical legislative liberalism can drive the country. Let us take up the Constitution Court’s resolution No. 7-P of June 27, 2005. The justices passed their ruling in connection with inquiries from the Legislative Assembly of the Republic of Karelia and the Oktyabrsky district court in Murmansk. The Constitution Court dismissed as unconstitutional the clauses that did not make it necessary for the prosecution and investigative agencies to take steps toward establishing the offender’s identity if a petition for

this was filed by a person who had purportedly sustained slight bodily harm or had been beaten.

Such omissions practically guaranteed no punishment for hooligans, members of organized criminal groups and extremist formations, who terrorized their victims with physical assaults, knowing that their actions would not entail any reaction from law enforcement.

The mass riots in the northwestern town of Kondopoga in 2006 openly showed that a lack of criminal measures for hooligans first led to murders and then brought about the riots.

The “boundless liberalism” of the criminal policy displayed all of its color at the end of 2003, when liberalization and decriminalization embraced many norms of the Criminal Code. One of the most debatable points consisted in a shifting of all actions related to the manufacturing and possession of cold steel (knuckle-dusters, shivs, shanks, sheath-knives, etc.) to the category of administrative offenses. Under conditions of swelling youth extremist groups of every description (football fans, skin-heads, nationalists, etc.) this liberalization stripped the agencies of power of important levers for reducing the offensive activity of youth mobs.

Yet the highpoint of liberalization came when the authorities removed a provision in the Criminal Code dealing with confiscating property as a type of punishment for criminal offenses. Let us recall that the measure was used only for felonies or severe felonies specified in the Criminal Code. This liberal novelty was introduced in violation of all the international commitments Russia had undersigned by ratifying United Nations and Council of Europe conventions on fighting organized crime, corruption, money-laundering and terrorism.

The confiscation of property was reinstated in the Criminal Code in 2006, but not as a type of punishment. It now falls into the class of “other measures of crime-preventive impact.” It does not apply to all the crimes that it should apply to, and that is why this problem has not been resolved and continues to bring up many questions among Russian citizens and law enforcement.

The Russian authorities will have to return to the problem of penal confiscations in any case, as all the latest documents passed by the UN, the Council of Europe, the European Union (the organizations with which Russia coordinates all the legal steps in fighting corruption and organized crime) and the G8 are spearheaded in that direction. The case in hand is, first and foremost, the exposure of illegally earned assets and their repatriation to the countries of origin. The World Bank and the IMF got down to practical actions under the Stolen Assets Recovery Initiative in 2007, and the G8 Finance Ministers gave their support to this initiative at a conference on May 19, 2007 in Potsdam, Germany. G8 leaders also discussed the problem as part of the general fight against money laundering at a summit on June 6-8, 2007 in Heiligendamm, Germany.

To comply with its international obligations, Russia will have to revise the radical liberalist provisions of the Criminal Code and the Law on Counteraction to the Legalization of Illicit Revenues. The provisions have been formulated in such a way that do not make it possible to eradicate the laundering of money obtained through a whole range of economic offenses, and this stands in glaring contrast to the Council of Europe's *Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism* (Warsaw 2005).

Russia's anti-crime policy suffers not only because of radical liberalism. The establishment of an Investigative Committee with the Prosecutor General's Office and the introduction of amendments to the Criminal Procedure Code highlighted an entirely different tendency that can be conventionally called a "tightening of the screws."

The novelties practically abrogated the traditional system of procuracy supervision over the progress of investigations carried out by various branches of the Prosecutor's Service, the Interior Ministry, the Federal Security Service (FSB), and drugs control agencies. Some members of parliament and researchers claim that the system of checks and balances, which had taken decades to take shape, was smashed into pieces in the blink of an eye.

The most repugnant conclusion is that both radically liberalist and radically repressive decisions were made behind the scenes, in an atmosphere of secrecy and without a broad discussion where researchers and practical specialists might have a say. The same concerns the new Criminal Procedure Code, the package of amendments related to the liberalization of the Criminal Code and the legislative changes in connection with the setting up of the Investigative Committee reporting to the Prosecutor General's Office.

The Federal Law on Counteraction to Terrorism was passed in the same way. As a result, vital and serious provisions coexist in it with rather bizarre clauses, like one that presupposes the shooting down of jets seized by terrorists in keeping with secret (!) instructions. Such provisions included in a law on fighting terrorism are real bonuses to suicide bombers, who now do not even have to carry explosives and guns on board with them using complicated techniques. It is just enough to declare that a jet has been hijacked and is heading toward, say, a nuclear power plant. The Air Force will do the rest then. Did the authors of that law or the people who passed it realize that by doing this they broke up a many-years-old system of coordination that unites airline crews, air controllers and security forces in cases of a hijacking?

DECRIMINALIZATION OF RUSSIAN LIFE

An unprecedented offensive against regional-level corruption — governors, heads of republics, chairmen of regional governments and their deputies, mayors of regional capitals and their deputies, and speakers of regional legislatures — has started in the past seven years. More than sixty officials from these categories have been brought to criminal responsibility in 35 Russian constituent territories for stealing budgetary funds, corruption and economic crimes. This cleansing has also affected the next echelon of power, as dozens of mayors and deputy mayors from the so-called 'urban centers reporting to republican, territorial or regional governments,' heads of municipal entities, legislators of all levels, as well as chiefs and employees of regional and/or local administration staffs have stood trial.

National leaders have been mentioning more and more often in their speeches a decriminalization of the country (in the social sense, not in the legal one). This term was officially aired during the dismissal of Governor of the Novgorod Region Mikhail Prussak, the court trial of Tver Region legislators, and the appointment of the president's new envoy to the Far Eastern Federal District. Meanwhile, statements on decriminalization coming from the president and other top state officials mean that the situation in a given region, legislative assembly, or federal district is rife with crime.

Speaking in franker terms, it would be appropriate to declare the decriminalization of the entire country. Or, rather, its demafiazation, since organized crime in today's Russia has turned into a form of social organization of life. Corruption guarantees the functioning of the bureaucratic machine – quite naturally, in accordance with its own informal rules and 'notions' and not in accordance with the law.

The Russian mafia is multifaceted, and still we have learned ways to fight it. It is enough to recall the experience of Tatarstan, which has held unprecedented court trials of gangs and criminal communities en masse in recent years. Even Italy did not see judiciary procedures of this scope and complexity during its clamp-downs on Sicilian mafiosos. The numbers of defendants are huge and eyewitnesses get top protection. Events in Tatarstan show that efficient fighting against crime is really possible if the authorities show the resolve and political willingness.

Tatarstan was Russia's trailblazer in novel measures for the protection of eyewitnesses. In 2001 and 2002, when the court heard the case of a gang known as Hadi Taktas, a bloody Kazan-based group whose members committed 15 murders and dozens of other felonies, eyewitnesses and victims were brought to the courtroom under the guard of the Russian special forces. They would wear overalls with hoods covering their faces and would give evidence under assumed names, speaking into microphones that masked their voices.

A Tatar court found members of the Tagiryanov criminal community – accused of 22 murders, kidnapping and other heinous

crimes – guilty in 2007. The success of the whole trial hinged on whether the only surviving hostage and two members of the gang, who had confessed their guilt, would remain alive. The authorities took all the possible steps envisioned by the Law on the Protection of Witnesses and Victims. The same protective measures were enacted in 2007 towards 46 eyewitnesses at the trial of the Kazan-based gang *Kvartal* that was charged with eleven murders and dozens of cases of extortion, physical assault and robbery.

Similar wide-ranging measures were enacted against the leaders and members of the *Obshchak* ('Common Cash Fund') criminal community, who found themselves behind bars in 2007. *Obshchak* spread its criminal web over the entire Russian Far East. Investigators say its history started twenty years ago and its ranks include about 4,000 people. Over the twenty years in the field, the criminals have established close links with Chinese Triad societies and Yakuza in Japan and have grabbed control over the illegal production of seafood and timber, and the smuggling of non-ferrous metals and cars.

While *Obshchak* is a powerful interregional criminal net, the criminal community headed by Semyon Mogilevich, arrested in January 2008 in connection with the case of the *Arbat Prestige* cosmetics company, represents organized crime on a totally different level. Here one can speak of a transnational criminal organization operating on virtually all continents. Its versatile operations range from weapons trading, drugs and prostitution to engagement in large-scale strategic economic projects from money laundering through the biggest banks to racketeering and banditry.

Russian Interior Ministry data suggests that more than 400 large criminal formations are active in Russia in 2008 that have a strong impact on the social, economic, and political situation in various regions. They have a sophisticated hierarchic structure and conspiracy, a division of organizational and executive functions, their own economic foundations and links to agencies of power.

However, the ministry's figure on the total strength of organized criminal groups (OCG) – 10,000 people – is highly suspect. *Obshchak* alone has 4,000 members, and could it be possible that

the rest of the organized criminal community has only 6,000 members? The 10,000 people in question most obviously make up the kernel of OCGs nationwide. The author of this article took part in preparing materials on organized crime for the Russian President's Security Council ten years ago. Experts counted 80,000 members of OCGs back then, and if decriminalization is at the top of agenda at the moment, organized crime could have hardly diminished over the previous ten years.

The Russian government should build its anti-crime policy having an exact picture of the criminal situation in the country. This means that there needs to be available statistics and operative data on the leaders and members of criminal groups.

National projects must undergo open discussions before they are signed into law, and work on them should pool together all the available researchers and practical experts. Lawmaking and the adoption of organizational decisions rules out reliance on clans and lobbies. The objective of Russia's criminal policy is to localize crime, to guarantee the security of citizens, and to set up conditions for the development of a modern economy.

Decriminalization at the regional level should take account of each specific region, especially in the North Caucasus. It is important to prevent the handover of all levers in criminal policy to the local elites there. Experts are apparently right in saying that the system of clan economies, which took shape over many decades in the North Caucasus, is a multilayered phenomenon that cannot be overhauled by changing the top element of the structure.

Such clan-based economic systems sow discontent in people, especially among the young. This discontent is an easy ploy for Islamic fundamentalists or any other force interested in large-scale destabilization. Some researchers are absolutely right in surmising that the main threat to the Russian government comes from people motivated by ideology, who, contrary to local corrupt "elites," realize their tasks and objectives, and not from clandestine paramilitaries. Unfortunately, the authorities always have to rely on those very elites, since the goals of ideologically motivated oppositions are clear and consist of building "independent" Islamic states.

The “records” of Shamil Basayev’s “Ichkeria,” a mafia-ruled terrorist pseudo-state, have risen to broad notoriety. In this light the state must build its criminal policy in a way that will prevent replications of such experiences.

RAIDING AS THE QUINTESSENCE

Naturally, Russia cannot conduct a more efficacious anti-crime policy when feuds continue inside its law enforcement agencies and secret services — especially when feuding parties struggle over stakes in big business, and this struggle is there for all to see. This clan infighting discredits the law enforcement system as such, undermines trust in the actions of law enforcers and the judiciary, and reduces the entire criminal policy to naught.

This spreads over into a problem that has quite often come into focus in recent years, namely, the seizure of industrial facilities with the aid of raiding attacks. The scope of this raiding is hard to assess, since Russian criminal legislation does not have a clause for it and the criminal cases instituted in connection with such raids are spread out over different articles of the Criminal Code varying from extortion to money laundering. Experts put the annual number of criminal cases opened over raiding assaults at 300 to 400.

There is nothing new in these raids if you look at the typical scheme they involve. The mafia has long mastered manipulations with the notion of a ‘bona fide purchaser’ in sales of stolen cars, for instance, and now it carries over the same methodology to large real estate assets. The raiders not only represent the most powerful form of modern organized crime — they are its quintessence. A forcible repartitioning of markets and industries becomes possible through cooperation among criminal communities, the corrupt part of law enforcement agencies, the local authorities, and the competitors of companies victimized by raids. Since the Russian economy is growing rapidly and raw material and consumer markets are booming, raiding is a highly profitable business where profitability rates outstrip even drug trafficking.

The problem has a greater impact than just on the interests of proprietors. Apart from undermining the economic stability of the

state, raiding also ignites conflicts between government departments and law enforcement agencies and endangers Russia's strategic interests, as it targets defense manufacturing facilities, suppliers of strategic raw materials, and the facilities of basic infrastructure.

Russian leaders do recognize the scale of this challenge, yet it should be admitted that they have so far failed to take really efficacious measures. The situation requires a set of measures ranging from amending corporate legislation to the scrutiny of privatization deals, and especially the ones that were made at the dawn of market reforms. This does not mean, of course, a revision of the privatizations of the 1990s, but a clarification of details of that process. Making the field of ownership rights more transparent will strip the criminal milieu and the bureaucracy that has mingled with them of an extra argument in muscle-flexing games around assets.

Generally speaking, it is high time for the government to design a clear-cut system of its relationship with the business community that would rest on unambiguous legislation. Mixed signals from the authorities in resolving corporate management problems ranging from a full withdrawal to full-scale pressure on business only drives the problem deeper, and that is why it is necessary to set up an interdepartmental working group for combating the raiders. Attempts to solve the problem with the aid of just one department will bring about a war between concerned departmental clans.

The years of the Putin presidency saw controversial processes in the law enforcement system. The team of the new president will have no other choice than to step up attacks on corruption and organized crime. The tendencies described above mean that the authorities will have to fight with embezzlers and gangsters at an outpacing rate. Otherwise not a single national project or program will ever bring the expected benefits.

Nation-Building



Christians and Pagans. By Sergei Ivanov (1864-1910)

“ *When the traditional institutions for safeguarding and reproducing cultural norms no longer work or become weakened, the socio-cultural dynamics become subject to the general systemic law of inertia. Traditions may take centuries to form, but only a few years to vanish.* ”

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The Power Vertical and the Nation's Self-Consciousness

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During Vladimir Putin's two terms as president, the Russian federal government focused its efforts largely on the creation of an efficient administrative 'power vertical.' These efforts have somewhat improved the general level of government, but have not made the government system faultless. Moreover, they have not brought Russian citizens any closer to identifying themselves as a united civil nation.

NATIONALITY VS NATION

The word "nation" and its derivatives have a specific tint in Russia. Although Russians no longer need to state their ethnicity in questionnaires and Russian passports no longer specify it either, the notion of "nationality" is still often associated in Russia with the Soviet-era term *natsmen* [a pejorative term abbreviated from the Russian for 'national minority' — Ed.], which was used for all non-ethnic Russians. The nationality issue arises in connection with ethnic crimes or skinhead gangs — so-called 'defenders of the indigenous population' — in large cities facing immigration problems.

Even experts often use the word 'nation' in its Soviet sense; that is, 'ethnicity.' It is enough to recall that the constituent republics within today's Russia continue to call themselves 'national.' Almost no one in Russia perceives 'nation' as co-citi-

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zenship; as united citizens of one country, regardless of their ethnicity. This factor can in the long run jeopardize the institutional stability and integrity of the Russian state.

It is difficult to imagine how a country that has a huge and ethnically diverse population that does not feel united can experience stable development. There have been attempts to form a common self-consciousness, but these have been haphazard and inconsistent and obviously have not been embraced by the masses.

When the first Russian President Boris Yeltsin began to use the term *Rossiyanе* to denote all citizens of Russia, regardless of their ethnicity, it only annoyed or evoked ironical smiles among a majority of the population. This word infringed on the “phantom” great-power identity of the citizens of the former Soviet Union or looked like a euphemism for ethnicity – not necessarily Russian, but also Chechen, Tatar, Ukrainian and so on. However, the term was intended precisely to emphasize the civil unity of all people in Russia.

Vladimir Putin actively exploited people's nostalgia for the Soviet Union. It became a general belief that the country must consolidate its political unity and build a ‘power vertical’ that would cement the country's federated structure, which seemed to be coming apart at the start of Putin's eight-year reign, and would improve the ability to govern. However, the general ideological tone of the efforts to restore the lost sovereign greatness did not help much to form a unified identity for people living in different parts of the country or even next door.

The task of finding an identity was overshadowed by territorial administration problems – like in the Soviet Union which, due to the Bolshevik's nation-building project, proved to be a fragile set of several dozen “ethnic apartments” by the time it broke up. A common Soviet identity was intended to cement the vast country's structure, but at the critical moment it turned out that the official ideas about “proletarian internationalism” and a “multi-ethnic Soviet nation” were merely empty slogans.

The risks are high today as well. The government keeps warning – and not without grounds – about the threat of alienating the

country's predominantly Russian-populated Far East or the multi-ethnic North Caucasus. At the same time, Moscow rarely focuses its attention on problems that arise in central regions and cities, and proposals on how to solve these problems are expressed even rarer.

BUILDING THE POWER VERTICAL

Vladimir Putin was appointed prime minister in 1999 at a critical time. In the second half of 1999, Russia faced the real threat of territorial losses in the North Caucasus. Theoretically, that could have triggered a new wave of separatist movements in constituent republics in the Volga region and in such regions as Tuva or Yakutia.

The First Chechen War (1994-1996) ended in an agreement on the so-called 'delayed status' – that is, a decision on Chechnya's future was to be made in the span of five years after all Russian troops, law enforcement and administrative structures were withdrawn from its territory.

In 1999 – two years before the five-year period expired – Islamic fundamentalists launched military action in the neighboring Russian republic of Dagestan. They were supported by some field commanders from Chechnya, who entered Dagestani territory. The Russian government – then headed by Sergei Stepashin, who had shortly before paid a friendly visit to enclaves controlled by fundamentalists – was in a state close to panic. Hostilities in multi-ethnic Dagestan, which has an extremely difficult terrain, seemed to be much more dangerous than the war in Chechnya.

However, the new Prime Minister Vladimir Putin did not hesitate to use force against the militants. In August-September 1999, federal troops carried out three large-scale operations in Dagestan and began a counter-terrorism operation in Chechnya. The latter ended with the destruction of the separatist regime, the establishment of a loyal administration, and the adoption of a local constitution which proclaimed Chechnya as part of the Russian Federation.

The idea of consolidating Russia's unity became an important element of Putin's political program. His administration launched

measures to build more rigid links than ever before between the federal center and regions.

The spring of 2000 saw the emergence of the unitarian institution of presidential envoys — a kind of viceroy — to each of the newly established seven federal districts, into which the whole country was divided. Simultaneously, regional legislation began to be brought into line with federal laws. The Justice Ministry, the General Prosecutor's Office, and the Supreme and Constitutional Courts of the Russian Federation worked extensively in 2000-2002 to analyze and correct legislative acts.

The presidential administration came out with an initiative to merge the Perm Region and the Komi-Permyak Autonomous District in 2003, thus sending up a trial balloon for enlarging Russian administrative regions. The government decided that 89 administrative entities in Russia was excessive and they needed to be reduced — first, by merging autonomous enclaves and their “mother” regions.

Putin's first presidential term also saw the reform of the Federation Council — the upper house of the federal parliament — where each region was initially represented by its governor and the speaker of the local legislature. This way the chamber, whose approval is required for any important bill, served as an effective instrument of regional lobbyism. Now, after the reform, the Federation Council is made up of appointed representatives of local executive and legislative branches. Although the Council has still preserved its lobbying function, it can no longer be an arena for gubernatorial opposition and increasingly often serves as a “transit” place for regional politicians and businessmen before they receive a post in Moscow.

The post of governor lost its significance in 2004. After the terrorist attack against a school in Beslan, North Ossetia, the Kremlin announced a set of security measures, which included appointing regional leaders instead of their direct election.

Regional government became even more centralized when the Kremlin came up with the idea of party membership for governors — preference was now given to persons nominated by the party

that had a majority in the local legislature. Today, the majority of politicians in all Russian administrative entities are members of the United Russia party. The party also dominates the State Duma since it actually determines the degree of regional representation in the lower house of the federal parliament. Whereas in the third Duma (1999-2003) regional groups were still a serious political force capable of competing with the ruling party, in the present and fifth Duma (elected on December 2, 2007) the ruling party dictates its own rules to regional representatives, who were granted deputy's mandates by their party leaders.

The latest 'power vertical' ideas include the organization, started last autumn, of a federal super agency set up at the Regional Development Ministry. Its head — Dmitry Kozak — has three years of experience in successfully managing the explosive North Caucasus. He is expected to concentrate in his agency all the major levers for regulating center-periphery relations, including economic ones.

The aforementioned measures, which are of an openly unitary nature, did not require amendments to the constitution, which attests to a very low legal quality of the country's main law. Indeed, the changes that have taken place in relations between the center and the regions since 2000 are anything but insignificant.

SHORTCOMINGS OF THE POWER VERTICAL
Over the past eight years, the Kremlin sought to harmonize federal and regional legislation, make the process of governing more effective and transparent, and restrict the political and economic power of regional leaders. All of these were admirable goals, but the results proved to be a far cry from such intentions.

The institution of presidential envoys in an overwhelming majority of cases — except in the South Federal District, where it worked in almost extreme conditions, especially from 2004 to 2007 — proved to be a phantom by the end of Putin's second term. The functions of the presidential envoys are actually limited to formal "consultations with the public" about candidates for governor.

The procedure for appointing heads of regions has been removed from public politics and has moved into backroom intrigues. In many cases, it now directly depends on a governor's personal relationship with the head of state or with someone from his inner circle, or on a candidate's bribing and lobbying capabilities.

The idea of replacing elections with appointments that need purely formal approval by the local legislature emerged after the tragedy in Beslan. Apparently, one of the motivations behind the idea was to avoid unrest, which had shaken the North Caucasus in the 1990s-early 2000s each time a local republic elected its president. In some cases, the required effect was achieved. In particular, this scenario helped the Kremlin to replace leaders in four of the seven North Caucasian republics in 2005-2007. The move has somewhat reduced the population's mistrust toward the federal and regional authorities, which is the main engine of Caucasian instability.

Paradoxically, Chechnya now serves as a model of center-region relations. In exchange for absolute personal loyalty to the Russian president, Chechen leader Ramzan Kadyrov — who comes from a family of former separatists — has received a *carte blanche* to govern the region at his own discretion and with the help of security agencies that are controlled by him and that only formally are subordinate to the center. Moscow actually does not interfere in Chechen affairs, except for Chechnya's economic backbone — oil production implemented by Kremlin-controlled Rosneft.

Any attempt by Kadyrov to push Rosneft aside meets with strong resistance from company management and the federal leadership. So, here we see an exchange of personal loyalty by a regional leader, coupled with economic resources extracted in the region, for actually complete internal independence.

Anyone who has been to Kadyrov-controlled Chechnya knows how much it differs from the rest of Russia politically, legally and culturally. Actually, it is a mono-ethnic enclave linked with the Federation only through oil production and through constant proclamations that Chechnya belongs to Russia. The argument

that budget subsidies from the center are another link has been called into question as the funds that do reach Chechnya are incomparable with the huge volume of post-war reconstruction in the republic.

Of course, this state of affairs is much better than attempts to create an independent Islamic state in Chechnya and Dagestan. It is much better than large-scale hostilities that provoked the proliferation of subversive dangers, fundamentalist ideas, weapons and combat experience across the North Caucasus and even beyond. But it hardly attests to the restoration of law and order in Chechnya that would be in line with the Russian Constitution.

Meanwhile, there are signs that Moscow plans to build its relations with other resource-rich regions in much the same way. For example, the main intrigue in the expected replacements of the presidents of Tatarstan and Bashkortostan is the search for loyal candidates that could ensure redistribution of economic resources controlled by the regional elite in favor of the center. At the same time, the lack of adequate attention to conflict-ridden, but poor territories, such as Ingushetia and Karachay-Cherkessia, has no rational explanation.

Relationships between local leaders and the president, and regional balances of interests make up a system of informal accords. However, a governor's personal loyalty to the president as a major category of the present system of center-periphery relations becomes a source of problems when the head of state is replaced – even if we assume that this replacement is purely formal. Governors will have to renew their informal accords with the new boss in the Kremlin and, if Putin decides to keep his leading role in federal politics, to maintain parallel ties with him, as well.

In Chechnya, which understandably is an exceptional case, risks involved in re-establishing center-region relations are the most obvious. Kadyrov continues to call himself “Putin’s man,” yet he is ready to cooperate with Dmitry Medvedev, with whom he has established a working relationship. It is already clear that Medvedev, as Putin’s successor, will not scare the new Chechen political elite and will not cause it to resume guerilla fighting

again. However, as Alexei Malashenko, an expert at the Carnegie Moscow Center, wrote, “it is the orientation of both Russian leaders (the incumbent and future ones) toward Kadyrov that makes federal-Chechen relations vulnerable. If, for example, for one reason or another Kadyrov becomes unable to perform his functions, the situation in the republic could change in unpredictable ways and upset the Kremlin, which has already become accustomed to its protégé.”

The number of reasons that may bring about malfunctions and the collapse of the system of government — now reduced to personal unions between governors and the head of state — is smaller in other regions, compared to Chechnya. But this does not change the essence of the problem. Re-subordination of governors to Medvedev or their dual subordination to Putin and Medvedev will create numerous procedural and managerial problems and will jeopardize the relative balance of interests that has been established in the regions. It is no wonder that local elites were the authors of most of the initiatives intended to cause the head of state to extend his presidency beyond its legal term. “We must kneel to Putin and ask him to remain and to continue ruling the state,” Ramzan Kadyrov said last summer.

The additional instrument of control in the form of United Russia, which began to play an important role in regional governance sometime in early 2007, is not institutionally reliable either.

First, the Duma elections on December 2, 2007 showed the absence of a well-built mechanism of regional representation in the lower house of parliament when it is elected on a purely proportional basis. In December 2007-January 2008, a group of public figures from Ingushetia publicly challenged the results of the State Duma elections. Not a single expert from the Central Election Commission was able to formulate the procedural consequences such a legal case could have.

Second, the Duma elections showed that United Russia, a political superheavyweight, is actually a party without a program and is a bureaucratic association whose configuration can also change at any time — even up to passing into political nothingness.

Most likely, the new president will have to build entirely new relations with the regions. The state will only gain if these relations acquire formal and institutional frameworks, rather than remain a shaky system of non-public accords. It is equally important that the legislative system not end up as a “skeleton without meat,” that is, an attempt to build a system to govern a multitude of regions, whose population is not aware of its “supra-regional” unity.

PUBLIC SENTIMENT

There is not much sociological data on this issue and what there is indicates that society has not shown much interest in the federative – or rather unitarian – reforms conducted by the Putin administration. Ordinary citizens focus on the solution to their own everyday problems and do not care much about issues pertaining to the country’s unity or mechanisms for governing territories. No doubt Putin’s “unifying” rhetoric won him additional votes in the presidential elections, but real steps made in this field evoked little enthusiasm in society.

For example, in June 2000, just a few days after the establishment of the federal districts and the institution of presidential envoys, more than one-third of people polled by the FOM Public Opinion Foundation failed to have much to say about this reform. Twenty-nine percent said they had never heard about the reform; 42 percent approved of the idea; but 61 percent of those who supported it failed to say anything about the goals of the reform.

The situation had changed little by 2006: throughout the year, the Russian Public Opinion Research Center studied people’s attitude toward the activities of presidential envoys, governors and the heads of local administrations. Between 23 and 30 percent of the population expressed favorable views of the envoys’ work; just as many gave the opposite assessments; and about 40 percent of the respondents had no answer.

In contrast, governors won approval from more than a half of those polled. In four out of the 69 regions surveyed in 2005 (Moscow, the Tyumen Region, the Kemerovo Region and the

Khabarovsk Territory), the governors' work was assessed even higher than that of the president, who plays an almost sacred role in today's Russia. The ratio between assessments given to the work of governors and the presidential envoys indicates the presence of steady regional identities that are different from the federal identity.

An inclination among people to consider themselves first of all as residents of their own region and only then as citizens of the entire country inevitably arises in a situation when large parts of a country – due to economic, transportation or infrastructure reasons – become isolated in many respects from other regions, yet they are economically linked with neighboring countries. In particular, the domination of regional identity is characteristic of Russia's Far East. People in that region “simply cannot afford to travel to the European part of Russia,” said Zhanna Zayonchkovskaya, director of the Center for Migration Studies.

In some parts of the North Caucasus the degree of such grassroots – not political – alienation is expressed by the widely used phrase: “We're going to Russia.” Any trip from Dagestan to Stavropol or Astrakhan or Rostov [neighboring regions in southern Russia – Ed.] is almost equated to a trip abroad.

The percentage of respondents who consider themselves first of all as citizens of Russia rarely exceeds 50 percent anywhere. The others are dominated by those who identify themselves with their region or even with their town or village. Polls conducted in the early 2000s revealed even such an exotic group as “citizens of the former Soviet Union,” whose number in some regions reached 30 percent. Now, however, people have ceased to call themselves Soviet citizens.

Experts from the Zircon Research Group, who studied regional identity in Russia, came to the conclusion that this identity is most clearly expressed not only in constituent republics dominated by a titular ethnic group, but also in traditionally ethnic Russian regions located far from the center – for example, the Kaliningrad Region in the northwest or Primorye in the Far East. In sparsely populated areas, engaged largely in the extraction of raw materials, people often reveal not their civil identity with this

region or their country, but their corporate identity with the company they work for – Gazprom, Rosneft or Alrosa. Sociologically, this identification group may seem insignificant, but the economic and demographic structure of Russia makes such attitudes widespread in the vast territories of the North and the Far East, which are sparsely populated, yet strategically important in terms of resources.

Of course, regional – not to mention corporate – identity does not mean a desire for secession. But the growth of separatist sentiments can be a likely scenario if interregional and region-center ties, including mental and cultural ones, weaken. Today, this is an even more alarming factor than the migration outflow from peripheral regions, which in Russia's Far East alone stands at 40,000 to 45,000 people a year.

Meanwhile, the authors of the above study found several “mechanisms” for regional autonomization of the public mind-set – these include the aforementioned support of local authorities, the preference for local mass media and the fencing off from other regions.

The fencing-off tendency – just as a steady regional identity – is revealed by various studies. Regionalism shows itself even in the results of polls that are devoted to entirely different issues and often goes hand in hand with such an alarming phenomenon as mutual dislike between different ethnic groups.

In November 2003 – after Moscow launched its policy for enlarging Russian regions – FOM conducted a major study among the population, experts and regional political elites. Some representatives of the elites, who largely supported this policy, but who were dissatisfied with the difference in status between constituent republics and other administrative entities of the Russian Federation, advocated postponing the enlargement of regions until a national Russian identity prevailed over ethnic identity.

The study showed that 74 percent of those polled did not know why enlargement was necessary. FOM's polls in May 2002 and November 2005 revealed that not more than 31 percent of respondents approved of regional mergers, and this figure continued to

decrease — it fell to 26 percent in 2005. About 48 percent of respondents did not want their region to merge with a neighboring region, and only 28 to 29 percent supported such a move.

TOGETHER YET SEPARATE

Public opinion polls show not only a reserved attitude toward regional mergers, but also a pronounced desire to limit immigration. (It should be noted that public opinion sees no difference between immigrants from other states, for example from the South Caucasus, and those who are citizens of the Russian Federation, for example, residents of North Caucasian republics.) In the spring of 2006, 63 percent of residents of Russia's biggest cities, 57 percent of residents of large cities, 61 percent of residents of small towns, and 50 percent of the rural population favored immigration restrictions.

The most negative attitude toward immigrants is found among residents of the largest cities, which differ from the rest of the country in the level and quality of life and which attract numerous visitors. The cities have to accept migrant workers because of shortages on the job market. The rate of immigration to large cities is so high that, even if we assume that there is a hypothetical possibility of immigrants adopting the culture and that they are prepared for this, there is simply no time for this. As in the rest of the world, this kind of situation results in the emergence of large and closed ethnic communities in cities. These communities differ culturally from the indigenous population, which represents a majority, but which is already prone to frustration.

In many cases, the authorities admit that they need help to work with immigrants to help them fit in, but they lack the money and technology for this. Even "advanced" European democracies have had many problems in acclimatizing their ethnic minorities.

In one of his first decrees in 2000, Putin ordered the drafting of a special four-year federal program called *The Formation of Tolerant Attitudes and Prevention of Extremism in Russian Society*. The program, which largely consisted of educational measures, was intended to at least focus public attention on inter-ethnic problems in the

country. But now the only thing left of the program is a website and individual educational projects, in which academic and non-profit organizations try to selectively involve representatives of isolated segments of society – for example, police officers who are in permanent contact with immigrants in large cities.

It follows from regular FOM polls that the greatest irritation is caused by immigrants from the Caucasus, followed by gypsies and people from Central Asia. The Caucasian migrants largely include people from Chechnya, Dagestan, Ingushetia, Kabardino-Balkaria, Karachay-Cherkessia, Adygea and Ossetia.

The percentage of those who openly confessed in polls their dislike for members of other ethnic groups stood at 32 percent in 2002, 29 percent in 2004, and only 21 percent in 2006. However, this tendency is not a sufficient cause for optimism. For example, in 2002 – of the 65 percent of those who said that they did not have anything against members of other ethnic groups, 49 percent were in favor of restricted entry to their region. The percentage of people who were in favor of the complete deportation of other ethnic groups is also constantly high. In 2006, 42 percent were in favor of deportation. At the same time, almost as many – 41 percent – consider such a measure inadmissible.

One must give credit to federal officials who did their best to mitigate the ethnic coloring of events that could provoke surges of hatred toward certain ethnic groups – for example, after a series of suicide bombings by Chechen women in Moscow in 2004. However, these efforts have not helped win public approval for measures by the authorities to prevent inter-ethnic tensions. A poll conducted by FOM shortly after ethnic violence erupted in the Karelian town of Kondopoga in the fall of 2006 produced eloquent results.

Ethnic crimes in Kondopoga sparked mass protests from local residents who demanded the deportation of all people from the Caucasus from the town. A week after the crisis in Karelia, 89 percent of those polled by FOM in various Russian regions said that there were immigrants in their area; 72 percent said the number of such immigrants was high; and 30 percent admitted that there

were problems between the local population and immigrants. Only seven percent said the authorities were taking measures to alleviate ethnic tensions. Twenty-two percent expressed apprehensions that Kondopoga-type unrest might take place in their region as well. These fears were materialized by subsequent developments in the towns of Salsk, Stavropol and others in 2006-2007.

In the same poll, 39 percent of respondents said Russia's multi-ethnicity does more harm than good. In 2002, this figure stood at 34 percent, while 41 percent thought the opposite. Considering the ethnic and demographic structure of Russia, where the percentage of ethnic Russians has been steadily decreasing, this is an alarming tendency.

Characteristically, the first person to adequately respond to the events in Kondopoga was Chechen President Ramzan Kadyrov — he wanted the guilty to be punished, regardless of their ethnicity. His statement, which many people took as a sign that Chechen security agencies were ready to intervene in a situation in a different region of Russia, was actually correct. “We have always lived and must live as one friendly family and according to Russian laws,” the Chechen leader said commenting on the events in Karelia. What is alarming is that the function of defending ethnic minorities was assumed by the leader of a region where he has largely restricted the effect of “Russian laws.” On the other hand, as Chechen political analyst Shamil Beno said: “Russia has convinced the Chechens that they are part of Russia, and now the Chechens want Russia to respect their rights.”

Paradoxically, it is the ethnic regions of Russia, including Chechnya, that are interested in preserving the country's unity and the stability of inter-ethnic relations on the larger part of Russian territory. Naturally, members of titular ethnic groups in those regions, who live, work and try to socialize in large Russian cities, tend to view their own regional leaders as their institutional support. There is simply no other appropriate structure — if, of course, we do not want to consider policemen as such, who are accustomed to earning easy money by checking the passports of migrant workers.

It is the regional leaders and members of ethnic diasporas that regularly propose re-establishing the Nationalities Ministry, which was shut down in 2002. Now inter-ethnic relations are formally the domain of a department at the Regional Development Ministry, but the dimension of this problematic and sometimes even explosive field is too great for the department's officials. "The nationalities policy must be the domain of a special body – within the Regional Development Ministry or an independent ministry, but it must work on it in a serious and purposeful way," Tatarstan President Mintimer Shaymiev said late last year. In February 2008, the idea of reanimating the Nationalities Ministry was voiced anew at the first conference of the Russian Congress of the Peoples of the Caucasus.

Reviving the ministry or some other bureaucratic incarnation of a nationalities agency will not remove the clouds in inter-ethnic relations in Russia overnight. These relations are very sensitive because of the fresh memory of open conflicts in the Caucasus and recent clashes in Kondopoga, Salsk, Stavropol and Moscow. But policymakers and politicians must know exactly how these relations change and must take part in the formation of this process. Russia has not been "Soviet" for a long time and is gradually becoming an increasingly non-Russian country; however, the governing officials often behave as if they do not see the tectonic shifts that spark open conflicts and clashes.

A new Russia – one in which citizens would have equal rights and obligations regardless of their ethnicity, place of birth or religious beliefs and who would live together and according to real common laws – will only emerge if officials, ethnic communities and civil organizations make a focused effort to build it.

Russia – A Society Without Traditions Facing Modern Challenges

Emil Pain

What is stagnation? I personally define it as a historical situation where the ruling elite does not want to adopt a new way of life, while the opposition does not know how or is unable to do so. In an era of stagnation both the government and the opposition circulate the same myth about the predestined fate of the country or its “special path.”

The liberals, who bitterly reject the idea of Russia as a “very special civilization” understood as “a thousand years of Russian glory,” willingly accept the same myth in a different wrapping – that of a civilization marked by “a thousand years of slavery.”

The phrase “Russia is very special” is the buzzword most commonly heard today. Yet one question remains unclear: Compared with what countries is Russia very special and in what particular ways do the special features of Russia reveal themselves? There is not much comparative research on this matter.

Opposing ideological groups are unaware of the true tendencies that characterize the dynamics of national culture and, unfortunately, are equally reluctant to be aware of them. “Such is the mentality of this nation” they keep saying as an incantation. The understanding of these tendencies is hampered by the common use of popular terms like ‘the cultural code,’ ‘the civilizational matrix’ and ‘the national archetypes,’ which continue to be

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metaphors or poetic images that fail to explain how these tendencies work. I strongly believe that scientific research must demythologize public consciousness and draw a distinct line between myth and rational knowledge. In line with this understanding of the key role of science, I will try to present my hypothesis of why certain seemingly traditional behavioral stereotypes are so persevering and how the dynamics of genuine traditions works under the impact of global challenges.

TRADITIONS AND THEIR SEMBLANCES

Publicists and, not infrequently, scholars tend to label any historically persistent phenomena as tradition. This factor impedes in many ways the understanding of many of today's social and political developments. Tradition is a handing down from one generation to the next of the norms of conduct, ideas and values that all members of the community are expected to abide by. Far from all recurrent phenomena will fall into the category of tradition. If people wrap themselves in clothes in winter and take off most of those cloths in the summer, this is not a tradition but *a situational self-adjustment to the environment*. On the other hand, what you should wear in winter and how much of your body you can expose in summer is a precept of tradition. To hand down traditions to posterity, society needs institutions which play the role of carriers, custodians and – most importantly – controllers of these precepts. Social control uses moral incentives to maintain traditions and moral sanctions for their violations.

In today's Russia, social control mechanisms have been practically dismantled together with the institutions that perpetuated them. Peasant communities had been buried in oblivion already by the middle of the last century. Religious communities and Russian Orthodox parishes were destroyed during the Soviet era and the possibility that their role will be restored is very small, considering the fact that more than 87 percent of people who consider themselves Russian Orthodox do not associate themselves with one or another parish and only go to church occasionally. Quite recently, one could see babushkas sitting on benches outside urban

apartment blocks and gossiping about the moral merits of one family or another. This would compensate to a certain extent for a pattern of social control that operates along the principle of “What will others think of you?” Now this is gone too. Moreover, it is a commonly recognized fact that family relations in the Russian community – primarily in the ethnic sense – have been destroyed and previously tight contacts among family members have changed into periodic contacts. All of this suggests that the perception of Russian society as one ruled by collectivism and a communal consciousness is just a myth.

Sociologist Zygmunt Bauman has drawn the conclusion that society is doomed to extinction and there will be a full collapse of social norms if the decay of traditional institutions of collectivity is not made up for by new institutions of informal contacts, mutual assistance and social control. This replacement or recombination of the old and the new traditions is taking place in many countries. Many traditional mechanisms of social regulation have survived in Germany, for instance. Russians who move to Germany do not find it difficult to get accustomed to new laws – those laws are very much like Russian ones except that they are followed more often. What they really find problematic is informal control – such as their neighbors telling them all the time what one can or cannot do in one’s own home or out in the street. New institutions that bring together people of the same age, gender or profession, charity funds and others have augmented traditional institutions. Informal associations – traditional (neighborhood and religious) and also new – embrace about 60 percent of adult Germans. In Scandinavia, that percentage is even greater and stands at 69.5 percent.

The U.S. provides one more example of this, as more than 80 million Americans eighteen years and older, or 45 percent of the total population, spend at least five hours a week in voluntary social activity, including charity and religious community events. For 75 percent of Americans, solidarity and orientation at social commonwealth are no smaller values than personal self-actualization. In Russia, the traditional institutional environment has been

demolished and has not been replaced with anything new. This fact per se casts doubt over society's ability to hand down any standards at all, whether traditional or not.

If so, how could one explain the recurrence of monotypic collisions and the so-called 'traditionalization,' which analysts refer to as an indisputable feature of contemporary Russia? Or how would one interpret such historically persistent patterns of behavior as mass non-compliance with the law?

Alexander Herzen, a 19th century Russian pro-Western thinker, highlighted this feature as a purely ethnic one. "Whatever social rank a Russian belongs to, he will bypass the law anyplace where he can go unpunished, and the government acts in precisely the same way," he wrote. It should be noted, however, that neither the much-respected Herzen nor the numerous experts of the past who frequently quoted this thought ever did comparative research and thus were hardly able to say against what countries and peoples this feature of Russian life looks specific.

Cross-cultural research done with the aid of sociological polls and social/psychological tests has appeared but only fairly recently and the results seem surprising at first glance. The European Social Survey (ESS) taken in 2004 and 2005 in 24 countries shows that the citizens of post-Communist European countries have common features, while at the same time dramatically differ from other Europeans. In the first place, they are far less ready to respect the law and — most remarkably — have a greater inclination to justify possible violations of the law.

It should be noted that disrespect for the law took root in many post-Communist countries during the lifetime of just one generation of people who got trapped in the millstones of the totalitarian system. The impact of this system is easy to explain: if the standards of law and order are established through violent interference on the part of an authoritarian power instead of being naturally assimilated by an individual, this coercive obedience inevitably estranges people from the power and the law. In such cases the severity of Russian/Soviet, Czech, Polish, Hungarian and other laws was cushioned off by an optional non-abidance of the laws. Estrangement of

this kind does not flow out of tradition; it is a product of people's situational adjustment to monotypic conditions of life.

Another remarkable fact is that in societies in which a sizable number of elements of traditional organization has been preserved, estrangement from the authoritarian power leads to entirely different consequences than in societies with demolished institutions. Take for instance the North Caucasus republics, where people's alienation from the authorities and their laws has been replaced by the growth of informal traditional institutions – family, territorial, communal and religious. This has not happened, however, in most other parts of Russia and other post-Communist states except Poland, where the Roman Catholic Church has a prominent role.

In traditional societies, people's alienation from the external environment increases the importance of trust in “their immediate” environment, while in de-traditionalized societies alienation affects even the immediate environment. According to the EES, a poll conducted in Ukraine showed that more than a half of the respondents treat suspiciously even the social environment which they are closely related to – in the questionnaire they underlined the statement “the majority of people will try and treat you dishonestly.” Russia – which was left out of the survey – obviously displays a much higher level of anxiety and suspicion than Ukraine; far fewer traditional civil institutions have been preserved in Russia and the new ones are not as mature. Russia also displays far less interpersonal contacts even within the limits of a local social medium. If the social environment in today's Russia resembles a punctured sieve, how can it keep up the archetypes of collective notions and cultural codes?

When the traditional institutions for safeguarding and reproducing cultural norms no longer work or become weakened, the socio-cultural dynamics become subject to the general systemic law of inertia.

INERTIA

Everyone knows from their school years that an object retains quiescence or continues a uniform steady motion until it encounters

resistance (friction) or gets a new external impulse. This principle of inertia perfectly explains the mechanism of cultural dynamics. The names of nations have the most endurance – they can exist for centuries and even millennia as they do not encounter resistance and do not impede people’s adaptation to historical changes. Customs that have lost their original meaning and have turned into rituals can also endure for a long time. With some ethnic groups, you shake hands when meeting other people; with some others, you clap hands; and with others you press the hands against your chest. All of these customs do not interfere with the changing world.

Yet the more resistance that the fast-changing world puts up to a tradition, the lesser the degree of the latter’s survival. For instance, urbanization wiped out ethnic clothing, only leaving a place for it in some ritual activities. It also changed traditional ethnic dwellings into standardized houses equipped with central heating, running water, sewage, and adapted to the endlessly rising cost of property.

Traditions may take centuries to form, but only a few years to vanish. The siesta (the long period of rest in the afternoon between the peak of activity in the morning and after sundown) was the Spaniards’ calling card for centuries. Many great Europeans cited that tradition while saying that the Pyrenees were the border of Europe. “A nation that sleeps during the day and is awake at night can’t be called European.” But then industrialization came and pushed the siesta to the sidelines, leaving a space for it only in the leisure and entertainment business. Late-night public carnivals on the squares of Spanish cities stress the country’s colorfulness and attract tourists, while putting up no obstacles to economic development or integration in the European Union.

The changing environment does not always destroy traditions. It can even energize them for a while, especially when the symbols of national and ethnic identity become the targets of aggression, which triggers resistance. However, it is not the mental traditions, but rather the social institutions defending them that put up resistance. If tradition-based consciousness lives on, this hap-

pens because either the conditions that gave birth to a tradition have survived, or new conditions have appeared, playing the role of a freezing chamber or, vice versa, a greenhouse to regenerate the withered traditional norms. More often than not, analysts ignore precisely these institutional conditions. In Russia, the protective shell of traditional institutions has been torn off, which has opened up a broad alley for any cultural borrowings, including the most bizarre ones. Russia is the only country where the biggest newspapers publish the predictions of astrologers more often than weather forecasts. It has generated unique opportunities for manipulating the mass consciousness and construing any public moods, however volatile they may be.

And what about the archetypes of consciousness that ostensibly predestine values like paternalism and orientation toward a “strong arm?” They are a myth – there is no proof that archetypes can affect the choice of a political system or social relations. Meanwhile, there is plenty of evidence of a rapid and radical transformation of paternalism.

The mass consciousness of the German nation experienced a drastic change in less than fifty years. In the 1930s, Germany lived under the sway of paternalism and totalitarian collectivist values, which dominated individualistic ones. Ulrich Beck said the people lived according to the principle: “You’re nothing and the State is everything.” Today, Germany is a pylon of European liberalism with its powerful accent on the individual who gets involved in various free associations. Germans in the 1930s had the heaviest imaginable militarization mindset, but over time this changed into an extremely peace-loving disposition.

The consciousness of Scandinavians has gone through the same kind of metamorphosis, although over a longer period of time. The progeny of the once horrific Vikings evolved into quite meek nations. They used to be the heaviest drinkers imaginable and now they cannot compete in drinking either with the Russians or with the Finns. Even the Chinese mentality has seen revolutionary changes. I said ‘even’ because the case in hand is a country that still has a predominantly rural population that has retained tradi-

tional institutions to a larger degree than others. China's cultural specificity is nurtured by the extreme density of the practically monoethnic population and a very small inflow of ethnic immigrants. Now China – which preserved its virginal self-identity for centuries and isolated itself from cultural borrowings by the Great Wall – has become the world's largest copycat. It replicates and mimics everything that is Western – from Rembrandt paintings sold at Chinese flea markets to cars and computers.

Today, few people would not point out the mythical cultural codes running through the life of various peoples and allegedly determining susceptibility to some ideas and the obstruction of other ideas. But reality shows an entirely different picture. King Juan Carlos of Spain and Venezuelan leader Hugo Chavez speak the same language, belong to the same religion and share the same imperial history, and yet they do not accept each other's views. On the other hand, Iranian President Mahmoud Ahmadinejad is a Moslem, Chavez is a Roman Catholic and the Belarusian father superior Alexander Lukashenko is an Orthodox Christian atheist. These three represent different cultural codes, but understand each other perfectly and love each other tenderly. North Korea's Kim Jong Il could easily join this group, although he represents the extremely distant Korean Buddhist civilization.

The same nation divided by a border (like the North and South Koreans) may build very different political systems, while different peoples may build similar regimes – such as the forms of socialism built in North Korea and Cuba. Communists in Russia acknowledge both of these forms of socialism as their kin. Such observations are open to one and all. Now let us turn to aspects that are hidden from the eye unequipped with science.

Many changes take place unnoticed as they come about under the guise of traditions. Japanese sociologists insist that the current collectivism in Japan's society is traditional only at the surface. They claim that it stands in contrast to the traditional coercive and, in many ways, gregarious collectivism. These scholars point out some kind of a new, conscientious and selective collectivism of “solidary individualism.” The reason is that the ongoing rise of

individualism causes a compensatory reaction demanding new collectivism. That is why it is not surprising at all that voluntary organizations and various collective actions are found exactly in the individualistic countries with ‘open societies,’ whether in the West or in the East.

Russia is a different story. Analysts typically link the work style characteristic of Russians – *shturmovshchina* (literally ‘storm work,’ which suggests haphazard surges of activity in industry depending on the demands of the season) – to the specificity of Russia’s natural conditions and the traditional seasonal distribution of work in rural areas with super-intensive work in the summer and almost no activity during the long Russian winters. However, for more than fifty years now, Russians have been living in an urbanized country and hence ‘storm work’ reflects rather a fundamental trait of the socialist economy as a system of chronic shortages, which bred short supplies of produce throughout the year and the fatally irreversible need “to assimilate allocations” at the end of the year. That is why this tradition could be seen during the Soviet era in regions as different climatically and geographically as Estonia and Turkmenistan, or East Germany and Mongolia.

The above-mentioned European Social Survey revealed that a multitude of stereotypes in behavior and consciousness attributed to national character or age-old life in specific civilizational conditions (terrain, geography, language, religion, etc.) actually took shape within the rather brief Communist period of history. People living in post-Communist countries that belong to different ethnic and religious groups and have different natural conditions – Hungary, Poland, Slovakia, Slovenia, Ukraine, the Czech Republic and Estonia – display much more similarity than divergence. All these countries display a far smaller rate of engagement by citizens in public associations and movements (from 2.5 to 6 times less, depending on the type of associations). Also, the value of these associations is much lower than in the West. The comfort level and security of living in post-Communist states is also lower and, consequently, the value of human life is underrated there compared with the other countries under review. When people

become accustomed to living in an unsafe environment unprotected by law, life loses its value regardless of whether one lives in the South or in the North. And all of the above-mentioned post-Communist nations are among the top ten in the ranking of countries with the biggest percentage of people who have been forced to give bribes. It is not surprising then that the same countries are in the top of the list in terms of readiness to give bribes.

Surprisingly, the Estonians are the most ready to give bribes, not the Slavs; while the Finns – ethnically close relatives to the Estonians – are at the bottom of the list. This leads us to the conclusion that the age-old ethnic closeness of the Estonians and Finns and their relative long life within the Russian empire have had less impact on the specificity of their actual behavior and consciousness than the decades when Estonia was part of the Soviet Union.

The Russians have a fashion for describing the ethnic character of one or another nation in the form of jokes that ascribe light-headedness to the French, pedantry to the Germans, Victorian mannerism to the English, and spirituality to the Russians themselves. But what is the much-lauded German order or the proverbial English traditionalism? They are ethnic markers; images formed in discourse. They have seen changes throughout history. It is commonly accepted now that the French are light-headed and the English are prim and reserved, but in the 17th and the 18th centuries the two nations enjoyed radically different assessments. Charles-Louis de Montesquieu claimed that England had no tyranny due to English flippancy. His claim does not sound absurd if you recall which of the two nations turned down the traditional religion, was the first to recognize women as supreme rulers, trenched upon the sacred life of the monarch, and legitimized sporting houses.

Meanwhile, the ESS indicates that neither tradition nor order can be found on the list of values that dominate among the British, Germans or French today. Both values are of a protective nature, while these three nations find it much more important now to adapt to the briskly changing conditions of life. Britain occupies a place closer to the bottom on the list of 24 countries in terms of empha-

sis on tradition. The leading positions belong to the countries with high levels of religious devotion – Greece, Portugal, Spain, and Ireland. They also outdo post-Communist countries in what concerns respect for tradition. Moreover, this quartet fully conforms to all the legal standards of the EU and is undergoing a dynamic modernization. Why then does the specificity of less traditional Russian mentality allegedly predetermine “a special path of development?” Russia does have a specificity of its own, though – one that stems neither from tradition nor from ossified consciousness.

FR I C T I O N

The bitter satire of Russia in the works of the 19th-century writer Mikhail Saltykov-Shchedrin looks like observations by a contemporary, as the fundamental characteristics of life in Russia “have successfully withstood the test of time.” Raw materials remain the backbone of Russian exports – the same as they were during the reign of Peter the Great, with the only difference being that oil and gas have replaced timber. The top rulers continue to set up governors in provinces quite like the Russian tsars did in the past.

Where does paternalism come from? It arises from estrangement. This conclusion was prompted by an interesting explanation of the results of the past election in one of the republics of the North Caucasus. “Votes are not blood, we don’t begrudge them; we’ll vote for those whom the bosses choose,” people would say. But when the same bosses encroached on the people’s genuine interests during the distribution of land, they immediately encountered mass resistance. The more a person is estranged from some sphere of life, the more he is inclined toward paternalism. “The Duma is alien, so let the bosses decide on it, but the land and pensions are our own, and so we’ll stand for them ourselves.”

Things acceptable at one period of time may become totally unacceptable at other times. At the time of Peter the Great, absolute monarchy was a standard feature all over Europe, but it had become an anachronism by the 19th century. The enlightened part of Russian society perceived the change as a historical challenge then. The authorities noticed it too, but reacted to it with repres-

sions and circulation of protective ideas, which was a forerunner of today's idea of a 'special civilization.' In the 19th century, the official idea of narodnost, or staying true to the interests of the people, was used as a shield against the idea of popular sovereignty in much the same way as the special 'sovereign democracy' is used today to "protect" Russia against the idea of a genuine rule of the people. It is amazing to see how the consciousness of the ruling class combines two mutually exclusive convictions – that Russia's path is predestined and simultaneously that Russia can be steered away from the right path by whiffs of "alien influences."

Today, like in the 19th century, Russia does not have a society capable of influencing the authorities. That type of society, formed within the boundaries of a country and fastened together by a common identity and awareness of being the true sovereign of its land, is called a political nation. Such societies exist but only in a small number of countries, which brings us to the problem of civilizational specificity. I view it, first and foremost, as a set of specific conditions that create different opportunities in different countries; *the varying force of friction for the response to general impulses – the challenges of time.*

Political nations take less time to form in those places where traditional societies produce social strata capable of leading the forces that counteract the concentration of power. In England, the aristocracy had to rely on the people in the struggle with the monarchy already in the Middle Ages, thus gaining the role of the nation's leaders. The same process was far more difficult and took longer in France, but it eventually made the Third Estate play the leading role. In contrast to that, the Russian aristocracy relatively rapidly devolved into a class of civil servants fully dependent on the monarch. As for Russia's Third Estate, it simply did not have enough time to grow into an independent political class over the five decades that separated the emancipation of the serfs (1863) and the Socialist Revolution (1917). The formation of the Third Estate in Russia is still in progress now.

Political nations emerge as a rule in the footsteps of ethnic consolidation. The lack of ethnic consolidation creates huge

obstacles to political consolidation. The Arab world has separate states but no nations, as people there associate themselves to a greater degree with an Arab supranation and even more frequently with religion than with individual countries. Such forms of identity allow people to unite at times against such events as the caricatures of the Prophet Muhammad in a Danish newspaper, but national consolidation inside those countries goes on painfully and this torpedoes their modernization. There are also many countries in Latin America and in some of them nations have failed to take shape. There is no ground for the national ‘We’ idea to take hold there, as those countries have the same Roman Catholic religion, practically the same language – except for Brazil – and a patchy ethnic composition. Each country has a national soccer team, and in soccer championships one can see plainly against whom ‘We’ are playing. However, this does not provide enough ground for ethnic consolidation. And what does all of this produce? According to the eminent Peruvian economist Hernando de Soto, attempts to modernize Latin American countries have been made more than eighty times, but they all have failed. A national project cannot be implemented if there is no nation to support it.

Friction does not predetermine the vector of motion; it simply conditions the difference of speed and trajectory. The peculiarities of settlement by ethnic groups and of the formation of Latin American countries did not prevent some of them from beginning to set up political nations. National cultures have arisen in Brazil, Mexico, Argentina and Chile. The nation-state’s self-identification of citizens is gaining momentum there; people are uniting around common non-ethnic cultural symbols and, most importantly, around a growing self-awareness that they are masters of their land. Still, in most cases in human history it was the ethnic consolidation that preceded the national-political one.

Russia has formed its statehood and the Russian ethnos – established many centuries ago – has created a great culture and a multitude of national symbols. But Russia’s statehood could not consolidate on the ethnic basis in the conditions of the Empire.

Soviet-era sociological research showed that ethnic Russians had a much weaker ethnic consciousness than peoples in other former Soviet republics. Research done in the early 1990s, which compared Russians with other ethnic peoples of the Russian Federation, produced the same results. However, the situation has changed since the end of the 1990s – the consciousness of ethnic Russians has started to outstrip that of other ethnic groups.

This phenomenon might have various consequences. On the one hand, the entire set of social problems is getting an increasingly intensive ethnic coloring, sounding like “Look at those strangers! They rob, buy up property, deal drugs, breed corruption, and bring infections here.” On the other hand, the growth of ethnic consciousness helps many people assimilate the idea that they must become masters of the country. This is synonymous with popular sovereignty, which nurtured the rise of most political nations. Unfortunately, people very often strive for the right to be masters not with regard to the country, but with regard to the “aliens.” Still, let us recall that in France, the birthplace of the popular sovereignty idea, its authors and the leaders of the French Revolution espoused bellicose xenophobia, both toward neighboring nations – above all, Germany – and toward their own minorities – the Bretons and the Corsicans.

Russia is currently seeing a rapid growth of nationalistic organizations against a general decrease in people’s participation in the institutions of civil society. But the specialty of national values has nothing to do with this. Ethnic traits are just the simplest markers for distinguishing between ‘Us’ and ‘Them,’ especially in an environment of make-belief party stratification. It cannot be ruled out that ethnic consolidation in Russia could open up the road to the rise of a political nation – the way it happened in most European countries. Yet the aftermath of a two-stage rise of such nations has not always been similar.

Integration of various ethnic and religious groups around the majority took place only in countries where ethnic-cultural unification was a mere instrument for further consolidation of people to resolve the pressing political and social problems, such as elim-

ination of despotic regimes, poverty, diseases, etc. In these countries ethnic nations transformed into civil ones and modernization gained pace. This was the case with peoples fighting against empires for their national liberation (for instance, the Dutch fighting Spain and the Greeks fighting the Ottomans), and with ethnic groups that made up the backbone of empires (for instance, the Spaniards and the Turks consolidated in the struggle with internal defenders of imperial complexes in the 20th century).

However, there have also been cases when ethnic values and objectives themselves played dominant roles, thus paving the way toward an ideology of ethnic and racial superiority. Fascism was born this way – as a radical racist theory coupled with the myth about a mystical predetermination of a “special path,” i.e. the mission of a chosen people, race or civilization. As seen by the Third Reich, this option brings tragic results both to the nation that accepts it and to millions of innocent victims in other countries.

Which path will Russia choose? The programs and actions of today’s Russian nationalistic organizations suggest that most of them are already imbued with racism. However, their numeric strength does not exceed 2 to 3 percent of all the people who are now assimilating ethnic consciousness. The vast majority of them are not racist or nationalistically minded. They are simply disoriented people with a vague understanding of the real causes of problems and an even vaguer idea of how to cope with them. Frankly speaking, it would be hard to expect anything different from people who are being indoctrinated with the idea of mental and national superiority and the idea of a special path for Russia. Furthermore, the mass media hammers into people’s heads ideas about alien influences and the malicious designs of the barbarians who destroyed the Byzantine Empire and are now set to destroy the Third Rome.

IMPULSES

Japanese Kabuki theater and the Russian theater founded by Konstantin Stanislavsky retain their national uniqueness because they do not compete with each other. But armed forces are made

to compete and that is why a national army equipped with bows and arrows cannot defend its self-identity in fighting with an army that has artillery guns and tanks. Understandably, national economic systems cannot remain unchanged while competing with the economies of other countries and responding to new challenges. Some countries are still in the process of transition from agrarian to industrial development, while others have already entered post-industrial development. Nor can nations escape urbanization, which in its turn transforms lifestyles, family types and demographic behavior. If a need for change emerges, it will not be blocked by any mental archetypes. However, any change requires a stimulating impulse.

One good example is the so-called qwerty effect – a standard positioning of those six letters on the upper left side of computer keyboards. It is clear now that the choice of this position was far from the best possible, but to remodel it now would be too expensive and irrational. Why? Because the impulse to alter this position is very weak. It is a very different case when foreign airports stop accepting Russian jets with a higher-than-admissible noise level. This is a serious impulse for the airlines to start overhauling their fleets – regardless of the costs. And when a big country loses in the Crimean War to a foreign naval task force, the impulse for change is all too strong.

The current political system in Russia shows inertia not so much because of tradition but, rather, owing to the weakness of impulses for a change of the political regime. Even if society becomes fully aware of the problems, this does not immediately create prerequisites for their removal.

There is a consensus in Russian society today in recognizing the many social and economic problems and this can be seen in the promulgation of the so-called ‘national projects.’ However, these are not genuinely national projects since they do not rely on a civil nation. These are governmental projects which suggest the use of tools traditional for a civilization with ‘a special path’ – mobilization measures and distribution of resources. This very fact dooms such projects to failure.

Science. The Soviet authorities were well aware of the significance of scientific and technological progress. At the same time, Soviet modernization based on mobilization ripped science from its natural groundwork – emancipation of the individual and the existence of incentives for creative research. As a result, great achievements were beneficial only for a rather narrow sphere of life, mostly military defense. The authorities had the power to arbitrarily suppress important branches of science, such as genetics or cybernetics, while at the same time thrusting forward false ones. Eventually, the shackled development of science led to a situation where the thin ranks of research intellectuals were further thinned by repressions and the brain drain, as scientists would flee the country at the first opportunity.

The situation has changed now, but not necessarily for the better. The prestige surrounding research has fallen below Soviet-era benchmarks, and low salaries are not the only cause here. Even in developed countries, scientists do not earn the same money as bankers or lawyers do, yet research activity tops the charts of social prestige. This is typical of societies where the idea of progress has turned into a creed; in Russia, it has drowned in neglect and hopes for the future are pinned on growing demand for resources in other countries. Russia boasts of spirituality and keeps slipping into obscurantism, an indispensable attribute of stagnation. There is no honorable place for science. Great achievements that meet the requirements of science are possible only in a scientific community, and that community is falling apart in Russia. A lecturer at a provincial university can make a great discovery, but it will be buried right where it was made – unless someone from Moscow steals it. Horizontal links among scientists are weakening, while the vertical subordination of the scientific and cultural space is increasing. The government has monopolized the distribution of funds for science and culture, earmarking funds in strict compliance with the hierarchic status of cities and towns.

Demography. Modernization based on mobilization counts on demographic resources. A country can win wars by sacrificing many more human lives than its enemy and launch great con-

struction projects without sparing other people's lives. This way of doing things might be still possible in China, but Russia's human resources are waning. And what does the Russian government do in such conditions? It mobilizes resources and distributes them to stimulate births. Yet Russia does not differ from the rest of Europe very much in terms of birth rates, although social spending in Europe is already more than what Russia will be able to afford to spend in 2020. It is a different story when you look at the mortality rate in Russia – it is the highest in Europe and life expectancy is the lowest. The mortality rate has grown even in comparison with “the horrific 1990s.” Why? Because reducing death rates cannot be resolved through mobilization. Former Socialist countries which used to have similar levels of mortality and life expectancy as Russia before they entered the EU have made sizable improvements in that sphere. This has happened largely thanks to the adoption of EU standards which put the highest value on human life. Healthy lifestyles have become prestigious and sought after in these countries. The EU has renounced smoking on a national scale. People have started exercising not only for the sake of the prestige of a great power, but for their own health.

Corruption. There is no need to explain that the problem of corruption, if it keeps growing, can halt life in any country. Yet many Russians still don't realize that this illness cannot be remedied through government efforts alone. Moreover, the corruption clot gets bigger if power is increasingly accumulated in the hands of the state. The more inspections there are, the bigger the bribes and the wider is the spread of corruption.

However, Russia is not the first country to deal with this problem. In the late 1970s, after a single party had been in power for thirty years, Italy had higher corruption levels than Russia does today. Police frightened the rank-and-file more than criminals, as people thought the police were a government protected mafia. People could live “by the notions” – not by the rule of law – for quite some time, until the size of bribes exceeded income. At that point, the people united in a “clean hands” movement that consolidated the nation and pushed a resolution to the problem out

of deadlock. Today, Italy is number one in the EU as regards the quantity of volunteer organizations watching the courts, the police and other agencies of law and order.

Inter-ethnic relations. In the 2000s, Russia has seen an annual increase in violence on ethnic and racial grounds. The authorities have not left the problem unattended, and the number of people convicted for such crimes offers a testimony to this. I am not against court sentences of the kind, but I do realize that they are not very efficient amid a passive attitude on the part of society that sympathizes with “indigenous” nationalism.

The ethno-political situation has deteriorated in many countries in this century, as seen in the riots in the Arab-populated districts of Paris, clashes with ethnic immigrant groups in the Netherlands, and terrorist acts in Spain and Britain. The aggravation of inter-ethnic tensions is a global problem now and is linked in many ways to a new stage of demographic transition.

It is common knowledge that the demographic transition began when high rates of childbirth and mortality, characteristic of traditional societies, were replaced with low ones. The next stages saw an increase in life expectancy due to progress in medical science and changes in lifestyles. However, these factors do not make up for the drop in births or, consequently, for the shrinkage of the population and labor resources. That is why developed countries have come to a new stage of the demographic transition, in which immigration is behind the greater part of population growth in Europe and the U.S.

The global problem prompts a universal solution, namely, a revision of priorities and the foundations of self-identity. Civil forms of identity begin to prevail in society over racial, ethnic and religious ones. For the first time in the history of France – the birthplace of chauvinism – Nicolas Sarkozy, a descendant of Hungarian immigrants, was elected president. The Americans could elect Barack Obama, the son of a black man from Africa, to the White House. The surge in Obama’s popularity is amazing, especially when one considers that this has become possible in a country where racism was commonplace a mere forty years ago

and where there were official racial segregation regulations, above all in southern states.

Those who think that the striking changes that have occurred over a brief historical period came about only thanks to government efforts are making a fundamental error. U.S. President Franklin D. Roosevelt could not be called a supporter of racism, but he would not even dare think about striking down segregationist laws. He realized that the electorate would not support him on that. President John F. Kennedy did not launch segregation reforms until the U.S. elite became aware that society might collapse after the racial upheavals in American cities in the 1950s. An offensive against racism began in those conditions. The process became irreversible after the ideas of racial equality had received support from the leading mass media and the Hollywood “dream factory” and – most importantly – after public opinion changed. Reliance on society opened the doors to a reform of racial relations and ensured its efficiency.

In my view, the world has only now started assimilating the idea of popular sovereignty and the government’s reliance on society, which was put forward more than two centuries ago. However, this idea embraces a limited number of countries and where – unfortunately – it is meant exclusively “for internal use;” i.e., where national public opinion matters only in solving domestic problems. As for international affairs, the U.S. and France display a total disregard for public opinion in many countries, as has been vividly shown in the recent decision on Kosovo. As for Russia, society has virtually no influence on vital decisions even in its own country. At best, it is allowed to legitimize the decisions already taken.

* * *

Any hopes to resolve the problems facing Russia today by derelict methods of state mobilization are a sheer illusion. Russia has lost its traditionalism and the goal it faces today is not so much to move forward, but, rather, to restore a balance between the elements of state and society that have already been reformed and

those that still remain intact. Given this situation, a further fragmentary modernization of a slumbering society and perseverance of the principle “the king knows what his subjects need best” is a path that will lead the country into a blind alley, and in this sense it really is a “special path.”

However, the claims on the part of many Russian liberals that the resources for modernization through mobilization have run shallow are also deceptive. We must draw a distinction line between the moral outdatedness of a construction and the exhaustion of resources. A certain model of car may be morally outdated but customers might continue driving it for quite some time. The resource of that model will be exhausted when demand for it runs out. The same applies to models of political development. They run out of resources only when society, or its most active part, realizes that the models are no longer useful for solving pressing problems. Then the problems themselves will turn into challenges calling for changes. As for today, the current consumer boom in Russia shows that the majority of Russians share a conviction that it is quite possible to live in the present situation. A Russian proverb says: “The peasant needs thunder to cross himself and wonder.” When that thunder comes, Russians will cross themselves – in all senses of the word, including a change in their political creed.

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The European Choice?



The European Commission at work as seen by Herluf Bidstrup, 1970

“ *The present situation does not require speeding up Russia-EU negotiations on a new agreement at any cost to the detriment of their quality and future results. The procedure of extending PCA-1 for one year is not limited in time, while about half of the agreement’s 112 articles have not been implemented yet. So the beginning of negotiations on a new basic agreement will not put the partners out of work, even if they confine themselves to the implementation of the other half of PCA-1* ”

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Options for the EU-Russia Strategic Partnership Agreement

Vladimir Pankov

The 10-year Partnership and Cooperation Agreement (PCA) between the Russian Federation and the European Union, which served to deepen and broaden relations between the parties, expired on November 30, 2007. Since neither party had notified each other in writing about its withdrawal from the agreement at least six months before it expired – i.e., before June 1, 2007, as is required by Article 106 of the PCA – it was automatically renewed for one year, as was demonstrated by the latest EU-Russia summit in Mafra, Portugal in October 2007.

Formal negotiations on a new agreement have not yet begun due to the Polish position, which may soon be revised and made more constructive. But sooner or later a new document must replace the PCA.

Section 9.2. of the *Medium-Term Strategy for Developing Relations of the Russian Federation with the European Union for 2000-2010*, which was presented by the Russian government at a Russia-EU summit in Helsinki in October 1999, said that Russia would pursue a line toward a new agreement with the EU. This implied a mutual obligation to jointly work out and conclude a “new framework agreement on strategic partnership and cooperation in the 21st century,” which would replace the PCA. Of

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course, politics is the art of the possible, therefore it is important to find out how realistic this goal is in the light of present Russia-EU relations, putting special emphasis on the economic aspect of this issue. And which is more realistic – a Strategic Partnership Treaty or Partnership and Cooperation Agreement-2?

A NEW EDITION
OF “PEACEFUL COEXISTENCE”?

Relations between Russia and the European Union are going through difficult times, if not to say a crisis, which obviously started with the last but one enlargement of the EU on May 1, 2004. On that day, the EU was joined by several countries that traditionally showed no liking for Russia and sometimes even no formal courtesy. At that time, the EU – in contrast to its friendly rhetoric – began to freeze its rapprochement with Russia and adopted a de facto policy of “peaceful coexistence” and rigid, if not hostile, competition in the economic sphere. In particular, it started petty bargaining over terms for Russia’s accession to the World Trade Organization; tried to impose on Russia an agreement on Kaliningrad, which was humiliating for Russia; and thwarted a Russia-proposed plan for settling the situation in Transdniestr region, which had been approved by all the conflicting parties. Finally, it launched undisguised anti-Russian activity during the Orange Revolution in Ukraine, and tried to pressure Russia into ratifying the Energy Charter, which Moscow found unacceptable and which it had no other choice but to sign in 1994 when it was on its knees both economically and politically before the West. There are many more grounds for such an assessment of the EU’s policy toward Russia, given by Sergei Karaganov in the fall of 2005.

These developments have been taking place amid a deep structural and adaptation crisis in the EU, which is assuming increasingly grotesque forms – against the background of its integration successes of 1986-2002. This could be seen in a serious dissonance between the processes of enlargement after May 1, 2004 and the aggravation of problems involved in the EU reform caused by the rejection of the EU Constitution. The crisis has markedly lowered

the quality of European integration and its homogeneity as an integrational association, and narrowed the possibilities for conducting a truly “communitarian” policy toward third countries, including Russia.

It is now much more difficult for Russia to deal with the EU as a “solidarity community,” as the other party always requires. Unlike the Soviet Union, post-Soviet Russia has always met this requirement and never sought to incite discord within the EU. The EU Treaty of Lisbon – also known as the Reform Treaty signed in October 2007 – will undoubtedly help to strengthen the “communitarian” solidarity and European consolidation and to overcome the aforementioned crisis. But this may require at least two to three years – the treaty is scheduled to be ratified by all EU member states by the end of 2008.

For the chill in Russian-EU relations to give way to warming, the two parties must, first of all, set clear-cut strategic benchmarks for their partnership and give profound and adequate assessments to their mutual expectations, considering their positions in the world and their domestic political situations. This is vital also for the solution to the issue of the nature and quality of a New Framework Agreement that will sooner or later replace the PCA.

First of all, Brussels must realize that over the years of Putin’s presidency Russia has given up the unsavory role of a beggar at the doors of the EU and the West in general, as it used to be in the past decade, and has ceased to be a secondary co-participant in relations, when it was addressed as “partner” only out of kindness. In this new situation, Russia does not and will not recognize the validity of the EU’s claims to the role of senior partner, the more so mentor. In addition, several strong reasons make the EU the least suitable for this role compared with the beginning of the post-Soviet period of Russia’s development.

Russian and even Western experts agree that in the next 10 to 15 years Russia will develop at a higher rate than the world average. The EU’s growth rates will be much more modest – even if they are maintained at the level of the EU’s relatively successful years of 2006 and 2007. According to our forecast, Russia’s share

in global GDP at purchasing power parity (PPP) will increase from 2.5 percent in 2006 to 3.7-3.8 percent by 2017. This will enable it to consolidate its positions in the system of international economic relations and exert more active influence on them and on the processes of globalization in general.

In the foreseeable future, amid relatively high stability in global demand for Russian energy resources – due to an expected growth in global energy consumption from 16 billion tons of fuel equivalent in 2005 to 22 billion tons of fuel equivalent in 2020, mostly owing not to the EU, but the United States, China, India and some other countries – Russia's relative interest in the EU as a market for its fuel and energy resources may decrease slightly, although it will remain high. This could happen especially if the EU continues to put a great deal of emphasis on the need to reduce its energy dependence on Russia and if it impedes direct investment in its fuel and energy sector by Russian companies, such as Gazprom and others.

It should be emphasized that Russia is ready to guarantee meeting the EU's energy needs in amounts commensurate with its own resource base. Russia's economic stability and security depend on the prospects for its energy exports to the EU as much as the EU's economic stability and security depend on energy imports. The EU accounts for 90 percent of Russian energy exports – not factoring in the CIS. Therefore, any major limitation by Russia of its energy exports to the EU for considerations of political pressure would inevitably be an act of “economic self-mutilation” for itself. So this is a merely hypothetical issue.

Of course, Russia is interested in preserving the European Union as its number one trade and economic partner, as it has been throughout the post-Soviet period and will continue to be at least until 2015-2020. This policy would only help maintain the solid base, developed for years, which stimulates further development of Russia's foreign-economic ties. Relying on this base, Russia could move forward in the field of foreign-economic activity, including in other markets and sectors. At the same time, the EU currently accounts for about 50 percent of Russia's foreign-

trade turnover and this will gradually decrease within the next 10 to 15 years – possibly to 40 percent. The reason is that in other parts of the world – above all in the Asia-Pacific region – there are more favorable conditions for Russia to build up its foreign trade, and not only in energy resources. It is the Asia-Pacific region (Asia-Pacific Economic Cooperation) – not the European Union – that has the greatest potential for Russia to increase the export of finished products, especially machinery and hi-tech equipment, for which Russia has long been striving.

The above and other circumstances will make the European Union's role in the world increasingly less significant – particularly in the absence of an effective strategic partnership with Russia. The same refers to Russia. The question is how to organize Russia-EU strategic partnership.

From the point of view of the vital and long-term interests of both partners, it would be more preferable for them to conclude a Strategic Partnership and Cooperation Agreement (SPCA) than a modified and improved PCA in the form of PCA-2. However, in the last three to five years Brussels has been less inclined to look for mutually acceptable compromise solutions. It interprets various aspects of Russia's political and social-economic systems in its own way and will not accept the serious growth of Russia's role in the world. Moreover, it has turned into a much less predictable partner as it is going through a critical phase in the reconstruction of its own government system.

In a situation like this, sometimes exacerbated by tactical failures of the Russian state and businesses, both parties find it difficult to jointly map out and take measures that would fill their cooperation with really strategic content. This explains the obviously amorphous nature of the road maps adopted at the Russia-EU summit in May 2005, which in fact are mere declarations of intent, marking certain stages on the way to four common spaces for Russia and the EU, which were not even clearly defined. Therefore, a new basic agreement – be it SPCA or PCA-2, as well as sectoral agreements specifying it, will essentially enrich the road maps' content. But one way or another, the parties have not yet

formulated their positions on a new agreement, so they may have taken the Polish veto as an unexpected opportunity to take a time-out for reflection.

In the context of working out economic provisions for a new basic agreement, it would be interesting to see what could be borrowed from such agreements between the EU and third countries.

THE EU'S AGREEMENTS
WITH THIRD COUNTRIES – A SOURCE
FOR “CREATIVE PLAGIARISM”?

Of major importance for Russia are the European Union's agreements with post-communist countries in Central and Eastern Europe on their association with the EU – to date, these countries have already joined the EU or are negotiating accession. Such documents are known as European Association Agreements (AAs). One should also name the EU's agreements for economic, scientific and technological cooperation and partnership with India and Brazil, which international experts classify, along with Russia, among countries with fast-developing markets. The positions of India and Brazil in the global economy, as well as in science and technology, are largely comparable to Russia's. However, the agreements with these nations have far less international-legal content than AAs, have a pronounced framework nature, almost do not contain directly applicable provisions and therefore are of less interest – in the context of this article – than AAs, although they are worthy of notice as well.

AAs basically differ from the PCA because they provide for the association of Central and Eastern European countries with the EU as an interim stage on the way toward future EU membership. However, Russia's full accession to the EU does not seem to be possible or expedient from the point of view of the interests of both parties, for whom this issue is, perhaps, equally unimportant now. The EU is based on a balance of interests of mid-sized and small countries, whereas Russia's accession to the EU would upset this balance. Obviously, the European Union would be unable to “cope” with the Russian economy, as it would have to extend to it all procedures

immanent in it. Indeed, even in a nightmare one cannot imagine all regions of Russia, except for Moscow, Kazan and Khanty-Mansiisk, laying claims to subsidies from the Brussels budget.

For Russia, full membership in the EU would be problematic as well. Russia would be constrained in its relations with third countries by the rules of EU foreign trade policy and would be unable to conduct an autonomous policy. This would greatly complicate, for instance, Russia's relations with countries grouped in the APEC, where not a single EU member state belongs and cannot belong by definition. Therefore, the issue of Russia's association with the European Union is not relevant either.

Of greatest interest – as a source of ideas and possible wordings for a new basic agreement between the EU and Russia – are *trade provisions* of AAs, particularly those aspects that relate to the formation of a free trade area (FTA). Although the creation of a Russian-EU FTA is not on the agenda now – the situation with Russia's accession to the WTO must be cleared up first – this issue may acquire importance in the foreseeable future. As the author earlier analyzed the problems involved in the establishment of a Russian-EU free trade area in this journal, let me refer the readers to that article (see *Russia in Global Affairs* 2/2007; pp. 113-123) and offer some additions confirming the conclusions made in it.

First of all, it is also essential that in AAs procedures for establishing a free trade area were linked to the rules and regulations of the GATT/WTO, so any movement in that direction without membership in this organization was actually ruled out. Even if countries had well-developed trade relations, the establishment of a free trade area was preceded by a very long *transition period*. For Slovenia, for example, with which an agreement was signed in 1996 and entered into force in 1999, a six-year period was established for achieving that goal, even though by that time the country had already been closely integrated into the EU economic space. Another important aspect of AAs was the establishment of an initial level for custom duty rates, from which the parties were to reduce these rates. If the duties were cut in accordance with GATT/WTO requirements after the agreement entered into force,

it was the latest WTO tariffs that were used as a starting point for their subsequent liberalization.

Investment provisions of PCA-1 and AAs are approximately at the same qualitative level based on the fundamental documents of the Organization for Economic Cooperation and Development (OECD), and differ only in details and nuances. It would be useful to include in the investment section of a new basic agreement, which would refer to the application of national treatment and most favored nation treatment to mutual investments, clear-cut provisions that will not allow loose interpretations – such as those in the Stabilization and Association Agreement between the European Union and Croatia. For example, Article 49, Sections 1 and 2 bind both parties, upon entry into force of this Agreement, to grant companies of the other party “treatment no less favorable than that accorded to its own companies.”

In other words, in the sphere of mutually migrating capital in the form of direct investment, both parties, upon entry into force of AAs, shall provide national treatment or most favored nation treatment for companies of the other party without any reservations. It must be added that Article 60, Section 1, provides that “from the entry into force of the Agreement, the Parties shall ensure the free movement of capital relating to direct investments.” This wording (Articles 49 and 60 of the Stabilization and Association Agreement between the EU and Croatia), adapted within the frameworks of a new basic agreement, could be of more use for Russia and the EU as regards investment and open broader prospects for them than PCA-1.

At the same time, the implantation of the above provisions of the AA between the EU and Croatia into a new basic agreement between the EU and Russia would not be enough – especially if the EU and Russia really plan to set themselves the strategic goal of creating a free investment area patterned, for example, after a European Economic Area established under the EU’s agreement with the European Free Trade Association or the North American Free Trade Agreement, which entered into force in 1994. To agree on the formation of such an area, both parties must first find a

mutually acceptable approach to the limitation of foreign direct investment in some strategic sectors of their economies. Relevant bills are now being prepared both in the Russian State Duma and the EU Commission and Parliament. There are grounds to believe that a European document of this kind will largely resemble a similar law recently put into effect in the United States, which has created many problems for Russian businesses – above all, for companies with state participation. Therefore it cannot be ruled out that this issue will become a stumbling block for efforts to draft the investment section of a new basic agreement at a qualitatively new level required for stimulating truly strategic cross-sectoral cooperation in the field of mutual investment.

In the area of *labor migration*, one should also take into account relevant provisions of AAs, as well as the PCA-1 experience. It is important that PCA-2 ensure free movement for professionals who repeatedly enter the country (not on private business, but within the framework of staff turnover at international corporations that have offices in Russia), as well as the migration of professionals with exceptional abilities. At the same time, a new basic agreement could ensure the solution of such issues as the transfer by relevant bodies of EU host countries of pension contributions from Russian citizens working there – at least from those who have been sending contributions for compulsory pension insurance for several years not exceeding the period of time required for receiving the minimum pension at least – in EU countries, this period does not exceed 15 years, as a rule.

On the whole, a new agreement, especially if it is concluded as a Strategic Partnership Treaty, must have a *social dimension*, which is completely absent in PCA-1 and other instruments still regulating EU-Russia relations.

A comparative analysis of PCA-1 and the EU's agreements with third countries as regards the *protection and implementation of intellectual property rights* shows that they are oriented toward the same basic international legal documents on this issue and are of about the same quality. Differences between them arise mainly at the details stage, which should be taken into account when draft-

ing a new basic agreement. Thus, the Russian draft of a new basic agreement should give priority to the further adaptation of Russian norms and standards in the field of intellectual property to corresponding attributes of the European Union. There is no doubt that this approach will meet with full understanding from the other contracting party. And it can hardly be otherwise as this will be a transition to a more advanced phenomenon. At the same time, this process should not be allowed to be made into a “one-way street.” The positive experience gained by Russia, as well as by third countries, should also be taken into account here.

It must be emphasized that special norms relating to intellectual property rights (Article 54 of PCA-1) are declarative and do not have any special legal weight. At the same time, Appendix 10 to this Article contains several very important provisions with Russia’s international legal obligations in the field of intellectual property rights. In it Russia pledged by the end of the fifth year after the entry into force of PCA-1 (2002) to “provide ... for a level of protection similar to that existing in the Community, including effective means of enforcing such rights.” The obligations placed by this provision on Russia are alleviated by the reservation that it should seek to guarantee only a “similar” level of protection, which is a softer requirement compared with the EU level of protection.

The detailed elaboration of issues pertaining to *scientific and technological cooperation* in the EU’s agreements with third countries and in PCA-1 suggests that this issue should be given due attention in PCA-2, as well. On the other hand, the very nature of this elaboration does not give grounds for active borrowing, the more so for “plagiarism.” In the EU’s agreements with Brazil and India on scientific and technological cooperation, which are of a pronouncedly framework nature and are not really binding, the author has not found any ideas that could enrich the respective section of the future PCA-2 between Russia and the EU – except, perhaps, for some wording.

AAs are also largely of a framework nature – but to a much lesser degree than the general agreements with Brazil and India –

especially as regards provisions on scientific and technological cooperation. They outline the goals and forms of this cooperation, but do not set forth in detail the parties' obligations concerning the development of specific mechanisms of cooperation, especially as regards its financing. In this sense, AA provisions on scientific and technological cooperation do not go any further than those of PCA-1.

In drafting a new basic agreement, it would be useful to provide for a set of specific measures that would fill with content the fourth of the aforementioned Road Maps, which concerns research, education and cultural exchanges. This would ensure close and systematic cooperation in fundamental and applied sciences through joint years-long framework programs and co-financing; the harmonization of legislation guaranteeing, in particular, intellectual property rights; and the formation of a pan-European educational area based on the Bologna process, including the convergence of educational systems, broad exchanges of teachers, students and post-graduate students, and mutual recognition of diplomas from higher institutions.

It would also be advisable that the economic, scientific and technological provisions of a new basic agreement should have broader legal frameworks for Russia-EU cooperation in research and production at the level of business and under government auspices. These advanced synthetic forms of international economic relations, which go beyond the framework of traditional trade and which play a key role in economic ties between companies in developed countries, are not yet developed on a priority basis in Russia-EU relations, and there are just a few cases of cooperation in research and production.

* * *

It can be expected that by the next Russia-EU summit in June 2008 there will be no formal obstacles left – such as the hackneyed Polish veto – to Russia-EU negotiations on a new basic agreement, which could be started in the second half of the year. The very decision on such negotiations would make this summit

more fruitful than the last summit in October 2007 and would bring its participants certain political dividends.

There are so far no grounds to expect that these negotiations will result in the conclusion of an ambitious and large-scale Strategic Partnership Treaty within a reasonable and agreed time-frame. Instead, the answer to the question formulated at the beginning of this article will be PCA-2 – with more definite strategic goals than PCA-1. Thus, the economic section of a future agreement could include a provision on a free trade area as a promising goal, specifying that negotiations on this issue will complete international legal procedures for Russia's accession to the WTO. As regards a specific date for the establishment of a free trade area, perhaps the parties should follow the example of APEC, which back in the last decade set a relatively soft time-frame for that until 2020.

It should be kept in mind that once the transition period preceding accession to the WTO is completed, Russia will take every measure to establish a free trade area without concluding a special agreement on such an area with the EU. This will help to substantially liberalize the “European half” of Russia's foreign trade. In particular, the expected decrease of the average weighted import rate of the customs tariff for industrial finished products by three percentage points will have a particularly strong effect in this respect. This may prompt the EU to reciprocate with symmetric measures to meet Russia's interests.

Russia should think over in advance in what areas this will be more desirable for it. In addition to the repeatedly raised issues of the visa regime and direct investment access by Russian companies to the EU fuel and energy sector, these areas could include mutually advantageous harmonization of actions toward third countries, for example CIS members, that would meet the latter's interests as well. In any case, one can hardly dispute the fact that Section 1.8. of the above-cited *Medium-Term Strategy for Developing Relations of the Russian Federation with the European Union for 2000-2010* still remains on paper. This section says that “the development of a partnership with the European Union will contribute to strength-

ening Russia as a leading force promoting the formation of a new system of interstate political and economic relations in the CIS.” However, the EU is still acting in the opposite direction, and not always in its own interests.

Leading Russian and “communitarian” experts differ on the issues pertaining to a new basic agreement between Russia and the EU. All the issues discussed in this article have been considered by experts from different points of view. This difference in opinion was particularly manifest at two representative international conferences organized in February and December 2007 by the Moscow State Institute of International Relations and the Russian Academy of Sciences’ Institute of Europe jointly with Germany’s Bertelsmann Foundation respectively. The discussions revealed polar views on the nature of a new basic agreement – ranging from proposals to adopt and ratify a directly applicable strategic document according to the 1+1+27 formula, to proposals on concluding a political declaration of intent, with many intermediate options. These differences, which reflect the real state of affairs in Russia-EU relations, may manifest themselves at future negotiations on a new basic agreement and thus cause them to drag on. However, one should not dramatize the possibility of delay.

The present situation does not require speeding up these negotiations at any cost to the detriment of their quality and future results. The procedure of extending PCA-1 for one year is not limited in time, while about half of the agreement’s 112 articles have not been implemented yet. So the beginning of negotiations on a new basic agreement will not put the partners out of work, even if they confine themselves to the implementation of the other half of PCA-1.

As regards the Russian draft of a new basic document, it should be worked out in detail by a high-level working group specially set up to include leading experts. There is no need to say that it should not be necessary to set the task of taking “momentous” moves in a situation where there is a tight timeframe.

How to Undo the Gordian Knot in EU-Russia Relations

Kari Liuhto

Contemporary relations between the European Union and Russia are seriously constrained by a number of fundamental issues. In order to cut the Gordian knot which has formed between the EU and Russia, the parties should focus on collaboration, through which both parties can obtain tangible results already in the short- and mid-term.

TRADE AND TRANSPORTATION

Russia's foreign trade has tripled over the past 10 years. Even if a part of the trade growth is due to an increase in the prices of natural resources, there has also been an increase in volume. Increasing volumes have led to more transportation, which in turn stresses the importance of functioning borders and safe transport routes. Since the European Union accounts for more than half of Russia's foreign trade, EU-Russian borders are facing this increased pressure.

If all customs checkpoints between the EU and Russia are taken into account, we have – at every minute around the clock – lines of trucks stretching for tens of kilometers. A common goal should be that no truck is forced to wait more than four hours in a line before customs formalities begin. Technical solutions are available. For instance, an electronic customs declaration could be applied at all of the customs checkpoints between the

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EU and Russia. The electronic declaration should also be extended to Russia's borders with non-EU countries, or otherwise the competitive position of EU-based companies deteriorates in the Russian market. With the widespread application of the electronic customs declaration, the Russian state would get rid of double invoicing and gain billions of euros; foreign firms would save valuable time; and ultimately Russian consumers would get cheaper imported goods. Besides, the number of Russian guards at border crossings could be reduced by at least one third, which would ease the labor situation – at least in St. Petersburg and the surrounding Leningrad Region.

The Baltic Sea has become the largest export route for Russian oil. Currently, oil shipments via the Baltic Sea already exceed those of the Black Sea and deliveries through the Druzhba pipeline. In 2007, an estimated 140 million tons of oil was shipped through ports around the Gulf of Finland. By the middle of the next decade, this amount is expected to exceed 250 million tons. Such a dramatic increase in oil shipments between the East and the West, hectic north-south traffic between Helsinki and Tallinn, and the long winter with thick layers of ice has transformed the Gulf of Finland into a cradle for the next major oil hazard – which could possibly pollute the shores of the EU and Russia. Although vessel monitoring and an information system help prevent collisions between ships, this is not enough, since single hull tankers are the major threat in the shallow and narrow fairways near St. Petersburg.

In addition to oil, natural gas has heated the discussion between some EU countries and Russia. Since the Nord Stream pipeline looks like it has divided the EU, it looks feasible to redirect this gas pipeline so that it would go via the Baltic states and Poland to Germany. The redirection of the pipeline would be a fundamental gesture of goodwill from the Russian side, which would definitely find support in continent-wide integration in Europe. Even if the relations of the Baltic states and Poland with Russia are not at their best at the moment, these

countries are members of the EU, and hence, they should be regarded as reliable transit countries. Moreover, the land-based pipeline is obviously less risky operationally, more environmentally friendly, and less expensive. However, should the land-based pipeline prove to be more costly, these four transit countries should compensate for the financial gap. Furthermore, these countries should not charge extra transit fees, since the use of the Nord Stream pipeline does not cause any extra administrative transit costs to its owners.

Even if Russia accounts for less than eight percent of the European Union's foreign trade, the EU is dependent on hydrocarbon imports from Russia. Two-thirds of the EU's imports from Russia consist of mineral fuels, lubricants and related materials. In fact, Russia accounts for 43 percent of the EU's imports of gas and 33 percent of oil.

Some EU countries are clearly more dependent on Russian trade and imports of fossil fuels than others. Generally speaking, the former socialist countries – the Baltic States in particular – are the most dependent on Russia. Paradoxically, a correlation seems to exist between high economic dependence and poor relations with Russia. Finland is an exception to this general rule. Finland has the highest Russian trade per capita within the EU (see Table 1) and has relatively well-functioning relations with Russia despite the fact that Finland has also had painful historic moments with Russia.

The Finnish experience shows that one should try to step away from the shadows of history and search for constructive ways to go forward instead of focusing on differences in opinions, systems or values. The EU and Russia are different enough to learn from each other, but similar enough to collaborate with each other. The Finnish pragmatic approach on how to conduct relations with Russia might also be useful to some other EU countries. Even if Finland's bilateral ties with Russia are the most intensive among EU countries, bilateral relations should never challenge the common approach of the EU toward Russia.

Table 1. EU-Russian economic relations

	Russia's share of the country's		Trade with Russia per capita	Russia's share of the country's	
	Exports 2006, %	Imports 2006, %	€, 2006	Oil imports 2005, %	Natural gas imports, % 2005
Austria	2	2	568	28	70
Belgium	1	2	715	42	5
Bulgaria	2	3	76	89	100
Cyprus	2	1	78	0	n.a.
Czech Republic	2	6	559	71	76
Denmark	2	1	387	0	n.a.
Estonia	8	13	1 481	n.a.	100
Finland	10	14	2 638	81	100
France	1	2	225	11	20
Germany	3	4	633	34	42
Greece	2	7	350	32	84
Hungary	3	8	668	99	73
Ireland	0	0	84	n.a.	n.a.
Italy	2	4	361	21	32
Latvia	11	8	564	n.a.	100
Lithuania	13	24	1 526	100	100
Luxembourg	1	1	524	n.a.	n.a.
Malta	0	0	10	n.a.	n.a.
Netherlands	1	5	1 381	27	0
Poland	4	10	352	98	66
Portugal	0	1	72	0	n.a.
Romania	1	8	163	56	100
Slovakia	2	11	849	100	100
Slovenia	4	2	572	0	60
Spain	1	3	200	14	n.a.
Sweden	2	4	634	36	n.a.
United Kingdom	1	2	183	10	n.a.

Source: Compiled and calculated by the author from Eurostat 2007 data

MOVEMENT OF CAPITAL

Russian President Vladimir Putin said during the EU-Russian summit in Portugal that Russian investments in the EU total less than three billion euros. This amount looks doubtful, especially if one keeps in mind that a United Nations report suggests that Russia's total outward foreign direct investment (FDI) stock, by

the end of 2006, was over 100 billion euros. Additionally, my earlier studies indicate that the EU is one of the major destinations for Russian outward FDI.

The question here is not statistical but political, since Russia seems to imply that the EU restricts its investments in the single market, which is not the case – at least not yet. All foreign privately run companies are welcomed by the EU regardless of their country of origin as long as they do not create a monopoly inside the European market, are not regarded as tools of any country's foreign policy, and obey the rules.

Many are afraid that the EU will start exercising protectionism in order to slow down the expansion of Russian gas giant Gazprom in the single market. I am more concerned about the Russian investment environment taking a more restrictive turn toward foreign firms, as well as the possible Law on Strategic Sectors or the Mineral Resource Act. And I am worried about the future development of the so-called 'national champions policy,' which in my understanding involves the unpredictability of the Russian investment environment. Foreign investors cannot predict what the sectors will be where champions are created with the help of the Russian state. Here one should not assume that state support would be financial only. The non-transparent 'national champions policy' is more damaging to the Russian investment climate than is the restrictive legislation toward foreign firms.

I would like to stress that both the EU and Russia should keep their investment milieu as liberal as possible, and even more importantly, as predictable as possible, since that same predictability is one of the key determinants driving investments both domestically and internationally. Furthermore, I would like to underline the importance of competitiveness in attracting foreign investments and modernizing economic structures. However, one cannot achieve improved competitiveness without intense competition, and, therefore, a 'national champions policy' fostering oligopolization and legislation restricting foreign competition does not help Russia become more competitive.

Reciprocity is generally a good principle of how to treat neighbors regardless of their size or political power. The EU and Russia are on the leading edge of a new era of reciprocity, which I would term as the reciprocity of restrictions. Russia will obviously restrict the operations of foreign firms in defense-related industries, and probably then in some natural resource sectors. Correspondingly, the EU plans to restrict the operations of foreign state-run companies in energy sectors in order to avoid the overwhelming concentration of production, transit and distribution of energy in the hands of any single company.

In order to avoid the vicious circle of restrictions, one should create an independent expert team of policymakers, businessmen and academics to analyze how to create a free and predictable investment environment in the EU-Russia context. The EU-Russia Industrialists' Roundtable (IRT), accompanied by leading policymakers and researchers, could be a convenient way to form an objective research team. The IRT could produce a biannual report on the EU-Russian investment climate and the main barriers hindering its further development.

At the end of the day, one should not forget that foreign investments are not only the cheapest way to obtain capital, modern technology and advanced management techniques — foreign enterprises per se are valuable since their business contacts build additional bridges between the EU and Russia, and hence support European integration continent-wide. Due to differing opinions at the political level, all additional actors are needed to keep the dialog constructive. I cannot say if there are any parties outside the EU and Russia who would benefit from our poor relations, but I am sure that there are only few marginal groups inside the EU and Russia, which would gain from an investment and trade war between us.

MOVEMENT OF PEOPLE

Unnecessary technicalities preventing the free movement of people should be identified and abolished, when explicitly specified conditions are met. Foreign travel problems by Russian citizens

living in Kaliningrad could be resolved, for instance, by establishing a conditional visa-free zone between the EU and Kaliningrad for a period of 10 years. If this zone proves to be mutually acceptable, the visa-free regime could be made permanent after this tentative period, and the EU and Russia could consider the extension of the zone to the Russian mainland.

Here one should not forget the integrating power of people-to-people contacts. As I have said before, I regret that grassroots level contacts between the EU and Russia are clearly below their potential. The EU-Russia Center in Brussels indicates that only 18 percent of Russians have visited a non-CIS country at least once in their life. Most likely, the proportion of EU citizens who have visited Russia is even lower.

If the decision-makers at the top cannot decide on a common path for the EU and Russia, let the ties between the EU and Russia strengthen at the grassroots level.

When we talk about the free movement of people, we should not forget that already in the foreseeable future the EU faces a labor shortage unless EU member states ease their immigration policies. A Russian labor force would definitely adjust to EU conditions and cultures easier than those immigrants arriving from far-away countries.

Several million ethnic Russians already live within the EU, particularly in Germany, Spain, the UK, and the Baltic states. Although it is difficult to comprehend accusations that the ethnic Russian minority is discriminated against in the Baltic countries, such allegations are so serious that they should not be neglected. In order to objectively clarify the situation, an independent group of specialists – representing the parties concerned and third countries – should study the case extensively.

In all, common research efforts are necessary to pinpoint sore areas in EU-Russian relations. I support the idea of Russia opening and funding an institution in Brussels to monitor the rights of ethnic minorities, immigrants and media in the EU as long as the studies are conducted jointly. This idea should be applied in a reciprocal way – in other words, common research efforts should

be made in EU-funded research centers in Russia as well. Independent research teams consisting of scientists from both sides and perhaps from third countries could provide fresh ideas on how to improve mutual relations.

I do not ignore the significance of grand visions, but if the major leap cannot be done under present conditions, we should focus on smaller steps, since these small victories could help us prepare the soil where grand ideas can flourish. Therefore I suggest that both the EU and Russia should agree on a list of operational targets, which can be met by the middle of the next decade, instead of aiming at a rhetoric strategic partnership. These small steps would allow us to avoid the ancient opening mechanism of the Gordian knot.

Economics as a Catalyst for Politics?

Susan Stewart

Recently Vlad Ivanenko in an article “Russian Global Position After 2008” (*Russia in Global Affairs*, No. 4/2007) argued in favor of cooperation between Russian and European firms in third countries such as Ukraine. On the one hand, this idea flies in the face of the prevailing consensus in the Western literature that the EU and Russia are destined for confrontation with respect to the neighboring countries. On the other hand, his proposal springs from the fact that economic relations between the EU and Russia are in considerably better shape than political ones. This points to the possibility of using accumulated experience in the economic realm to stimulate developments on the political level. How realistic is this possibility?

It has become fashionable to speak of a “crisis” in relations between the EU and Russia. However, this language obscures the fact that developments in the political and economic spheres have been proceeding in quite different ways.

In the political sphere there have been a number of (near-)fiascoes in the past year or so, which have been most evident at a series of high-profile political events. President Putin set the tone for the new, more difficult phase of relations in his speech at the Security Conference in Munich in February 2007. While Putin criticized the U.S., NATO and the OSCE, he also expressed a willingness to cooperate in such fields as disarmament and non-

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proliferation, thus indicating Russia's concern with traditional issues of security. However, these cooperative aspects were largely overlooked by many of his listeners, and primarily the confrontative remarks remained in the minds of Western observers.

The EU-Russia summit in Samara in May 2007 was characterized by harsh dialog which carried over into the public sphere and by the inability of the two sides to agree on a final document. While the tone at the most recent summit in Mafra in October 2007 was less abrasive, little substantial progress was made. This is in part due to the fact that the EU has entered a "holding pattern" while waiting for the outcome of the Russian parliamentary and presidential elections. Furthermore, the EU has been preoccupied with internal matters, in particular with achieving preliminary agreement on a new treaty in October 2007, just one week prior to the EU-Russia summit.

Furthermore, there have been bilateral problems between Russian and certain EU member states (tensions with Poland, Estonia and Great Britain are the egregious examples), which have carried over into the field of EU-Russia relations.

Finally, larger issues of international politics such as the future of Kosovo, missile defense, the CFE treaty and the potential for nuclear weapons in Iran have increased the tension between Russia and the EU.

Thus in the political sphere relations between Russia and the EU are stagnant and even deteriorating.

In the economic sphere, however, the picture is considerably more encouraging. Over the past years President Putin has been consistent in his rhetorical references to the need to integrate the Russian economy into the global one. While the process of Russia's entrance into the World Trade Organization has encountered many hurdles and is only progressing slowly, it is advancing. The data clearly indicate that the EU is a crucial partner for Russia in terms of both exports and imports, while the EU relies on Russia as a major energy supplier. Foreign direct investment to Russia has skyrocketed over the past three years, although one of the reasons for the record increase in 2007 appears to be the return

of Russian capital from certain European countries. Still, even this phenomenon is an indication of the importance of European financial institutions for the Russian business community.

There is a clear difference in the difficulties experienced and the potential benefits to be gained for large enterprises on the one hand and small- and medium-sized firms, on the other. Larger companies, especially those in the energy sector, face significant existing or potential hurdles to access. There have been several cases of foreign investors in Russia being forced to abandon their participation in major energy-related projects on less than convincing grounds. At the time of writing, the Western business community was eagerly awaiting the passage of a Russian law regulating the participation of foreign partners in strategic branches of the Russian economy. Russian investors in the energy market in the EU were also facing uncertainty in the form of the European Commission's suggestion to require an "unbundling" of energy firms to separate production from transport and distribution, as well as certain limitations to foreign investment imposed on the national level.

Small and medium-sized firms, especially those outside of strategic sectors, are confronted with fewer obstacles to access, but suffer from a variety of other problems. The main complaints from European companies active in Russia concern poor infrastructure, massive corruption, an overly developed bureaucracy and inadequate legal mechanisms. Despite these difficulties, however, the consensus among foreign investors seems to be that conditions have improved over the past years in terms of stability and predictability of the Russian business climate. Furthermore, Russian industries are becoming ever more integrated into Western European markets, although not as quickly or thoroughly as some Russian firms would like. As the example of Germany shows, trade with Russia has increased quickly, although a climate of mistrust on the ground has prevented Russian investors from becoming as active as they would prefer, and Russian businesses often have to struggle to be considered on a par with German enterprises.

Despite current and potential future concerns, the state of economic relations between Russia and the EU is quite vibrant and the types and levels of interaction are increasing, although this certainly applies to some EU countries more than others.

Can the economic sphere serve as a catalyst for its political counterpart?

There are several reasons to believe that this question can be answered in the affirmative.

First, there is a long and stable tradition of (Western) European economic cooperation with Russia and the USSR, despite the ideological differences of the Soviet era. The continuity of this tradition indicates that it is unlikely to be interrupted even if political differences increase. This means that there is little for economic actors to lose in any attempt to help “jump-start” relations in the political sphere.

Second, since the political and economic spheres are interconnected, there should be opportunities to influence the political side of the relationship through common issues, relevant actors which straddle both spheres, or processes in which both political and economic realms are involved.

Third, it is easier and more common to set clear, quantitatively defined standards in the economic than in the political sphere. Experience already gained in discussing, setting and adhering to standards in the economic sphere can potentially be transferred to the political realm.

At the beginning, it is necessary to think small. While there are frequent complaints from analysts that neither Russia nor the EU has a broader vision of how the relationship between the two should develop, any such vision will need to be converted into a series of small steps.

Hiski Haukkala, a researcher at the Finnish Institute of International Affairs, has recently presented a fascinating argument in this journal (“The Tomorrow Is Now”, No. 4/2007) that Russia and the EU need to start cooperating much more intensively in order to be able to develop into a joint force which will be able to play a significant global role despite the probable rise of

China and the continuing importance of the U.S. on the world stage.

However, even if one accepts such a vision of the future and agrees with the need for increased cooperation, there is a need for a game plan to get there. The enactment of a series of steps in the economic realm to rejuvenate developments on the political level could be a part of such a game plan.

First, well-established areas of economic cooperation should be selected to ensure a strong basis and continuity of relationships. These are also areas in which confidence-building is most likely to have occurred.

Second, skilled individuals from these areas could be sought – those who occupy key positions and have the will to go beyond their immediate roles and push for improvements on the political level, *inter alia* because of their awareness that better political cooperation will bring benefits in the economic sphere as well. Economic actors are likely to have more experience dealing with both EU and Russian contexts than political ones, thus giving them an advantage when taking on tasks of moderation and coordination.

Third, areas where common standards would be desirable and where both EU and Russian economic actors could exert pressure on their various governments to cooperate on devising and adhering to such standards should be pinpointed. These could be areas where the interests of political and economic actors potentially coincide, such as fighting corruption or establishing fair and efficient mechanisms of legal recourse.

Certainly, economic actors have quite different priorities from political ones, as the profit motive overshadows other concerns. Furthermore, corruption in the economic realm could sabotage the attempted results, such as the introduction of common standards involving transparency of transactions, which may run contrary to the interests of some actors. The approach can be interpreted as an attempt to refocus EU-Russia relations solely on the economic sphere, rather than as using it to catalyze developments on the political level. Indeed, without some steering by political

actors, this refocusing presents a genuine danger to the political side of the relationship.

While one cannot expect that economic actors will refrain from defending their own interests in the political realm, it is reasonable to expect that political actors will seek to retain the initiative, as it is not in their interest to become permanently marginalized. Furthermore, the process should be guided so as to utilize mechanisms of cooperation from the economic sphere, rather than adopting its agenda.

It is possible, if not necessarily likely, that the new constellation of the political elite in Russia will take a more cooperative line toward the EU and the West in general. Political actors on both sides should be open to this possibility rather than ruling it out from the start. However, if this is not the case, then using relations in the economic realm as a catalyst to improve political cooperation should be considered. This should not imply, however, that economic actors dictate policy in their exclusive interests.

The idea is to import cooperation mechanisms, which have been successful in the economic or business sphere, into the political realm. It is obvious that politics is not economics, and that some of these mechanisms will be inappropriate. However, it is the politicians' prerogative to pick and choose, or to adapt the mechanisms to political needs.

How to Rescue the Partnership?

Sabine Fischer

The label ‘strategic partnership’ has been extensively used in EU-Russia relations since the second half of the 1990s. However, the viability of such a strategic partnership is being questioned nowadays by policymakers and observers on both sides, and the development of the relationship is stalled. Hiski Haukkala in an article “The Tomorrow Is Now” (*Russia in Global Affairs*, No. 4/2007) argues that Russia and the EU face an existential choice of making their partnership a success. In the light of this argument it would be worth exploring options for cooperation which have not been sufficiently used over the last couple of years. In the first place, one should analyze “hard security issues” which are at the core of the disagreements between the EU and Russia – multilateral cooperation and arms control, security cooperation in the CIS, and energy.

In the global dimension, the UN Security Council (UNSC) is by far the most important among the few institutions in which Russia, EU members and the U.S. are on an equal footing. In recent years, Russia has increasingly used its permanent membership in the UNSC to block mainly U.S. initiatives perceived as running counter to Russian interests. On the other hand, there have been signs of Russia’s growing interest in a stronger involvement in UN activities.

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The UN Security Council seems to offer little room for manoeuvre in multilateral cooperation, since Russia's approach is focused mainly on strengthening its national interests and position as a global player and its preparedness to participate in (and indeed its commitment to) multilateral decision-making is rather limited. However, the EU/EU members should highlight common positions (which regularly occur on a variety of problems, such as Iran, North Korea and the Israeli-Palestinian conflict) and in so doing keep Russia involved in multilateral debates in the framework of the UN.

The EU/EU members should take up Russia's verbal commitments concerning its involvement in UN peacekeeping activities and humanitarian aid, which could become another field of intensified interaction and cooperation. However, the EU will have to face the fact that the Russian approach is diverging significantly from its own in many aspects. Moscow is campaigning for the recognition of organizations like the CIS, the Organization of the Collective Security Treaty or the Shanghai Cooperation Organization as regional peacekeeping bodies by the UN – which would certainly create controversies among EU members. Russian technical support for developing countries is not tied to political issues, while the EU claims that good governance and democracy are cornerstones of its concept of development aid. Thus, attempts to coordinate activities in these fields should be accompanied by an open dialog about the underlying principles and goals.

Multilateral arms control and nonproliferation regimes are in a deep crisis. The existing tensions between the U.S. and Russia have culminated in fierce debates about American plans to deploy parts of a global Ballistic Missile Defense System in Poland and the Czech Republic. Back in 2002, Moscow did not show strong resistance against U.S. withdrawal from the Anti-Ballistic Missile Treaty, now Russia shows increasing readiness to confront Washington. High-ranking members of the Russian military even called for Russia's withdrawal from the Intermediate Range Nuclear Forces Treaty (INF), while Moscow officials announced that Russian nuclear weapons

might be retargeted at Europe should the U.S., Poland and the Czech Republic implement their plans. Ultimately, the Russian reaction was twofold: in July 2007, Moscow announced its withdrawal from the stalled Treaty on Conventional Forces in Europe (CFE) and suggested that Washington jointly use the Russian Gabala radar station in Azerbaijan as a substitute for deployments in Poland and the Czech Republic. The American reaction to this suggestion has been cautious, emphasizing that joint use of the infrastructure in Gabala would not be excluded, but could only serve as an addition to the deployments in Poland and the Czech Republic.

As a party to the negotiations about the Iranian (and North Korean) nuclear programs Russia has often pursued ambivalent policies. Moscow has sided with the West in its desire to prevent Teheran from acquiring nuclear weapons, while at the same time trying to avoid strict economic sanctions in order to protect arms trade with Iran and the Russian-Iranian contract on the construction of the nuclear power plant in Bushehr. Furthermore, Russia put forward the suggestion to create an international consortium for the enrichment of uranium on Russian soil, which would provide Iran with the possibility for civilian use of nuclear power, but prevent it from running a military nuclear program.

The EU's room for manoeuvre in addressing the crisis of multilateral arms control and nonproliferation regimes is very limited, since further developments largely depend on the attitudes of the U.S. and Russia. The EU lacks a common position regarding American ABM plans, as well as Russian reactions to it. The only sphere where Russia and the EU currently share interests is the prevention of the Iranian nuclear program. Therefore the EU should consider the Russian suggestion on the international consortium for uranium enrichment and try to convince all parties concerned to enter into serious negotiations about it. The same holds true for Russia's offer regarding the radar station in Gabala. There is little hope that either Russia or the U.S. will accept the other side's conditions as they have been formulated during the first half of 2007 – but negotiations would keep multilateral pro-

cesses going and increase the chance that compromise solutions can be found. By all means the EU should emphasize the importance of multilateral arms control and nonproliferation vis-à-vis both Russia and the U.S.

In the regional dimension, tensions between Russia and the EU have been on the rise in recent years. While the EU has increased in stature, Russia is struggling to maintain economic and political control over the former USSR. Thus, the “common neighborhood” has become the subject of a competition for influence between Russia and the EU. Again, the underlying principles and strategies, as well as goals, differ. At the same time, Russia and the EU face common security threats that emanate from political and economic instabilities in the “common neighborhood.”

The resolution of the protracted conflicts in Moldova, Georgia and Azerbaijan is perhaps the only challenge as regards relations in the former Soviet Union that has been oriented toward maintaining the status quo situation, because it provides Moscow with a strong political, economic and military leverage over the states affected by these conflicts. At the same time, Moscow would not dispose of the forward-looking vision of how to treat the breakaway regions, which increases its reluctance to see any changes in the status quo.

The EU has a vital interest in the resolution of the protracted conflicts because they are a major impediment to the development and stability in the region. However, EU member states are deeply split over the issue, which weakens the position of the EU in the region. Brussels has tried to gain a higher profile by appointing two EUSRs for, respectively, the South Caucasus and Moldova, and has deployed the EUBAM mission on the Ukrainian-Moldovan border, as well as a small rule-of-law mission in Georgia, EUJUST Themis. It also strives at shaping the domestic environment in the affected states through its ‘European Neighborhood Policy.’ However, such measures have so far been solitary instances resulting not from the EU’s forward-looking approach, but from pressure from regional actors.

The EU should claim a bigger role in conflict resolution, not only in the Transdnestr region, but also in the other conflicts. The fact that Moscow, after initial reluctance, ultimately accepted EUBAM, should encourage the EU to engage more deeply on different levels – confidence building, border monitoring, and mediation.

It seems that the greatest potential for cooperation regarding the protracted conflicts lies in Russia-EU peacekeeping activities. Russia has always displayed a great interest in closer security cooperation with the EU in the framework of ESDP. Here, the EU could offer Moscow cooperation, which could possibly lead to joint peacekeeping. This would contribute to the development of the Common Space on External Security and the stabilization of this fragmented and crisis-prone region.

The main stumbling block here is the discrepancy between the sides' approaches to the build-up and command structures of joint peacekeeping forces. Russia demands cooperation "on an equal footing," i.e. its equal participation in the command of joint ESDP and Russian forces. The EU, on the other hand, insists on decision-making autonomy, which precludes equal participation of the Russian side. To resolve the contradiction, both sides should be prepared to enter an open dialog about these opposing positions.

In the energy sphere the former Soviet republics remain entangled in a complex network of energy interdependence. Russia holds a monopoly of pipeline routes for Central Asian gas to Western Europe. The former Soviet republics are almost 100-percent dependent on Russian energy deliveries. On the other hand, they control the transport routes for Russian exports to the EU, while Russia is becoming increasingly dependent on Central Asian gas to supply its own domestic market.

Given technological backwardness and ever-increasing internal consumption, Russia will face serious problems in supplying its domestic market and fulfilling export commitments in the medium term. The Russian Energy Strategy until 2020 outlines measures to meet these challenges. Among other things it envisages

increased use of fossil energy sources other than gas. It remains questionable, however, whether such steps can ensure the sustainability of both domestic supply and exports. Considering the political implications of a sharp increase in domestic prices, urgently needed reforms in the gas sector are not very likely under the current domestic conditions.

The EU's dependence on gas imports from Russia has been on the rise ever since the beginning of the 1990s. At the same time, both sides have found themselves increasingly at odds regarding the conditions of energy trade. The EU expects a liberalization of the Russian energy (essentially gas) market so that EU companies can enter it. Moscow's refusal to ratify the transport protocol to the European Energy Charter in order to protect its transport monopoly over energy deliveries has been a major point of contention for over 10 years now. The Russian side has produced a number of arguments against the ratification of the Charter and the transport protocol, which have not been considered on the European side. Russia also responds to the EU's accusations by pointing out that the EU tries to limit the activities of Russian companies in its own markets, thus denying equal conditions for all sides.

The EU and Russia are both dependent on mutual energy trade relations. The EU will not be able to quickly diversify its gas imports (which would also mean switching to potentially less stable trade partners). The fast diversification of exports to other world regions requires huge investments, which Russia will not be able to make in the foreseeable future. Russia cannot abandon the EU as its main energy customer any time soon. Thus, functioning and stable energy relations are at the core of both sides' interests.

The crucial precondition for more cooperation in the field of energy is liberalization on both sides, based on reciprocity. Russia has to modernize its energy market if it wants to remain capable of guaranteeing domestic as well as export supply. Considering its relative backwardness in technological development, Moscow should be highly interested in a controlled opening of the Russian energy market and closer cooperation with energy companies from the EU and other industrialized countries. This concerns not only produc-

tion and transportation, but also – and in particular – energy efficiency, which must become a crucial issue on the Russian agenda.

If the EU wants Russia to soften its stance on energy market liberalization, it has to demonstrate that Moscow's accusation of protectionism is invalid. The Commission's recent initiative aiming at unbundling energy production and distribution might be a useful step toward the liberalization of the European energy market. It remains questionable, however, whether it makes sense to one-sidedly hinder foreign companies' access to European networks (the 'Gazprom Clause') without flanking such measures with more constructive moves toward mutual understanding. The European Energy Charter still seems to be the best available instrument to defuse tensions in EU-Russia energy relations. It entails rules for investment and non-discriminatory trade as well as a mediation mechanism. Therefore it provides important tools for the regulation not only of bilateral energy relations between the EU and Russia, but also of relations with the transit countries. In order to restart the Energy Charter process, the EU should seriously consider Russian concerns with respect to the transport protocol, open up negotiations on them and be prepared to partially adapt the Charter in order to get Russia on board.

To conclude, it is difficult to call Russia and the EU strategic partners. However, due to the many interdependencies the EU and Russia have considerable potential for fruitful cooperation on all levels of their relationship. If both sides make use of this potential, there is a realistic chance that a substantial strategic partnership might develop in the future.

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Andrei Kuzyaev	President, LUKoil Overseas Holding Ltd.
Valery Okulov	General Director, Aeroflot Joint Stock Company; member of the State Civil Aviation Authority Council; member of the IATA's Board of Governors; member of Aeroflot's Board of Directors
Ruben Vardanyan	President, Troika-Dialog Group
Vladimir Yevtushenkov	Dr. Sc. (Economics), Chairman, Board of Directors, Sistema Joint Stock Financial Corporation; Member of the Russian Engineering Academy and International Academy of Communications
Igor Zyuzin	Dr. Sc. (Technology), Chief Executive Officer and Director, Mechel Joint Stock Company