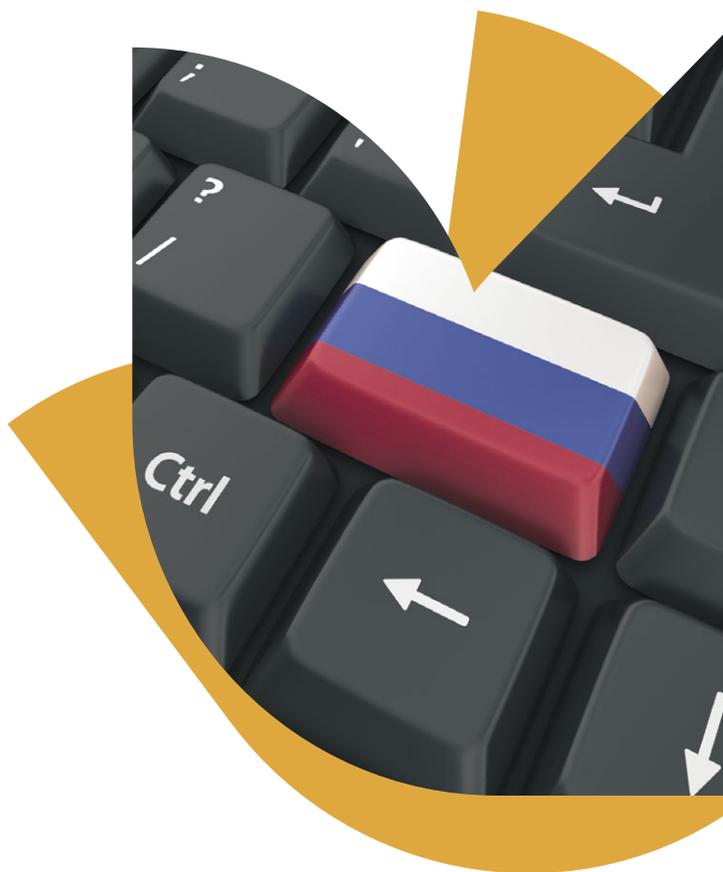




CARNEGIE MOSCOW CENTER
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE



Adam Balcer
Nikolay Petrov

The Future of Russia: Modernization or Decline?

Warsaw 2012

This report was published within the framework of the project „Russia and challenges of modernization: implications for the EU and Poland” as a part of the programme “Promotion of knowledge about Poland” financially supported by the Polish Ministry of Foreign Affairs



Ministry
of Foreign Affairs
Republic of Poland

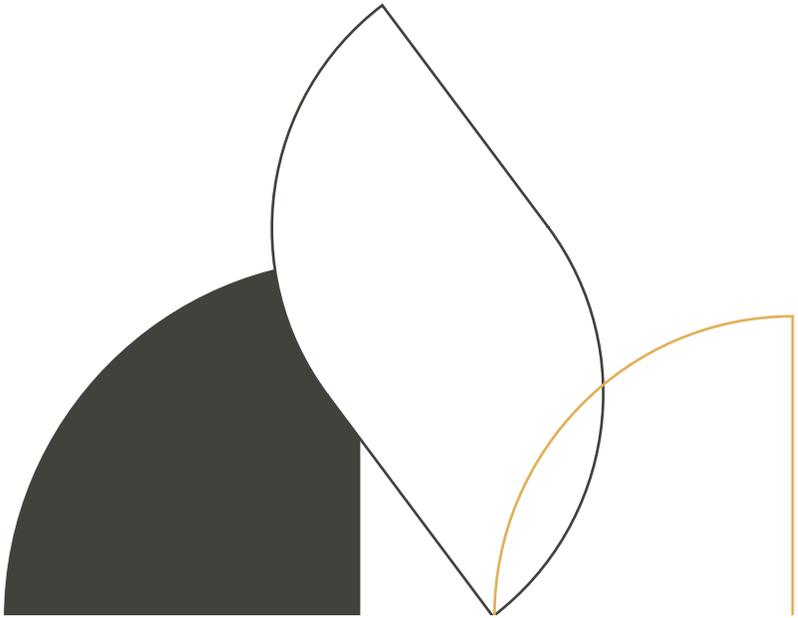
Adam Balcer
Nikolay Petrov

The Future of Russia: Modernization or Decline?



Contents

| | |
|--|-----------|
| Introduction | 5 |
| 1 Adam Balcer, The cat that walks by himself: Russian foreign policy at the beginning of the twenty first century | 7 |
| 2 Nikolay Petrov, Russia's uncertain future: internal dynamics and possible trajectories | 69 |

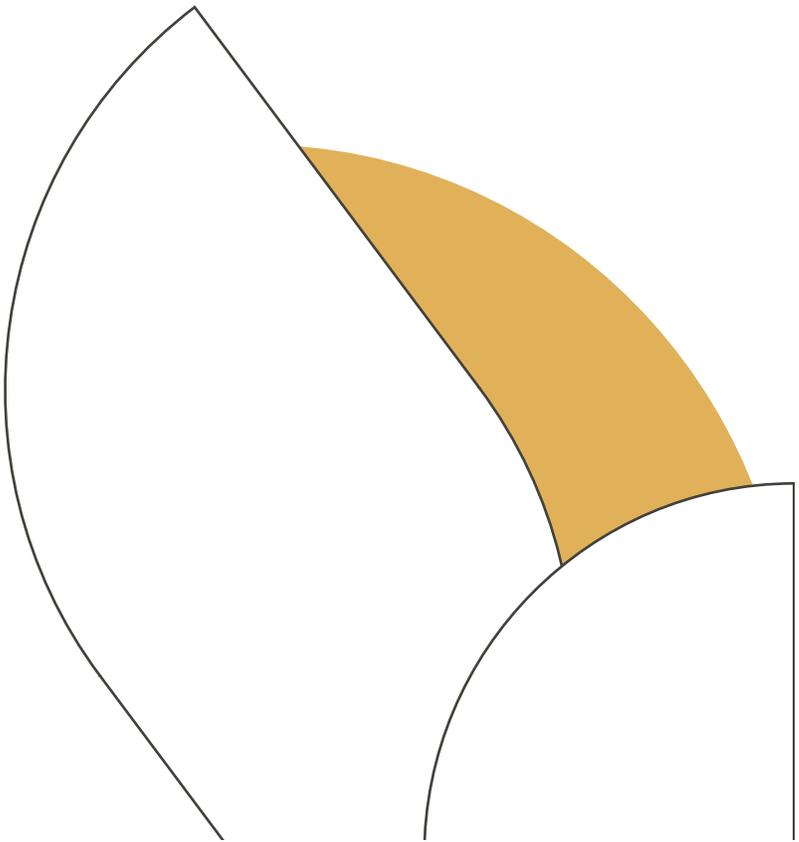


4

Introduction

Russia as a permanent member of the UN Security Council and nuclear power remains a key player in Eurasia with a substantial leverage in the post Soviet space and, at the same time, the most important neighbour of the EU. However, in the coming decades Russia will face serious challenges to its internal prospects and international position. The further rise of China, negative demographic trends (shrinking population, emigration of well-educated people), substantial increase of the share of Muslim population, degradation of its infrastructure, unsustainability of the current economic model and rampant corruption are the most important factors which will impact on Russia's future and by default on the EU's. Certainly, Russia's democratization would substantially increase its ability to face these challenges and impact positively on EU-Russia relations. A recent awakening of the Russian society created a new window of opportunity for the country's genuine modernisation and democratisation. This report composed of two articles "The cat that walks by himself: Russian foreign policy at the beginning of the twenty first century" written by Adam Balcer, programme director at demosEUROPA and "Russia's uncertain future: internal dynamics and possible trajectories" written by Nikolay Petrov, Scholar in Residence, Carnegie Moscow Center is trying to find answers to three crucial questions:

- What are the most probable scenarios for Russia's internal development?
- What implications will have developments in the world and particularly in Eurasia on Russia's foreign policy and its international position?
- How could the EU in the most efficient way make an impact on internal processes in Russia? 🍌





The cat that walks by himself: Russian foreign policy at the beginning of the twenty first century

Adam Balcer

Main thesis

1. Russia's main strategic goal lies in the achievement of great power status equal to the US, China or the EU. Therefore, Russia foreign policy focuses on creating a system of international relations in which large states are the primary guardians of the global order based on a general balance of power among themselves (multipolarism), respecting one another's position within their spheres of influence.
2. Russia aspires to be an unique balance holder and intermediary between the West and the rest on the global scene pursuing independent course with equal distance to other poles of power. Its uniqueness is supposed to derive from its locus of belonging in the European cultural community and, simultaneously, its Eurasian and non-western economic and geopolitical character.

3. Moscow maintains an important position on the international arena by virtue of its largest nuclear arsenal in the world, permanent membership of the UN Security Council, leverage in the post-Soviet area and abundant natural – particularly energy – resources. However, relatively limited size of its economy and national income per capita, low level of innovativeness, over-dependence on export of resources, high level of corruption and serious structural challenges (e.g. shrinking population and changes of religious structure) seriously undermine Russia's ambitions.
4. Russia has a peculiar geopolitical position as the largest state on the globe which is a highly multiethnic and multireligious country, very sparsely populated and stretching between Asia and Europe, with very long border with the Muslim world and rising China. In consequence, Russia distinguishes itself against a background of other main players on the global arena in the complex relationship with the outside world. Substantial and multidimensional leverage in the post Soviet space combines with high level of vulnerability to negative regional and global trends (further integration or disintegration of the EU, future of its enlargement, rise of China and Turkey, changes in the energy global market: shale gas, Iran's relations with the West, decreasing Russia's leverage in the post Soviet area). The latter will have a crucial impact on Russian foreign policy in the twenty first century .
5. Russia's foreign policy is decisively Western-centric but at the same time full of contradictions. The NATO countries are perceived by Moscow as the main source of economic and technologic modernization. At the same time, they are officially recognized as the greatest danger to Russia's security.
6. Despite the multipolar discourse, Moscow intends to built its international position through bilateral relations based on equality with the US, which is still perceived as the most important point of reference in "organizing" the Russian foreign policy. The foundation of this relationship lies in the nuclear potential of Russia. However, an enormous discrepancy

of economic power between the US and Russia as well as the rise of China make Moscow's ambitions to establish bipolarity with Washington an unrealistic option.

7. Objectively, the most important economic and political partner for Russia is the European Union. However, Moscow treats the EU as a secondary player in comparison to the US. A substantial divergence of values and interests between Moscow and Brussels is a serious challenge on the path towards more enhanced cooperation between Moscow and Brussels.
8. Russia has a globalist world-view but its capabilities are predominantly regional. Russia believes that it can only be a pole in the multipolar world if it has a sphere of influence. Russia perceives the post-Soviet space as its sphere of interests and demands from the external actors that they recognize its special status. Russia's eagerness to defend its interests is directly proportional to the rise of the engagement of other actors (China, the EU, Turkey, the US) in the region which is undermining Russia's leverage.
9. In spite of Russia's declarations of equal distance to other poles of global power, a substantial economical and political rapprochement between China and Russia has taken place in the recent years. Yet both countries have not overcome mutual distrust and do not aspire to establish a tangible and close alliance. Nevertheless, as China prepares to become a new superpower in the twenty first century, Russia, the cold war superpower, will have little choice but to accept the rising China as a crucial priority in its foreign policy, independent of Moscow's relations with the West.
10. The agenda of Russian foreign policy is strongly related to the internal political system based on the authoritarian model and worldview of Russian society. The future of Russia's foreign policy will strongly depend on its internal developments, namely the scale and character of its democratization. However, "an addiction" to great power mentality will have a substantial impact on Russian foreign policy, even in case of its democratization.

A vision of greatness: strategic framework of Russian foreign policy

Since the fall of communism, the most important goal of the Russian foreign policy has been the achievement of great power status. A great power is a state which will achieve the position of a member of the global multipolar order with equal status to the world principal powers (China, the US and, in the future, possibly the more internally integrated EU). All other aims are subordinated to this number one strategic priority. According to Moscow, the world is currently undergoing an evolution from the unipolar order dominated by the US to the more pluralistic global order. In this new world, smaller states fend for themselves as the main players jockey for influence over them. Russia's vision of the multipolar world order and its own place in it was expressed most clearly in 2008 by the president of Russia Dimitri Medvedev in his famous speech, in which he expressed what became known as the Medvedev doctrine:

Firstly, Russia recognizes the primacy of fundamental principles of international law, which define the relations between civilized nations. It will build our relations with other countries within the framework of these principles and the concept of international law.

Secondly, the world should be multipolar. A single pole is unacceptable. Domination is something Russia cannot allow. It cannot accept a world order in which one country makes all the decisions, even as serious and influential country as the United States of America. Such a world is unstable and threatened with conflict.

Thirdly, Russia does not want confrontation with any country. Russia has no intention of isolating itself. It will develop friendly relations with Europe, the United States of America and other countries as much as possible.

Fourthly, protecting the lives and dignity of its citizens, wherever they may be is an unquestionable priority for the country. Russian foreign policy decisions will be based on this requirement. Russia will also protect the interests of its business community abroad. It should be clear to all that Russia will respond to any aggressive acts committed against it.

Fifthly, as is the case with other countries, there are regions in which Russia has “privileged interests”. These regions are home to countries with which Russia shares special historical relations and with which it is bound together as friends and good neighbours. Russia will pay particular attention to its work in these regions and build friendly ties with these countries, its close neighbours.¹

In Moscow’s view, Russia’s position on the world scene is based on three pillars:

- military capabilities (the largest stock-piles of nuclear weapons and fissile materials in the world, military-industrial complex second only to the US, the fifth military expenditures in the world and the second according to their share in the GDP among the biggest economies, one of the largest armed forces on the globe regarding numbers of servicemen and military equipment)²
- the largest natural potential (agriculture, minerals, energy) with particular importance of energy resources³
- economic potential (the sixth GDP (PPP) in the world, the third international foreign exchange reserves, the third fastest pace of growth among the largest economies (top 10) since 2000, small public and foreign debt)⁴

On the other hand, the Russian political elite is aware that in order to become a fully-fledged great power it must increase its technological capacities and innovativeness and competitiveness of its economy through modernization and a successful fight against corruption. However, authoritarian and corrupt charac-

ter of the Russian political system puts a serious constraint to Russia's ability to reform itself.

The key importance of the great power concept in the Russian foreign policy is related to the core continuities starting with the Tsarist Russia and going through the Soviet Union until the modern Russian Federation. Russia has developed for centuries as a multinational and multireligious empire. The pace and scale of its territorial expansion were one of the most spectacular in the history of the human kind. As a continental empire, Russia did not establish, in difference to the UK or France, a clear division between the ruling core and its colonies. The territorial expansion was justified by the need to create buffer zones against alleged and real enemies. The key outcome of the expansion was the establishment of a centralized and militarized state and emergence of a great power mentality, often colored by xenophobia. An enormous size of the country uniting Europe and Asia and its cultural peculiarity (mix of Western and non-Western elements) led to a pendulum swing of Russian identity. This ambivalence found an expression in the feeling of uniqueness. History has also had an enormous impact on the highly ambivalent perception of the West in Russia and its perception of neighbors. On the one hand, in the historical memory of the Russians, there is a strongly entrenched image of West as a source of threats to Russia's independence and very existence: the Teutonic Knights, Poles, Swedes, Napoleon, the UK and France during the Crimean War, the Central Powers during the First World War, the Allied intervention in the Russian Civil War, Hitler and NATO. The serious threat from the East is limited to the invasion of the Mongols. On the other hand, all modernization impulses which had an enormous positive and negative ramifications for Russia's history have come from Europe. Moscow's historical legacy as the centre of Slavic Orthodox Empire results in the current Russian approach to Ukrainians and Belarusians who are seen by the great majority of Russians as members of one cultural community.

Russia's perception of its place in the world is strongly entrenched in the soft authoritarian domestic political system.

Russia has been recognized by the Freedom House since 2004 as a non-free country and has never been granted the status of fully-fledged free country. The Russian political elite sees foreign policy not only as an instrument for defending national interests, but also as a mechanism for securing the survival of the authoritarian regime. In effect, objective Russian national interests can significantly diverge from the Russian elites' perception of their own subjective interests. The core of the political elite constitute *siloviki*, former officers of the security sector. A personification of this phenomenon is Vladimir Putin himself. Their share in the political elite has considerably increased since the period of communism.⁵ The fundamental organizing principle of Russia's internal affairs and foreign policy is a concept of sovereign democracy. According to Jeffrey Mankoff, "a truly sovereign democracy, as defined by the originator of the term, Kremlin ideologist Vladislav Surkov is one whose goals and methods both at home and abroad are made solely on the basis of calculations of national interests, rather than because of external pressure to conform to behavioral norms."⁶ It can be said, that Russia manifests a "hypersovereignty" on the international arena when it comes to the external interventions regarding internal political situation (human rights violations). Russia almost always takes steps against the efforts of international organizations or Western states concerning promotion of democracy. Russian diplomacy also prefers bilateral informal relations with the main powers rather than multilateral pacts or agreements based on commitments to common values. From the Russian point of view, bilateral relations have advantage over multilateral institutionalized frameworks because they allow to avoid the establishment of intrusive norms while preserving major powers' room for maneuver. That's why, Russia accepts "loose" international platforms like the G-8, the G-20 and the BRIC which do not limit Russia's sovereignty over its domestic affairs and foreign policy. Moscow supports also the UN Security Council because it is essentially great powers' club. Moreover, it imposes limits on the potential of the US to act without the approval of Moscow.

Russia's real and desired place in the emerging multipolar order characterizes itself by contradictions and ambiguities. According to the Medvedev doctrine, Russia perceives the international law as a basic foundation of the new multipolar order. However, its policy towards Abkhazia and South Ossetia proves very clearly that its understanding of this principle is very instrumental. Declarations of Russian leaders issued after the recognition of the latter's independence showed clearly that in their opinion a great power has the right to its own interpretation of the international law. The worldview of the Russian elite, based on the definition of a great power as an international actor able to subordinate smaller countries, have an impact on instruments used by Russia to promote its national interests. Despite some changes in the recent years, Russia uses hard power instruments (military actions, support for separatists, expulsion of immigrants, sanctions, embargos, cyber attacks, cuts of energy supply, threats) much more often than soft power.⁷ The Kremlin believes, that the unipolar world is by definition unstable and threatened by potential conflicts between the super-power and great powers contesting its dominance. On the other hand, Russian politicians stress, that the changes that the world order is currently undergoing are leading to increased rivalry among great powers. Moscow believes that in this Hobbesian world there is no place for sentiments, permanent alliances or strict consistence. Russia should pursue its own course keeping a more or less equal distance to the other poles of power. The end remains constant: the most favorable and influential position in the future concert of great powers performing an informal global leadership. However, an idea of keeping an equal distance to other great powers clashes with the assumption that the main obstacle to an entrenchment of the multipolar world order is the unilateralism of the United States. Indeed, Russia seeks a pluralistic global power configuration to offset American strategic dominance. On the other hand, it should be admitted that the unilateralism of the US after the fall of Berlin wall substantially contributed to the strengthening of Russia's support for multilateralism.

Russia's place in the world: ambivalence and contradictions

Russia's problems with a comprehensive conceptualization of the emerging multipolar world derive from the uniqueness of Russia's position on the global chessboard. In fact, the role of Russia in the new global order is an enigma and an open-ended question to a much larger degree than in the case of many other players. According to the long term economic projections of Goldman Sachs and PricewaterhouseCoopers, Russia's pace of GDP's growth will be substantially faster than the EU's or the US's but much slower than China's or India's. The realization of this scenario means that Russia's GDP measured in the PPP will be in 2050 larger than that of each of the EU member states, taken separately but it will be smaller than Brazil's, Mexico's or Indonesia's.⁸ in consequence, Russia's place on the ladder of the world's economies will be lower in 2050 than currently is. The substantial reduction of the gap between Russia's size of economy and middle powers, direct neighbors of the CIS area, namely Turkey and Iran will have an important implication for Russia. Moreover, Russia, differently than the new players in the multipolar order, will experience a substantial shrinkage of its population in the coming decades, which makes it more similar to the EU.

Russia constitutes also a *casus separatum* because of its peculiar geopolitical position as the largest state on the globe which is a highly multiethnic and multireligious country, very sparsely populated and stretching between Asia and Europe with very long border with the Muslim world and rising China. As Dmitri Trenin rightly points out "Russia [...] sits uncomfortably on the periphery of both Europe and Asia while apprehensively rubbing shoulders with the Muslim world."⁹

Indeed, Russia has probably the most sensitive and vulnerable geopolitical position among the great powers and coun-

tries aspiring to this group. Roughly 80% of the entire Russian population lives in the European part of Russia. However, 75% of Russia's territory, where the largest deposits of natural resources, are located lies within Asia and accommodates only 20% of its population. This gap between the European and Asian Russia is deepening due to internal migrations and demographic trends. The European part of Russia constitutes around 40% of the continent's territory but less than 15% of Europeans live in this part of Russia. Density of population is fivefold smaller in the European Russia than in the European Union. In the case of the Asian part of Russia, the discrepancy regarding the number of inhabitants and population density with other parts of the continent are radically more striking. Moreover, Russia borders either on the East or on the West with a periphery of its neighbors namely the less developed, urbanized and populated parts of China and the EU, respectively. The enormous size of Russia, its limited administrative capacities and poor level of infrastructure contribute to the gravitation of Russian regions to external centers (the EU, China, Kazakhstan). Russia is – taking into account immigrants – one of the most multi-ethnic countries among the largest states in the world. Around 20% of Russian citizens belong to the other ethnicity than Russian. Moreover, Russia hosts, after the US, the second largest immigrant community in the world. Their share in the Russia's population is one of the biggest among the main states of the world (almost 10% of population).¹⁰ Particularly important for Russia's future are relations with the Muslim world.¹¹ Russia's southern borders with Azerbaijan and Kazakhstan are the longest land frontier between Muslim and Christian countries in the world. A huge Muslim community, including illegal immigrants comprising around 15% of population, lives in Russia. North Caucasus, the most Muslim region of Russia and an arena of guerilla war since 1994 is the most important challenge to its security. A share of Muslims in the Russian population will substantially increase up to 30% in coming decades. The scale of this demographic shift, which creates a vital challenge for the country's coherence, makes Russia a special case among the main powers.

For the first time since several centuries, Russia is surrounded by middle and great powers or political groupings which are much richer (the EU, the US, Japan), dynamic (Turkey, China, possibly Iran) or powerful economically and demographically (the US, the EU, China) or militarily (NATO and in the future China) than Russia itself. A Gordian knot binding closely four elements will be the source of fundamental geopolitical tension for Russia in the coming decades:

- Russia's desire of engagement in the Pacific Rim where the world's centre of gravity is moving which will have to cope with a shrinkage of Siberia's population
- probable rising importance of the Far East in the Russian economy and foreign policy
- Increasing and inevitable involvement of Russia in the South (the Muslim factor)
- maintaining a very high place in the Russian agenda for the European direction, due to demographic, cultural and economic reasons

Russia tries to use its geopolitical ambiguity as an asset and aspires to play a role of balance holder between the West and non-West. Russian political elite has stressed many times that it is an integral part of the European civilization but at the same a member of the rising non-Western world. Therefore, Russia, while advocating a multipolar order, has at the same time been making a bet on many different horses: "limited bipolarity" with the United States, Russia-USA-EU triangle, the G-8 and the G-20, the BRIC (Brazil, Russia, India, China), partnership with Beijing and the UN Security Council.¹² Russia – as the only state that is a member of both the G8 and the BRICs – would find itself in a uniquely advantageous position of coordinator and mediator between Western and non-Western centers of a multipolar world. The main contradiction exists between the idea of a bilateral, special and equal Russia-US relationship on the one hand, and the BRIC

as an alternative to the West, on the other. Even if Russia does not perceive itself as part of the West, its foreign policy has nonetheless inevitably been Western-centric. Indeed, the relationship with the US, due to the latter's status of a super-power occupies a central place in Russian foreign policy and the relations with the EU form a crucial economic significance for Moscow. The Kremlin might be eager to establish a tactical cooperation with non-Western states but largely as a way of balancing what it considers as Western unilateralism. Russia's approach towards the West is inconsistent. Russia perceives NATO as the most important threat to its security and at the same time recognizes the members of NATO as the main source of support for Russia's modernization. In theory, Russia has expressed several times its intention of joining the NATO and/or the EU. Nevertheless, Moscow has never accepted the implications and commitments arising from its accession to these organizations. The crucial challenge for Russia's relations with the West is its inability to accept a status of junior partner of the US or the EU. On the other hand, the West will never treat Russia as an equal and fully-fledged great power.

Russia believes that a great power must possess global clout but its own leverage and capacity, opposite to that of the US, the EU or China, have predominantly regional character (Northern Eurasia). Indeed, Russia plays the role of an important economic partner for Central Europe, Baltic republics and Finland, the former Soviet states, the Balkans (including Greece), Cyprus, Turkey and Mongolia. As far as political influence is concerned, Russia is the second- or even third-rank player outside of the post-Soviet area. In consequence, Russia sometimes has no other chance to manifest its ambitions to global clout than through symbolic military demonstrations in exotic parts of the world.¹³ In these circumstances, Russia even more strongly believes that a crucial precondition for the achievement of a great-power status lies in the creation of its own "private" zone of influence. Therefore, Russia would like to dominate the post-Soviet economic and political space spanning between the EU, China and the Middle East.

The ambivalence surrounding Russia's great power status find also a reflection in the Russian public opinion. According to the polls conducted in the recent years, a great majority of Russians believe, that Russia should become a great power. They recognize NATO as a threat to Russia's security and describe the US as an aggressor attempting to conquer the entire world. On the other hand, the Russians perceive China as a potential main partner in the 21st century but great part of them has a negative approach to further substantial military and economic rise of China (particularly its catching up with the US) and China's economic presence in Siberia. The majority of Russians support also the idea of reintegration of the post-Soviet space under Russian leadership. This space is treated by the Russian society as Russia's natural sphere of influence. In the recent years, inflow of Muslim immigrants and conflicts in Caucasus caused that Russian society has witnessed a substantial rise of xenophobia towards Georgians, Azeri and Central Asian people. On the other hand, around 55% of Russians believe that Russia should strive to become an EU member in the future while around 30% have an opposite opinion. However, more than half of the Russians believe that Russia's relations with the leading European countries will never be truly friendly.¹⁴

Probably the most important source of Russia's uneasiness with the multipolar order is the gap between Russia's ambitions and capabilities. The pillars of Russia's great power status, namely military capabilities, natural reserves and economic potential are at least dubious in that role. Russia has a very large arsenal of weapons of mass destruction but the probability of a fully-fledged nuclear war is extremely low and the deterrence effect limited. Conventional military capabilities of Russia are decisively weaker than those of the US and smaller than China's.¹⁵ The Russian equipment has generally much lower quality than the armaments of the Western countries. Last but not least, Russia's military expenditures are a substantial burden for its economy. The Russian military budget has a much larger share in the GDP than is case of other large economies, excluding the US.¹⁶ The energy resources constitute a liability, rather than an advantage for the Russian economy. They are contributing

to the Russian economy's overdependence on their export.¹⁷ It makes Russia much more vulnerable to external influence (fluctuation of prices on the international markets) than many other great powers. Last but not least, the economic potential of Russia is relative. Russia's GDP (PPP) accounts for only 3% of the total global economy. Its share in the global GDP (nominal) is even smaller and does not exceed 2,5%. It means that Russia has an economy of very similar size to the UK's or France's. However, leverage of these countries in the global market is much larger due to their membership in the European Union. Moreover, Russia has more than twofold smaller GDP (PPP) per capita, its administrative capacities are much weaker and the economy decisively less innovative than of those countries. The last issue constitutes the crucial Achilles heel of Russia in the long term perspective. The huge and continuously rising gap between itself and China in the area of innovativeness and quality of education is a particularly challenging problem for Russia.¹⁸

Russia's desire of achieving the status of a great power with global clout is in fact a manifestation of Russia's lack of preparedness to confront a reality, namely its relative decline and shortcomings. The fundamental problem of Russia is a fact that it has an ambition to achieve an equal status with China and the US or the EU with a potential smaller than that of France or the UK. According to the projections of PricewaterhouseCoopers, the potential global powers in 2050 (size of economy, population, military capabilities, intellectual capital) will be most probably: the more integrated EU, the US, China and to a lesser degree India. On the other hand, Russia will belong to the second global league together with Japan, Brazil and Mexico followed closely by the middle powers like Indonesia or Turkey. A crucial question for the future of Eurasia will be the reaction of Russian foreign policy to this perspective. It should be evaluated by making a detailed analysis of Russia's relationship with the most important players in the world (the US and NATO, the EU, China) and regional powers (Iran, Turkey) as well as an engagement of these actors in the post Soviet space whose future, due to its strong links with Russia, will have a very important impact on developments in the latter.

Eternal rivals?: Russia and the US/the NATO

Relations with the US and NATO are the most difficult issue in the Russian foreign policy, consuming a lot of Moscow's energy. Russia's perception of NATO as more or less Washington's tool and main external danger results in the domination of security issues in the bilateral US-Russia relationship. In theory, Russia and the US/ NATO share many common challenges (instability in the Islamic world, accommodation of the rapid development of Chinese power, nonproliferation, terrorism). Unfortunately, Russia still perceives the US/ NATO more as a strategic adversary than as a partner. In the Russian military doctrine, the hierarchical list of military external dangers to Russia's security starts with Western countries' intention to grant NATO global functions and to deploy its infrastructure close to Russia's borders, including by means of enlargement. In sum, the Russian military doctrine mentions NATO as many as 16 times. On the other hand, the NATO does not any longer perceive Russia whose military capabilities are radically smaller than that of the Soviet Union, as a serious threat to its security.

Russia's ambitions to engage with the US and NATO as an equal partner seems decisively unrealistic, taking into account an enormous discrepancy of military potentials. It is sufficient to recall, that the military spending of NATO is twentyfold larger than Russia's. Even the conventional military capabilities of the NATO member states, excluding the US, surpass significantly Russian potential. Only the internal divergences within the NATO constitute a window of opportunity for Russia. Moscow's overwhelming focus on NATO in the context of threats to Russia's security seems bizarre given very substantial decrease of the American and allied military capabilities and spending after the end of the Cold War.¹⁹ This stance should be explained by internal political calculations of the Russian elite (a mobilization of electorate through creating an image of external threat rooted in the Cold War propaganda), great power mentality and the unilateral policy of the US, particularly by the Bush administration policy.

The significance of the security dimension in the US-Russia relationship derives mostly from the fact that nuclear missiles are the only field in international relations where Russia is on equal footing with the United States and is superior to other great powers. By default, no other element of Russia's engagement in global institutions, including the UN Security Council, offers Moscow as exceptional a status as does the strategic arms treaty, which it signed on an equal footing with the USA, the single superpower. Russian nuclear forces are declining in numbers and will likely continue to do so, even with modernization of its arsenal. Russia's ability to maintain a status of relative equality with the United States depends on locking the United States into further nuclear reductions and preserving its own deterrence capacity. This issue has gained even larger urgency for Moscow because gap between Russia and the US regarding the conventional forces' capabilities has widened very significantly since 1991. Therefore, the crucial anxiety for Russia is the perspective of upgrading the US missile defense system in the long term to the level allowing its successful application not only against Iran or North Korea but also, in theory, against Russia. Moscow is afraid that further development of the system in combination with higher quality of US nuclear weapons and the deepening gap between Russia and the US with regard to the potential of conventional forces could severely degrade Russia's second strike capacity and thus weaken Russian deterrence. It is worth mentioning, that domination of the security issues in the US-Russia relations is strengthened by the limited US importance for the Russian economic interests. The share of the US in the Russian trade volume is estimated at the level of 4-5%. The US share in the Russian FDI cumulative stock is limited.

Regardless of the tactical changes which occasionally take place, opposition to the unipolar order based on the US predominance on the international scene has been at the core of Russian strategy since the fall of communism. Although Moscow has not launched an open confrontation with the US or built an anti-US coalition, it has been making efforts to undermine US domination by balancing it through cooperation with other play-

ers. Moscow is unable to accept any form of US global leadership, even if its character would be “soft” and Washington would avoid unilateral actions and promote multilateral institutions.

A constant feature of Russia’s approach to NATO is also tactics aiming at creating divisions within the West: between the US and the European members of the Alliance, the US and the EU and between Western and Central Europe. Within the framework of these objectives, Moscow promotes the idea of Russia-the EU-the US triangle or special partnership of Russia and the EU in the European security affairs. In case of the latter, Russia underlines a necessity to fill the vacuum left by the decreasing engagement of the US in Europe, deriving from Washington’s commitments in the other parts of the world. Within the first concept Russian Federation looks for the creation of a three-party concert of equal powers in the Euro-Atlantic area. Moscow’s negative attitude to the US unilateralism suggests that through this proposal Russia wants to weaken the Trans-Atlantic unity because it is based on the US primacy in the Western world.

Last but not least, Moscow wants Central Europe to remain a kind of a “zone of limited NATO presence”. The main argument is its proximity to the Russian borders. Russia would like to achieve this goal by making the informal commitments made by the NATO in 1997 legally binding (the non-deployment of nuclear weapons, bases and major armed forces in the new member states). Russia’s ambition is also to gain a type of right of veto in European security affairs and to receive from NATO a recognition of its exclusive competences in the security sphere in the post Soviet area. In 2009 Russia presented a proposal for the new European architecture. Recognition by Russia that the US and NATO are inevitable elements of the security in Europe was a positive step. But Russia also explicitly proposed to diminish their role by establishing a mechanism in the new treaty allowing Russia to veto those decisions of NATO which it would consider threatening its vital security. The key aim of this idea was to finally block the possibility of NATO enlargement into the former Soviet Union.

Moscow has partly corrected its policy towards the US/NATO since 2009, but it has not undertaken a decisive turn. Within the framework of the “reset” policy initiated by Washington, Russia has assisted the United States in attempts to resolve the Iranian nuclear problem (support for sanctions in the UN Security Council against Iran and cancellation of the contract to supply Russian S-300 air defense systems to Teheran in 2010) and assured logistic support for the operation in Afghanistan. Certainly, this policy has brought Russia a number of benefits. Most important were: signing of the START treaty, de facto cancellation of the NATO enlargement towards the East, the US’s withdrawal from plans to locate elements of the missile defence system in Poland and the Czech Republic and the entry into force of the Civilian Nuclear Co-operation Agreement.

However, the two parties could not resolve their major dispute, regarding the character of the missile defence system. The US will never accept Russia’s veto over the deployment of this system which is what is demanded explicitly by Moscow. Moreover, Russia is right now reluctant to cooperating with the US in the UN Security Council on new tougher sanctions against Iran. Moscow has recently reacted negatively towards the latest IEA report on Iran, which for the first time gives a wide-ranging picture of research and development work in Iran that suggests nuclear military aims. Moscow’s political and economic support for Iran, thus weakens the international pressure on this country.

The “reset” reached its limits. A probability of its reactivation is low. Moreover, even scenario of further modest progress in cooperation between the NATO and Russia seems rather improbable because both sides perceive the missile defence system as a fundamental issue for their security and are not prepared for a substantial change of position on this matter.

Shotgun wedding?: Russia and the EU

The EU is decisively the most important economic partner for Russia and the key possible source of support for modernization of the country.²⁰ This factor, together with geographic proximity²¹, social, cultural and historical bonds²² and decreasing US engagement in European security make the relationship with the EU a top priority for the Russian foreign policy surpassing the importance of the relationship with the US or China. However, Russia's self-perception of great power status which is equal to that of the US (actual superpower) or China (emerging superpower) and whose position derives from military capabilities result in substantial underestimation of the EU's significance in the Russian foreign policy.

The relationship between Russia and the EU is not subject to the drastic swings that sometimes characterize interactions between Washington and Moscow because, in difference to the Russian-US relations dominated by yardsticks of security, it operates on many levels, particularly in the economic sphere. In the latter area, superiority of the EU over Russia regarding the size of the economy, national income per capita and innovativeness is clear but the EU's leverage is weakened by the lack of the cohesion in its policy towards Russia.²³ Russia's economy depends strongly on the EU because its market constitutes a destination for the vast majority of energy resources exported by Russia. On the other hand, Russia as a key supplier of natural resources has the tools to impact on the EU and counterbalance partially its dependence on one market.²⁴ Russia has a particularly huge potential of influence over the countries of Central Europe and the Baltic republics, due to a significant share of Russian oil, gas, and in some cases nuclear fuel in their energy mix.²⁵

Russia's attitude towards the EU remains caught between mutual dependence, distrust and disillusionment. The main chal-

lenge for the enhancement of cooperation between Russia and the EU lies in the divergence of political systems, philosophies of foreign policy and concrete economic interests, particularly in the energy sphere. Indeed, the EU and Russia are very different animals. Russia is an undemocratic state with a strong, centralized leadership. The EU is a sort of confederation of democratic states based on consensus-seeking with strong supranational elements. Russia considers itself a great power with the nuclear potential, military capabilities and energy resources (instrument of political pressure) as the main foundations of its international position. In consequence, Russia uses mostly hard power instruments in its foreign policy.

On the other hand, the EU power is mainly of normative character and manifests itself mostly in the economic realm. In effect, the EU prefers soft power instruments. The EU as a community based on the rule of law prefers to build relations with third countries on the *acquis communautaire*. Russia, as a country with high level of corruption and arbitrary rule, has a rather different attitude towards the law.

Russia's legal system is often self-contradictory and confusing. It serves as the basis of bureaucratic interference and bribe-seeking.²⁶ The Russian policy establishment remains wedded to concepts such as sphere of influence and zero-sum game. In the EU, "post-modern" ideas of statecraft, such as mutual interest, shared sovereignty and win-win cooperation prevail. Russian politicians believe that rules and standards between the EU and Russia should be established on the basis of informal negotiations and mutual convergence. The EU promotes political conditionality and multilateral legally binding agreements in dealings with its partners which is out of hand unacceptable for the Russian side. Russia, because of its preference for bilateralism and distrust for multilateral institutions in interactions with the EU, prefers to play off individual states rather than maintain contacts with supranational structures. Certain EU member states accept this model of bilateral interaction while Russia expects tangible gains from it. This state of affairs creates a cacophony which weakens the EU's leverage in Russia. For instance, Partnership for Mod-

ernisation, the EU's programme addressed to Russia (more below), has been undermined by the separate bilateral partnerships that 18 EU member states have with Russia. Member states do not generally co-ordinate these partnerships or even inform each other properly of what they contain.

The challenge for Russia consists also of the unfinished character of the EU which undergoes continuous changes and transformations. As Jeffrey Mankoff rightly points out, "unlike the US, which is at least an old, familiar rival, for Russia the new Europe remains something of an unknown quantity, and it is precisely on account of the resulting uncertainty that Russia's policy toward Europe in all its institutional embodiments has been so complex and contradictory." The EU enlargement into the former Soviet-controlled Central Europe and the Baltic states has further complicated Russia's relations with the EU. Several states from this region are determined to resist any perceived negative Russian influence in the EU affairs and to use their new status as EU members to help cement the independence of the Eastern European and South Caucasian countries.²⁷ The Kremlin perceives the growing EU engagement in the post Soviet area as a challenge to the idea of Russian sphere of interests in the former Soviet Union. Russia's approach to NATO's engagement is much more negative than to the EU's involvement in Eastern Europe.

Partnership for Modernisation, launched in June 2010, constitutes the most recent example of a divergence of mindsets existing between Russia and the EU. It aims to help the EU modernize Russia's economy and its political institutions through greater interdependence. Its main goal is to turn Russia's discourse on modernisation into concrete outcomes such as fighting corruption and promoting the rule of law and people-to-people contacts accompanied by expanded investment, boost of trade and improved energy efficiency. However, as it turned out rapidly, the EU and Russia want different things from the Partnership. For Russia, modernisation means an import of Western technology, know-how and investments and does not cover serious institutional and structural reforms.

When it comes to divergence of economic interests, it concerns mostly energy issues. The differences are to a large degree natural. The EU is both a consumer and importer of energy resources while Russia's objectives are determined by its role of producer and exporter of resources. The functioning of energy sectors of both sides also differ substantially. The EU has been adopting liberal market principles in the energy sector, meanwhile Russia is a proponent of the state's strong involvement in this sector of the economy. The mutual tensions also stem from an organic difficulty in reconciling the EU's goal of ensuring security of supply with the Russian need for guaranteeing security of demand. Two practical issues steering particular tensions between Moscow and Brussels are Europe's Energy Charter Treaty, based on the liberal principles and implementation of the third energy package in Europe. The EU has been pushing without success for many years Russia to sign Europe's Energy Charter Treaty, which Moscow has consistently rebuffed.²⁸ The EU still believes that a grand bargain is possible, namely Russia would accept the Charter Treaty in return for getting a full access to the EU's single market. The "third energy package" requires EU member states either to force companies to fully unbundle their gas operations or to retain ownership but ensure that gas transmission is separated from production. For Gazprom, it means divestiture of its ownership stakes in pipelines and storage sites in EU territory. Therefore, Moscow and some of its West-European allies (companies and politicians cooperating with Gazprom) agitate against implementation of the package or at least argue for allowing some exemptions from it.

All the above-mentioned factors create a situation in which objectives of the EU policy towards Russia – a free-trade area, a visa-free regime, a deepened energy cooperation, a strategic partnership based on common values across the European continent and at an international level – have remained mostly on paper for the last 20 years. The most indicative evidence of the stalemate in the EU – Russia relations is the fact that they are still regulated by the Partnership and Cooperation Agreement signed in 1994 and terminated in 2007, due to the lack of substantial progress on negotiations concerning a new PCA.

The great breakthrough in the EU-Russia relations is highly improbable unless the Russian political system and in consequence its foreign policy will change radically and become more in line with the European model. Nevertheless, a much larger window of opportunity exists for some improvements in the EU-Russia relationship than in the NATO-Russia relations. There have been three important developments during the last two years that could have a positive impact on the EU-Russian relations. Firstly, EU member states, which were deeply divided over Russia, have largely converged in their views and approaches. A general consensus has been established that Russia is a partner, though difficult one, with which the EU must engage, rather than an adversary that should be contained. Secondly, the EU has taken steps to reduce its energy vulnerability towards Russia (e.g. the third package, launching of the construction of new LNG terminals and nuclear plants, the European Commission's inspections in the local companies affiliated to Gazprom). Thirdly, Russia has acceded to the WTO. Obligations for Moscow concerning rules organizing its energy market that result from the membership in the WTO are similar to the liberal principles of the Energy Charter Treaty. Moreover, the membership in this organization created an opportunity for the establishment of a free trade area between Russia and the EU sometime in the future.

Dragon and bear: Russia and China

One of the main legacies of Putin's rule is a substantial rapprochement between Russia and China which nevertheless has not eliminated mutual distrust. It has taken place in the exceptional context for both sides. As Charles Kuchins underlines, "China's rise and Russia's fall over the past 30 years are the starkest in a short period during the peace time for any two neighboring great powers in modern history."²⁹ China's attractiveness in the global dimension as a partner for Russia derives from very similar expectations towards the op-

timal character of the international order in the twenty first century (multipolarism). In fact, Moscow's ambitions to create a multipolar world are heavily dependent on the cooperation of China, since Russia by itself is no longer powerful enough to shape alone the international order. In effect, cooperation with Beijing provides Russia with a sort of diplomatic force multiplier. It can also be said that China as a traditional nation-state can be more favorable partner for Russia than the multilateral West (the EU, the NATO).

Both, Beijing and Moscow are profoundly uncomfortable with the world dominated by the US or the West where western values regarding democracy and human rights gain superiority. An authoritarian message of the Beijing Consensus resonates well with the Kremlin's concept of sovereign democracy. According to this message, there is not just one correct path to development; a country must experiment to find the road best suited to its culture and traditions. Indeed, the rapprochement between Beijing and Moscow stemmed to some extent from internal developments taking place in Russia since 2000. As Russia has come to emulate the model of soft authoritarian power with strong state interventionism in the economy, the mutual affinity in foreign policy between both sides has also increased. Beijing, differently than the West, has never made demands for political or economic reforms in Russia as a precondition for enhancement of relations or criticized Russia for poor human right record.

The favorable context for rapprochement between Russia and China has translated into different priorities for both countries' geopolitical engagement. China pays most attention to South-East Asia and the Far East. On the other hand, Russia perceives the post Soviet area, particularly Eastern Europe as the sphere of privileged interests. Beijing, through a good relationship with Russia, secures a safety of its backyard when it engages in the South and in the East. Moreover, China treats Russia as a potential source of energy supplies located outside of the possible control or interception of the US. Both sides converge on the negative attitude to the US military engagement in Central Asia bordering their sensitive regions, Xinjiang

in China and the Volga region and Western Siberia in Russia, respectively. Beijing and Moscow consider their own presence in these regions as a mutually lesser evil. Indeed, a certain general overlapping of their interests, though incomplete one, exists in Central Asia. The common threat of terrorism and Islamic fundamentalism, as well as the illegal trafficking of drugs, three of them with the source in Afghanistan, give a strong push to Russian-Chinese cooperation.

The main concrete outcome of the Russian-Chinese approximation of agendas was an establishment of the Shanghai Cooperation Organization (SCO) in 2001 gathering all Central Asian states (excluding Turkmenistan), Russia and China. The SCO members share common objectives: political stability in the region; secular model of government and economic development as a basis for stabilization. The significance of the SCO for Russia derives from the fact that it is the key platform for harmonizing Russian-Chinese interests, within the framework of an international organization that does not include Western countries. The SCO possesses also a broader Eurasian geopolitical context. It is based on the system of observer states (India, Pakistan, Iran and Mongolia) and the organization's possible future enlargement. Nevertheless, the SCO has a lot of shortcomings regarding decision making process, multilateral economic cooperation and institutional and financial framework.³⁰

China and Russia support one another in international and bilateral forums on issues such as missile defense, terrorism, sovereignty, human rights, threat of separatism, the US military presence and Western interventions in the third countries.³¹ in the UN, the two countries consistently vote together. In the recent years they voted together almost 100 percent of the time on resolutions. Russia and China have resolved their territorial disputes. In contrast, China has still several territorial disputes with India, Japan, Indonesia and others. Meanwhile, Moscow has not been able to resolve its dispute with Japan concerning the Kuril Islands. Russia has been the only major advanced military power selling large quantities of defense equipment to China. The acquisition of defence technology and knowhow from Russia has

substantially increased China's military capabilities.³² China and Russia have carried out many joint military and police exercises. They mark a radical change for China, which had not engaged in activities of this sort with other great powers. Russia's commitment to the rapprochement with Beijing found an expression in the coordination with China of its policy towards third players, which in theory could be potential partners in counterbalancing China's rise. In 2010 Moscow decided to stir up tension in its relations with Japan by escalating the territorial dispute over the Kuril islands and historical issues when similar tension occurred between Tokyo and Beijing over Senkaku islands.³³ Moscow's stance on the Korean nuclear crisis, which is identical to the Chinese position, hinders a chance for the establishment of closer relations between Russia and South Korea.

The rapprochement between China and Russia has also a relatively solid economic foundation. In the last decade, the percentage share of China in Russian trade turnover has more than doubled. In 2011 China became the main trade partner of Russia (10% of Russian trade balance) and top exporter having 15% share of Russian imports. Among its main trade partners, it is only with China that Russia has experienced, in recent years, such an immense increase of imports. The Chinese direct investments in Russia have also substantially increased since 2005, particularly in recent years.³⁴ In 2010, the first oil pipeline between Russia and China was opened. The pipeline, built in one and a half years, will supply China with 15 million tons of oil each year for 20 years in exchange for a loan worth 25 billion USD given to Russian oil companies assigned to field exploration. The quantity of oil exported from Russia to China is expected to triple once the pipeline reaches full capacity. The rapprochement found also an expression at the social level. China has become one of the main destinations for Russians – particularly from the Far East – travelling abroad.³⁵ China managed also to create an influential lobby in Russia among the business and political elite at the central and local level (Siberia). The transparency of China's involvement is a controversial issue. It is often claimed that China increased its leverage in the Far East among the local elite through corruption.

Despite a substantial approximation of positions, asymmetric economic potentials, distrust and competition between China and Russia hamper the building of a close strategic partnership. Paradoxically, Russia and China talk a lot about a multipolar world order, yet their foreign policies remain thoroughly American-centric. In fact, both sides envisage an eventual bipolarity between themselves and the US, in which the other major powers occupy secondary positions. Both countries also avoid associating too closely with one or the other great power. China's attitude towards Russia combines residual respect with contempt, and strategic wariness. As Bobby Lo points out "the contempt comes from the perception that Russia is a great power in decline – not only relative to China, but also to other powers and even the U.S. This decline stems from its failure to modernize and reinvent itself as a 21st century great power."³⁶ Meanwhile, the strategic wariness results from Russia's ability to damage Chinese interests ("stab in the back"). On the other hand, from the Russian point of view, the main negative feeling hampering enhancement of cooperation with China is fear. Not accidentally, Putin's decision to approach China met with internal resistance in the Russian political elite and objections of Russia's society.³⁷ The Russian worries stem from the dynamism of the Chinese economy, the direct neighbourhood (Siberia) and China's rising leverage in the post-Soviet area (more on the latter in the next paragraph). In 1990, the Russian economy was roughly of the same size as China's. Currently, the Chinese economy is now almost four times larger than the Russian one and the gap is going to deepen in the coming years. Russia does not have among the main trade partners such a huge deficit as it has with China. During the last decade, the structure of the Russian-Chinese trade volume changed radically in the direction which is unfavourable for Russia. Kremlin has long wanted to modernize its economic ties with China and move away from trade dominated by commodities. However, in the recent years, the share of machines and equipment supplied by Russia to Beijing has been reduced up to a mere percentage point. Meanwhile, China has conquered the Russian market within many categories of its industrial products.

Negotiations concerning a crucial issue of Russian gas supply to China have been conducted without success for several years.³⁸ The Chinese FDI in Russia is limited particularly in comparison to flows of Chinese capital to economies of Russia's neighbors (Kazakhstan, Mongolia). Another expression of Russia's distrust of China in the economic field with strong security element is the issue of arms sales. Russia was reluctant to sell China some of its most modern and sophisticated military equipment, fearing negative consequences for the balance of power. Russia has also experienced some disappointments with the cooperation in China regarding export of military equipment. The Chinese military-industrial complex "borrowed" – often without Moscow's consent – Russian knowhow and now builds most of what Russia has for sale. In consequence, Russia's arms exports to China have fallen from over 60 percent of the total in 2005 to less than 7 percent in 2010. Moreover, China is gradually becoming an important exporter of arms competing with Russian products on the world's markets.

China has a unique leverage over Russia because of a very long border with Siberia, Russia's underbelly. It is simultaneously Russia's greatest asset, due to its enormous reserves of raw materials, and a liability, because of its scarce inhabitation and fast pace of population shrinkage.³⁹ Around 125 million people live in Chinese regions directly bordering Russia, namely Manchuria and Interior Mongolia. Their population will soon be larger than the entire population of Russia.⁴⁰ In the coming years, these regions will surpass decisively the Russian Far East regarding the GDP PPP per capita. The problem of Russia is that it does not hold sufficient financial and technological tools to exploit to the full extent the Siberian natural riches and has no serious alternative to China as its main customer for these natural resources. Korea's and Japan's smaller demand and their geographical location limit their potential to play a role of a tangible alternative to China. On the other hand, China is the gigantic and dynamic immediate neighbor that possesses the largest foreign exchange reserves in the world (3.2 trillion USD) and quickly increasing technological potential. In consequence, China's importance for Siberia can be compared to the US's significance for Canada.

Another sensitive issue related to Siberia is the Chinese immigration. Sensational articles about the “yellow peril” namely a massive Chinese migration into the sparsely populated Far East appear quite frequently in the Russian press. Although, the reports about very huge numbers of Chinese moving into the region are exaggerated, the Chinese population in Russia has substantially increased since the fall of communism and this trend is going to continue.⁴¹ The best example of Russian fears concerning China’s engagement in Siberia is lack of serious progress on the implementation of a co-operation programme between Russian and Chinese Far East regions which envisages China’s substantial financial engagement in the exploitation of natural resources and development of the region. (Although, the problems with its implementation partially can be explained by insufficient Russian administrative capacities).⁴²

China’s rising leverage in the post-Soviet area evokes an anxiousness in Moscow because Beijing, differently to the EU, acts as a single and assertive actor. Moreover, Central Asia occupies a more important place in China’s agenda than Eastern Europe and other post-Soviet regions in the case of the EU. The most striking evidence of Chinese efficiency is the rapid construction of a huge gas pipeline from Central Asia, while the EU’s Nabucco project still remains on paper. Russia attempts to counter-balance China’s predominance in Eurasia through cooperation with India, particularly in the military affairs (arms sales) and nuclear energy. In consequence, India gained the status of the main importer of Russian arms, though to some extent this is related to an achievement of a self-reliance by China in military sector. Russia has also encouraged India to join the SCO as a fully-fledged member.⁴³ Nevertheless, the Indian-Russian relationship is based on feeble foundations (very small volume of bilateral trade, limited FDIs, weak position of India in the post-Soviet area, Indian-US alliance).

Despite serious challenges, the rapprochement between China and Russia proceeds and has already brought some concrete and tangible results. The most important outcome is the fact that Russia cooperates more closely with China on the international arena

than with the US or the EU. On the other hand, China is probably the most difficult partner for Russia among the main global actors because its economic dynamism, assertiveness and rising leverage in the post-Soviet area make the relationship between China and Russia less predictable – in the positive and negative sense (cooperation vs. confrontation) – than with the West.

The Great Game in the post-Soviet space

It is beyond question that the post-Soviet space has a second rank significance on the global scene. Nevertheless its importance should not be underestimated. The fact that it is a playground for the US and key Eurasian great and middle powers (the EU, China, Turkey and others) is very symptomatic. Its geopolitical weight derives from the status of a crossroad, a transit area (transport, energy) between Europe and China (East-West axis) and Europe and the Greater Middle East (North-South axis).⁴⁴ So, the post Soviet space is located between the most developed part of the world (the EU), the most dynamic (China), the richest in natural reserves (Russia) and the least stable region possessing also enormous deposits of various commodities (Afghanistan, Iran). Certainly, each region of the post-Soviet space, due to geographic factors, has different geopolitical “inclinations” to above-mentioned entities. Last but not least, the post-Soviet space possesses a geo-strategic importance in itself because of huge deposits of various natural resources (e.g. fossil fuels, uranium and strategic minerals).

Russia remains the strongest – but not any more dominant – player in the post Soviet space. However, substantial geopolitical shifts have been taking place in the balance of power since the collapse of the USSR. As seen from the long-term perspective, Russian influence has significantly weakened, especially in the South Caucasus and Central Asia. Russia enjoyed an almost monopoly in this part of the world in the early 1990s. Now, the game on the “post-Soviet chessboard” is being played

by four giants: Russia, China, the EU (internally diversified) and the USA, two middle powers: Turkey and to a lesser extent Iran, and several other players in Central Asia.⁴⁵ A crucial consequence of this geopolitical pluralism is an entrenchment of the internal divisions within the post-Soviet space into three different regions: Eastern Europe, South Caucasus and Central Asia. Each of them attracts besides Russia different external actors (Eastern Europe – mostly the EU, to a lesser degree the US, China, Turkey, South Caucasus – Turkey, the EU, the US and to a lesser degree China and Iran, Central Asia – China, Turkey, the US and to a lesser degree the EU, Iran, Japan, South Korea). This development has negative ramifications for Russia's interests because it undermines Moscow's vision of a single space gravitating towards the Russian Federation.

The post-Soviet space has a fundamental significance for Russia because Moscow perceives keeping this area under its own tutelage as a prerequisite for achieving the status of a fully-fledged great power. No other major power pays such attention to this region as Moscow does. Russia's overwhelming focus on the post-Soviet area derives from an essential importance of this space for the Russian security (alleged and real threats: Caucasus, the Islamic factor, NATO engagement). In effect, Moscow treats this area in traditional terms as a buffer zone protecting itself. The post-Soviet space's significance for Russia results also from a key role of energy in the Russian economy. A majority of gas and substantial part of oil exported to Europe from Russia transit Eastern Europe. Russia has a unique position in the post-Soviet area because it is a single player with strong leverage – though to various degree – in each region of this space, namely Central Asia, South Caucasus and Eastern Europe and in all post-Soviet states. Russia's influence in the region is based on a wide scope of various factors:

- strong institutional and personal links, similar mentality which date back to the communist period
- widespread authoritarianism and corruption in the post-Soviet countries that sometimes involve international isolation (Belarus)

- control of transit of a significant part of oil and gas exports from Central Asia
- Russian as a lingua franca, popularity of Russian culture
- huge Russian ethnic minorities and Russian-speaking communities and minorities from the CIS living in Russia⁴⁶
- frozen conflicts (Abkhazia, Transnistria, South Ossetia and Nagorno-Karabakh)
- military facilities (Armenia, Azerbaijan (leasing of radar base), Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Ukraine, Abkhazia, South Ossetia, Transnistria)
- numerous expatriate workers from almost all of the region's countries working in Russia; their remittances playing an enormous role in the economy of these countries (Armenia, Kyrgyzstan, Moldova, Tajikistan, to a lesser degree Uzbekistan)⁴⁷
- huge influence of Russia on most post-Soviet economies (trade volume, FDI)⁴⁸
- energy dependence of certain countries⁴⁹
- education (many students from the region studying in Russia, Russian universities abroad)⁵⁰
- religious factor (Russian Orthodox Church: majority of believers in Belarus, Moldova and Ukraine)

The crucial strategic goal of Russia in the post Soviet space is to preserve its strong position in the region and get a recognition of its special interests in this area by the main external actors. Moscow aspires to reach these goals through reintegration of the region around Moscow which would counterbalance engagement of the other poles of gravity such as China, the EU and Turkey. The reintegration does not mean a restoration of the Soviet

Union but it aims at entrenching Russia's privileged economic position and political loyalty of the post-Soviet states (particularly in the security sphere), and the predominance of Russian culture. Russia presents itself as an advocate of the Commonwealth of Independent States' interests on the international arena. Moscow tries also to position itself as an intermediary between the CIS and the Western states. Moscow is intensively promoting the idea of establishing an equal partnership between Russian-led organizations and the EU and NATO. In fact, Russia would like to deal with the EU or NATO from the position of a post-Soviet Eurasian bloc leader, maximizing its own negotiating leverage.

The main organizations created by Russia in order to increase its leverage on the region are the following: the Commonwealth of Independent States (all the post-Soviet countries, Ukraine as a *de facto* participant, excluding Georgia), the military alliance of the Collective Security Treaty Organization (Armenia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan), the Eurasian Economic Community (Belarus, Kazakhstan, Kyrgyzstan, Tajikistan – members) and the Customs Union between Russia, Kazakhstan and Belarus established in 2010 which on 1 January 2012 evolved into the Single Economic Space.⁵¹ The last initiative is seen by Moscow as the most important instrument to regain the ground lost to the EU, Turkey and China in the post-Soviet space. Russia would like to transform the Single Economic Space by 2015 into the Eurasian Economic Union which is supposed to be an organization similar to the European Union.⁵² Moscow hopes that a scaled-down integration involving only several partners will play a role of the hard core which could later expand and engage others. Probably, Kyrgyzstan and Tajikistan will soon join the Single Economic Space.

However, the real success story for Russia would be the accession of Ukraine, which has been several times invited into the fold by Moscow. Ukraine's case shows very clearly that despite Russia's discourse about the common post Soviet space, there is an evident differentiation in Moscow's approach to the former Soviet states and each region. For Moscow, Eastern Europe is certainly

the most important region due to Europe's top priority status in Russia's foreign policy, strong economic links and fundamental cultural affinity based on the Slavic and Orthodox community. Belarus and Ukraine are not perceived by the Russian society and political elite as foreign states. A majority of Russians support as the closest possible integration with them, though only a minority considers reunification as the best solution.⁵³ In effect, Ukraine is the most important country for Russia because of its position of a key transit country for Russia's energy export to the EU⁵⁴, the biggest economy and population among post-Soviet states, huge natural and industrial potential (agriculture, natural resources, relatively modern industry) and doubtlessly the largest economic relevance for Russia (share in the Russian trade volume and investment abroad). On the other hand, Belarus plays a role of the second economic partner for Russia in the post Soviet space, exceeding clearly Kazakhstan. Nevertheless, Kazakhstan is an important partner for Russia as a country rich in natural resources, a huge Russian community, a very long and vulnerable common border and the second economic potential after Ukraine in the post-Soviet space. Moreover, in geopolitical dimension Kazakhstan can serve as an instrument to counterbalance Chinese expansion in Russia's backyard. However, Moscow's approach to Kazakhstan hides in itself some ambivalence because of the popular perception in Russia of Muslim countries from Central Asia and South Caucasus as culturally different societies which should be closely related with Russia but not fully integrated. In South Caucasus, Russia treats Georgia as a genuine enemy state, thus focuses on Armenia, its proxy assuring Moscow's ability to block substantial changes of status quo in the region.

Despite Russia's recent *reconquista*, Moscow's efforts to re-integrate the post-Soviet space confront many pitfalls and its leverage has limits. As Dimitri Trenin admits "ironically but also tellingly, the CIS countries' individual relations to outside states and organizations are better structured and organized than the relations among the ex-'sister republics'. The latter remain messy and non-transparent, for instance, are often signed, but not fulfilled."⁵⁵ This evaluation is also relevant in case of the Customs Union.⁵⁶

Each former Soviet state has certain bilateral troubles with Russia. The four dominant problems in Russia's relations with the post Soviet countries are Moscow's lack of respect for territorial integrity and state sovereignty, gas issues, trade policy and financial questions. In consequence, the post Soviet countries are divided roughly into three groups, with regard to their attitude towards Russia: 1. close partners (Armenia, Belarus, Kazakhstan, Kyrgyzstan Tajikistan), 2. countries interested in cooperation with Russia but preferring to keep it at arm's length (Azerbaijan, Moldova, Ukraine) 3. countries decisively distancing itself from Russia (Georgia, Turkmenistan, Uzbekistan).⁵⁷ Moreover, substantial differences exist between individual states in each group regarding the shape of their bilateral relations with Moscow. The limits of Russian leverage showed the lack of recognition of South Ossetia and Abkhazia by any post-Soviet state and colour revolutions (Georgia, Kyrgyzstan, Ukraine). What is most important, the imperial legacy is gradually losing its grip on the region. The most symptomatic confirmation of this trend provides social and cultural sphere. The number of Russians living abroad, knowledge of the Russian language and popularity of its learning in schools have decreased substantially in almost all post-Soviet space since the collapse of USSR.⁵⁸

The EU is one of the most influential players in the post-Soviet area and, in consequence, from Russia's point of view a substantial challenge to its interest. The EU's main disadvantage comes from an insufficient internal convergence of its foreign policy towards the region (divergences of interests and methods). The significance of the post-Soviet space for the EU results from its position as a direct neighbourhood (Eastern Europe), transit route for energy supplies (Eastern Europe and South Caucasus) and a potential source of diversification of the energy balance (Central Asia). In effect, the EU divides the post-Soviet space into two parts: Central Asia and Eastern Neighbourhood, covering South Caucasus and Eastern Europe. The latter one has much larger importance for the EU than Central Asia and, in consequence, EU's engagement in the Eastern Neighbourhood, particularly in Eastern Europe, is decisively more noticeable. However, within the framework of the CFDP the Eastern

Neighbourhood is at least the third rank issue. Even within the European Neighbourhood, the Eastern direction has smaller importance for the EU than the Southern one.

The strategic goal of the EU regarding the Eastern Neighbourhood lies in its stabilization through convergence with the EU model (democratization, modernization, Europeanisation of law systems, regional cooperation). This modernisation agenda finds itself in a sharp conflict with Russia's interests. Moscow is a "status quo-oriented" power regarding modernization and democratization of the post-Soviet space. Moscow draws benefits from its neighbors' problems with corruption, poverty, internal ethnic, religious or political cleavages, authoritarianism and unresolved conflicts. The lack of transparency of the post-Soviet space provides Russia with advantages over the EU which it could lose in case of political and economic reforms.

The EU's fundamental problem with the Eastern Neighbourhood stems from the fact that the Eastern Partners, differently than the "Southerners", have the right to apply for candidate status which could be the strongest incentive for reforms and an anchor of stability. Nevertheless, due to various reasons the EU is reluctant to provide Eastern partners with a long-term European perspective or to increase decisively its presence in the region. One of the most important reason of the EU's reluctance to engage in the East in more assertive way is Russia's strong position in the region.

However, even the current EU engagement in the Eastern Neighbourhood evokes Russia's anxiousness. It derives from Moscow's treatment of Eastern Europe as a top priority in the post-Soviet space and its inability to play against "the EU's way of doing business" based on soft power and economic incentives, according to the same rules of the game. In consequence, Russia's tactics aim at the weakening of the EU's soft assertiveness through hard power instruments (frozen conflicts, war in Georgia and others). Despite certain undeniable improvements in the EU's performance concerning security challenges (missions in Moldova and Georgia, mediation between Moscow and

Tbilisi), the Achilles' heel of the EU in the Eastern Neighborhood remains its limited engagement in the security issues (frozen conflicts) which constitute the most significant liability, hampering the implementation of the EU agenda in the region.

From an economic point of view, the EU is a very important center of gravity for the Eastern Partners. However, the Eastern Partners are integrated economically with the EU to a much lesser degree than the Maghreb is. The EU accounts for only around 30% of the Eastern Partnership countries' trade volume. The EU has the largest share in Moldova's and Azerbaijan's trade volumes but even in their cases it does not exceed 50%. The EU does not have the status of the number one trade partner in the case of two of the largest economies, namely Belarus and Ukraine.⁵⁹ The EU is the largest investor in the Eastern Partnership countries, with the exception of Armenia and Belarus. However, it is worth noting that for the largest country, Ukraine, investments from Cyprus comprise a significant part of the EU-originated FDI and much of that capital represents holdings of Ukrainian or Russian entities. Thus, the EU is a "minority shareholder" in the FDI stocks in the Eastern Partners, playing an important role only in the case of Moldova, Azerbaijan and Georgia (for energy).

With regard to remittances, a large number of expatriate workers from Moldova and Ukraine resides in the EU. The number of workers from other countries is negligible. In the area of financial assistance, the EU is the main source of financial aid for Georgia and particularly Moldova, allocating amounts which have enormous importance for their economies. In the social dimension, the EU's impact is rather feeble due to its restrictive visa regime. Another weak point of the EU is the fact that it plays minor role – again with the exemption of Moldova – as the destination for students from the Eastern Neighborhood who wish to study abroad. In Central Asia the EU's leverage is rather limited with the exemption of Kazakhstan where the EU is the main investor (around 40% of the FDI stock)⁶⁰ and trade partner (around 30% share in Kazakh trade volume). Economic relations with other Central Asian states are feeble. In the social sphere (im-

migrants, scholarships, the ODA) the EU is decisively lagging behind. In consequence, even in the case of Kazakhstan, China, Russia and the US are much more relevant political partners for Astana than the EU. The most evident example of the EU's weakness constitutes a never-ending story of the Nabucco project which assumes a partial diversification of the current dependency on Russia through supply of gas from Turkmenistan transited via South Caucasus and Turkey.

Certainly the EU is punching below its weight in comparison to its enormous potential. The EU as a player using mostly soft power has a fundamental problem to counterbalance Russia's readiness to use military force in the post Soviet space. On the other hand, in the economic sphere where the European internal integration is much more advanced than in political field, the EU possesses substantial advantages over Russia (i.e. huge single market, much developed economy). The crucial advantage of the EU is its larger attraction as a model of civilization than Russia's model. The best evidence of this phenomenon is Russia's failure to convince Ukraine by using sticks and carrots to give up negotiations on the Association Agreement and join the Single Economic Space.

China which is currently gaining the status of the most important player in Central Asia constitutes the key challenge to Russia's idea of the post-Soviet space as its own sphere of influence. No other great power has so rapidly and spectacularly increased its influence recently in the post-Soviet space. The engagement of China in Central Asia results mainly from its energy security strategy⁶¹, geopolitical calculations (the great game with Russia and the US, the transit routes to Europe, Afghanistan (gigantic deposits of natural resources attracting Chinese investment), Iran (oil), and the Indian Ocean passing round the Malacca Straits, and protection of the Chinese underbelly (Xinjiang)⁶². From the global perspective, the Chinese engagement in Central Asia strives to reduce external powers' influences on the western flank in order to focus on the Pacific Rim. The recent very substantial increase of Chinese leverage in the region is related to the economic expansion in the post-crisis conditions. In 2010,

China gained the position of the largest trader in Central Asia for the first time. A particularly significant fact is that China became the most important trading partner of Kazakhstan whose economy is bigger than the economy of the rest of the countries of the region taken together. Chinese companies have a huge share in the construction sector in the region, realizing strategic infrastructural projects aiming inter alia at diversification of transport routes between China and Europe, undermining implicitly Russia's leverage.⁶³ The Chinese FDIs in Central Asia has also increased considerably in recent years. China's key importance for the economies of the region was confirmed by very large loans provided in 2009-2011 by Beijing to Central Asian countries, worth more than 22 billion USD.

The most important pillar of the Chinese leverage in Central Asia is its dominant position in the import of energy. The most glaring symbol of Beijing's predominance in this field was the building in 2009 of the Central Asia-China gas pipeline. In 2015 when the pipeline will become fully operational, it is going to be used to transport a huge quantity of Kazakh, Uzbek and Turkmenistan gas (105 billion m³). The opening of this pipeline signifies that the Kremlin has lost its almost exclusive monopoly on the import of gas from Central Asia. With regard to oil, the Sino-Kazakh oil pipeline that connects the Caspian shores to the Chinese border was completed in 2011. In consequence, China's share in the Kazakh oil exports will increase from the current 15% to 30%. China has also become an important partner for Kazakhstan with regard to nuclear energy. The strong position of Beijing in Central Asia is not the result of economic power alone, but it is also based on the region's dependence on water resources coming from China. For example, in the case of Kazakhstan, one third of the potable water originates in China.

Although China's rise is very spectacular, as Bobo Lo rightly points out, "Chinese influence in Central Asia suffers from several limitations: the competing ambitions of other great powers – not only the U.S. and Russia, but also India and Japan (the EU and South Korea – AB); the suspicions and sometimes Sinophobia of the Central Asians; the relative weakness of Chinese soft power

in the region compared to Russia's; and the flimsy institutional foundations of Beijing's presence in the region". Moscow can exploit these factors and present itself to Central Asian states as a less dominating partner and a counterbalance to China's expansion. However, the Russian advantage has also a number of constraints since the rising Chinese leverage in the region gradually limits Central Asian states' room of maneuver.

In case of countries of the Eastern Partnership, the position of China is much weaker than in Central Asia. Nevertheless, China, besides Russia, the European Union, the USA and Turkey has become in the recent years, for the first time, one of the stakeholders in this region. An important factor behind China's involvement is an aspiration to strengthen Chinese influence in the buffer zone between Russia and the EU who are essential players in Eurasia. Nowadays, China is quite an important partner of all the states in the Eastern Partnership, except Azerbaijan. China's readiness to provide regional states with huge long-term loans could be deemed as another sign of a new Chinese interest in the states of the Eastern Partnership. The Chinese engagement in the Eastern Partnership meets with approval of many local politicians inclined towards a multi-polar foreign policy which is based on a maneuvering between superpowers in order to benefit from the difference between them.⁶⁴ China is an attractive vector for local elites as it is not as demanding as the European Union (lack of conditionality) and not so imposing as Russia is. Despite the rising interest and presence of China, geopolitical conditionings and Chinese priorities lead to the situation in which the position of Beijing in Eastern Europe and the South Caucasus will never be the same as in Central Asia – its "direct neighborhood".

Although, in the recent years the US's interest has substantially decreased in Eastern Europe and much less so in the case of Central Asia and South Caucasus, the US's engagement in the post Soviet area is still perceived by Russia with stronger suspicions in comparison to China, the EU and Turkey. This perception results from the central place of the US in Russian agenda as well as of the activism of the Bush administration in this region.

The lower profile of the region in the US agenda should be explained by the reset with Russia and even more so by the bearing of Washington's global priorities (the Middle East, the Far East). Indeed, the peculiarity of the US interest in South Caucasus and particularly in Central Asia derives from its vicinity to Iran and Afghanistan, constituting the most important challenges to the American security. As a superpower, the US has certain clout over the post-Soviet space, particularly in the economic sphere and to a lesser extent in the military dimension. The US is decisively the biggest donor of ODA to the post-Soviet states which plays an important stabilizing role in the social and economic life of several small and poor states (Armenia, Georgia, Kyrgyzstan, Moldova, Tajikistan). The US FDI has a huge share in the FDI stocks of Azerbaijan, Georgia, Kazakhstan and to a lesser degree Moldova.⁶⁵ The US has also become a quite significant trade partner for South Caucasian states (4-5% of their trade volume). The US's importance for the Black Sea region stems in addition from the diaspora factor. The US is home to relatively large communities originating from Armenia, Georgia and Ukraine. The first one achieved the status of one of the most influential ethnic lobbies in America. As far as military issues are concerned, the US established in the 90s cooperation with almost all post-Soviet states within the framework of the Partnership for Peace, the NATO initiative addressed to the region. During the Bush administration (2000-2008) Washington undertook an attempt to start the NATO accession process with Georgia and Ukraine. It ended – mostly due to Russia's stiff resistance – in failure. Although Washington has de facto withdrawn from this process, the bilateral security relationship with the US has an enormous significance for Georgia. Moreover, Central Asia maintained a considerable military importance for the US in the context of the latter's engagement in Afghanistan (airbase in Kyrgyzstan). Permanent instability of the Greater Middle East leads to the situation in which the US remains engaged in this part of the post-Soviet space, but not on a scale which is very challenging for Russia.

Turkey, an emerging middle power with considerable regional clout in its surroundings has also become an important stakeholder in the post-Soviet area, particularly in South Caucasus

and to lesser degree in Central Asia. Turkey's influence in Eastern Europe is relatively the weakest. As a midsize power, Turkey is presently conducting a multidimensional policy in the post-Soviet area, attempting to gain optimal influence in the region by manoeuvring between the main players, including Russia. In the last decade, Turkish-Russian relations experienced a tangible rapprochement. However Ankara's regional ambitions in the post-Soviet space and the Russian exclusive perception of the region place limits on cooperation between Turkey and Russia in this part of the world. Moreover, a divergence of interests (Balkans, Cyprus, the Middle East) between Turkey and Russia prevails. In fact, the relationship is based on a type of *modus vivendi*, a sort of blurred coexistence with a degree of low profile competition. Russia's support for rapprochement with Turkey derives mostly from its economic interests and a new independent course in the Turkish foreign policy which is no longer subordinated to the West.⁶⁶

The geopolitical factor of key significance for Ankara's leverage in the region is Turkey's direct border with South Caucasus, proximity to Central Asia and its central position in the Black Sea region. In consequence, Turkey plays an essential transit role for post-Soviet states (Anatolia as a bridge between Europe and Asia, and the Straits as the gate to the Black Sea). Turkey's engagement in the region is related to "the strategic depth" concept organizing the Turkish foreign policy. This concept assumes that Turkey should achieve, through soft power instruments, a position of a regional power broker and lynchpin state (the European Neighbourhood Policy as a source of inspiration). This position would increase its geostrategic attraction for great powers especially for the EU, a membership in which remains a long-term strategic goal for Ankara. In case of failure of the accession process, increasing engagement in the region will enable Turkey to build its own sphere of "soft" influence. However, the post Soviet area has to compete on the Turkish agenda with the Middle East where, over the past few years, Turkey has become significantly more engaged than before. An important feature of the Turkish engagement in the region are cultural links (Turkic world, diasporas from the Caucasus and

Crimea living in Turkey) and religious context (Islam, mostly Sunni Hanafi). Turkey is the main promoter of the idea of cooperation between Turkic states and peoples which intensified in the recent years. However, the main obstacle for deepening it comprise the strict neutrality of Turkmenistan and bad bilateral relations between Turkey and Uzbekistan. No other post-Soviet country has so close and multidimensional relations with Turkey as Azerbaijan. In the South Caucasus, Turkey is also a key stakeholder in Georgia. For both countries, Turkey is a very important partner with regard to trade (Turkey's share 8-15%), FDI (Turkey's share 10-15%, also very huge inflows of Azerbaijan FDI to Turkey), construction sector, military cooperation and tourism. In case of Azerbaijan also culture and education plays a very considerable role. However, Turkey's room of manoeuvre in this region is limited substantially by the lack of bilateral diplomatic relations with Armenia, resulting from a dispute between Ankara and Yerevan concerning recognition of the Armenian genocide and Nagorno-Karabakh conflict.

Turkey, after China and Russia, is the most important economic partner for countries in Central Asia (particularly important for Tajikistan and Turkmenistan).⁶⁷ Turkey's relatively strong economic position in Central Asia is well illustrated by its share in the trade balances of Kyrgyzstan, Turkmenistan, Uzbekistan and Tajikistan, which is only slightly smaller than that of the entire EU or the USA. On the other hand, China's trade expansion in the region constitutes certain challenge for Ankara's ambitions. Turkey's *specialite de la maison* is the investments abroad in the construction sector, second in the world after China's. Turkish firms have gained a very strong position in the construction sector of Central Asia (particularly in Kazakhstan and Turkmenistan).⁶⁸ Turkey, due to its geographical position is starting gradually to play an important role as a transit country for energy resources from the Caspian Sea region to Europe (realized projects: the BTC oil pipeline, the BTE gas pipeline and projects most probably going to be built in coming years: the Trans Anadolu gas pipeline). Turkey's role as an energy hub for the region will become crucial if the Turkmen gas and bigger quantities of the Kazakh oil flow through Turkey.

Turkey's leverage in the Turkic countries is based also on its role as a main donor of development aid to these countries (particularly important for Kyrgyzstan), a centre of gravity in the education field (many scholarships and six Turkish universities operating in the region), source of cooperation between religious structures (the Eurasia Islamic Council led by Ankara) and a popular tourist destination (particularly for the Azeri and Kazakh middle classes).

Turkey is the second most important player in the Black Sea region which has become a sort of Turkish-Russian condominium. Turkey has become a driving force behind the regional cooperation in the Black Sea region (the Black Sea Economic Co-operation BSEC, Black Sea Harmony, Black Sea Force). Its position is much weaker on the northern coastline of the Black Sea (Moldova and Ukraine) than in the southern part, though it has quite considerable significance as an economic partner of Moldova and Ukraine and protector of Muslim and Turkic minorities inhabiting these countries. Ankara is interested in avoiding the upsetting of the balance in the region and confrontation between the West and Moscow, because in this case it would be on the frontline. For this reason, Turkey does not wish the influence of external players (especially the USA) to increase significantly in the region because Russia strongly opposes this. On the other hand, Turkey, unlike Russia, does not oppose *per se* the engagement of the West, especially the EU, in the region because – as a weaker player than Russia – it needs the West to balance out Moscow's advantage over it.

Certainly, Turkey's position in the post-Soviet area cannot be compared to Russia's influence in the region. Turkey standing alone does not constitute a serious threat to Moscow's interests. Nevertheless, Turkey has already become a more important stake-holder in Azerbaijan, Georgia or Turkmenistan than Moscow. Moreover, its closer cooperation with the EU and the US is at least problematic for Russia. Turkey comprises a potential considerable challenge for Russia particularly in the energy field because the construction of the southern corridor through Turkey, serving for transit of gas and oil from

Central Asia and Iran to Europe, would undermine Russian position in the European energy sphere. On the other hand, Moscow has the capacity to counterbalance Turkey's activism by using as an instrument of pressure Ankara's dependence on import of commodities from Russia.

Iran is another middle power with similar potential to Turkey and favourable geopolitical position (direct neighbour of with South Caucasus and Central Asia) but it punches decisively below its weight for ideological reasons. Although Teheran plays the role of an important economic partner for Armenia, Tajikistan and Turkmenistan and also political one for Yerevan and Dushanbe, its theocratic regime and aggressive foreign policy make it an unattractive centre of gravity for the post-Soviet area.

Scenarios for Russian foreign policy

In the coming decades the most important developments on the world arena that could have a fundamental impact on Russia's place in the global order will be:

- rise of China and India
- advancement of the EU's internal integration
- maintenance by the US of its position as the most powerful state in the world
- moving of the world's centre of gravity from the Atlantic Ocean to the Pacific Rim
- emergence of middle powers (i.e. Turkey, Iran)
- new technologies, resources and transit infrastructure in the energy sector

Although the final outcomes of all these trends remain an open-ended question, their even partial fulfillment will translate into a relative decline of Russia's leverage on the world stage. The country's geopolitical overstretching between the West (the EU), the South (Islamic factor) and the East (China) will deepen due to the strengthening of the non-European vectors in Russian foreign policy (economy, security and migrations) and continued focus on Europe as the top priority at the same time. In the worst case scenario, Russia will risk becoming a dual periphery in both continents, Asia and Europe. Russia will probably be forced to cooperate more often and more closely with one or the other pole of global power, though it will remain a relatively independent player able to avoid permanent alliance with a single other partner.

The vectors of Russian foreign policy will to a large degree depend on the internal political and economic developments in Russia. In the long term, the current economic and political model (authoritarian kleptocracy controlling the raw material-based economy) is unsustainable due to the impact of the fluctuation of the prices of commodities on the world market as well as financial and technological constraints concerning the development of the energy sector in Russia. A fear of social backlash in case of high costs of necessary reforms or the regime's inability to accept the sharing of political power with other actors make highly unlikely the scenario of "preventive" genuine modernization and democratization from above. On the other hand, the relative softness and administrative weakness of the current regime are making highly unlikely a scenario of the Chinese model being emulated in Russia. Indeed, the most probable factor that could provoke political changes in Russia is a sharp and persistent fall of oil prices on the world's markets which would hit severely the Russian economy.

A recent awakening of the Russian society created a new window of opportunity for the country's democratisation. However, there remains an open-ended question about the scale and character of this process. An establishment of a fully-fledged liberal democracy based on the rule of law in Russia will be a long and

difficult process, due to many challenges (i.e. populism, nationalism, support for strong leadership) facing it.⁶⁹ The more probable scenarios in the medium term are:

- mostly virtual and superficial democratisation conducted from above by the government, a scenario probable in the case of relative economic stability
- deeper and more genuine democratisation which will establish democracy with defects, finding itself on the verge of a fully-fledged free status (according to the Freedom House terminology).

In the case of the first scenario Russia would more or less return to the times of the first term in power of Vladimir Putin as president and the second term of Yeltsin. It will become a partly free country, placed closer to the non-free countries in the Freedom House ranking than the free ones. This kind of Russia would probably be modestly more open to the outside world and more pragmatic and flexible in its foreign policy, the essence of which would nevertheless not change. The simulacra of modernization and democratization as well as stable oil prices could help Russia survive for a few more elections. In this scenario, China's leverage on Russia will increase and the West's will decrease because of ongoing political and economic convergence with Beijing and the strengthening of the Kremlin's oversensitivity on external intervention in its internal affairs (more on these issues below).

The second scenario will mean that Russia would undergo a similar evolution to the one Turkey has experienced in the last decade. In this case, it can be expected that Russian foreign policy would become substantially more flexible, pragmatic and open to cooperation with the West that it is right now. In fact, as a result of those changes, Russia's potential at the international arena could strengthen substantially. Moreover, the soft power instruments will certainly play decisively more important role in Russian foreign policy than they are playing right now. Nevertheless, Russia as a stronger player than Turkey would to a lesser extent refrain from using hard power. This

Turkish-style Russia would most probably preserve its attachment to the idea of becoming a great power, though this would be manifested in a rather soft way. Such a Russia would sometimes be a more challenging partner for the West, due to the considerably more sophisticated and paradoxically less predictable foreign policy (the U-turns, mix of soft and hard power). However, the democratization could bring also a substantial weakening of Russia, if it were accompanied by serious internal conflicts and upheavals, weakening significantly Russia's ability to pursue an assertive foreign policy. In this case, the situation of Russia would be relegated to the position it occupied on the international arena at the beginning of the 1990s. The character of Russia's political transformation and the scale of Russian cooperation with the West will depend largely on the latter's ability to increase economic and social levers in Russia⁷⁰ that would limit the latter's room for maneuver. A rapprochement with the West will enfeeble Moscow's relations with China. Russia will, however, not enter into a cold war with Beijing. Even the approximation with the West will not diminish the rising significance of China in the Russian economy and security (more below).

The EU will remain a player with decisively the largest potential to influence developments in Russia.⁷¹ The crucial factors defining the EU-Russia relations in the future will be: the future prospects of EU integration, the character of the EU engagement with the neighbors and the emergence of a post-American Europe. In the next decade, the US will decrease substantially its involvement in Europe's security. It will not mean that the US will decouple completely from the continent in military terms. Nevertheless, the EU will have to play much of the role traditionally taken by the US in the European security sphere. This situation will force the EU to engage more with Russia. Nevertheless, in the long term perspective Russia's importance for the EU will probably decrease to some extent because of the rising significance of the Arab world in the European foreign agenda which will stem from demographic and economic trends and security challenges.⁷²

The EU's disintegration resulting in a deep economic crisis would be an unfavorable scenario for Russia. It would strike by default the Russian economy very painfully, more so than a decline of any other great power, due to the close and asymmetric relations with the EU. On the other hand, a deepening of the EU integration resulting in rising coherence in the EU policy towards Moscow will decisively increase its ability to influence developments in Russia. The EU's potential will be significantly boosted if the cohesion of the EU energy policy and its energy independence increase.⁷³ In the case of Russia's entry onto the path of genuine modernisation and democratisation, the EU could become a source of inspiration for Moscow through the sharing of its experiences of successful transition from communism to the free market economy and liberal democracy, undertaken by its own Central European members.

The EU could also have an impact on Russia through its enlargement and neighbourhood policy. A process of Turkey's and Ukraine's accession to the EU accompanied by their modernization and democratization could influence Russia positively. Due to the very close and comprehensive relations with Russia, a Europeanised, modernized and democratic Ukraine could become an important source of inspiration for Russia. Even a spill-over of the modernization agenda from Kiev to Moscow should not be excluded. Russia will probably make efforts to undermine the large scale EU engagement in Ukraine. However, the Europeanisation of the Ukrainian society (identification with EU values, massive support for EU membership) will radically weaken Russia's ability to counterbalance the EU's leverage. A success of this Europeanisation will depend on a substantial increase of economic presence and support for the civil society by the EU member states, particularly interested in this country (Central Europe, Bulgaria, Romania, Baltic republics, Sweden).⁷⁴

As a result of possible accession of Turkey, the EU could obtain a valid instrument of influence on Moscow, thanks to the strong growth of the Russian Muslim community, mainly of Turkic origin, which will constitute up to 30% of Russia's population in the coming decades. In effect, the democratisation and mod-

ernisation of Russia could come not only from Europe, but also – which at the moment is very hard to believe – from the Islamic world. A crucial precondition for exploiting all these levers seems to be a change of the EU's pessimistic conviction that the success of European conditional support for modernization and democratization in Russia is a wishful thinking. If implemented, it could destabilize a "small stability" – in fact stagnation – in the EU-Russia relationship. This acceptance of a lesser evil derives from the fear of Russian backlash, failure of its reforms and unpredictability of new Russia.

In the next decades, China's leverage in Russia will probably substantially increase due to the deepening asymmetry between the Chinese and Russian potentials and rising China's attraction difficult to resist.⁷⁵ The asymmetry will stem from developments in the field of economy and security. According to the projections, China will develop at around a two-fold faster rate than Russia. In effect, the national income of China per capita in PPP terms will overcome Russia's at the beginning of the next decade. China's predominance over Russia in the conventional military capabilities due to the rising gap in expenditures will also deepen in the coming decades. On the other hand, an expected substantial increase of Chinese nuclear potential, together with Russia's reductions of its nuclear stockpile will diminish considerably Russian superiority over Beijing in this field.⁷⁶

The probability of a further rapprochement between China and Russia will rise considerably if the Russian political elite chooses a fake modernization. In this case, the close cooperation with China will be perceived by the Kremlin as an insurance policy for the regime's survival. China's direction will derive its attractiveness from the fact that Moscow, as a permanent member of the UN SC and a nuclear power, will not be dominated by Beijing. However, in case of strong economic and political bonds with China, Moscow's room for manoeuvre and its Western vocation will inevitably shrink. Moreover, the Russian political elite could overestimate its capacities to "trick" China and commit serious and irreversible mistakes in bargains with Beijing. The worst scenario, namely Russia as China's permanent junior partner will have global implications, as it entails

a serious shift of power in favour of China in Eurasia. The reasons of security and economy will push further both sides towards each other. They will also remain a source of contention, particularly due to the above-mentioned asymmetry. Taking into account the tendencies of China's trade relations in the last decade, with all other important partners located in its neighborhood (Japan, South Korea, India), the further rise of the Chinese share in Russia's trade turnover will be in line with the general economic trends in Eurasia. China will become a very attractive market for Russia due to an enormous rise of its energy consumption in the next decades. Projections of the IEA foresee that China's share in Russian exports of fossil fuels will increase around tenfold in the next two decades.⁷⁷ As far as security is concerned, the US withdrawal from Afghanistan, potential destabilization of this country and negative spillovers into Central Asia could increase a convergence of interests between China and Russia (more on this issue below).⁷⁸ However, the rivalry over Kazakhstan, the largest economy in the region, will remain a serious challenge when it comes to prospects of a more tangible cooperation.

Russia will continue its attempts to regain influence in the post-Soviet space over the next years. Nevertheless, considering the economic and demographic prospects, one should expect a further gradual weakening of Russian influence, and the strengthening of China's and to a lesser degree of the West whose position will depend on the prospects of the EU enlargement to the East and the scope of integration inside the EU. Although, Moscow's influence in the post Soviet space will considerably shrink, it will remain a very important player for approximately 20 more years. A decline of Russia's leverage in the region will derive from de-Russification (gradual disappearance of the Russian population and the decreasing importance of the Russian language, both phenomena are taking place particularly in Central Asia) and economic expansion of other players. The decisive weakening of Russia together with the survival of the authoritarian regime in the Kremlin may put the stability of the post-Soviet area at risk because a desperate Moscow would try to preserve its position by playing assertively against the Western engagement in the region (e.g. mili-

tary and political interventions in the Eastern Neighbourhood) and to a lesser extent against China's involvement.⁷⁹ Russia's tough course towards the EU would stem from a stronger focus on Eastern Europe and the perception of the EU as a weaker player than China.

On the other hand, if Russia undergoes democratisation and comes closer to the West, this could have a positive impact on the internal situation and foreign policy of those post-Soviet states which could follow the Russian model, this time in the positive meaning of the word. A very important development for Russia that could change its priorities in the post-Soviet space will be the substantial rise of the importance of the Caspian Basin (Central Asia and Azerbaijan) in its foreign policy agenda due to the economic, demographic and security factors. The population of Eastern Europe will shrink radically and that of the Caspian basin will increase considerably. According to projections, the latter region will witness a much faster pace of growth than the former one. The realization of this scenario will mean a weakening of the asymmetry in terms of the economy and population between the Caspian region and Russia⁸⁰. For instance, Kazakhstan will most probably surpass in the next decade Russia as the richest state of the CIS and will overtake Ukraine as the second largest economy of the post Soviet area. The gap regarding size of GDP in PPP terms between Kazakhstan and Russia will diminish substantially.⁸¹ The importance of this region will be strengthened by the demographic growth of the Muslim population in Russia. However, this trend will be most probably accompanied by a radicalization of the Russian society (Russia for Russians) that will have negative ramifications for the perception of Russia in Central Asia. Last but not least, this region could witness a pessimistic scenario, namely destabilization of some states (i.e. Kyrgyzstan, Tajikistan or to lesser degree Uzbekistan) which will become failed states and source of a serious challenge for Russia's security (terrorism, organized crime).

In the coming decades Russia will be also forced to accommodate itself to the rise of middle powers in its vicinity: Turkey and

Iran. Both of them have a potential to substantially decrease the economic and demographic gap that separates them from Russia. According to demographic forecasts, the population of Turkey in 2050 will reach around 95 million, while Russia's will decrease to 105-125 million. By the middle of this century, the Turkish economy is likely to become only slightly smaller than that of Russia. Turkey also has a chance to bridge the gap to the most developed countries in the world in terms of national income in PPP terms per capita. Iran has a capacity to be in this race just behind Turkey. Of course the probability of this scenario would increase radically if Turkey and Iran succeed in resolving their major internal problems (the Kurdish problem in Turkey, democracy with defects in Turkey, theocratic and authoritarian political regime in Iran). The prospect of EU membership would definitely facilitate the democratization of Turkey and at the same time would considerably enhance Ankara's influence in the post-Soviet area. On the other hand, internal political changes in Iran would enable Teheran for the first time to join the great game in Central Asia and the Caucasus without serious handicaps. The coming to power of a pragmatic political elite in Iran would create a real opportunity for the genuine rapprochement between Turkey and Iran, the basis for which would be economic cooperation, especially in the energy sector and mutual ethnic and religious ties. It seems that a Turkish-Iranian partnership would have a significant impact especially on Russia, whose position in the energy market (unexploited enormous deposits of gas and oil in Iran)⁸² as well as in the post Soviet area would be significantly weakened. ▀

¹ Jeffrey Mankoff, *Russian Foreign Policy: The Return of Great Power Politics*, Lanham 2009, p.31.

² Russia possesses more than 50 percent of the world's nuclear forces. Russia's share in global stockpile of operational warheads, though slightly smaller (almost 50%), is still the largest in the world. Its armed forces belong to the group of great powers composed of China, India and the US, possessing more than one million active servicemen, many thousands tanks, thousands of aircrafts, helicopters and huge navy.

³ According to the BP Statistical Review 2011, Russia has nearly 24% of proven world reserves of natural gas (1st place in the world), more than 18% of the world's proven coal deposits (2nd place), nearly 9% of the world's proven reserves uranium (3rd place) and more than 5.5% of global proven crude oil (7th place).

⁴ Russia's international foreign exchange reserves exceed 500 billion USD.

⁵ According to the most authoritative estimates, no more than 8 % of those who held leadership positions in the Gorbachev period were *siloviki*. Currently more than 40% of Russian leaders have this background.

⁶ Jeffrey Mankoff, *Russian Foreign Policy: The Return of Great Power Politics*, Lanham 2009, p. 15.

⁷ The most striking example of Russia's negligence of soft power instruments is the fact that it allocates only mere 0.03% of its GDP for the official development aid. The share of foreign students in the total student community of Russia exceeds slightly 1%.

⁸ Pricewaterhouse Coopers uses in its projections the data of World Bank whose estimation of Russia's GDP PPP is 20% larger than the data delivered by the IMF. The data provided by the IMF is more often used by other international organizations.

⁹ Dmitri Trenin, *Russian Foreign Policy: Modernization or Marginalization?*, [in:] *Russia after the Global Economic Crisis*, edited by Anders Åslund, Sergei Guriev and Andrew Kuchins, Washington 2010, p. 188.

¹⁰ A great majority of immigrants is in constant movement between their homelands and Russia.

¹¹ The border between Russia and Kazakhstan running for more than 7500 km is the longest border in the world. It lacks any natural barriers and comes close to several Russian industrial centers and key communication lines that link European Russia with Siberia.

¹² Russia is interested in an evolution of the BRIC structure into a parallel organization to the G8. Moscow has become the main promoter of idea of the institutionalization of the BRICs and the creation of a formal mechanism for negotiations and discussions. Russia hosted in May 2008 in Yekaterinburg the first meeting of the BRIC foreign ministers. In July 2009 the first official summit of the BRIC's head of states was held in Yekaterinburg.

¹³ In the recent years, Moscow renewed strategic bombers' patrols over the Atlantic, the Mediterranean and the Pacific and resumed large scale naval exercises in international waters in different parts of the world. For instance, in 2008, Russian warships visited Cuba for the first time since the dissolution of the Soviet Union. However, at the beginning of the last decade Russia closed an intelligence center in Cuba and a naval facility in Vietnam.

¹⁴ Opinion polls have been conducted in the last years by the Pew Research Center, Levada Center, VTZIOM and FOM.

¹⁵ The US's military spending is 13 times larger and China's 2,3 fold than Russia's.

¹⁶ Russia's military expenditures comprise 4,3% of its GDP. Due to the reform of the military sector, foreseeing rise of allocations, this share is going to increase in the coming years. By comparison, in case of the UK the defence spending constitutes 2,7% of its GDP, India 2,8% and China 2,2% respectively. However, it should be taken into account, that China allocates for institutions responsible for internal security a budget around 20% larger than the military spending.

¹⁷ Export of energy resources constitutes around 2/3 of the total Russian export and contributes around 1/3 of revenues to consolidated state budget (federal and local).

¹⁸ In the Global Innovation Index 2011 China received 46.4 points, surpassing Italy or Spain, and Russia only 35.9. Among the first one hundred universities of the QS Top 500 universities ranking 6 Chinese universities (3 from Hong Kong) can be found and not a single Russian one. In the PISA ranking evaluating quality of secondary education Chinese pupils get much better results than their Russian colleagues.

¹⁹ The current 28 NATO members have right now 40 percent fewer servicemen in Europe overall, 35 percent fewer ground forces, 30 percent fewer naval forces, and 40 percent less military aviation, than the sixteen member countries had at the start of the 1990s. Overall, NATO forces are around 40 percent lower in numbers of servicemen than the ceilings set by the Conventional Forces in Europe Treaty, 25 percent lower in armored vehicles and artillery, and 45 percent lower in aircrafts. The number of American troops stationing in Europe has decreased three-fold since 1991. The U.S. has made also a close to three-fold reduction in its strategic nuclear forces over the same time. It has carried out no modernization of these forces and it has made a six to seven-fold cutback of tactical nuclear forces. Alexei Arbatov, *Uravnenie bezopasnosti*. Moscow 2010, p. 66.

²⁰ According to various statistical data, the EU's share in the Russian trade turnover oscillates around 45-48%. It is estimated, that up to 75% of FDI in Russia come from the EU. At the same time, the EU is the main destination of the Russian foreign direct investment. Particularly Cyprus, Luxemburg and the Netherlands attract Russian capital. Many Russian oligarchs have registered their companies – operating de facto in Russia or the post Soviet states – in these countries.

²¹ The border with Russia is the longest land border of the EU. The majority of Russia's population lives in a relative proximity to the EU borders. For instance, the distance between Moscow and Warsaw is smaller than between the latter and Paris. Petersburg, the second largest Russian city is located in the immediate neighborhood of the EU.

- ²² In 2011 around 45% of visits of Russian citizens abroad were directed to the EU. Around 2 million Russians live in the EU.
- ²³ The EU's GDP PPP is sevenfold larger than Russia's and GDP PPP per capita more than twofold.
- ²⁴ Over half of the coal imported by the EU comes from Russia. While imported coal has nearly 45% share in the consumption of this commodity in the EU. Russia is also a major source of oil imported by the EU. Russia's share in the EU oil balance is 30%, while the EU's dependence on foreign oil supplies is very high (85%). From Russia or the Kazakh mines controlled by Moscow comes nearly 30% of uranium imported by the EU. Meanwhile, almost 100% of EU demand for uranium is covered by supplies from abroad. Gas imports represent more than 60% of EU consumption. Russia is the main supplier of gas to the EU (33% of EU imports. Before the crisis, it came to 40%).
- ²⁵ In the ten countries of Central Europe (Visegrad Group, Bulgaria, Romania, Slovenia, the Baltic republics), the participation of Russia (Russian gas, or the central Asian transit which is controlled by Russia) in their gas imports exceeds 80%, while in the EU-15 it reaches 25-30%. The share of gas from Russia in the consumption of these commodities in the Visegrad Group countries, Bulgaria and Romania is at level of more than 60%. while for the Baltic republics exceeds 90%. For comparison, in EU-15 represents around 20%. What's more, gas has in some countries of Central Europe (Slovakia, Hungary, Latvia and Lithuania) a significant share in their overall energy balances (30-35%). The possibility of influence of Russia on the EU energy policy can increase the membership of Western Balkan countries, where energy balances are generally similar to the countries of Central Europe. Particularly strong is the position of Russia in the energy sector of Serbia. Russia is also a major supplier of nuclear fuel of Bulgaria, Czech Republic, Slovakia and Hungary. Moscow treats Central Europe as a priority area for investment in the development of nuclear energy. The influence of Russia in the gas sector of Central European countries derives from the existence of some intermediary gas trading companies in these states, which are closely linked with Gazprom and whose activity is very opaque.
- ²⁶ It should be admitted, that the corruption in several EU member states is at a level relatively similar to Russia.
- ²⁷ Tension with Estonia and Latvia, especially, over treatment of ethnic Russians and Russian-speakers in those countries has been a constant problem.
- ²⁸ Moscow withdrew its signature from the Energy Charter Treaty (ECT) in 2009, which it earlier had refused to ratify.
- ²⁹ Andrew Kuchins, US-Russia Relations: Constraints of Mismatched Strategic Outlooks, [in:] *Russia after the Global Economic Crisis*, edited by Anders Aslund, Sergei Guriev and Andrew Kuchins. Washington 2010, p. 245
- ³⁰ A key issue pending solution is reform of the consensus-based method of decision-making. The secretariat of the SCO is not an independent body with

competences of its own. The SCO budget is very modest. The multilateral economic programs are virtually non-existent.

³¹ China helps guarantee Russia's place at the table in discussions about North Korea.

³² Tai Ming Cheng in his study of the transformation of China's defense technology base concludes that its ability "to learn and absorb already existing technologies and techniques has been significantly enhanced by the acquisition of civilian and foreign, *especially Russian*, defense technology and industrial hardware and knowledge".

³³ In 2010 the Russian navy conducted naval exercises on the Kuril islands and the president of Russia realized the first-ever visit to the Kuril islands which was a clear departure from the Russian-Japanese Tokyo Declaration from 1993. The same year, during the visit in Beijing the president of Russia together with the president of China condemned in a joint declaration attempts to change the history of World War II in Asia alluding to Japan. After this visit, Moscow designated September 2, the day Japan signed the surrender treaty in 1945, as a day of memorial for the end of the Second World War.

³⁴ The stock of Chinese FDI's reached – according to the Chinese official statistics – 2,8 billion USD at the beginning of 2011. Chinese companies often invest abroad through the British Virgin Islands. The investment from the British Virgin Islands is quite substantial in the post Soviet space including Russia. It can be assumed that part of these investments in fact come from China.

³⁵ It can be estimated that in 2011 almost 2,5 million visits of Russians to China took place. They comprised more than 5% of all Russians' visits travelling abroad. China was the 4th destination for Russians.

³⁶ Bobo Lo, China's "Permanent Reset", *Russia in Global Affairs*, 15 October 2010, <http://eng.globalaffairs.ru/number/Chinas-Permanent-Reset-15001>

³⁷ For instance, in case of the agreement concerning demarcation of the border with China, though the Russian government emphasized that it was not giving up land, and hailed the agreement as a win-win, the opposition openly criticised the agreement as a unilateral concession of Russian territory. Formal and informal polling indicated negative attitude to the agreement throughout Russia, particularly in the Far East.

³⁸ Gazprom and CNPC signed the memorandum on deliveries of Russian natural gas to China (up to 70 billion m³) in March 2006. After four years of tough talks, in 2010, Russia and China agreed on all main conditions of the contract, except for the key issue, namely price, which the Chinese bargained strongly throughout the negotiations.

³⁹ The gravitation of the Russian Far East towards China is to a large degree inevitable. It derives from the geographic factor. The most densely populated and urbanized regions of Siberia are located in its southern part, next to

China. The distance between Vladivostok and Beijing is 1330 km and between the former and Moscow 6430 km.

⁴⁰ On the other hand, the population of Manchuria and Interior Mongolia comprises around 10% of China's population and these regions do not belong to the most developed, urbanized and populated parts of China.

⁴¹ Before the crisis, according to the Russian Federal Migration Service, 330 thousand of Chinese worked legally in Russia. This institution estimates that a share of illegal workers among Chinese is the smallest among foreign immigrants residing in Russia. Therefore it should be estimated that currently around 400-500 thousand of Chinese reside in Russia. A majority of them lives outside direct borderland with China. Nevertheless, their number has increased since 1991 40-50 fold.

⁴² The programme includes a list of more than 200 joint projects to be implemented until 2018 across the territories of both countries. Its implementation started in 2010. Less than 10% of projects have been launched since then.

⁴³ Currently India is the main importer of Russian military equipment. Russian arms sales have helped shift the balance of power between India and Pakistan China's protégé in India's favor.

⁴⁴ According to the Asian Development Bank 20 percent of trade between Asia and Europe passes through Central Asia. In 2011 the first-ever direct cargo train from China to Europe was launched. The route offers a major shortcut to the traditional sea routes. Travel time to Europe is cut from about 36 days by container ship to just 13 days by freight train. The train is scheduled to travel eventually once weekly.

⁴⁵ In Central Asia Japan, South Korea and to lesser degree India are also relatively active players.

⁴⁶ In the post Soviet countries, excluding Baltic Republics, live around 13 million of ethnic Russians, constituting important minorities in Belarus, Kazakhstan, Kyrgyzstan, Moldova and Ukraine. The Russian language is a mother language for a majority of Belarusians and a huge minority of ethnic Ukrainians. Many Ukrainians and Belarusians are bilingual. Almost 6 million of Russian citizens are co-nationals of state nations in the CIS countries and Georgia. These communities constitute in some cases large part of the entire nations (Armenians, Azeris, Belarusians, Georgians, Moldovans and Ukrainians).

⁴⁷ The share of remittances in the economies of these countries varies from almost 20 percent of their GDP to more than 35 percent of GDP.

⁴⁸ Russia is a dominant trade partner for Belarus (nearly 50 percent of exchange) and a very important partner for Armenia, Kazakhstan, Kyrgyzstan, Moldova, Ukraine, Uzbekistan and Tajikistan (from 15 percent to more than 30 percent).

Russia has via direct and indirect (Cyprus) flows of capital a majority share of Armenia's and Belarus's FDI stocks and huge share in Ukraine's and smaller states of Central Asia.

⁴⁹ Gas supplies account for 60% of energy balance of Belarus (the only supplier being Russia), 65% in the case of Moldova (also supplied exclusively from Russia) and almost 60% in the case of Armenia (of which 70% originate from Russia). Russia controls Armenian, Belarusian and Moldovan gas pipelines and supplies nuclear fuel to Armenia's nuclear power plant. In the case of Ukraine, natural gas has an approximately 40% share in its energy balance, and a great majority of supplies of this raw material are made either from Russia or via Russian territory.

⁵⁰ Students studying abroad comprise relatively huge part of total student community in Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Uzbekistan and Turkmenistan. Russia is the main destination for students from these countries, particularly Belarus, Kazakhstan and Uzbekistan. Several tens of branches of Russian universities operate in almost all post Soviet states.

⁵¹ The Single Economic Space promises free movement of goods, services, capital, and labor, as well as unified legislation on "internal" trade, competition policy, transportation tariffs on energy and goods, and general access to state procurement orders and contracts.

⁵² In difference to the EU, the Customs Union decisions are made only through weighted voting, proportionate to each state's economic power.

⁵³ According to opinion polls, around 65% of Russians supports an idea of open borders between Russia and Ukraine and Belarus without controls and customs.

⁵⁴ Currently, approximately 75% of gas exported by Russia to the EU flows through Ukraine. Implementation of Nord Stream project will reduce this dependence. However, Ukraine will remain the main route of transit of gas to the EU. Ukraine's position as a key transit country for the EU and Russia eventually would undermine the construction of South Stream gas pipeline. However, realization of this project is less likely than in the case of Nord Stream. The Russian side offers to Ukraine a dramatic reduction in gas prices on the model of Belarus in exchange for agreeing to the gradual takeover of Ukrainian gas system by Gazprom and Western partner companies. For Russia, the creation of a joint venture, even though considered a half-solution, could enable it to gradually take over a majority of assets.

⁵⁵ Dmitri Trenin, *Post-Imperium*, Washington 2011, p. 80.

⁵⁶ Over 400 kinds of goods which are sensitive in nature for the parties of the Customs Union have been excluded from the joint customs tariff. The limitations in the Union's functioning were supposed to be suspended by 1 January 2012,

i.e. from the moment that the Single Economic Space entered into force. However, considering the ongoing divergence of interests between the partners, this postulate remains to large degree still on paper.

⁵⁷ Uzbekistan withdrew from the Eurasian Economic Community and de facto left the CSTO.

⁵⁸ The number of Russians in the post Soviet countries, has fallen by half since 1991 from 26 million to around 13 million. The number of children that are educated in the Russian language has decreased from above 5 million to 3 million.

⁵⁹ In 2011 Russia surpassed the EU as the number one trade partner of Ukraine.

⁶⁰ An accurate estimation of the EU's investment in Kazakhstan is quiet difficult because of huge reinvestment of Kazakh capital through the Netherlands.

⁶¹ In order to reduce vulnerability to naval interdiction, land-based oil and gas pipelines linking Central Asian hydrocarbons to the Chinese market are supposed to provide a supplemental source of oil and gas supply.

⁶² Xinjiang is an autonomous province which comprises around 17% of the entire Chinese territory. It is inhabited in 60% by Muslims, mostly Uyghurs. Their number due to high population growth rates will increase substantially in coming decades. The ethnic separatism and Islamic extremism in Xinjiang strengthen by the Chinese politics of assimilation constitute one of the most serious challenges for China's internal security. From the historic and geographic point of view Xinjiang is an integral part of Central Asia. In China live 1,5 million of Kazakhs (15% of Kazakh population in Kazakhstan) and 150 thousand of Kyrgyz people (several percent of Kyrgyz living in Kyrgyzstan). On the other hand, Central Asia is home to around 300 thousand Uyghurs. This is the largest Uyghur diaspora in the world. Xinjiang's importance for China derives also from its size and huge natural reserves located in it: around 40 % of Chinese reserves of coal and 35 % of natural gas and 30% of oil. What most important, according to preliminary estimates, an enormous deposits of shale gas have been detected in this autonomous province.

⁶³ Currently, China transports goods through Eurasia in the direction of Europe predominantly via Russia and Kazakhstan. In the coming years China is going to finalize the construction of the Kashgar-Osh-Andijan railroad. Once this project is complete, China will have an alternative railway line to Europe outside of Kazakhstan and Russia and will also be able to access the Indian Ocean.

⁶⁴ The most striking evidence confirming China's attractiveness were the visits of the prime ministers and presidents from every country covered by the Eastern Partnership (excluding Azerbaijan) in autumn 2010. Particularly spectacular was the intensification of Chinese and Ukrainian relations.

⁶⁵ The US investment is particularly significant in the oil sectors of Kazakhstan and Azerbaijan. The US investment in the Kazakh FDI stock comprises around 15% of the total (more than 20 billion USD).

⁶⁶ Turkey is a quite important trade partner for Russia (more than 3,5 % share in Russia's trade turnover) and a very popular tourist destination. For the Turkish construction companies, Russia is the first foreign market, though proportionally to the size of the Russian economy the Turkish investments in this sector have much smaller leverage than in other post Soviet countries. Russia occupies the second place in the Turkish trade volume (almost 10%). Bilateral FDIs have rather limited value but in the future the situation could change if Russia realized a project concerning construction of nuclear plant in Turkey.

⁶⁷ The share of Turkey in the trade volume of Turkmenistan and Tajikistan oscillates around 10-15%. Turkey is also one of the most important foreign investors in Turkmenistan.

⁶⁸ For instance, the value of Turkish investments in the construction sector in Turkmenistan reached almost 20 billion USD as of the beginning of 2011. Meanwhile, Turkmen GDP (PPP) is less than 40 billion USD.

⁶⁹ According to the opinion polls, only 20% of Russians identify themselves with the western-style liberal democracy. A majority prefers a "Russian form of democracy" based on strong leadership.

⁷⁰ Currently, the FDI stock comprises 10% of Russia's GDP but excluding investments from Cyprus and the Caribbean islands, which represent in fact reinvested Russian capital, it is lower than 5%. Right now, only 0,5% of Russian students study abroad.

⁷¹ The EU's has at its disposal the following assets: asymmetric economic ties, Russian society's cultural identification – despite some contradictions – with Europe, a perception of the EU as the main source of assistance in the possible modernization and democratization. The EU could in the medium term strengthen considerably its influence on Russia through the establishment of an FTA, inclusion of Russian students in the Erasmus programme and the visa-free regime.

⁷² A rising significance of the Arab world for the EU, related to its much higher population growth rate than Russia's and Eastern Europe's, decisively better projections of economic growth, increase of the Muslim diaspora in Europe and strengthening of the demographic clout of EU members focused on the South (the UK, France). These trends could be to a certain degree counterbalanced by the probably faster pace of economic growth in Central Eastern Europe than in the Western part of the continent.

⁷³ The most serious impact on Russia's position in the energy sphere will be the creation of the single EU energy market that would weaken Russia's pos-

sibilities to develop bilateral relations with individual EU members, increasing energy efficiency of EU economies, the construction of new LNG ports, the diversification of EU energy balances (new sources of energy) and gas supply (southern corridor, the construction of interconnectors), the emergence of new suppliers (especially important Iran, a scenario possible in the event of political change in the Tehran) and development of shale gas in the world and in Central Europe.

⁷⁴ The European vocation of Ukraine could strengthen in the future demographic trends, namely an increase of population in pro-European regions of the country and shrinkage in pro-Russian parts.

⁷⁵ Certainly, the possibility of a serious economic and social crisis in China should not be excluded. However, according to the experts dealing with China, the crisis is much more probable in the long term perspective than in the short or medium one.

⁷⁶ In 2000, Russia's military expenditures comprised 80% of China's. Ten years later this proportion dropped to less than 45%. Russia's weighing in Chinese foreign policy will diminish further. In this decade China will most probably build a fully-fledged sea leg of its nuclear forces and substantially increase – at least twofold – its nuclear assets.

⁷⁷ The rising importance of China in the Russian exports confirms the WEO 2011 issued by the IEA assuming an increase of China in the share of the overall export of Russian gas, oil and coal from 2% in 2010 to 20% in 2035. At the same time, the EU share will shrink from 61% to of 48%. This trend is supposed to continue after 2035.

⁷⁸ A rising importance of Central Asia for China will result from an increase of Muslim population in Xinjiang and the recent discoveries of enormous shale gas deposits in this province.

⁷⁹ Russia's readiness to use hard power will increase because reforms of Russian armed forces will deepen a gap of military potentials between Moscow and other post-Soviet states.

⁸⁰ According to UN forecasts, the population of Central Asia within the timeframe 2010-2050 will grow from approximately 60 million to over 80 million.

⁸¹ Certainly, this development will increase Kazakhstan's leverage in Central Asia and its influence in regions of Russia (Tatarstan, Bashkiria), inhabited in majority by fellow Turkic Muslims and located in proximity of Kazakh border.

⁸² Iran possesses more than 15% of the proven world reserves of natural gas and 10% of the proven world's reserves of oil.

2

Russia's uncertain future: internal dynamics and possible trajectories¹

Nikolay Petrov

Main thesis

Regardless of whether or not the leadership will opt for the necessary reforms, serious changes appear to lie in store for Russia in the coming decade. Three pictures of Russia in 2020 can be visualized:

1. "Early Putin", or "Putin the Reformer" (a moderately modernized Russia)
2. Modernization+, "Perestroika-2", or neo-Gorbachev (Russia in radical modernization mode)
3. "Stalin Lite" (Russia on the way to dictatorship)

"Early Putin, Putin the Reformer", or a moderately modernized Russia is an option that can be seen as the inertial one, an evolution of the current course. This implies that most key ele-

ments of the currently existing political system remain in place; the role and independence of the political parties are somewhat enhanced, including a transformation of United Russia into something of a dominant party. This would mean a more robust separation of powers and an intensification of political competition. Higher competition increases the likelihood of repoliticization and a more active political participation. Thereby the new spiral turn signals a return – with some reservations – to the situation of 2002-03. Some elements of federalism are restored including direct elections of regional leaders and a transformation of the upper chamber of the Federal Assembly into an organ of genuine regional representation. The economy will have a more solid market character as the government will reduce its involvement in the economic life.

Meanwhile social sphere will continue to decline as a result of a protracted deterioration of the quality of health care and education, and the continued outflow of the entrepreneurial groups from Russia. There is no nationally shared ideology; instead there is an ideological mix that embraces elements borrowed from different époques and concepts including imperial and Soviet grandeur, 'energy superpower', a separate civilization etc.

The "moderate" nature of this scenario does not rule out crises. The latter can be generated if changes are irregular and one sphere is modified faster than others. Such changes can become increasingly in conflict with each other, first and foremost, as a result of separation of powers horizontally and vertically. This can lead to a correction of certain elements within the framework of the moderate modernization; or the trajectory can shift to a Modernization Plus/Perestroika-2 or authoritarianization.

Modernization+, Perestroika-2, or neo-Gorbachev. Fully fledged two- or multi-party system will take a radical modernization that will also imply a genuine separation of powers and a consolidation of political institutions.

In particular, this would mean a gradual transformation of the parliament into a fully fledged influential representative

body that is able to ensure accountability of the executive branch including the control over state security and law-enforcement agencies. Federalism is reinstated with powerful and influential municipal and regional levels; these levels of governance are assured of sufficient tax revenues that enable them to perform a broad range of functions. There is certain risk of regional separatism, since in this scenario the country is moving moves fast leaving behind some of the regional political elites and even provoking resistance among them. Business is separated from political power. The state functions are mostly reduced to regulation; the state presence in the real sector is reduced to a minimum. The societal forces gain an additional boost; social and territorial mobility is growing. While migration within the country is growing, fewer people show interest in leaving Russia altogether. This kind of scenario, like Gorbachev's Perestroika can be self-sustaining with the initial effort aimed at improving the existing system and causing an avalanche effect.

Radical modernization will face more hurdles related to irregular development than any other scenario. This means that should such course be adopted, crises will be highly likely, not least generated by disgruntled conservative elites and constituencies. Some of such crises can strengthen the system, others can push the trajectory toward authoritarianization.

"Stalin-lite", or Russia slipping toward dictatorship. This trend implies a rise of personalistic elements in the political system, a complete evisceration of elections that will fully transform into a ritual of pledging allegiance. A one-and-a-half parties system will finally take shape, political parties being reduced to mere imitations. This would mean a drift toward some of the post-Soviet regimes, such as Belorussia or Kazakhstan. The authoritarian framework may be expected to launch an enlargement of the administrative regions – for the sake of more practicable governance. Should the authoritarian model be adopted, another possible move would be to turn Russia's eight federal districts into a fully fledged "level" of government authority. In any case centralizing and unitary trends will be enhanced. This mode of governance will call for a more rigid coordination of various gov-

ernment “verticals” and their enlargement; as well as an establishment of a “politburo” whose mission will be to reconcile the interests of major “clans”. The role of the power agency will inevitably grow; in order to make up for the missing political competition; a mechanism of “purges” will be introduced.

For the national economy this would mean a greater role of state corporations and “crony businesses” highly dependent on the political elites. The rent-seeking model will be further consolidated with rent distribution tightly regulated by the centralized government. State-society relations will be further determined by the paternalistic pattern; “besieged fortress” mindset will be broadly disseminated. The “dissenting” constituencies will be pushed to leave the country. This will be accompanied by a rise of nationalist/xenophobic sentiments and a threat of inter-ethnic clashes leading to disintegration and a de-facto separation of some of the ethnic regions. In the “Stalin-lite” scenario conflicts and crises can be provoked by the internal competition of the elite “clans” and corporations, by irregular development, as well as the essential limits of centralized management of a country as vast as Russia. Another factor of crises is the inevitable further decline of the efficiency of governance and a failure to respond to external challenges.

The state’s main challenges

Out of many problems that Russia’s facing three are especially grave:

- an explosion in the North Caucasus
- a breakdown of technological and social infrastructures
- Administrative collapse

These three are so grave that – separately or combined – they can undermine the political system or even threaten the very existence of the nation.

In the North Caucasus, conflict has built up over the many decades, and the situation has reached such a level that it could explode any moment. There is no quick resolution to the Caucasus problem, and such a solution will not come. To solve the actual problems of the Caucasus it is essential to implement a long and difficult strategy, and a very painful one at least at early stages. Thing is that the Kremlin's inherent short-sightedness as well as its situationist politics invariably result in tactical rather than strategic solutions which further aggravates the existing problems.

For instance in 2004 Putin opted for a policy of "Chechenization". This choice was motivated by the forthcoming presidential election: Putin needed to demonstrate that he had successfully solved the problem of subjecting the rebellious Chechnya. But even then, it did not help resolve the conflict; it just pushed it to the periphery of public perception based on the cynical formula "let the Chechens kill one another". Moscow had helped "good bandits" to subdue all other competing groups within Chechnya, and after that it empowered them in exchange for their symbolic loyalty. Moscow at some point became a hostage of this decision, and has since been forced to agree to ever greater concessions. Meanwhile, while the situation in Chechnya has been stabilized – even if this is a relative and precarious stabilization, the conflict has spread to other republics and engulfed the entire Russian Northern Caucasus.

The 2014 Sochi Olympic Games is another example of how the government prefers tactics over strategy, exacerbating an already difficult situation. As was mentioned above, Northern Caucasus calls for a long-term strategy. Meanwhile the choice of Sochi, located very close to the unstable North Caucasus territories, as the venue of the 2014 winter Olympics, sets an artificial and short-term deadline. The Russian government will have to ensure security now at any cost, so the world would trust that Sochi is a safe venue for the Olympics. If this effort is successful, then after the Olympics the government will inevitably lift the emergency security measures, which can generate serious security hazard. Besides, after

the Games are over, the government will have to drastically cut the investment in the region which has reached gigantic proportions during the preparation period; this too threatens to aggravate the security situation.

The recognition of independence of Abkhazia and South Ossetia following the 2008 war in Georgia has also exacerbated the problems of North Caucasus, where ethnic republics are understandably jealous of the higher status Russia has granted South Ossetia and Abkhazia. Although the independence of these two territories is questionable (both are heavily dependent on Russia economically and in terms of security), local elites are not cohesive and Russia's control over South Ossetia and Abkhazia is not solid.

Moscow's current tactics of throwing huge money on the problems of North Caucasus is not just inefficient – it is counter-productive. This is true not only because part of the money is promptly “transferred to the woods”, as those fighting against the pro-Moscow local government have levied tribute on the local business. The government policy further exacerbates the major problem: young men in the North Caucasus steadily joining the ranks of the fighters. There are no other ways of self-fulfillment for the young, since all channels of social dynamics have been blocked by corrupt and archaic local elites. Local communities have been polarized and turned more archaic – as their most advanced members, the region's potential agents of modernization have left their homelands. A recently enforced policy of appointing non-locals to federal posts such as police chiefs, prosecutors, judges etc. Also threatens to make things worse – new conflicts can lead to an ultimate loss of control.

The system invests tremendous forces and means in geopolitical and geoeconomic infrastructure (e.g. pipelines, FDI abroad), which in itself is a source of income for many corporations and can increase future revenues. At the same time, it acts as the temporary owner of an enterprise that seeks to extract

maximum benefit from it right now with full disregard of the future. Old roads get destroyed faster than new ones are constructed; large-scale technological catastrophes and accidents are a monthly affair what with plane crashes, military depot explosions, buildings collapsing, deadly fires which take many lives. In the case of social infrastructure, and primarily in the areas of health and education, the deterioration is less evident; as a result neither the government nor the society pays enough attention, thereby exacerbating negative effects in the future. As for the education and health care, the negative trends that have long gone on can produce a substantial decline in the coming years. Because the necessary allocations were not made in time, the decay of technological infrastructure will continue at least through the end of the next decade.

In recent years there have in fact been two one-way processes: the risk management failures due to the crisis and fast-changing environment; and the decreasing adaptability of the system along with its worsening ability to take a punch. The system is designed so that, it can provoke a crisis, at the drop of a hat, without any external shocks (such as the banking crisis in 2004; the 2005 benefits-for-cash reform that caused mass protests; the 2006 "alcohol crisis; the 2011 transport crisis; local crises at the turn of 2009-10 which provoked social explosions in Vladivostok, Kaliningrad). On the other hand, the overcentralized and overbureaucratized system is incapable of prompt and effective response to arising crises; as a result local problems can easily escalate into a system wide crisis.² A general crisis economic or political can easily lead to catastrophic consequences in some regions. This model of creating and spreading the crisis, therefore, can evolve "from below" and "from above" and lead to the most extreme implications for the system. The ongoing economic crisis creates a very negative background which can make consequences of a management crisis even more destructive. Some experts, citing Russian recent history, namely the period of Brezhnev's stagnation, believed that, first, it is possible to live with these problems for quite a long time; and, second, that the system

cannot be fixed anyway. After the mass rallies in December 2011 it turned out that the comparison with the Brezhnev period is not quite correct. First of all, for various reasons, things develop faster now than three decades ago, and Putin's regime has passed the full cycle – from birth to decay – in just ten years. Furthermore, today's system is not as stiff, uniform, rigid, or lacking any alternative as the Soviet system of management used to be which makes improvement of governance not entirely inconceivable. And even if the institutions have been all but eviscerated, technically they still exist. What's more, there are memories and experience of the time (1990s') when they were – of not more robust, then at least developing – and if the course of deinstitutionalization is revised, improvement may be rapid.

Vladimir Putin's dead ends

There are also Vladimir Putin's dead ends which are time bombs ticking against the country due to the incorrect strategic decisions made in the last decade:

- Deinstitutionalization
- Paternalism
- Depoliticization
- Stake at Oil and Gas
- Defederalization
- Verticalization

All previously independent institutions have been radically emasculated; their authority and autonomy dramatically reduced. Public trust in these institutions has been undermined. The system of institutional checks and balances has been re-

placed by the ultimate arbiter; and this process was accompanied by the deliberate fragmentation of corporations and agencies (particularly security and law enforcement units). Simultaneously a system of “corporate checks and balances” has been created; this system operates by way of “managed conflicts” between corporations and agencies as well as within them. Because the system is stripped of autonomous players invested with distinct authority, it cannot draw on established patterns of response to emerging problems. Instead every problem requires “manual management” and direct involvement by the supreme leader. For a long time, state-building relied on the high popularity of the leader, and the country could do without institutions, but Putin’s approval ratings have shown more volatility lately. Sooner or later his popularity would begin to fall and become a reason for destabilization.

In the framework of Russia’s paternalistic pattern of state-society relations the government has benefited by passive compliance of the people, and a majority appears to accept the dependence on the government which takes care of their social security and well-being. The problem with this model is that it makes the state hostage to its populist promises, forcing it to live beyond its means – in fact, at the expense of the future – and additionally, the model prevents the development of initiatives from, and independence of the citizens. The lack of initiative and the mindset of dependents are a hurdle to Russia’s modernization and even to a sustained economic development. The government can no longer increase the burden of social spending, and the citizens go through a decline of a kind described by Andrey Amalrik in his book “Will the USSR survive through 1984?”.

The elimination of public politics and politicians made the government’s life easier for some time. But after a decades of using this tactic, it is turning negative: the governance becomes increasingly ineffective as a result of weak political competition and the lack of accountability at all government levels, the inability to develop a realistic agenda for the country and gain popular support for its implementation, a shortage of ef-

ficient cadres, etc. During the “fat” years political technologists, as the Kremlin political operators are commonly referred to, were able to substitute manipulative tricks for rational policy-making, but they may find “political technology” less effective as the times become “leaner” in 2010s. The authorities are increasingly short sighted and arrogant. After the upsurge of political protests in December 2011, repoliticization in the next year or two is inevitable, and in many ways depends on the government – whether it will follow a constructive and evolutionary path or an explosive and destructive one as in the last days of the Soviet Union.

Russia’s chosen mold of an “energy superpower” implies enormous investments in the pipelines seen by the leadership as a tool of geopolitical expansion. This method of realizing personal and corporate interests at the expense of the national ones makes Russia’s economy even more dependent on resource extraction and distribution of the rent. Diversification remains unattainable, and the impact of the “resource curse” is prolonged for an indefinite future. As a result, outside the oil and gas sectors, and the services sector, which is fueled by oil and gas money, a rapid degradation of the industrial complex is under way. Furthermore, the most advanced and entrepreneurial people, who could have become the backbone of diversified model, are being “washed out” from the country.

Over the course of the last decade, excessive centralization and unitarization has been steadily introduced. The regions have been stripped of even the slightest autonomy and independence. As a result of such policy the huge diversity of the country, which used to be Russia’s competitive advantage has been reduced to a heavy burden. Attempts to manage a vast country from a single center and make universal decisions with no account of the varied regional interests, in the political realm lead to a “leveling to the average” in the economy the effect of such policy is a chronic dependence of an overwhelming majority of the regions on federal subsidies. The regions’ top administrative elites, those who enjoy influence and authority in their ter-

ritories and have the experience with public politics have been increasingly replaced by loyal bureaucrats, whose management efficiency is strongly limited – especially in a crisis situation or for the realization of modernization. This exacerbates the consequences of defederalization which can no longer be improved by a simple redistribution of authority.

Putin's proverbial "vertical of power" essentially comes down to an overgrowth of vertical; subordination ties in the system of government management. Meanwhile horizontal ties are weakened which leads to that there is no single vertical: it is fragmented into a large number of loosely connected "smaller verticals" within concrete government agencies. Other consequences of the "verticalization" include dramatic weakening of inter-agency links; administrative rivalry, that is tough competition between different verticals; an evisceration of inter-regional ties; lack of public initiative; overlapping of the functions of government agencies; the system's low flexibility and capacity for maneuver. It is not difficult to see that all these "private" dead ends are interconnected and form one big dead-end of Russia's demodernization. In the optimistic scenario, with the intensification of efforts, the authorities can find a way out of this grave situation, to which they drove themselves along with the country. However, the longer the country is moving toward an impasse, the longer it will take to come out. This begs the question: Have we not overshot the point of no return? Moreover, the problem is often compounded by the vicious circle that only a large-scale crisis can break.

Russian elites: regional nomenklatura and the Kremlin

One more serious problem the country is facing has to do with the transitional character of its ruling political class. In a simplified form the present situation could be described as a wishy-washy state somewhere between two models – the nomenklatura and the elite.³ The current Russian system was in large part inher-

ited from the Soviet nomenklatura apparatus, and thus preserves a certain similarity. However, today there are no resources dedicated to Soviet-style repression, and without this “stick” – that is, without an external mechanism of control and selection – today’s “nomenklatura” is inevitably transformed into an elite.

What Russia has now is some kind of nomenklatura system, but with weak internal controls and regeneration, and without the well-established external mechanisms that in the nomenklatura system were overseen by secret services. In the 1990s, first the old system was suppressed and partially removed, and then it was partially recovered – neo-nomenklaturization.⁴ The problem is that not all the elements of the old system were restored; above all, the methods of selection and training, as well as regeneration, were not. At the same time, the system was adapted toward the institution of private property, with the alignment of the mechanisms of enrichment – the conversion of power into property, along with expropriation of property from those who had been trusted to hold it but who would not observe the informal rules of the nomenklatura world.

Without external shocks and the purges the nomenklatura system, which has no built-in mechanism of regeneration and renewal or a protection from inbreeding, the system is prone to rapid degeneration. This is precisely what we are witnessing. A normally functioning nomenklatura system needs a constant rotation of the cadres. This is what strengthens it both horizontally and vertically, allowing it to maintain rigidity and unity. The particularity of the current system lies in the fact that it is not able to do this by itself – and without external renewal mechanisms, it will rapidly degrade. The nomenklatura is a “state within a state,” with its own laws (ranging from traffic rules to the penal code) and rules of conduct; its own network of stores, motor depots and resorts. With the transition from the nomenklatura system to the capitalist variant, there is less need for a special infrastructure and no need at all for the top-tier elites. Instead of the homegrown infrastructure, the elite obtained the means to access the world of the global luxury, wealth and prestige

Within this system, a strict adherence to the rules – which requires, above all, loyalty to both the system and the boss – guarantees the preservation of one’s status and one’s job security. The guarantee of employment to maintain or improve one’s status is not charity, as it may seem, but instead is an effective strategy vis-à-vis the system. This is because, for the system, the length of service, and the conformity and dependability of individual elements, are more important than their self-contained, individual effectiveness. Strengthening ties between the individual elements and their transformation into the national network, which always moves horizontally, is also an important part of the overall strategy that assures the unity of the nomenklatura system across the country.

The nomenklatura system, like any other human resources system, can operate only in conditions of stability. Thus, during the first “revolutionary” years of the new Russia, it was, on the one hand, broken, and on the other hand, paralyzed and not as noticeable. By the mid-1990s, it largely recovered, and as soon as Vladimir Putin came to power and political stabilization set in, it was strengthened and now manifests itself in full. What is fundamentally new for today’s system is that the nomenklatura involves not only a mass replacement of the old staff by people from “the security organs,” – this had happened before. What’s really new is the total elimination of internal controls at all levels, which in Soviet times was carried out within the framework of two major opposing subsystems – the Communist Party and the KGB.⁵ The subordination of all other secret police systems led to a dramatic weakening of internal controls and a dangerous merge of two functions – the making of the rules and their enforcement – in one pair of hands. Legal relativism and the primacy of expediency and “intracorporate” rules over law that are characteristic of special services have essentially blurred the distinction between the nomenklatura system and criminals. Stalin referred to the state security forces as the order of “Brothers of the Sword”, today’s system of state security has turned into a gigantic semi-criminal group.⁶

The nomenklatura system is not afraid of institutions, but only to the extent that they remain dependent on it. In this sense, predictably, institutions and related players – such as State Duma, the federation council, the oligarchs, the regional governors and others, in fact all institutions except the president himself – have been consistently weakened under Putin. Similarly, those players whose role is defined not by the Constitution, but personally, by Putin, have emerged and gained power; these players include the Security Council in the early stages, the president's envoys in federal districts, the State Council, the Accounting Chamber, and so on. Their presence on the political arena indicates a consolidation of the nomenklatura system.

The nomenklatura system is not afraid of business owners either, but only to the extent that they depend on the government that appoints and reappoints them. Under the new conditions, the court of law becomes an increasingly important instrument in the hands of the nomenklatura system as a tool of redistribution of power and property. Therefore, any judicial reform carried out by the current regime cannot be expected – not even theoretically – to strengthen the independence of the judiciary.

Mikhail Gorbachev launched the destruction of the nomenklatura; Boris Yeltsin removed its ideological core, and restored it at the upper tiers, while he partially lost control over the lower ones. As a result, the pyramid lost its integrity and solidity, and small “pyramid-ettes” formed at the regional level. Under Putin, the pyramid was restored as a whole structure, all but with a limited functionality. It no longer relies on the underlying dualism, based on the co-existence of two fiercely competitive systems of power and control – the administrative unit of the Communist party and that of the secret police. Furthermore, the current system does not have a functioning reproduction unit. The life of nomenklatura system is continuous, not discrete. Nevertheless, from time to time there is a reconfiguration in the system, coupled with a sharp increase in internal competition.

In the capitalist version, the perks of the nomenklatura are replaced by the idea of a “right to corruption,” whereby extracting benefits from the provision of services becomes the norm and is not associated with the risk of incurring penalties. However, if the earlier handouts and benefits were used as a “leash,” in an environment of a market economy and corruption-ridden rent seeking, supervisors in the nomenklatura system have largely lost direct leverage over their subordinates. Nevertheless, the system continues to “keep them on the hook”: since every elite member is engaged in corrupt schemes, each of them is vulnerable and can be easily punished by being severed from the corrupt source of enrichment.

There are twice as many federal officials in Russia than there are regional ones. Though formally all federal officials in the region were subordinate to their respective national ministries and agencies, in the 1990s all of them, including the heads of regional chapters, became, in fact, members of the regional establishment controlled by the regional leaders. By early 2000s when Putin became acting president of the Russian Federation, only one federal structure – the Federal Security Service (FSB) had not come under full or partial control of the regional political elites. It was on this agency that Putin relied – for instance, in January 2000 when he appointed acting president’s envoys in the regions; most of them at the time of those appointments had been heads of the FSB regional chapters. The main reason why the FSB regional leaders stayed loyal to Moscow was because in this agency the mechanism of horizontal rotation remained unchanged since its introduction by Stalin. In essence, horizontal rotation means that federal officials must not remain too long in the same region, so they would not grow local ties. In order to ensure their loyalty, every 4 or 5 years they should be moved from region to another. It is this mechanism that Moscow gradually began to restore, first, as applies to regional prosecutors, then police chiefs were rotated, then judges, and eventually governors.

Table 1: Key federal positions in the regions: ties with the local elites and time of service in the region (as of 01.01.2011).⁷

| | Regional head | CFI * | UVD chief* | Prosecutor | SKR * | FSB * | Judge | UR* Secretary | Σ |
|----------------------|---------------|-------|------------|------------|-------|-------|-------|---------------|-----|
| Connection to region | 3,9 | 3,2 | 1,5 | 1,7 | 3,6 | 1,3 | 3,8 | 4,7 | 2,9 |
| Time in office | 5,1 | 3,6 | 3,6 | 3,8 | 2,7 | 2,7 | 8,2 | 2,5 | 4,1 |

*Federal officials: CFI – chief federal inspector; UVD – interior administration; SKR – investigative committee of Russia; FSB – federal security service; UR – United Russia

The data presented in the table shows that the secretaries of the United Russian executive committee are, on the average, the most rooted of all federal appointees. At the same time they had the shortest term in office and, arguably, the lowest authority of all federal officials in a given region. The head of the region whose time in office is generally the longest after that of the federal judge in many cases is no longer a member of the local elite. Federal security officials and law-enforcers have practically no ties to the local elites. In the 1990's Russian regions remains essentially closed political system, regional officials almost always remained in their regions; if they moved from one position to another, these movements were confined within their own region. In the 2000s Russian regions "opened up" and this defined the way regional elites were transformed. The mobility of the elites increased, both between regions, and between regions and Moscow. Relatively autonomous and rooted regional figures have been consistently replaced by Moscow-appointed officials.

Regional elites are no longer autarchic; instead they have increasingly become a mix of locals and outsiders. This is largely due to the appointments of “carpet-baggers” to gubernatorial positions. The latter commonly bring outsiders to fill in administrative positions. A recent trend has been to infuse “Moscow blood”: large groups of Muscovites arrive in regional administrations where they work by “shifts” traveling between the region where they work and Moscow where their families stay.

This is especially true of the political sections of local administrations. Regional elites usually come to dominate when the “alien graft” is incompetent and “locals” join forces to stand up against the “carpet-baggers”. If the alien team is good, locals can merge with it. A serious flaw of this system is that outside managers inevitably develop a mentality of temporary workers: because they are not permanently based in the region and have no ties there, their time horizon is shorter than that of the locals. The current system of horizontal rotation of high-ranking federal officials has another important drawback related to a lack of coordination between various agencies subordination verticals. Each agency reshuffles regional bosses from time to time. Such replacement enables the federal authorities to secure loyalty, commonly at the expense of efficiency. Yet when several high-ranking regional officials are replaced simultaneously, and several high-ranking newcomers who had never worked in the region arrive there at the same time, this can produce an undesired result: instead of improving its control over the region, the center can temporarily lose it altogether.

Fig 1 illustrates the above using the example of two regions: Krasnodarsky krai and Irkutsk oblast'



In Krasnodar krai out of six senior federal officials, none comes from this region. The police chief arrived from Lipetsk in 2011, the FSB chief was transferred from Kaliningrad in 2010, the head of the Investigative Committee was brought from Kamchatka in 2009, the head prosecutor from Irkutsk in 2006. Chief justice of the region has been there the longest: he arrived from Kazakhstan in 2001. In Irkutsk oblast all senior federal officials are outsiders, except for the prosecutor (has worked in the region since 2007) and the chief federal inspector (appointed in 2010). The governor was dispatched from Moscow in 2010. The interior chief arrived from Baikal region in 2010, chief prosecutor from Sverdlovsk oblast in 2011, the judge from Tomsk oblast in 2009. The local FSB chief had arrived one year earlier from Astrakhan' but was then transferred to Dagestan in March 2011,; as late as October 2011 this vacancy still remained unfilled.

The nucleus of Putin's elites has a complex structure. It is less institutionalized and more opaque even in comparison with the Soviet times – back then kremlinologists could at least draw conclusions about the balance of forces at the top based on the alignment of the Politburo members on the Mausoleum. Putin's top political elites are characterized by their binary nature. Members of Putin's collective leadership do not get together in full strength – either formally or informally. Political managers and "stockholders" of Russia Inc. who belong to the top elite would meet with Putin either individually or in groups to discuss important issues; this also applies to formal agencies, such as

the Presidium of the Cabinet, the Security Council etc. Some of the “stockholders” hold blocking shares and a veto right of sorts with regard to all major decisions. In this arrangement Putin’s role is that of a supreme arbiter who maintains the balance of forces and makes sure that none of the groups would gain too much power and the arbiter’s position would never be weakened. Common political lingo has it that “the Kremlin has many towers and it is a planet system turning around the sun – Putin”. This means that the government is not fully cohesive; it includes different groups, sometimes in conflict with each other. Generally they form about one dozen of a larger and smaller “towers”, that are business and political clans that include government managers and businessmen of various levels. Four largest towers are designated by their dominant corporations:

- St Petersburg chekists (after chekist, a common reference to state security service) # 1 headed by Igor Sechin
- # 2 headed by Viktor Ivanov and Nikolay Patrushev
- St Petersburg economists (headed by Aleksey Kudrin)
- St Petersburg lawyers (headed by Dmitry Medvedev)

The StPetersburg qualifier reflects the political reality in which two fifths of the high-ranking government officials originate from StPetersburg⁸. Figures included in a particular group are not necessarily closely tied with each other. Some of them, however, are closely connected, sometimes by family ties. The above-listed clans have a compound, hierarchical structure, and do not rule out internal competition or alliances with “external” players.

If the “tower” model can be referred to as genetic because it relies on family and business ties, then the planetary model is based on the players’ positions and functions. Figures that play important roles in the political system that Putin built are aligned in a single-file system with Putin as a central, decision-making pole. At any given time, some planets revolving around Putin –

the center of the system – may form ad hoc groups; but after a while, they can disperse in different directions, and the picture can change. The first circle of policymakers is made of those closest to Putin, those whom he trusts, and with whom he regularly meets and discusses problems and plans, those who can be described as his business partners. The second circle is made up of those individuals who Putin has consultations with (or whose opinions he listens to), those who can always contact him directly, arrange a meeting with him, to ask for help, and get it. This circle includes businessmen and heads of certain state corporations, such as Gazprom. The third circle is made of the “trusted servants,” including first and foremost key Cabinet members, heads of law-enforcement and security agencies, several regional leaders. Unlike the members of the first two circles, they are not endowed with job security, and can lose their special positions at any time. The planetary system is not static. Its dynamic can be described more in terms of “entry” and “exit” than as a transition from one orbit to another. Such transitions almost never occur. There are also two exit options: the honorable one – “retirement,” with safety guarantees, or the infamous – branded as “traitors,” stripped of any guarantees. It should be noted that the two above-described models are not alternative elite structures; rather they complement each other by focusing on different features and characteristics of the elite organization, and on various aspects of the elite operation.

Russia is not monolithic; it consists of 83 administrative regions which are dissimilar in many different ways. Russia may be the world’s biggest country in size, one with the largest number of administrative units, but its active economic space is shrinking and its gigantic distances and underdeveloped housing market (fragmented and with a broad price disparity) impair people’s mobility. This is why regional factor must be taken into account in any scenario-building project

In the future the regional factor can gain even higher significance. In recent years the role of this factor was somewhat reduced for a number of reasons. Some of them may be related to the financial and political empowerment of the Center vis-à-vis

the regions. Others may have to do with the inertial development and a reduction of the capacity for economic maneuver.

The resources spent on leveling the disparity of the regions development dramatically reduce the capacity of economic maneuver on the national scope. Economic maneuvering turns the country into a squadron whose vessels (regions) move with different speeds, while the speed of the squadron as a whole is determined by and reduced to the slowest of its vessels. On the one hand, the governance is excessively centralized, and on the other, it lacks effective mechanisms that would take regional interests into account or evaluate the results of the decisions taken at the federal level. As a result regional diversity instead of being an advantage, becomes a significant hurdle of national development.

North Caucasus is a special case as far as the policy of leveling is concerned. Leveling here is achieved by buying the loyalty of local political elites, a strategy that requires gigantic – and growing – financial resources. In addition to leveling the regional disparity, another aspect of regional policy is aimed at territorial modernization. The latter is achieved by boosting the development of concrete regions by means of big-time projects, such as Sochi Olympics, Vladivostok (the Economic Summit of Asia Pacific), 12 large centers picked as the sites of the 2018 World Soccer Cup.

Trajectories of developments through 2020

As we considered possible developmental trajectories for Russia until 2020, it should be also assessed the overall framework and four key elements:

- drivers
- triggers

- risks
- variants

The main framework is the world political and economic order and Russia's place in it. The Russian economy, and, consequently, the Russian political system, are highly dependent on the world economy, especially on the price of mineral resources, primarily oil, gas, and other hydrocarbons. The influence of the latter is non-linear; in fact, it is multi-directional. Higher prices might lead to an exacerbation of the "Dutch disease" as a result of the primitivization of the economy, but they also might affect the entire political system. Another result of high prices for energy resources might be a decline in world economic development and lower demand for raw materials, which, in turn, might undermine the economic model based on them. Developments in the post-Soviet arena, including Russia's immediate neighbors, are of crucial importance. Sometimes these are supplemental sources of power (common markets of labor, capital, and consumers), and sometimes they are a source of weakness (competition for labor and the attention of the West). In contrast to the Soviet Union, Russia is an open system. Today the country must compete fiercely for financial and human capital from abroad as well as hold onto its own capital.

The functioning of the system is contingent on the economy and the mode of governance. To keep the system afloat, the economy must provide a constantly growing influx of financial resources. Likewise, the stability of the system depends on the quality of governance: To maintain stability, the quality has to be improved. These two factors are interrelated: in recent years, governance has steadily deteriorated, but growing financial resources compensated for its ineffectiveness. If resources dwindle and can no longer compensate for the deficiency, tension in the system will increase, which will necessitate urgent reform. In this situation, even a small malfunction in either the economy or the form of governance might lead to a serious systemic crisis and a new trajectory. Neither the Rus-

sian elites, nor the citizens are a vehicle of national development. In the absence of internal sources of energy, the system follows a reactive mode of development.

Mechanisms of change are most likely to be triggered by malfunctions in governance and domestic political crises, along with steam let off by an overheated, tense system – for example, increased inter-ethnic tension in the Caucasus that slips out of control. Attempts to tighten the screws might also work as triggers, as well as attempts to loosen them; or if threads are so worn that the screws no longer turn at all. A systemic malfunction leading to a noninertial scenario of development might be caused by asymmetry in the changes and actions of various parts of the system. This might occur sometime after 2012 elections, when social policies are tightened, while political parties remain undeveloped, and there are no channels for society to let off steam. A strong trigger might be set off by a relatively free election, such as the elections of 1989. It is not necessary for there to be one strong shock. Several factors pushing the system to change might be sufficient.

External risks include economic and political destabilization in the world that entail an economic crisis or a drop in demand for resources, which, as the events of 2008 and 2009 demonstrated, can hit the Russian economy hard. Another external risk is serious destabilization along the Russian borders; in Central Asia this threat is particularly severe. Such a crisis might also set off numerous internal risks. The most significant internal risk lies in the tangled knot of problems in the North Caucasus – including a further escalation of tension and terrorist activity in the North Caucasus republics, worsening inter-ethnic conflicts, and large-scale terrorist attacks in Moscow and other major cities. In many ways, the North Caucasus challenges are simply Russian problems pushed to the extreme – weak institutions, corruption, and so on. Other crises might be human-made accidents and disasters caused by the exhausted technical infrastructure. There are also «time bombs» in health care and education, where the situation has steadily worsened during the last twenty years and might drastically decline in the next

decade. Meanwhile, financial and governance instruments cannot prevent or significantly mitigate the negative consequences of these challenges, but they might, in an unfavorable confluence of circumstances, seriously exacerbate them. When we look at the risks Russia faces from a historical perspective, we see how remarkably unchanged they are. Almost two hundred years ago, writer Nikolai Gogol said that Russia's main problems were fools and bad roads. The same can be said today – although now the fools are called “bureaucracy” and the bad roads are called “infrastructure.” There have also emerged new risks mostly related to Russia being part of the globalized world: the steady emigration of the most entrepreneurial segments of the population (since early 20th century Russia has repeatedly lost its best and brightest – due to revolutions, wars and in the emigration waves of the past decades), and the country's dependence on foreign markets.

At this stage, we see three possible variants lying ahead:

- Reactive modernization
- Stagnation with elements of political modernization
- Strengthening of authoritarian tendencies (authoritarianization)

In all three variants it is practically impossible to avoid an increase in political competition; this will require a (currently absent) mechanism for reconciling the interests of the main interest groups (including regional ones). In the case of authoritarianization, political competition is a destructive factor that undermines the foundations of the personified and unitary regime. There is also an option of rapid maneuvering with shock therapy and a return to the paternalistic model, but it is less likely.

Reactive modernization – for example, World Trade Organization accession and joining the OECD, as well as the development of the Customs Union (currently includes Kazakhstan and Belarus') – will enhance the significance of the external framework

and impose binding obligations on Russia. This would reduce the opportunity to change the rules “in process,” ease the government pressure on business, introduce some rule of law and stimulate competition.

Law enforcement practices will improve as a result of the presence of foreign players, but also because government and business will no longer be closely interlinked. The role of the judiciary and the representative branches will rise; public politics will reemerge. Political parties represented in the Duma will be ensured a fair share of Cabinet positions. Elections will begin to make a difference; the number of elective offices will grow. Elements of federalism will be reinstated – tax revenues will be redistributed so regions can rely on their own tax base. Regional leaders will be directly elected; the upper house, the Federation Council will be reorganized to better represent regional interests. Governing functions will be redistributed from the top downward between different levels of authority. Local government will be consolidated. With people’s real incomes growing, the tax rates will increase and taxation will become more differentiated.

Stagnation with elements of political modernization is an inertial scenario. The framework defined by tight government control over business and society remains in place, but some elements of public politics begin to emerge. This includes the enactment of primary elections, a return of direct mayoral elections, and a shift away from a purely proportional electoral system at the lower (municipal), medium (regional), and even higher (federal) levels. Control can be eased over some other elements of the electoral system, such as the registration of political party slates and candidates, parties’ electoral hurdles, and so on. While the budgetary system and the appointments of regional leaders remain overcentralized, mechanisms of financial assistance to the regions will be improved, and the interests of regional political elites will be better taken into account.

Under *authoritarianization*, the government deals with emerging problems, including social unrest, by resorting to police-state methods. The party and electoral system are locked in their cur-

rent state; elections are turned into purely ritualistic ceremonies aimed at legitimizing the political status quo. A crackdown on the education system provides for enhanced unification and brainwashing. "Nashi" (a Kremlin-masterminded youth group), the youth section of United Russia, and other youth organizations are actively used by the government as an instrument of state control over younger constituencies and, in the mode of Chinese cultural revolution, as a tool of pressure and intimidation of the elites. Other elements include the enlargement of the administrative regions through the rearrangement of regional borders. Freedom of travel is constrained and foreign policy becomes more confrontational.

Uneven development in each vector of change and intensifying contradictions between the vectors may produce crises. A real two-party system cannot be created as long as the political parties are controlled from above. The framework of managed modernization could be broken if the system weakens, if there is a schism among the elites, or if citizens are encouraged to get politically involved. In *Modernization+*, there would be also a true separation of powers and strengthening of institutions, along with the emergence of other, increasingly autonomous centers of influence. This scenario implies a transformation of the existing system. The parliament would have real control over the actions of the government, including the security, law-enforcement and defense structures. The judiciary branch would become more independent, and federalism more robust. However, when the state is forced to confront unavoidable crises, *Modernization+* might easily morph into authoritarianization, as happened in 1993.

Under *Authoritarianization*, elections would be totally emasculated and become a kind of ritual demonstration of loyalty. The transition to a one-and-a-half-party system with imitation political parties would be complete. The models for this kind of development are Belarus, Kazakhstan, and several other post-Soviet regimes. Regions might be enlarged in order to ease governance, or federal districts be turned into full-fledged levels of power. The actions of various power verticals (top-to-

bottom power structures) would be coordinated more strictly, and the structures would be enlarged. A Politburo-like entity would be created to reconcile the interests of the various clans. In this scenario, the role of the security structures would be strengthened and include vetting and maintaining control over the elites.

In the 2010s Russia faces three main crossroads:

- the election of the president and configuration of power in 2012;
- the choice of social-economic course and political models in 2012–2014;
- the choice of the configuration of power in 2016–2018.

The closest chronological “scheduled” crossroads for Russia is the 2012 presidential election which will have to tackle a phenomenon of Putin’s fatigue emerging in Russian society. The next crossroads will be reached in 2013–2014 (or earlier), when the authorities will be forced to make changes to the country’s social policies – cutting back on expenditures as the state’s economic capabilities contract. This can lead to a restructuring of the relationship between the leadership and society. The third crossroads that we envisioned falls on the electoral cycle of 2016–2018. At this point each of the three variants mentioned above branches out into a variety of paths. Reactive modernization might continue, remaining under the control of the ruling elite, or it might become “Gorbachev-style,” in which the process started at the top spins out of control. When stagnation goes through economic and political crises, it changes to either moderate modernization or authoritarianization.

The main point of bifurcation is the choice of political-economic model for the next decade. The leadership was still making this choice in late 2011, but the final picture will not be clear until after the 2012 presidential elections. The configuration of power in 2011–2012 – first and foremost, the end of the tan-

dem rule and Putin's return to the topmost position – seems to be determined by that choice rather than be the starting point for making it. In other words, the pattern of governance has dictated the structure of the leadership for the next decade, not the other way around. The Russian leaders appear to have made that choice as early as in 2010. At that point they had an opportunity to compare the potentials of the two key models – the so-called “traditionalist” model (redistribution of rents from extraction and refinement of natural resources, carried out under strict government control) and the “modernization” model. With the growth of world prices on energy resources, the technological and geopolitical potential of the resource-based economic model seemed to be far from exhausted. This persuaded the business and political elites that there was no urgency in transitioning to an alternative strategy. Turbulence associated with decreased resources can be put off, but such tactics will be costly. The choice between reforming now or putting it off until later can be described as Gorbachev's dilemma. A question arises how the timing of the launch of unpopular reforms will shape the trajectory. If procrastination is the choice, the existing problems will be aggravated, and some options for future development may be closed. For instance, if further postponement of reforms pushes a critical mass of Russia's potential agents of modernization to leave the country, this can hinder, or even block the opportunity to modernize. In addition, such a policy would progressively deplete available financial resources even before Russia has entered a period of turbulence; meanwhile a shortage of resources in an unstable situation is especially dangerous since it reduces the capacity for maneuver. The government, however, is still likely to stave off reform, the mentioned risks notwithstanding. Russia's decision-makers are “short-distance runners” and generally refrain from setting strategic goals, opting instead for tactical decisions in response to the actual developments. In 2008–2011 Russia “bought” a deferment from the crisis: the government did not opt for economic restructuring and instead increased social spending. If the crisis had been short-lived and the world economy had quickly recovered, this would have created favorable conditions in Russia for the delayed management of

the consequences of the crisis. But things turned out quite differently. The extension of the presidential term from four to six years enacted in 2008 seemed to indicate that the Kremlin was preparing to launch unpopular measures at the outset of the 2012–2018 tenure; the government may have expected that by the end of the six-year period, any negative sentiments would be forgotten. However, the 2014 Olympic Games in Sochi appear to conflict with such timeline. Conceived as a global demonstration of the achievements of Putin-led Russia, in particular in the North Caucasus, the period of the Olympic Games and the years preceding them are hardly an appropriate time for policy moves fraught with potential destabilization. With regard to periods of turbulence, it is important to keep in mind the asynchronous development of the Russian regions. Turbulence will hurt them at different stages of development, and the effects will vary quite significantly region to region. Putin's government has always refrained from taking steps that might lead to a simultaneous deterioration of living standards throughout Russia in order to avoid the risk of simultaneous protests. This cautious approach is likely to remain in place with the government choosing a conservative option over the "modernization" one. Thus, for the next decade, modernization will remain, in the best case, a way to prop up the effectiveness of the "rent-distribution" model. This bodes ill, because the intra-systemic contradictions in this situation are only going to grow. If we are right and Putin delays reforms until the time when global economy has stabilized, mobilizing the people will likely be a serious challenge: mobilization will hardly be possible before the next electoral cycle of 2016–2018.

Wild-card scenarios for Russia

While the political calendar will designate possible turning points – and therefore, also points of bifurcation – there might be a broad range of concrete scenarios that would represent variations within the three main pathways. These scenarios would be set in motion by a change in the external framework, the effect of risk factors, or malfunctions in the system caused

by either governance decisions or unforeseen circumstances. It is impossible to rationally predict the likelihood or time that other “elements of turbulence” might appear. This, however, does not mean that they should not be taken into consideration. Given these factors, it is useful to look at several of the possible “wild-card” scenarios that might occur separately or in various combinations.

Second wave of the world crisis and a drop in raw materials prices

A significant and long-term drop in prices for raw materials would cause a radical cut in government spending and a revision of social obligations – which even now the government cannot meet in full measure. This would imply the need to tighten the budgetary belt, both for the elite (which would set off a sharp intensification of intra-elite conflicts) and for citizens (which would spur more active public politics). Because the structure of the economy and the entire construction of the system is based on a high income from commodities, such developments would require a systemic overhaul.

The intra-elite conflict will spill out to the public realm. The federal television channels – which since the early 2000s have remained the chief and indivisible political resource of the leadership and the key instrument for imposing the sense of the leadership’s being unchallenged and uncontested – will become a venue of political competition and genuine debate. The conflicting elites will reach out to the people, seeking to muster constituencies and forcing people to make political choices. The scenario in question can evolve as a major political crisis, with Putin’s government resorting to repression in seeking to restore “order.” Putin’s leadership can be pushed out by radical nationalist forces condemning Putin’s government for “selling out to the West” or by a liberal wing declaring him responsible for wasting natural resources and failing to prevent a national decline. But even in the best-case scenario, a re-instatement of the traditional pattern – centralized government

and a monopoly of power – should never be ruled out. Russian politics has been too radically de-institutionalized in the 2000s and the people have been pushed too far away from political participation to expect a smooth transition to a moderate, reasonably democratic polity. In the Russian environment, gradual repoliticization is preferable to crisis developments, yet crises are far from ruled out.

Russia without Putin

If Putin left the political arena or were significantly weakened by a radical decline in his popularity rating, drastic destabilization would be likely to follow. If Putin somehow disappears from the scene, he will leave behind a highly powerful and deeply entrenched inner circle. We are talking about a powerful group of business/banking tycoons with a state security background who have accumulated enormous wealth (that is, they are dollar billionaires) and clout during Putin's tenure. Keeping them in place would be deadly for any new ruler, but challenging them would mean destabilizing the country; it could be highly risky for the top leader and would likely cause a fierce, and possibly bloody, political struggle. Anyone trying to take Putin's place as supreme arbiter will thus face a highly competitive battle. Another option would be a change of the entire configuration with empowerment of some of the previously weak institutions, such as the upper house of the parliament or the military, but this would also be bound to cause a major destabilization. This intra-elite battle for power with weak institutionalization could be compared – with obvious reservations – to the one that took place after Stalin's death. Eventually this might come down to either a "new Putin" or a split in the ruling elite.

Destabilization of neighbors

The personalized regimes in the majority of the countries neighboring Russia – in Belarus, in the Caucasus, and in Central Asia – mean that the departure of a leader almost inevi-

tably leads to destabilization. The transfer of power could be particularly difficult in the Central Asian countries, where a high risk of civil war and humanitarian disaster entail direct political and economic risks for Russia. After the Arab spring, similar scenarios are also being considered for Central Asia – given that some of the region’s leaders have been in power for about two decades and have run authoritarian and even despotic regimes, while the socioeconomic situation in most of those countries remains dire and radical Islam is on the rise. Apparently in preparation for such developments Russia has consolidated the Organization of the Treaty of Collective Security, which can be used to quash street protests and upheaval. In addition to a direct threat of imported instability, the government can be anticipated to opt for preventive crackdowns inside Russia – similar to the measures taken in response to “color revolutions” in some of the former Soviet states. Such a scenario, especially if it is not successful, could increase the risk of confrontation with both the West and China. This might push Russia to make foreign policy choices that it has heretofore been unwilling to make. This would also call for a choice between liberalization and authoritarianization at home. The prospect of a Russia-led use of force against mass protests in the streets of Tashkent or Ashgabat raises serious concerns about migrant workers’ communities in Russia and their relations with local populations in Moscow and other urban centers.

Soft dissolution

In a scenario of soft dissolution, decentralization/regionalization would either spin out of control or be barely controlled. This would be possible if the political system were to continue its degradation and the center were to become weak in the long term, as it did in the 1990s. This scenario, which is not at all ruled out, is, in essence, the roll-out of the Chechen model to other regions, either through the expansion of Chechnya and/or the creation of analogous models beyond its borders. Despite widespread opinion to the contrary, this scenario would

not be set in motion by separatism, but rather by hyper-centralization – inflexibility combined with the center’s attempts to carry out functions that it is incapable of achieving. This might result in some regions seceding de facto or de jure from the unified sovereign state. The most obvious candidates are borderline territories in Russia’s Far East and the North Caucasus. The government is aware of this risk, and thus it has launched major investment-rich projects in the Russian Far East. However, this has hardly stopped the depopulation trend, with the most energetic and entrepreneurial groups moving westward to European Russia. With the depletion of resources, Russia may find itself unable to pour still more cash in these regions, which would leave them weak and easily attracted by geographically much closer and economically interested neighbors such as China. Because this kind of soft secessionism does not necessarily need physical separation, some internal regions, such as certain ethnic republics, can evolve as an “internal abroad,” the way this has already happened with Tatarstan, Bashkortostan and others in the early 1990s. If such processes begin to unfold, they may be used as a powerful political issue in the intra-elite struggle. This line of development could then make a transition into one of three further scenarios: real dissolution, federalization, or (with a change in the external framework) recentralization. Each of these scenarios is fraught with foreign policy complications, as some of the more independent regions would be likely to pursue foreign policies that are at variance with that of the federal government.

Schism in the elite

Competition among elite groups has intensified and will become even more intense in the future. A schism is fairly likely, especially if the arbiter is weakened. Rivalry is likely to rise among business-political clans as the state pie gets smaller. Even today, there is a battle among power verticals (that is, command structures), and it might very well spin out of control. If, in the scenario we call soft dissolution, territories were to be broken

up, in this scenario corporate and governmental groups would break up. The scenario of Russia without Putin or the scenario of a weak Putin as a result of a depletion of resources (see first scenario above) and further deterioration of the economic governance and crumbling infrastructure would lead to a schism in the ruling elites. This schism could lead either to a victory of one of the elite groups over others (with the other groups subordinated to it), or a strengthening of the corporate model of state governance. In the latter case, the state power and assets will be divided between major elite clans in a negotiated deal, with each of them having its own piece of the state pie.

Destabilization in Moscow

Due to the harsh and ill-considered policies of the federal authorities, Moscow is one of the regions that may destabilize. Indeed, destabilization is possible in every region; but in Moscow, as the capital city, the effect would be far more intense because of the hyper-centralization, the hypertrophied role of Moscow, and the enormous ramifications of events in the capital. The concentration of critically-minded, vocal, wealthy, and entrepreneurial Russians has already led to several prominent civic initiatives, such as Blue Buckets (a drivers' movement against driving privileges for "big shots" in Moscow's heavy traffic); charity groups, and environmental groups such as Khimki Forest protesters (a group protesting a road building project slated to cut through a natural landmark forest). The drive for and skills of organization and information sharing are certainly growing, and high and unconstrained antigovernment sentiments have already led to large-scale political protests in December 2011. It may be envisaged that a powerful socioeconomic or even political trigger would push broader protests around issues such as lawlessness, the abuse of police or government authority, a government malfunction, or a crackdown/attack on a popular figure. The December 2010 large-scale nationalistic demonstrations in downtown Moscow can be seen as a harbinger

ger of even more dangerous developments. A crackdown by Moscow mayor Sergey Sobianin might provoke major outrage. When former Mayor Yuri Luzhkov's Moscow team was routed, a schism appeared in the elite groups and external governance had to be forcibly introduced. This, combined with growing discontent among Muscovites, this might produce a crisis in Moscow that could spill over into a nationwide crisis.

A third war in the Caucasus

The current “simmering” civil war in the North Caucasus will not subside. The North Caucasus policy has reached an impasse; violence is a daily routine, with subversive acts, terrorist attacks, abductions, and assassinations combined with Islamic radicalization. Terrorist attacks are a constant threat outside the North Caucasus, with two that took places in Moscow less than a year apart in 2010–2011. Armed clashes in the North Caucasus republics are reported on a regular basis, and a larger-scale unraveling is not improbable. The highly personalized, leader-centered system at the federal level and at the regional level in the North Caucasus make the system the hostage leaders' personalities and their relations. This is especially true of Vladimir Putin and the leader of Chechnya Ramzan Kadyrov. Putin relies on Kadyrov for relative safety outside his territory and lets him get away with an abominable human rights record on his territory and inexplicable assassinations of his rivals and adversaries – for example, in Moscow, Vienna, or in the Arab world. An aggravation in the North Caucasus may pose a hard dilemma: A crackdown is sure to backfire, and the weak federal authorities risk further emboldening Kadyrov. Rising xenophobic nationalism in Moscow and other big cities further aggravates the problem of the North Caucasus. The only reasonable, though not necessarily successful, policy in the North Caucasus would take a long-term investment in socioeconomic and humanitarian/cultural development at least aimed at saving the next generation from radicalization. But Russia's government management in general is not strategic; rather it tends

to entail short-term mending of problems as they emerge. This is especially true of the North Caucasus, in view of the Winter Olympic Games scheduled for Sochi in 2014. The Games set an artificial deadline. Security in the North Caucasus before and during the Games is a top-priority goal that must be achieved at any cost. This detracts attention from any long-term plans; in addition, huge budget allocations in the North Caucasus in the run-up to the Olympics further aggravates the corruption, egregious in this region even by Russian standards, and undermines any positive initiative that might be launched. The Kremlin's reliance on local elites inevitably leads to the archaicization of the political elite (Chechenization, Daghestanization, and so on); in the meantime, the security services are increasingly staffed by outside, non-Caucasus personnel, which generates risks of mass-scale social rebellion. If Russia is spared such terrible outcome before the 2014 Olympic Games, an important factor of destabilization will be the inevitable post-Olympics drop in federal subsidies, which have ballooned during preparations for the Games.

Nationalist coup

Throughout the 2000s, the Russian leadership prudently refrained from playing the nationalist card. The few exceptions where the government opted for nationalist rhetoric and/or policies were short-lived. The appearance of Kremlin-sanctioned nationalist rhetoric ahead of the parliamentary campaign of 2011 was also promptly halted. Xenophobic nationalism is easily the only universal sentiment shared by a broad majority of the Russian public, the only idea that can bring together the otherwise predominantly cynical Russian community. The desire to preempt xenophobic/nationalist activism before it bursts out from below is understandable, as is the attempt of the government to channel these xenophobic attitudes and co-opt the nationalist constituencies. However, if the government abandons the prudence of the 2010s and opts for nationalist policies and rhetoric, it risks unleashing ethnic

violence, which already is not uncommon in Russian cities, and ethnic minorities are highly likely to respond in kind. Nationalism could also be encouraged if Russians were squeezed out of the Caucasus and if the scenario of war in the Caucasus (see above) occurred. Another important factor is Russia's potential transformation into a nation state and analogous processes in a number of republics in Russia with primarily one ethnic group. This could lead to a battle of nationalisms, as we saw during events in one of Moscow's central squares in late 2010 and in the North Caucasus. Political factors that would precipitate a nationalist coup include the departure of Vladimir Zhirinovskiy from the political arena along with a strong showing of nationalist forces in relatively free elections.

European choice

The European choice scenario would include accession to the World Trade Organization and the Organization for Economic Cooperation and Development, as well as closer cooperation with Western nations and international organizations. Such a choice, however, would take an essential shift in Russia's stand, which is currently characterized by distrust and suspicion of the West as an agent seeking to weaken Russia and take advantage of it. This world outlook is traditional for Russia; it implies that relations with outside players must not include any binding obligations or agreements. A shift toward policies based on trust, alliances, and partnerships looks barely likely today. Moreover, in contrast to the nationalist scenario, this one could only be carried out from above. It could be triggered by a deeply unfavorable economic trend, but even so not as a direct policy choice but rather as a result of an economic crisis caused by dire straits, with westernizing forces playing the upper hand in the ensuing domestic political crisis.

Such a European choice would be bound to be highly beneficial for Russian development, with those modernized constituencies that are currently isolated from decision making attracted by

the opportunity to make a difference. It would also be beneficial for shaping a more rational foreign policy in which Russia, based on alliances with the West, could figure out its role in Asia and elsewhere and switch from ad hoc, reactive policies to more proactive ones in various regions of the world. A more definitive rapprochement with the West might facilitate more gradual – or, to the contrary, a more drastic and mass-scale – political reform in diverse spheres, ranging from federalization to a rise in political competition. However, it might also strengthen the nationalist mood, antagonize entrenched anti-Western interests, and even lead to a nationalist coup scenario.

Bloggers' Revolution

This scenario of a bloggers' revolution implies not bloggers per se, but, more generally, the advanced and younger constituencies' uncontrolled, snowballing reaction to the clumsy actions of the authorities – for example, falsification of election results on a mass scale, limitations placed on the Internet's social networks, or harsh actions against bloggers and other civil society activists. It is important to bear in mind that while there's little interest in politics among such groups, especially among the younger constituencies, they tend to take for granted the individual freedoms granted to them in post communist Russia – and an encroachment on these freedoms might inflame strong outrage. In this particular case, today's instantaneous communication technologies could come in useful for organized action. The events of the recent "Arab Spring," combined with a number of successful Internet campaigns (Aleksey Navalny's anticorruption Website "Rospil"; an anti-United Russia campaign branding the chief pro-Kremlin force "a party of swindlers of thieves") put the government on the alert, increasing the risk of an escalating confrontation between it and the bloggers. This is probably the kind of trigger that can set off a socio-political avalanche, similar to the scenario of destabilization in Moscow. The mass protests that took place in Moscow in December 2011 mostly follow the pattern described in this scenario. 📌

¹ The paper is based on “Russia–2020” project of the Carnegie Moscow Center, which was officially launched in early 2010.

² An illustrative example of events in such a scenario is given by Yevgeny Gontmakher. See “Stsenarii: Novocherkassk-2009,” *Vedomosti*, November 6, 2008, www.vedomosti.ru/newspaper/article/167542/.

³ Here and later we will focus mainly on the administrative elite.

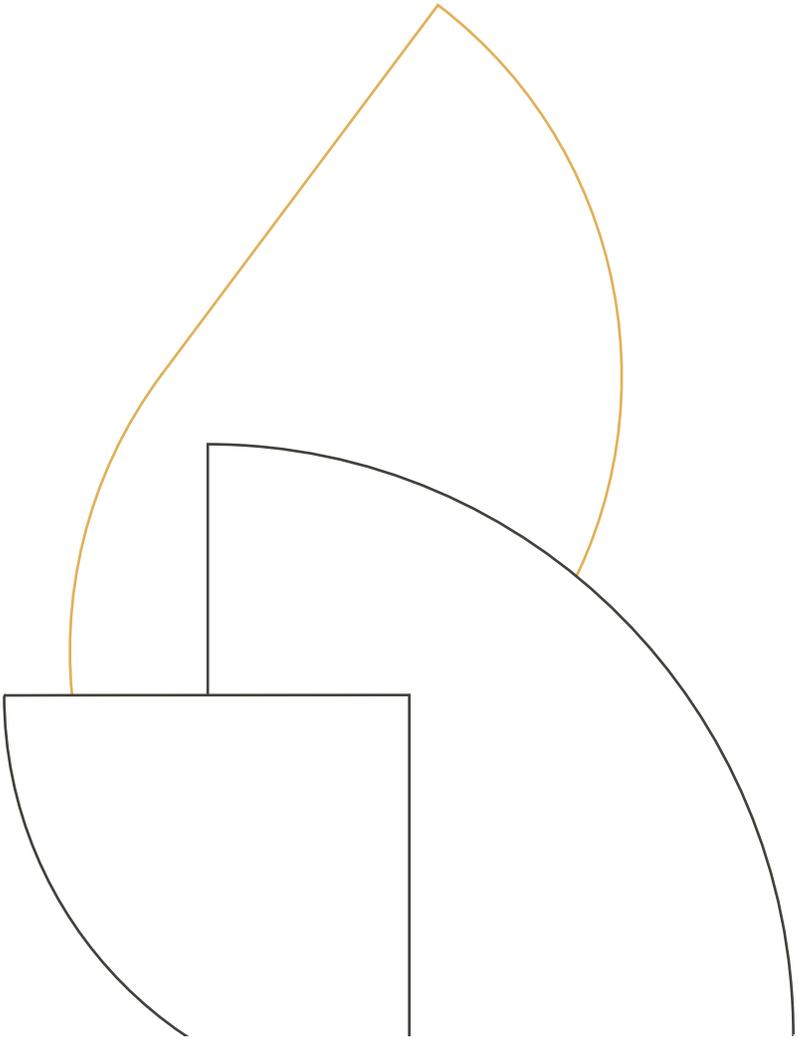
⁴ It should be noted that the different parts of the old nomenklatura system have been changed to varying degrees in these years. At least, these changes have affected more private police, and especially the FSB, which in part served in the role of “sanctuaries” that have retained the nomenklatura mechanisms and rules even in the times of change and have subsequently contributed to their restoration in other areas.

⁵ For example, in connection with the 1969 appointment of the chairman of the KGB in Azerbaijan, Heydar Aliyev, to the post of first secretary, in just three years 2000 (!) KGB officers were appointed to senior positions in the country. From the display name of the individual elements of the system to the system itself, it has not changed and even corruption, which was being fought against, very soon exceeded the previous level. Ilya Zemtsov, ‘The Party or Maphia? (an embezzled republic)’, Paris Les Editeurs Reunis, 1976

⁶ In 1921, a draft of the plan booklet “On the Political Strategy and Tactics of the Russian Communists” (first printed in 1952), Stalin gave his definition of the party: “The Communist Party is a kind of ‘Order of the Sword’ in the Soviet State, and it directs the organs of the latter and inspires their activities.”

⁷ The degree of embeddedness in the region was measured on a scale from 1 to 5 and averaged across regions: 1 is a “carpet-bagger”, an official who had no ties to the region whatsoever; 2 – is essentially an outsider having ethnic ties with the region or born there; 3 is an outsider who had worked in the region for some time and has gained some ties; 4 a “native”, a member of the local establishment who had, however, worked in another region prior to his appointment; 5 is a “native” who made a professional career in the region.

⁸ В. Дятликович, Ф. Чапковский, *Клановость: польза и преодоление (как нами правит и как формируется современный российский правящий класс)*, Русский репортер, 2011, СС.24-33.



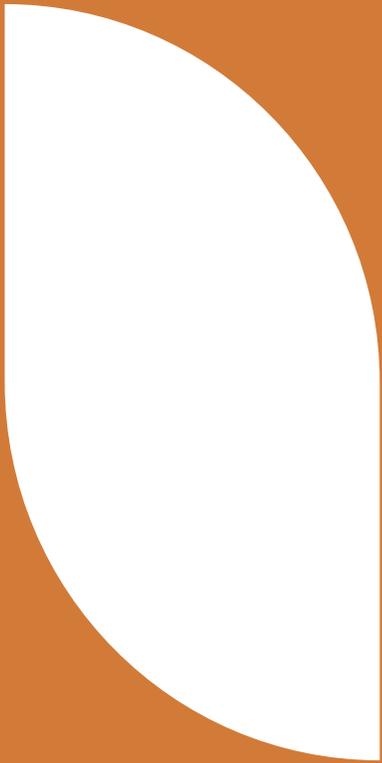
Cover design:
Studio Brandingowe BAKALIE

DTP:
Studio Brandingowe BAKALIE

© Copyright by demosEUROPA – Centre for European Strategy, Warsaw 2009

Copyright of this publication is held by demosEUROPA – Centre for European Strategy. You may not copy, reproduce, republish or circulate in any way the content from this publication except for your own personal and non- commercial use. Any other use requires the prior written permission of demosEUROPA – Centre for European Strategy.

We care for Europe



demosEUROPA

Centre for European Strategy

ul. Idzkowskiego 4/6

00-442 Warsaw

Poland

tel. +48 22 401 70 26

fax +48 22 401 70 29

demoseuropa@demoseuropa.eu

www.demoseuropa.eu