TWO CRISES: CONSEQUENCES AND OUTLOOK
A Time of Divergence

The crisis that has broken out did not only preclude a number of the country’s scenarios for development, but also created a threat to the current equilibrium.

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A number of works have appeared recently analyzing the future of Russia and offering various scenarios for the country’s development. The impulse behind this trend, which is evident in works by both Western and domestic experts, arose from a number of factors: the end of Vladimir Putin’s second presidential term and the “2008 problem,” the ambitious plans of the Russian political elites (in particular as promoted in the 2020 Program), and the high-flying declarations of Russian leaders about the country’s growing role in the modern world and Russia’s defiant confrontation with the West in August 2008.

In only the past year or two, the following works have appeared: a publication by Andrew Kuchins and co-authors of the Center for Strategic and International Studies (CSIS, 2007), a publication by the Finnish Parliament’s Committee on Questions of the Future (2007), a report by Aleksandr Auzan, Evgeny Gontmakher, and Leonid Grigoriev that was commissioned by the Institute of Contemporary Development (INSOR), 2007, research by Irina Busygina and Andrey Melville of the Moscow State Institute of International Relations (MGIMO, 2008), and various publications by Georgy Satarov. Finally, Russia is featured in the regularly updated scenarios of the U.S. National Intelligence Council.

Furthermore, as the curtain was coming down on Putin’s second presidential term, the Russian government prepared and adopted several corporate-industrial strategies (“Russian Railroads,” the development of transportation through 2012, as well as the Concept of Social and Economic Development through 2020), and a series of regional strategies (for the Far East and the Baikal region, the Southern Federal District, and so forth).

Fifteen years ago, when Daniel Yergin and Thane Gustafson first published their scenarios of the development of Russia, it seemed logical that they should make allowances for convergence, which, the authors believe, has in the final analysis, through various trajectories, would allow the country to arrive at “Russian capitalism.” Most of the predictions in their book have been borne out remarkably well in the real world.

The Crisis and the Shrinking Scenario Possibilities

Today, however, in light of the new instability connected with the financial and economic crisis, the situation is changing both in Russia and around the world, and a time of divergence is beginning. Any one serious decision could, in causing a chain reaction, define the trajectory for all further progress. The crisis that has broken out has not only removed a number of scenarios from consideration (primarily the inertial ones), but has begun to threaten the current equilibrium.

With respect to the development of these scenarios, it is possible to speak of two fundamentally different approaches. The first approach extrapolates existing trends into the future and analyzes their probable watershed events, while paying special attention to points of bifurcation and any possibilities that might open up as a result. The second approach views the “new course” as a
deliberate strategic choice. At the same time it is not enough for someone to merely want a particular option: either there must be real public demand for the new course, or a coalition has to be formed that can generate such demand.

A new course was already not very likely for Russia, with its colossal inertia; now is becoming outright unrealizable. Among the main reasons for this are the financial and economic crisis and the emphatic challenge Russia has issued to the West and the United States. (The widely held belief that the crisis has removed the threat of sliding into a new Cold War with the West seems unconvincing. More likely, shifting the threat from and competition with the West onto the back burner is only a temporary withdrawal; after a shipwreck, one first has to save oneself before dealing with anyone else.) Any reaction requires an action, and it will take a lot of energy to induce the Russian hulk to move. In this way, with a double crisis under way, it will not be possible to “turn over a new leaf” and start fresh. So that the trajectory of development does not reduce stability with respect to external factors, researchers need to have a clear understanding of the framework within which changes could occur, and under which circumstances it would be possible to go beyond the bounds of the “permissible corridor” as a consequence of the internal logic of development or the effect of outside factors.

The approach described here does not imply a categorical rejection of other possible scenarios (including utopian and anti-utopian ones) that describe a particular schematic picture without fully specifying how the transition to such a desired (or undesired) future might occur. Despite the vagueness or even the impossibility of transitioning from today’s reality to such an ideal future, considering examples of the latter—in all the complexity of its functional subsystems and the interactions between them—is a useful exercise, among other things from a practical standpoint.

In constructing scenarios of the future, it is important to distinguish between endogenous and exogenous factors, which in turn can be further divided into objective and subjective factors. Among the endogenous factors, of special interest are those whose influence could significantly increase or decrease during the period under consideration (inasmuch as a change in the balance of factors would cause the scenario to permutate), as well as those that could impose constraints on the trajectory along which the system develops. Examples include a demographic crisis, the completion of the extensive reconstructive phase of economic growth, or the depletion of any sort of resource—labor, minerals and raw materials, energy, transportation system capacity, and so forth.

As for exogenous variables that could have a decisive impact on the scenario of development, one can examine the following (others that are capable of influencing the system as a whole are not yet visible, but they may appear): 1) the prices for hydrocarbons and other mineral and raw material resources, and the overall condition of the world economy; 2) an escalation of hostilities or war on the southern borders (Pakistan and Afghanistan), with serious consequences for Central Asia; or 3) an outbreak of ethnic unrest in the Caucasus (which would represent a combination of endogenous and exogenous factors).

Subjective factors can not only reinforce or weaken objective factors (which does not diminish their significance, as exemplified by the personal opposition between Mikhail Gorbachev and Boris Yeltsin during the collapse of the USSR in 1991). They can also induce turbulence, or even a transition to a different development trajectory in areas where there may not be objective reasons for it. A significant share of crises (economic, political, and man-made catastrophes) are associated precisely with such subjective factors.
At present, the most realistic outcome appears to be that the authorities will direct their actions toward maintaining the status quo in a situation of rapidly shifting exogenous factors. Strategic planning is not a strong side of the Russian authorities, especially during times of crisis. They are motivated by a desire to maintain the status quo, and their actions tend to be primarily reactive in nature. The issue now, however, is no longer whether the leadership of the country consciously wants to alter the trajectory of development or not. Changes are unavoidable, but, by all appearances, not in the form of the realization of a well-considered strategy, but rather in the form of a reaction to other players’ moves and to problems arising both from without and within. The serious shocks that put an end to “business as usual” have already occurred: the war in the Caucasus, and the economic crisis. The only question now is about how, in particular, the trajectory will change. The incipient financial and economic crisis significantly increases the element of uncertainty and complicates the formulation and selection of scenarios.

**Events That Could Significantly Alter the Trajectory of National Development**

**Widespread economic crisis** (inflation, banking crisis, arrears in payment, enterprise closures, and massive layoffs affecting a large swath of the country), compounded by the government's inability to undertake well coordinated and aggressive action. A crisis exposes and exacerbates all the defects of the system, greatly accelerates the passage of time, diminishes the possibility of maintaining a balance, and multiplies the impact of individual actions many times over, in some cases making them irreversible. A kind of macro-Brownian movement takes place in which random collisions do not cancel each other out and any single impact could suddenly propel a particle onto another plane.

In this way, the mechanisms that allow for the multidirectional influences of various elite groups to be counterbalanced—i.e., the system of quasi-constraints and counterweights—has been shut down. In the financial and economic sphere, this has been represented by the years-long stand-off between the “savers” (Kudrin) and the “spenders” (Gref); in the law enforcement sphere, it was the opposition between the soft and tough members of the power ministries (the siloviki), as well as the sometimes acute conflicts occurring both between various agencies as well as within individual agencies (in the Ministry of Defense, it was between the minister and the head of the General Staff; in the Office of the Prosecutor, it was between the prosecutor general and the director of the Main Investigative Department; in Rospryrodnadzor (The Federal Service for the Supervision of Natural Resource Usage), it was between deputy head Oleg Mitvol and his boss, and so on). A crisis hits the people directly, greatly reduces their trust in the authorities, and leads to destabilization.

Once the financial and economic crisis begins to broaden and deepen, it will become a management crisis, with thousands and tens of thousands of large and medium-size banks and companies affected at the regional and local levels. The federal authorities lack the physical capacity to address such problems (as well as the subsequent problems they give rise to), while the regional authorities lack the power and resources to do so. Meanwhile, entire cities *(company towns)* or even regions *(company regions)* may depend on those very same medium-size enterprises for their livelihood. And in those cities that are completely dependent on such a medium-size business, its condition frequently means more to them than the condition of any giant for the world or national economy. Just as a single stone can start an avalanche in the mountains, the collapse of any of the enterprises on which entire cities and regions depend could have dire consequences for the nation as a whole (see Point 3).
Severe foreign policy crisis and subsequent escalation (Georgia and Ukraine on our borders, Afghanistan and Iran at some distance; and, as a consequence, a worsening of the overall confrontation with the EU and the United States). A severe crisis in Central Asia (in connection with, say, a change of power in Uzbekistan or a strengthening of the Islamist factor) would also have serious consequences for Russia.

One serious factor of instability is the situation in Ukraine. Aside from the prices of natural gas, Ukraine’s potential membership in NATO, and the Crimea and Black Sea Fleet problems that have traditionally complicated Russian and Ukrainian relations, there is now a political and financial-economic crisis growing within Ukraine. This situation has been exacerbated by the political stand-off in the country, which on the one hand pushes President Yushchenko to play a game of escalation and on the other hand sets the stage for the possibility of a tough response from the Russian side. Also possible are various provocations that could lead to open, perhaps armed, confrontation in Ukraine, into which Russia might be drawn.

Large-scale internal political crisis, with clashes among the elites (a broadening of the conflict between what may be called Putinists and the Medvedevists, or between different Putinists, a war among the power ministries, revolt, and regional separatism).

The risk of conflict between the elite clans and groups and the danger of its escalation into “war”—including deterioration into a free-for-all—could increase significantly under the following circumstances: a) an sharp decline in the income being distributed among the clans, on top of the cuts in government spending that are unavoidable under crisis conditions; and b) a decline in Putin’s popularity, leading to a weakening of his role as arbiter in conflicts among the elites.

The recognition of the independence of South Ossetia and Abkhazia has increased the risk that separatist declarations and actions will be undertaken by the regional elites (especially in the North Caucasus in the event that the center of power becomes financially and politically weaker), the counterelite, and opposition groups.

Local political or socio-economic crisis (among the likely candidates in particular are Bashkortostan, Ingushetia, Dagestan, and Primorye) that expands into a national crisis owing to inability of the authorities to manage it effectively. The cause of such a crisis could turn out to be increasing domestic tension (Ingushetia), the bankruptcy of large region-supporting enterprises, the miscalculations on the part of the authorities in their decision making, and the federal Center’s untimely actions, including a probable escalation of conflict among the elites as influential leaders are replaced (in Tatarstan, Bashkortostan, and elsewhere). Local crises connected with ineffective management are becoming essentially unavoidable because the Kremlin, despite the incipient crisis, continues to appoint “interlopers” to the regions, in the same way (and on an even greater scale) as occurred during the relatively tranquil period of economic well-being. Of the ten regional heads appointed in 2008, seven were “interlopers” (leaders of Ingushetia, Karachay-Cherkessia, and the Amur, Arkhangelsk, Irkutsk, Kirov, and Ryazan regions).

Management destabilization during the implementation of large-scale, inadequately planned or poorly executed decisions and reforms. This applies to the municipal reform beginning in full measure in 2009, the doubling of the minimum wage, the raising of tariffs on imported automobiles and other protectionist actions, as well as the collapse of the stock market, as, for example, a result of the raid on Mechel (the effect of the irreversibility of steps taken), etc.
Such decisions could lead to mass social protests (there could be various immediate causes: price increases, or problems with investments, pensions, utilities, housing, etc.). This problem is exacerbated by the fact that the system is based on manual control and is not capable of operating in automatic mode, especially in a nonstandard situation and, furthermore, under the pressure of time.

In contrast to the situation in 2005, professional politicians who have been eliminated from the federal and regional political arena might now join in the mass protests. Furthermore, the Center’s ability to contain the protests as it had earlier is much more limited given the financial crisis. In their current configuration, the authorities have been unable to handle their snowballing problems. Such problems can arise and gain momentum as a result both of action and inaction on the part of the authorities, as is the case with the massive arrears of consumer and entrepreneurial credit, the increasing costs of public utility services, and so forth.

**Destabilization in the North Caucasus** (for example, if the federal financing of the subsidized republican budgets in the region is disrupted and cut significantly; a terrorist act against Ramzan Kadyrov; escalation of the Ossetia-Ingushetia conflict; and the outbreak of ethnic or clan unrest in Dagestan). The effectiveness of crisis management in the North Caucasus has significantly declined as a result of the financial crisis and with the replacement of Dmitry Kozak with Vladimir Ustinov as presidential political representative for the North Caucasus. The risk of destabilization has been increasing in connection with the Sochi-2014 Olympic project, which has already led to the outbreak of numerous conflicts. It is not only fighters, terrorists, and various other destructive forces on both sides of Russia’s border in the Caucasus that are becoming more active as the Olympics approach; tensions could also increase as a result of both the side effects arising in the region, triggered by the Center’s actions as well as by the inevitable attempts by diverse radical political forces and business clans of all stripes to take advantage of the situation.

**Large-scale terrorist acts or man-made catastrophe.** Events such as these could greatly impact public attitudes, undermine trust in the authorities, and incite mass protests. This is especially dangerous in a situation in which a) the political system at the federal level (and also in the regions) is being reformed in connection with the transition of Vladimir Putin to the position of prime minister, and b) the actions of the authorities have been insufficiently coordinated because of the weakness of the horizontal contacts and antagonism of the power agencies’ “verticals.”

Of the seven events listed above, comprising the scenarios’ nodes and chains, the first two have already been almost completely implemented and the rest partially so. The question is how severe the resulting problems will be and how strongly they will affect the development trajectory. We note that if the negative effects of some events (scenarios) are superimposed on others, even if in weakened form, their overall effect can increase manyfold.

**Scenarios and Strategies**

Putin's presidency was marked by counter-reforms in the sphere of politics and federalism, at a pace that exceeded that of the reforms of the Yeltsin and even the Gorbachev periods.

Despite the entrenched opinion of Putin as an excellent tactician but not a very good strategist, one can name a number of megaprojects that were consistently and successfully implemented throughout the course of his term in office. These were unannounced projects; the ones that were
announced were, as a rule, not implemented. In retrospect, we can identify several of Putin's strategic projects that were successfully completed:

- reallocation of property and the redistribution of political influence among elite groups;
- establishment of full control over the political arena; expansion of control over public processes, and neutralization of autonomous social activity;
- the appeasement of society;
- foreign political expansion (under the slogan of “Russia rising from its knees”); and
- restoration of the dominant role of the state and of the Center’s power in the regions.

The problem with these megaprojects is that, first of all, they have no clearly stated goals, which means that they will tend to continue even if they have become counterproductive. Second, their “success” amounts to their consistent implementation (such consistent implementation often appears to be a goal in itself); the criterion for success is not necessarily whether the project had a positive effect on the system as a whole. It is the success of Putin’s megaprojects that has in part created serious short- and medium-term problems just as the situation is about to change abruptly in connection with the crisis.

Finally, completion of this series of megaprojects has not led to the establishment of a stable system that is capable of self-replication.

In discussing the transfer of power to Medvedev, some experts have speculated that the election of Medvedev as successor was aimed at providing a legal cover for the restructuring of ownership that was accomplished during Putin’s presidency, legally reinforcing the status quo, and in this way taking a step along the path to reproducibility of the system. Envisioned within the scope of this proposal was the establishment, for the future, of a state governed by the rule of law, with the inclusion of a backdated amnesty for Putin’s elites. Even if the grounds for such a theory had existed, however, they were destroyed by the war in the Caucasus in August 2008.

The war proved to be an important fork in the road of Russia's development. It brought about substantial changes in the power structure and agenda. Whether or not this was in accordance with Medvedev’s wishes, it bound him in blood and caused irreparable damage to his image in the West. The differences between Medvedev and Putin—in both style and content—burned up in that war, along with any chance of a change in course toward greater pluralism in the political system. In particular, the notion that Medvedev, by declaring an amnesty for capital and the legal reinforcement of the status quo upon entering office, would gain the support of the West, has been rendered obsolete.

After the war, the redistribution of property has continued and, in light of the crisis, inevitably intensified. This has meant the rescue of such important companies as Norilsk Nickel, Vimpelcom, Gazprom, and others that obtained credit from Western banks by putting up stock as collateral. By buying them out now, the government is in fact carrying out a large-scale renationalization program to serve the interests of Putin's class of oligarchs who head the state corporations.

The window of opportunity for top-down social and economic “top-down” modernization has now closed; moreover, the Kremlin itself closed it even before the financial and economic crisis descended upon Russia. The war in Georgia was undertaken as a conscious decision by the Russian leadership and has resulted in significant changes both in Russia's position in the world and in the
situation within the country. The consequences of the war will be irreversible. To a large extent, the machinery is already operating out of the control of those who set it in motion.

As Lilia Shevtsova has correctly pointed out, the problem lies not only in the fact that the anti-Western war mobilization has precluded the possibility of postindustrial modernization, but also in the fact that modernization, from the Kremlin’s point of view, is analogous to such Beria-style projects as developing the atomic bomb or conquering space. Accordingly, the drivers of modernization are state corporations, nanotechnology, and other “breakthrough” projects, and the measure of its success will be Russia “rising from its knees.”

Scenarios of Relations between the Center and the Regions

The scenarios presented below describe the potential development of mutual relations between the Center and the regions. Such interactions are of special significance in Russia (which is not only a huge country but also a multiregional one), and particularly so in light of the special ethnic status enjoyed by many of the regions.

The Center–regions set of models of development may be presented as follows.

The governing system currently established in Russia does not provide for the normal functioning of direct connections and feedback between the federal Center and the regions, which makes it fundamentally impossible to adapt to rapidly changing situations. The current system has been turned on its head (reverse subsidiarity) and is top-heavy, bloated, inflexible, and incapable of formulating and implementing effective decisions.

Meanwhile, during the financial-economic crisis, administrators have to be able to address regional specifics by making not only rapid, but also diverse decisions. A single center is not suited for this. The solution lies in the effective decentralization of managerial decisions and arrangements.

Federalism, in the case of Russia, is not a luxury but a means for survival. Its dismantling fundamentally reduces the stability of the system, which is especially damaging in a crisis period. A large-scale crisis in relations between the Center and the regions is unavoidable. It could be provoked either by the incautious actions of the Center, as mentioned above, or by the Center’s inaction or ineffectiveness in the event a conflict develops in any of the regions. Moreover, the economic crisis could easily morph into a political one, and vice versa. At the federal level, growing unemployment and a declining standard of living for workers could lead to a collapse of Putin’s popularity and a loss of trust in the government he heads, an overall delegitimization of the government’s authority, elites’ refusal to recognize Putin as an arbiter, and the transition to open conflict between political clans. At the regional level, given the Center’s diminished role and loss of ability to intercede effectively, political conflict between the different branches of power could lead to administrative paralysis and economic collapse.

The family of possible scenarios relating to relations between the Center and the regions can conveniently be viewed as a traditional fork, with inertial, positive, and negative developmental outcomes. Accordingly, the situation could be portrayed as: 1) sluggish unitarization, 2) real federalization, or 3) accelerated unitarization.
In an economic crisis, real federalization, previously a low-probability scenario, acquires relevance. This is so because a crisis a) objectively weakens the Center, undermining the established model of paternalism toward both citizens and regions, and b) inevitably strengthens the lower levels of management, setting the idea of subsidiarity right side up. The multiple problems that have arisen cannot be resolved from Moscow, which therefore is ad hoc forced to transfer some governing functions downward. This may occur in the form of a return to the practice of distributing control and authority between the Center and the individual regions through formal agreements as well as more informal arrangements. Finally, c) the crisis shakes the very foundation of an economy based on raw materials, where the Center collects rent and through its distribution keeps the regions in strict subservience.

**Sluggish unitarization.** This is in many respects a self-developing scenario that unfolds as an inertial scenario, “as it happens.”

Unitarization and intensified authoritarianism are two sides of the same coin. It is not possible to manage an immense country from a single center without strengthening its authoritarian aspects. The opposite also holds: reinforcement of authoritarianism will lead to the growth of unitarization.

Unitarization means both reinforcement of centralized government and a simultaneous weakening of its effectiveness. Russia long ago exceeded the level of unitarism that could be justified for management, and unitarization is currently operating beyond any reasonable limits. Inasmuch as the weakened regional elites are not in a position to counteract the expansion of the Center, a process of super-centralization is taking place.

The practice of appointing leaders has continued, essentially without coordinating the decisions with the regional political elites (it amounts to a purely formal procedure); all too often an appointee to an important post has no connection with the region at all. The number of governors who are unable to control the political elites within their own region is growing, which provokes conflict. The recently replaced Irkutsk governor Aleksandr Tishanin or Ingush President Murat Zyazikov could be cited as examples, as could Kostroma governor Igor Slyunyaev, who is still in office. Appointment practices such as these could cause a certain critical mass to be exceeded—an especially dangerous situation during nationwide reforms or synchronized reforms in multiple regions. Moreover, even if the Center recognizes how ineffective some of its appointees have been, it is not prepared to concede that the very system of selecting and appointing governors is flawed. As a result, in that very same Irkutsk region, one inept interpolper was replaced by another, also an outsider (Igor Esipovsky, representing Rostekhnologii, was appointed to this position). And in Ingushetia, the FSB general who had failed at administering the republic was replaced by a marine colonel. The number of governors who are not where they belong could at any moment cause an abrupt drop in the quality of administration. This problem is exacerbated by the fact that the term of the remaining “heavyweight” governors ends in 2009, and they will soon need to be replaced en masse. The absence of natural mechanisms for replacing regional leaders and the “two-story authoritarianism” model represent a choice between bad and even worse.

Moreover, the crisis is acting as a kind of pacemaker, or synchronizer. Instances of counterproductive management taken individually perhaps do not pose serious danger to the country as a whole and could be corrected through the focused intervention of the Center. If, however, these ineffective appointed governors bring down a catastrophe through simultaneous, failed actions, they will all have to be replaced at once, and there might not be enough organizational and other
resources to do so. As a result, a “political resonance” effect could take hold that could destroy the system.

Unitarization is manifested as well in the nascent transformation of the legislative assemblies into a purely proportional system for forming and solidifying vertical hierarchy within United Russia Party (which, in contrast to previous “parties of power,” is rigidly centralized). The same unitarizational logic explains the proposal to tighten financial control over the regions, provide an external management model, and deprive the regional political elite of veto rights in making personnel decisions relating to key regional officials, including governors.

Here it should be noted that the “interloper” model of appointing federal officials in the regions in an environment of ongoing centralization and loosely interconnected, competing vertical hierarchies (the FSB, Ministry of the Interior, prosecutors, presidential political representatives, and federal inspectors) could have results directly opposite to those that the Center is trying to achieve. This happens, for example, when several members of the power ministries or law enforcement services (chief of the militia, chief federal inspector, prosecutors) are replaced virtually simultaneously, which for a time deprives the Center of its levers of control. This sort of thing has already occurred more than once, particularly in Tver several years ago. Given the lack of coordination between the various departments, such an event would have to be a random coincidence, but since intensive rotation is the norm, such coincidences are not rare.

Unless corrections are made to halt the development of a unitaristic scenario, there could be irreversible consequences when the Center tries to maneuver, but the system fails to react and thoughtlessly blunders into obstacles in its way. But if the system does not then collapse as a result, there will be a transition to a different scenario.

Real federation. Restoration of a number of the dismantled federalist elements is not only necessary but—in the long run—inevitable, or the political regime and the country as a whole will be threatened. First of all, there must be a return to direct election of governors and possibly of senators, as well as a system for taking regional interests into consideration during decision making at the federal level. Local self-administration—the basis of a federalist system—must also be reinforced.

These changes will mean a gradual return to the principle of subsidiarity, under which administrative functions are performed at the lowest possible level and are delegated only as needed from bottom to top, not the other way around. The Center thus is unburdened of many extraneous functions, while the regions gain additional powers and the resources needed to exercise them.

Following this logic, the taxation system must move toward fiscal federalism, with splitting up between the Center, the regions, and the municipal levels of principal taxation and other redistributive mechanisms.

There must also be a leveling-up of the status of the federation subjects—not by depriving Russia’s republics of their “privileges,” but by lifting all the others up to their level. It certainly won’t be possible to provide economic independence and budgetary self-sufficiency to the subjects of the federation exclusively by modernizing the taxation and budgetary systems. But equalization of status here assumes a high level of independence and an absence of subsidies for the regional budgets. A transition period could be declared during which the regions could either combine with others or split apart, and at the end of this process the territories whose budgets remained subsidized
to a greater extent would be given the special status of federal territory, which would mean stricter financial controls exercised by the Center and some elements of outside management.

Mechanisms are needed that the regional elites could use to influence the Center’s decisions, even to the extent of being able to block them. A system is needed to analyze the regional consequences of the decisions that have been adopted and to compensate the additional expenses. The regional elites need to be transparent and subject to bottom-up control by the citizens, not just top-down control.

The restoration of federalism should also lead to less unification within the electoral system, which in its current form appears excessive. It could differ from region to region, while the Central Election Commission should be transformed from a kind of electoral ministry into an oversight agency, as in the United States. In particular, the electoral system cannot remain based on proportional representation (even by half, as the situation now stands in the majority of the regions during elections to the legislative assemblies) unless the regional political parties are restored, or mechanisms are created to enhance regional representation—for example, in the form of casting votes both for parties, and for specific candidates from a corresponding list.12

Federalization will inevitably also affect many government institutions’ systems (such as the judiciary and, to a certain extent, the law enforcement system), which for now retain their traditional unitary forms. In this case, the nomenclature of elected positions—judges, prosecutors, the heads of militia units, public safety chiefs—also increases.

The question is, what form will all these changes take—evolutionary or revolutionary—and who will run the process itself? A gradual de-ethnicization of the federation subjects is possible (a transition from ethnic federalism to purely regional federalism through unitarism; since it is not possible to alter the status, including the ethnic status, of federation subjects without a certain degree of unitarization), along with the unification of the status of the territories, in the future keeping only the federation subjects and federal territories themselves, rather than republics or “matryoshka” structures.

In principle, federalist and unitarist scenarios can be implemented by turns, or even in parallel with the various subsystems of the system of government management. For example, the budget structure is fundamental; unless it is federalized, it would scarcely be possible to federalize any of the other subsystems. The judicial system, on the other hand, could remain unitary for some time.

The federalization scenario is by no means conflict-free, especially when the level and extent of development vary greatly from one federation subject to another. However, this option has the potential for autonomous development, and if it should be initiated, many positive processes of economic and political development will spring up semi-automatically, requiring only occasional control and correction.

**Accelerated unitarization.** Because of the financial-economic crisis, the Center is objectively weakened, which makes the accelerated unitarization scenario less likely. If the crisis ends up being not as deep or as long as expected, however, the situation could change abruptly: the Center would strengthen, and a move in the direction of unitarization could easily be seen as a reaction to a “humiliating weakness.”

In this case, the amalgamation project could be brought to its logical conclusion, leading to the “provincialization” certain politicians announced long ago: the eighty-three current regions of the
country would be united into thirty to forty large provinces (gubernii) or territories, having no residual traces of ethnic nationhood whatsoever. At first glance, such a “final solution to the national question” might look attractive. But it would be a dangerous illusion to believe that the national question could be resolved in this manner; any attempt to put such a decision into practice would be a dangerous error. Anyone who feels that national problems would be easier to address within polyethnic rather than monoethnic structures can look at the example of Karachay-Cherkessia, which has five titular ethnicities, and Dagestan, which has eleven. Also significant is the fact that the process here plays an even more fundamental role than the result. It is not enough that the balance of the processes of ethnicization and de-ethnicization in the modern world has skewed noticeably in the direction of the former. In a situation in which ethnicization already has inherent elements of ethnic nationhood, any attempt to dismantle it is fraught with extremely negative consequences. In other words, if no ethnic nationhood exists, it is best not to force it; if it does, God forbid sending the cavalry charging in to dissolve it.

Under the accelerated unitarization model, the majority component could be squeezed out of the electoral system entirely. With the abandonment of territorial electoral districts, not only would the last remnants of public political competition be gone and the remaining (however weak) links between the electorate and the deputies be finally disrupted, but the local administrative elites would also end up being pushed aside from participation in the corps of deputies. The latter would lose the traits of representative body, and with them its legitimacy. This is a kind of Midas effect, whereby everything that the Kremlin touches takes on a certain ideal quality (from its perspective), but loses its functional significance.

A system of rotation could be introduced for the heads of regions that is similar to the rotation of other federal officials. This has never before been implemented directly, but everything is essentially ready for it. Such a measure would complete the process of liquidating the regional political elite as a class.

During the process of forced unitarization, de-ethnicization occurs as ethnic subjects are merged with other ethnic and nonethnic subjects.

In addition, the interests and opinions of the regional political elites are more and more frequently ignored. The Federation Council is either entirely liquidated or completely loses contact with the regions, turning into a gathering of retired officials and business lobbyists who are in no way connected with the regions they formally represent. The Federal Assembly de facto turns into a single-chamber parliament. The approach of treating the regions as corporations with outside management spreads, with some of the regions even transformed into regional branches of the large state corporations—Gazprom, Rostekhnologii, and so on. This is encouraged by the increasing subsidization of the regional budgets, coupled with the simultaneous tightening of external control over their performance.

Defederalization and unitarization also assume that local self-administration will be liquidated and transformed into the ground floor of state administration. The local self-administration heads are built into a strict vertical administrative hierarchy. Direct mayoral elections are becoming a thing of the past, since if the governors are appointed, direct elections could shake the system of a unified chain of command.

There is an ongoing process of reviewing regional constitutions and charters to bring them into alignment with unitaristic federal laws, even to the point of completely liquidating regional
constitutions. The body of regional laws is also being greatly thinned out, and a final unification of the socio-political and economic life is taking place. Regional administration is essentially being reduced to zero, replaced by a transition to industry-wide management via state corporations. United Russia’s vertical party hierarchy is being reinforced; the party is becoming the functional analog of the Communist Party of the Soviet Union.

If a region is viewed not as a relatively independent entity but only as part of a larger organism—a kind of management framework—then there is a temptation to optimize it and restructure it. The regional borders could be rearranged, for example, to equalize the size of the regions (a return to Catherine the Great principles) or to optimize territorial administration in order to make it easier to attain production, political, administrative, and other goals.

As borders change, so too does the very concept of a region, for it is deprived of its subjecthood, existing no longer as a federation subject but as an administrative object. Thus begins the battle with regional self-identity, seen as a remnant of the past; the study of local lore, history, and economy disappears both from education and from life in general.

Actually all of this happened before, in the early 1930s. The déjà vu effect here is no coincidence, nor is the return to such administrative structures and arrangements from the Soviet past as mandatory rotation of regional personnel and the establishment of a nationwide reserve of personnel among the nomenclature, the establishment of internally competitive vertical departmental hierarchies managed from the Center, and the reinforcement of a single party, again controlled by the Center. This essentially implies a return to a Stalinist project, with some possible variations.

Dismantling the last remaining elements of federalism—real or even formal—will inevitably also entail dismantling the remaining elements of democracy, as federalism is the spatial form of democracy. At its heart lies an administrative logic: in a unified chain of command, as the Center’s reach grows, the strength of contacts and the durability of connections should grow as well; the principles of subordination must be followed unwaveringly, and executorial discipline must be continually reinforced. All this makes the administrative structure highly mechanistic and inflexible, and vulnerable to any outside influences and changes in environment.

... Aside from the main scenarios, several offshoots are also possible.

Consolidation. Consolidation, an intermediate scenario, could lead to both federalization and unitarization. The versions that assume a non-conflict or low-conflict consolidation (essentially representing a return to the situation that existed before the early 1990s) are already nearly exhausted. However, any consolidation that might occur under a scenario of the strong swallowing the weak (as, say, in an expansion of Moscow or Saint Petersburg at the cost of the adjacent regions, or, all the more so, if the ethnic republics were involved) could initiate serious conflicts among the elites that could become massive in scale. The problem, however, is not only with conflicts along the lines of, say, Luzhkov vs. Gromov, but also with the establishment of powerful, relatively self-sufficient regions that would be strong individual players in their interactions with the Center. A positive feature of consolidation is the possibility of decentralization at the level of the large regions, which is a departure from the current model of the “regional capital and its environs.” The cost-benefit ratio for consolidation is not obvious; however, it is clear that consolidation will on the whole lead to decentralization, on both national and regional levels.
Besides top-down consolidation (from Moscow), another possible version is consolidation from below, with the formation of a territory such as Bashtatarstan, the Ural Republic, Greater Moscow, and Greater St. Petersburg.

**Demoscovation** could be absolute or relative: the removal of all or some of the functions of the capital from Moscow, and not just to Petersburg (the tandem capital), which is already fulfilling a number of new capital-type functions, such as hosting the Constitutional Court, holding the country’s main economic forum as well as a numerous international visits, and serving as the location for one of the presidential residences.

The logic of Peter the Great or President Nazarbaev could be applied by, say, shifting the capital in the direction of a powerful new foreign-policy vector Vladivostok, or to the heart of the country, the Ural Mountains. This would lead to decentralization in any case, even if it is not the direct result.

A regional consolidation with the formation of new macroregional capitals could also be a step in the direction of realizing the demoscovation scenario. The role of such capitals is already being taken on to some degree by the centers of the federal districts: Petersburg, Nizhny Novgorod, Rostov-on-Don, Ekaterinburg, Novosibirsk, and Khabarovsk. The realization of such a scenario would expedite the creation of new transportation hubs to handle air travel.

What can be discussed is the weakening of the Center as a whole, not only the fact that it is sharing some of its functions with one or two alternates.

Under the “real federation” scenario, Moscow’s role shrinks significantly because of a decline in the number of functions requiring a federal capital, not because some functions have been transferred elsewhere. The American option is also possible—namely, decoupling the functions of the political capital and the main economic center. In this case, political decentralization would subsequently provoke administrative decentralization.

**Break-up, secession.** A low-probability scenario during favorable economic conditions, the secession scenario becomes more realistic during a deepening economic crisis. Possible instigators of this scenario could include Chechnya and the other North Caucasus republics, as well as Bashkortostan or Tatarstan. In addition to these obvious “disturbers of the peace” could be added the Eastern regions, where regional self-identification and mobilization could reach the ethnic level, while the intensity of transborder contact with their neighbors exceeds the level of such contacts with the European part.

The Center itself could provoke a rift through its clumsy actions with respect to regional political elites, especially in the national republics.

As the population and labor resources decline, another factor may have an effect: namely, the shrinking economically active space. The federal authorities do not pursue proactive policies to address demographic problems and do not carry out any long-term planning, preferring to hide their heads in the sand. This will inevitably force a round of robbing Peter to pay Paul, which will further exacerbate the problem of inadequate labor resources.

When economic experts speak about the impending decline of Russia’s population by 15–20 million over the next two decades, they rarely note the regional dimension of the problem and its possible solutions. Meanwhile, both the depopulation of a large number of eastern regions, and the attempt to
fix the problem by turning to immigration could initiate a chain reaction that would be extremely difficult to stop. The contraction of the workforce is now occurring against the backdrop of mass layoffs due to the crisis. When the crisis ends and the new phase of economic growth begins, such problems will inevitably worsen.

The recognition of Abkhazia’s and South Ossetia’s independence installed a delayed-action mine under Russia’s nationhood and territorial integrity—and no one knows when it will go off. The objective preconditions are already evident in the form of a Center weakened by the economic crisis and the self-isolation of the country; the subjective ones could appear at any moment.

**Outbreak of ethnic unrest.** A similar turn of events could be set off by incidents such as the ethnic violence in the small Karelian town of Kondopoga in 2006 or the Azerbaijani pogroms in the village of Kharagun in the Chita region three months earlier. We note that as the personnel deficit worsens and the migration flow increases from external regions and external ethnic groups, the objective setting for ethnic conflicts will be reinforced, to which must be added such subjective factors as ethnic and clan-elite conflicts in the republics. A change of presidents in the republics could provoke such conflicts; additionally, as mentioned above, a change in regional leadership is itself a risk factor: the meager personnel reserves are fraught with unsuccessful appointments, and they, in turn, decrease the effectiveness of the authorities’ actions in response to crises.

Russia’s aggressive foreign policy and confrontations with its neighbors and the rest of the world, along with the growth of nationalism and the search for external enemies can under certain conditions lead to aggression against an internal enemy, be they Georgians, Azerbaijanis, Ukrainians, or others.

Large-scale ethnic conflict and outbreaks of unrest could occur during the course of elections in regions having a complex ethnic composition, such as Dagestan or Karachay-Cherkessia, or virtually everywhere in the North Caucasus. Given such a dramatic turn of events, the country would begin to fall apart at the seams along regional borders—especially in the ethnic republics and, in some cases, in the federal districts. As a milder variant one could consider decisions to enhance status and the redistribute authority.

A crisis, which is inevitable in the case of the realization of the “unitarization” and “consolidation” scenarios, is also capable of leading to ethnic unrest.

**A new war in the Caucasus.** Any number of different reasons and pretexts could ignite Russia’s Caucasus: the tensions that have been building up there over many years and have become too great, problems that are too severe, and governance that is too ineffective. In previous years, problems in the Caucasus were mainly addressed with an influx of money; but on the one hand, fewer funds are available now, and on the other hand, the time factor could become critical (see Alexey Malashenko’s article on the North Caucasus after the Georgian war in this issue of Pro et Contra.)

Also possible is a detonation effect: an outbreak could occur at one spot in the Caucasus (moreover, not necessarily within the territory of Russia) and have manifestations in another spot, or else throughout the entire Caucasus area. Either the armed clash with Georgia or the hurried recognition of Abkhazia and South Ossetia could ignite the fuse; the only question is how soon.

A separate issue is the matter of the divided ethnic groups, in particular the Ossetians and Lezgins, who could be provoked not only by endogenous factors but also by the actions of adjacent states.
We note that the scenarios analyzed above could occur simultaneously or sequentially, and moreover not necessarily in their pure form, but in various modified or hybridized formats as well. Moreover, none of the scenarios presented could actually come about in pure form, while a partial realization of each is almost inevitable. Individual elements of the scenarios either are already being realized or will be realized, in one way or another, in the future. The only question is the timing and degree.

The goal of using a scenario approach like the one used here when analyzing development scenarios (in contrast to analyzing ideal models or scenarios of conditions, as was done by Melville and colleagues, for example) is to trace existing or expected socio-political and socio-economic trends to their logical conclusion, as well as to reveal interconnections inside the system, their functional logic and development, and their attendant risks. The significance of the scenario does not lie in trying to guess exactly how development will proceed, but in demonstrating the current boundaries and the corridor beyond which there lies a danger for the nation and society, as well as identifying chains of interconnected steps and their possible consequences.

The Crisis and Development Trajectory

The beginning of a protracted financial and economic crisis reduces some of the variability in the scenarios, and will sharply diminish the likelihood of scenarios that would require a lot of effort or financial cost to complete (the “action scenarios”). In the same vein, the probability of the “catastrophe scenarios” increases. The role of both subjective factors and chance elements also grows.

As the crisis deepens and broadens, the administration’s inability to react adequately to emerging challenges will become all the more obvious. While the government might still be able to handle the problems of the ten largest banks and companies, it would be physically incapable of using the same approach to address the problems of hundreds and thousands, or tens of thousands, of large, medium and small business enterprises. The only way out is decentralization: pass some of the power authority and, most importantly, the resources necessary for executing it out down to the regional and municipal levels. There is no reasonable alternative to refederalization for the only other possibility is administrative collapse and paralysis.

A key element of managerial arrangements under crisis conditions is the time needed to make and implement decisions. After all, even if it can be assumed that a particular problem can be resolved simply by allocating the necessary funds, the unwieldy, lethargic, and overly centralized management system is incapable of reacting quickly to all the new challenges that arise.

For illustration, let us consider a hypothetical example: an enterprise on which the entire population of a city depends goes bankrupt. The problem is exacerbated by the fact that the enterprise encompasses the entire housing and utilities sphere, the sewerage system, water supply, and heating. If the enterprise closes, the inhabitants will have to be evacuated. In the winter. The alternative would be to not allow the bankruptcy to happen. But either case would require a significant amount...
of time to implement, since, even having allocated money, there is no way to guarantee uninterrupted work the next day.

Aside from the extreme ineffectiveness of the management system, the ability of the management team to cope with the crisis is also in serious doubt. The psychological factor plays a role here as well: the team that brought great success (it believes) to the country’s economy is hardly capable of refusing the gains. Instead, it will continue to buy time in the hope that everything will resolve by itself. If the previous steadily increasing flow of petrodollars did not expedite modernization, then the accumulated financial safety cushion is now impeding the implementation of an anti-crisis strategy, allowing to continue to live in the old way for a while longer.

Perhaps the main positive consequence to be expected from the crisis is a full or partial rejection of paternalism on the part of the Kremlin toward both citizens and regions, since the crisis is undermining the very foundation of the raw materials–based economy. Such a shift could have far-reaching consequences with respect to both reinforcing civil society and increasing the degree of responsibility of the authorities. A crisis breaks the established model, when contributions to the state budget come not from the regions with their citizens and small and medium businesses, but from wells and quarries. In a situation in which we all are to some extent living on someone else's nickel and the government is playing the role of philanthropist, distributing these heaven-sent benefits, the kind of taxpayer who could support the government and ardously watch over how the money is being used is virtually nonexistent. Such a taxpayer will appear only when a country has stopped being a rentier living off the rent derived from the exploitation of natural resources. The taxpayer’s strengthening self-identity will inevitably lead to increased public control over the actions of the authorities at all levels.

The points of bifurcation are easier to see in retrospect, among other things because the turns—both those taken and those missed—are rarely sharp ones. Usually the shift is very gradual, reflecting a sequence of tactical and situational actions that, taken together, at some point begin to evolve into a strategy. Sometimes, however, there are points of bifurcation that are clearly fixed in time, such as the actions of the State Emergency Committee in 1991 and the subsequent collapse of the Soviet Union, or the transfer of power to Putin by Yeltsin at the end of 1999. Among relatively recent events, the bifurcation nodes appear to be the events of summer and autumn 2003, culminating in the arrest of Mikhail Khodorkovsky, and the confrontation with the West that began gaining strength at almost the same time, culminating in the “Five-Day War” in Georgia. If in the first case we can speak of an internal shift with a big impact on foreign policy, then in the second case it was a foreign policy shift, the consequences of which could be extremely significant for domestic policy, even if they are not yet fully manifest or evaluated.

The shifts of 2003 and 2008 are impossible to completely reverse. However, a return to the previous development trajectory is hardly plausible without a reconsideration of the course and a reevaluation of what was done at these bifurcation points. The sooner the country understands this, the shorter will be the return path it will need to retrace. If, however, things continue along the present trajectory (and unfortunately, that is very likely), then on the new turn of the spiral we will probably find ourselves in a situation reminiscent of the political hangover of 1996–97—with an empty treasury, a weak Kremlin, and regional barons and oligarchs fighting among themselves. And the movement will start around the same circle.


6 See, for example, the latest of these works: Global Trends 2025: A Transformed World (2008) or the previous Global Trends 2020.


9 According to Yergin and Gustafson, following a certain period of “sliding down,” the “Double Headed Eagle” scenario (characterized by activation of siloviki (i.e., the power agencies) under the slogans of fighting corruption, strengthening of the role of the state, and reinforcement of the Center and the executive branch on the whole), the “Miracle” scenario (liberal reforms, attracting investments, development of high-technology industry and services, leading to economic prosperity), the “Long Goodbye” scenario (a mild scenario of chaos with decentralization, followed by near collapse and subsequent restoration of RF unity), and the “Russian Bear” scenario (the military coming to power as a result of chaos and the establishment of an authoritarian regime) lead in the final result to “Russian capitalism.” In the authors’ opinion, regardless of how Russia arrives at this result, “Russian capitalism” will embody five main characteristics: 1) uneven development and great contrasts, both between regions and between industries; 2) strong elements of a criminal shadow economy; 3) a strong government sector and a weak civil society; 4) a gradual strengthening of the position of society with respect to power; and 5) an ambiguous attitude toward the West, with abrupt changes in course and in the approach to Western investments.

10 It is dangerous to double the minimum wage in a crisis situation, primarily because by increasing the overall level of workers’ wages, employers, who are experiencing financial difficulties as it is, are forced to lay off more workers. This is especially risk-prone in those regions where, as in Dagestan, the gap between the minimal and average worker’s wage is small and the level of unemployment is high even as it is.


12 Under such a system (which is practiced, for example, in Germany), the voter can vote not only for one or another list but can even say whom on the list he would like to see as a deputy. In this way, in order for the
candidates on the winning list to obtain a mandate, they must depend on the personal preferences of the voters, not on decisions made by the regional or, all the more so, federal party leadership.

13 Once in 2005, however, Putin, while answering questions from citizens, said that he liked the work of Irkutsk governor Boris Govorin, and that he hoped Govorin would move on to be the governor of some other region. Rather than being assigned to a different region, however, Govorin was appointed ambassador to Mongolia.
What Russia needs is not a narrow and tough pragmatism, but a strategy based on a realistic perception of the situation in the world and the prospects for its development.

Dmitri Trenin

Foreign policy does matter. It is usually believed, with reason, that the national foreign policy course a country chooses to pursue is determined by its domestic situation, but sometimes just the opposite is the case. We need only consider two dates, 1914 and 1929. The search for historical analogies is an approach that has not been without criticism. Nevertheless, “echoes of history” can sometimes be useful, mainly for avoiding mistakes that could lead to catastrophe.

The Guns of August

August is usually considered a fateful month in recent Russian history: the 1991 Putsch, the 1998 bond default, the 2000 tragedy on the submarine Kursk, and so forth. But the “August curse” has an international dimension as well. Both world wars began at the end of summer. Some assert in all seriousness that everything was caused by people being on vacation, leaving lower-level staff on the job who were either incapable of navigating the situation or used the moment to unexpectedly exacerbate the situation for the enemy. In July–August 1914, for example, Kaiser Wilhelm was sailing the islands of Norway on his yacht.

In the early 1960s a U.S. bestseller appeared, Barbara Tuchman’s "The Guns of August." The book is a gripping, documented account of the way the then-great states of Europe allowed themselves to be drawn into a war that none of them particularly wanted at the time and that proved fatal for all. Tuchman was cautioning her contemporaries during the depths of the Cold War, and her warning did not go unheeded: it is said that President John F. Kennedy kept a copy of her book on his desk during the Cuban missile crisis.

At the beginning of August 2008, anyone who read even the occasional newspaper or watched television was aware of the tense situation in South Ossetia and Abkhazia. There was an obvious escalation of provocations coming from both sides. Parallel joint military training exercises had just been carried out by the Northern Caucasus military district of Russia and by U.S. and Georgian troops. While the U.S. and Georgian forces practiced liberating a city that had been captured by terrorists, the Russian exercise focused on rendering assistance to peacekeepers who had come under attack. After the end of the maneuvers, as the press reported, Russian troops remained on alert. The Americans went back home, while the Georgians, as they have now admitted, began to make preparations for the operation.

In the meantime, President Dmitry Medvedev left for the Middle Povolzhye Region on a working vacation, and Prime Minister Vladimir Putin flew off to attend the opening of the Olympic Games in Beijing, which, it can be said without exaggerating, absorbed the world’s attention at the time. The rest can only be surmised, with a greater or lesser degree of certainty. Mikhail Saakashvili considered the situation to be favorable for achieving a “final solution” to the conflicts in South Ossetia and Abkhazia and ordered the attack on Tskhinval, the capital of South Ossetia. It was likely
thought that a swift strike of overwhelming force would annihilate the “nest of separatists” before Russia had a chance to intervene, and that any subsequent Russian intervention could then be blocked through diplomatic means, with Washington's help.

It remains unclear how Tbilisi interpreted the signals that the George Bush administration was sending. Also not fully understood is the role of the Saakashvili “support group”—Vice President Richard Cheney, Senator John McCain, and his foreign policy adviser, Randy Scheunemann, who had recently been a paid lobbyist for the Georgian government. It cannot be denied that, at a minimum, the Republican administration acted extremely carelessly: it left unsupervised an ally that it had supported, armed, and trained and that was in open conflict with its neighbor, a nuclear power.

For its part, Moscow apparently assumed right up to the last moment that the United States would behave rationally and restrain its client from taking rash actions; such things had been known to happen in recent years. That made the turn of events all the more shocking. Dmitry Medvedev, who had assumed the post of RF president only three months earlier, would soon say that the world changed after August.¹ That is an interesting comment. Strictly speaking, the world on the whole remained as before, of course, but its perception in the mind of the third Russian president was in all probability seriously affected by the sudden outbreak of war. “We have lost our last illusions,” said Medvedev.² By, “illusions,” it seems, he was referring to the previously held conviction that the United States would not directly assist any country that was in armed conflict with Russia. As early as 2004, immediately after the Beslan tragedy, Putin did in fact accuse America of indirectly supporting the terrorists in the Caucasus with the aim of weakening or even fragmenting Russia.³ But even in this interpretation he was mainly speaking of such covert and limited-scale actions by the United States as extending asylum to Ilyas Akhmadov and assisting various “funds in support of fighting Chechnya.” Four years later, the Kremlin concluded that the White House had dropped its last restraints and was openly adopting a strategy of containing Russia—with the hand of pro-American governments—by provoking conflicts on the borders of the Russian Federation. A line had been crossed in U.S.-Russian relations.

The situation was very dangerous. The brief meeting between Putin and Bush at the Olympics in Beijing had proven fruitless. Moscow's attempt to stop Georgian aggression by obtaining a resolution of the UN Security Council had been in vain. Under these conditions, the Russian leadership made the decision not only to oust the Georgian troops from South Ossetia but also to render nonfunctional the Georgian armed forces and military infrastructure. This massive Russian counterstrike was directed not only against a country whose troops had attacked Russian peacekeepers and Russian citizens, but against a client state and satellite of Washington, as well as against the American administration itself.

The idea behind this strike was twofold. First, Russia through its actions had confirmed that the "red line" (the use of force against its military and civilians) was real, and that it was in essence a line between peace and war. Second, Moscow had put to the test Washington's willingness to defend its quasi-allies in the territory of the former USSR, and had proved through combat that there were no security guarantees on the part of the United States. Incidentally, the moment when the vessels of the United States’ Sixth Fleet were approaching the coast of Georgia and the forces of the Russian Black Sea Fleet were gathering off the coast of Abkhazia was probably the most dangerous moment in the development of the Caucasus crisis.

While many in the United States and Europe considered the Russian invasion of Georgia to be a watershed event that opened a period of revanchist expansion by Moscow and wondered which
country would be the next target of political pressure and military intervention by the Kremlin, the Kremlin itself was worrying over the same question, but as it applied to Washington. What kind of provocateur would be the next Saakashvili, they wondered, who would try to entangle Russia in a new conflict on the perimeter of the Russian borders? Such conflicts, Moscow feared, would not only distract Russia from pursuing its economic and social programs and draw it into an arms race that would be disastrous, but would also allow the West to restore its unity on an anti-Russian basis.

Both the Western and the Russian lines, which had been derived from “worst-case” scenarios concerning each other's intentions, intersected at one geographic point: Ukraine, in particular the Crimea. Moscow saw a new Saakashvili in President Viktor Yuschenko, who had demanded that the vessels of the Black Sea Fleet notify Kiev when crossing the maritime border of Ukraine and announce their intentions, strength, resources, etc.. In the West, signs of the impending danger were noted in public statements by well-known Russian politicians about the problem of the Ukrainian port city of Sevastopol and the Crimea. The mutual paranoia of Moscow and the West has become a sad but eloquent illustration of the depth of mutual mistrust that followed two decades after the end of the Cold War.

The Russo-Georgian conflict lasted only five days. The scale of the Russian strikes and their character was evidence of the decisive but limited goals that had been set by the military and political leadership of the Russian Federation. Moscow, in essence, took the NATO strategy of humanitarian intervention in the Balkans in 1999 as a template, but without its more odious elements: the bombings of Belgrade, the destruction of civilian infrastructure, etc. There are undoubtedly those in Russian government who believe that the only reliable solution to the question is to remove Saakashvili from power, arrest him, and try him in a court of law. Nevertheless, it can be said with assurance that the Russian leadership has recognized the risks associated with occupying Tbilisi and attempting to bring down Saakashvili. As NATO did in the case of Slobodan Milosevic, Moscow decided to let the citizens of Georgia replace their own leaders.

If in 1999 NATO got support from Russia—who joined with the then-president of Finland to convince Milosevic to surrender—similarly in 2008, the EU, at the initiative of the French president, came to Moscow's assistance and worked out a cease-fire. Europe's arrival in the Caucasus, from the RF’s point of view, was a significant positive factor that created the potential for closer Russo-European cooperation in the area of security and, in the future, for overcoming American hegemony in the Western policies in the post-Soviet space.

Russia's recognition of the independence of South Ossetia and Abkhazia still raises many questions. In principle, having taken such a step, Moscow narrowed its options for maneuvering, turning directly against the principle of the primacy of international law that it itself had recently announced when the West recognized the independence of Kosovo, as well as demonstrating that practically no one in the world supported its actions. The lack of any kind of preliminary public discussion of this fundamental question and the emphatically unanimous support for the decision after it had been made indicate that the circle of “deciders” had been small, as well as that they had recognized both the ambiguity and the obvious minuses of the step they had taken and had attempted to turn the question of recognition into a kind of “friend-or-foe” detector.

The decision to recognize South Ossetia and Abkhazia as independent was unlikely to have been conceived as revenge against Georgia for its attack on Tskhinvali, or as a symbolic response to the West for Kosovo. Apparently, the main argument was and continues to be Moscow's anticipation of a military revanche by Georgia, supported directly or indirectly by the United States. Moscow sees
no way to contain Tbilisi and prevent a new war other than by deploying Russian troops in both
republics on a permanent basis. Since Russia is led by people who are at heart legalists, such a troop
deployment can be permitted only if the Russian Federation recognizes the respective territories as
independent nations—which, in essence, is what happened. Recognition by other countries remains
desirable but not critical. The closest analogy here is not the case of NATO and Kosovo, but of
Turkey and Northern Cyprus.

Although a direct clash between Russia and the United States has so far been avoided, the crisis in
the Caucasus has significance for international relations in Europe. It has been graphically
demonstrated that the lack of an all-encompassing security system on the continent is an acute
problem (the existing system built around NATO and the EU does not include the Russian
Federation). The idea that the NATO-EU arrangement is adequate for the continent on the whole,
while the Russian Council-NATO collaboration is enough for Moscow, was presumptuous from the
very beginning. In order to last, the system of European security must include the Russian
Federation.

It also became clear that any model for relations between the West and Russia's closest neighbors
that ignored the Russian factor (“Moscow doesn't have a veto”) posed multiple problems. The
expansion of NATO, caught up with the issue of Ukraine and Georgia, became a powerful irritant
disrupting the domestic and international situation in the east of Europe. Russia had been prepared to
help Georgia maintain an appearance of unity in the country right up until the NATO Bucharest
summit in April 2008. It is true that the conditions for this assistance—not to join NATO, to adopt a
legal prohibition on the stationing of any foreign troops within the territory of Georgia, and to
permit ongoing Russian influence in Abkhazia and South Ossetia—were unacceptable to Georgian
leaders. Without a doubt, the potential problems—both domestic and international—related to the
question of Ukraine's membership in NATO exceed the potential for conflict of the Caucasus many
times over.

Russia has also learned a lesson from itself, that "frozen conflicts" can neither guarantee security in
the federation nor act as effective instruments for pressuring its neighbors. The wishful thinking of
Moscow that the unregulated conflicts in Abkhazia and South Ossetia would be an insurmountable
barrier to Tbilisi's membership in NATO was not borne out. A continual game "on the verge of foul
play"—of mutual provocation in order to demonstrate, on the one hand, that allowing Georgia to
join NATO would be a threat to its allies, and on the other hand, that not allowing Georgia into the
alliance would leave it one-on-one with Russian revanchism—created a favorable backdrop for the
shift from provocation to war. The failure of political Russian peacekeeping was obvious.

But the policy of the Bush administration was just as near-sighted. Having supported the “color
revolutions” in Georgia, Ukraine, and other countries—even as difficulties continued to mount in
Iraq—as evidence of the success of the policy of promoting democracy in the world that he had
touted in his second inaugural address, Bush became a hostage to the outwardly pleasant but
unpredictable and uncontrollable Mikhail Saakashvili. In order to support “Misha,” his political
opponents (for example, the Georgian republicans) were blocked from access to representatives of
the U.S. Republican administration. The culmination was Bush's speech in Tbilisi in 2005, in which
he called the Caucasus republic “a beacon of liberty” in post-Soviet territory. As a result of such an
approach, distance and control over their wards were lost; this became particularly dangerous given
the Bush administration's characteristic lack of any specific U.S. policy for Russia, which had been
obscured by the personal relationship between Bush and Putin and the Soviet/Russian expertise of
Secretary of State Condoleezza Rice.
The well-known political timidity and diplomatic disorganization of the EU, which only recently has begun to express interest in the South Caucasus, also played a role. Whether in the Caucasus, the Balkans, or anywhere else on the continent, Europe cannot count on having others—including America and Russia—pay attention to its security interests while it remains passive itself. As for the threats to Europe, some of them—as was the case in the Balkans in the 1990s—continue to stem from aggressive nationalism, examples of which are not limited to the Caucasus.

The September Collapse

Exactly five weeks after the war started in the Caucasus, the world was shaken almost to its very foundations. The bankruptcy of the Lehman Brothers investment bank signaled a transition from the crisis within the U.S. mortgage-based credit system that had begun in the summer of 2007 into a full-blown financial and economic crisis. This was the first global crisis under modern globalization: the 1997 crisis, which began in Southeast Asia, engulfed a number of countries, including Russia, but left the largest world economies practically untouched.

Contrary to the naive hope that Russia might become “a safe haven” in a stormy ocean, the chief financial indicators for the Russian Federation headed sharply down as early as August. Capital poured out of the country, the money market collapsed to a quarter of its peak level, oil prices dropped three-four times, the ruble declined in value, economic growth slowed dramatically, and it became obvious that the safety net that had been created over the years of the oil boom was inadequate in the face of the colossal increases in corporate debt appearing at the same time—including above all the debts of state-owned corporations.

As was also the case during the crisis of August 1998, the current crisis graphically attests to the integration of Russia into the world economy; over the course of ten years, its integration has only increased. Speaking about the reasons for the financial crisis in his first message to the Federal Assembly, President Medvedev connected them—as far as their origin—with the war in the Caucasus. Two crises, he said, but one reason: U.S. policy. Subsequently, however, the Russian president came to a conclusion totally different from the one that he had made with regard to the events in Georgia: in an interconnected world, he emphasized, there is fundamental commonality between the interests of Russia and the countries of the West, including the United States, as well as the developing economies of China, India, Brazil, and others.

Examples drawn from the depths of historic memory—a “reinstated Great Game,” “the eternal Eastern Question,” the Caucasus as the “new powder keg of Europe” or the “soft underbelly of Russia”—evaporated in the course of an hour. The nineteenth century redux became the twenty-first century. Prime Minister Putin sharply dressed down those of his supporters who had concluded that it was a convenient opportunity for declaring an autarchic economic policy. President Medvedev publicly emphasized the Russian Federation’s interest in joining WTO. There ended up being no need for a “mobilization agenda,” the threat of which had been on the verge of surfacing while the dust of the Georgian campaign still hung in the air. The Kremlin and the Russian White House continue to speak of modernization, diversification, innovation, and so forth.

After evaluating the situation, Moscow concluded that the reports of the United States being at death's door had been exaggerated, to put it mildly: wishes had been mistaken for fact. Having given
due to the actions of the American regulators and their superiors who had allowed the crisis to happen, Moscow expressed its willingness to cooperate with all of the leading players to find a way out of the crisis. On the other hand, the United States, which after the war in Georgia had refused to take part in any of the G8 events and at the beginning of the crisis had tried to limit itself to its traditional set of partners represented by the G7, soon came to support France's idea to call a summit in the G20 format. As a result, all of the most important economies in the world ended up in one boat and agreed on common principles and measures to counteract the global crisis, if only in the broadest of forms. Of course, there are always gaps between declarations and actions, but the commonality of declarative policy is an undoubted plus for the system of international relations.

The situation is also changing in the individual countries. The Russian authorities, for example, have been forced to think seriously about how to live on sharply declining oil revenues and how to attract investment into the country, among similar issues. The conflict around the Russo-British oil company TNK-BP was resolved quickly and by all appearances easily. Decisions that did not outwardly relate to the consequences of the crisis, such as the decision to begin work on a new treaty between the EU and the Russian Federation and to gradually resume a dialogue between NATO and the Russian Federation, are headed in the same direction. The very picture of how the war started in the Caucasus changed after a few months. Thus, if the first crisis, that of Georgia, became a reason for an almost pre-war atmosphere in relations between the Russian Federation and the United States (and, to some extent, Europe), then the second crisis has returned Russia to the arena of global cooperation.

**What Happens Next?**

The world crisis is creating a new world order. This procedure is not only (and not so much) hierarchical (a “multipolar world”) as it is a functioning system of global governance. Russian claims to a global role, like those of any country, may be realized only when Moscow is able to offer something that other countries value and desire. This will not be easy, but the financial and economic blocs in the Russian government and Russian private business, fortunately, are the most advanced and experienced players in the country. With the exception of some senseless attempts to support the falling stock market, the actions of the Russian authorities during the crisis have been adequate for the situation. If we look beyond the crisis horizon, the upper Russian leadership, in all probability, well understands that the position and ability of the country in the world arena depend above all on the degree of its competitiveness.

The situation in the political sphere appears different. Some public announcements by the Kremlin—the demonstrative refusal to offer congratulations to Obama on the day he was elected, the dispatch of strategic bombers and then naval vessels to the coast of Venezuela, the threatening ultimatum to deploy Iskander missiles—appear to be mistakes that could easily have been avoided. The situation created by the unilateral recognition of Abkhazia and South Ossetia—because of its obvious irreversibility—has brought about additional difficulties. Insistent appeals to the Russian Federation to sign a new agreement on European security have not yet garnered broad support, while Moscow's proposals on the content of this agreement address mainly Russian concerns.

Nevertheless, new opportunities have opened up for the Russian Federation, some of them relating to the change in U.S. administration. It will be more difficult for Moscow with a modern, popular, and dynamic President Barack Obama than it was with President Bush—or than it might have been
with a President McCain—but it may be more interesting. Productive policies in the American direction, however, will require a modern, attractive, and dynamic approach from Russia as well. In light of entrenched patterns of behavior, such an approach will be difficult to implement. The initiation of negotiations on a whole series of security issues—from START to ABM and CFE—may help jump start relations between Russia and America, but arms control cannot remain a driving force in these relations forever. If the modernization of the country is in fact deemed a priority for the Russian Federation, as the authorities proclaim 10, then relations with the greatest world power and leader in such areas as technology, science, education, and management must be seen from the appropriate perspective. What is needed are new themes, new approaches, and, quite probably, new people.

For Europe, much will depend on how Moscow uses its tactical victories in the matter of NATO expansion, and to some degree in the conflict with Georgia. The only correct conclusion from the Georgian war would be activation of the peacekeeping efforts in Moldova and Nagorno-Karabakh (a predominantly Armenian-populated region in Azerbaijan the status of which is the subject of conflict). These efforts must not be allowed to be fruitless yet again. In Georgia, enmity with the Saakashvili regime must be accompanied by a search for form and content in dialogue with the political and social powers in that country, which has not yet been happening. In both directions, and with respect to Georgia as well, the ability of the Russian Federation to effectively interact with its Western partners—most of all with the EU—will be important. Now is the time not just to announce but to actually practice the prioritized approach to Europe in Russian foreign policy.

Realization of the "European choice" will require serious changes in Russia’s domestic and foreign policy, including rejection of the condescension that has flourished in recent years, the feeling of self-exclusivity, intolerance of criticism, and the search for enemies. There is a need for a calmer policy aimed at both reinforcing relations with the leading countries of Europe, and, in parallel, at initiating cooperation with the countries with which Moscow currently has openly poor relations—primarily Poland and the Baltic states. There is a whole series of issues on which Russian, European, and American interests are close or identical, among them relations with Afghanistan, Pakistan, and Iran, the nonproliferation of nuclear weapons, the war against terrorism, and efforts to counteract piracy, to name a few. Effective global governance requires a new reading of the problematic Euro-Atlantic security landscape, not only in Washington and Brussels, but also in Moscow.

The alternative of attempting to create some kind of counterweight to America and Europe based on BRIC—Brazil, Russia, India, and China—appears unreal. One can only hope that the Russian leadership has taken the sober reaction of Beijing to the events in the Caucasus at face value: China will act based exclusively on its own interests in the framework of a long-term strategy to promote the PRC. The special relationship between China as a creditor and the United States as borrower recalls the Indo-American alliance and the relaxed attitudes of the South American giant to the colossus to the north. Even from the point of view of developing relations with this part of the world, Russia should abandon its obsession with countering American imperialism and should tone down its anti-Americanism in its official propaganda, which makes Russia a black sheep in BRIC.

The crisis will test the Russian Federation’s ability to provide real leadership in the part of the world that Moscow considers its sphere of privileged interests: Eastern Europe, the Caucasus, and Central Asia—or, to put it simply, the CIS region. The crisis may help greatly the future economic integration of the Russian Federation, Kazakhstan, and Belarus, or demonstrate the narrow egotism and sole self-centeredness of Russia, and thus leave the integration process proceed at its usual
sluggish pace. Relations still must be rebuilt with Ukraine based on two main factors: the closeness of the two countries and their peoples, and the independence of Ukraine from Moscow.

The profound deficit of the narrow and strict (“absolutely concrete”) pragmatism that Russian foreign policy has been so proud of is especially obvious in this period of crisis. In August 2008, not quite twenty years after the end of the Cold War, Russia once again stood at the threshold of a confrontation with the United States. Thankfully, the financial crisis has put a damper on the geopolitical one. And yet, Russia continues to fly on just one wing—the financial-economic one. This is risky flying. In the future, Russian policy requires a strategy based on a real reading of the situation in the world and the prospects for its development.

4 See, for example, “Luzhkov uveren, chto u Rossii est’ osnovaniya schitat’ Sevastopol’ svoim”. http://www.rian.ru/politics/20080513/107281921.html
7 Ibid.
10 Ibid.
Is Modernization Possible in Russia?

The future modernization project should be initiated from the top down, and it should be implemented from the top down. The social coalition in support of such a project forms only once modernization is already under way.

BORIS MAKARENKO

The agenda announced in 2008 by the new Russian authorities placed particular emphasis on the issue of modernizing the country. This problem can only be formulated in terms of what has already been achieved. Our analysis of what has been achieved—the starting point for modernization—is in no way intended to lead to conclusions about the performance of the first two Russian presidents: without the massive economic and political reforms that occurred during their terms, our present discussion would be meaningless.

Posing the Problem: Intentions and Plans

Russia entered the year 2008 with restored statehood, political and social stability, and a powerful oil and gas sector that figures importantly in the international arena. Russia's competitive position has been maintained or restored in a number of other economic sectors as well, such as weapons manufacture, nuclear power, and hydrocarbons and other categories of raw materials. High development rates have also characterized some other industrial sectors that had become points of growth for the entire Russian economy. Although some crisis phenomena were witnessed in the social sphere, the workforce has nevertheless remained relatively well educated and urbanized. A market economy had been established in the country (although at some cost). Some formal power-sharing mechanisms and other political institutions appropriate to a modern democratic society had arisen, even if they still lack real substance. The high level of trust that society was placing in the government authorities resulted in a kind of social contract that ensured public loyalty to their policies while they guaranteed at a minimum political and economic stability, and at most provided for an improved standard of living.

However, this whole set of achievements does not mean that Russia has responded to the most serious challenges of modernization. The “Four I’s” concept that Dmitry Medvedev introduced in an election campaign speech in Krasnoyarsk indicates the main parameters on which Russian society remains unmodernized: institutions, innovation, infrastructure, and investment (there was also a fifth I mentioned in the president's message to the RF Federal Conference of November 5, 2008: intellect). What this means is the Russian authorities do in fact recognize the scale of the unresolved problems, both in the social and economic areas and in the sphere of government construction.

The economy remains largely dependent on oil revenues. Structural changes in social policy have been the slowest: not one of the reforms announced at the beginning of the current decade—in retirement, education, and health care—has yet been achieved. According to Evgeny Gontmakher's evaluation, “the social challenges that faced our country in the late 1990s, have, on the whole, persisted to the present moment and have been inherited by the third president of Russia.” Gontmakher cited yet another barrier to future modernization—the process of social stratification—
which has continued to develop despite the redistribution of increasing amounts of social benefits (thanks to oil revenues): “The average income of the 10% most well-off Russians already exceeds the average income of the 10% least well-off citizens almost 17 times… All of the social groups and strata that formed as early as the late 1990s have in fact been preserved even in size, which makes vertical mobility all the more difficult.”

The situation is worsened by problems in the social and political spheres as well. Political competition in the country has been declining steadily, parliament has stopped being a place for debate, multi-party policies have become more of a façade, and the national television channels are strictly controlled by the Center. All this means that feedback between the authorities and society has been significantly reduced, thus obliterating the channels used to mobilize society to achieve creative goals. In other words, the situation has divided the authorities and the people, reinforcing the people's feelings of being subjects rather than citizens.

This shows that the development model that has been operating in Russia to the present day cannot establish the conditions for a key element of modernization, the mobilization of society to address particular modernization problems. The government and, with certain reservations, some businesses remain the almost exclusive agents of modernization (together with their ancillary scientific, financial, and expert structures, of course), not society as a whole or even its socially most active part, the emerging middle class. Moreover, when government predominates, the best that businessmen can do is be innovative technologically and in management approaches, but, in the words of Igor Bunin, “practically, [they] are not utilized at all” as a resource for modernization. Only by radically expanding the circle of agents of modernization, however, will it be possible to achieve the ultimate goal of changing the system of values and practices for the majority of society. This goal cannot be met by limiting progress by structural and technological changes alone.

It appears that all these concepts were in fact at the heart of the strategic plan for national development, which was renewed with the change in presidents. It is precisely “Operation Successor” that has helped the authorities portray their modernization program not as a correction of the errors of previous years but as a new stage of development.

Since this strategy was announced only in very broad outline, however, its first real test under fire came in the form of the world financial and economic crisis and the armed conflict in the Caucasus.

As discussed below, it would be a gross oversimplification to assert that the conditions before the crisis were favorable for modernization but that now it has become impossible. The crisis—or, more accurately, the obvious signs of recession—have reduced the resources that could have been used for modernization. And this could lead to erosion of the social contract mentioned above, and society's trust in the authorities, which is a key factor in successful modernization. At the same time, however, the crisis will shake up the self-assurance of both the elite and society and change their motivations, but ideally it could help establish the conditions for a new social contract, not one along the lines of “we just sit around, and the money rolls in” (as a financial pyramid advertising clip has it) but more in the spirit of Lewis Carroll’s Red Queen: “It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!”
The Criteria and Clarified Definitions of Modernization

Is it catch-up modernization? The angry reaction that this question and those who ask it provoke is absolutely unjustified. Modernization itself, as follows from the etymology of the word, cannot but be catch-up. It is a program for action that is based on a conscious need to overcome a lead held by outstanding examples of the time in economic and social organization. The catch-up character of development, however, should not be discussed using outmoded language, such as “the non-Western countries are catching up to the West,” or path dependency (although the theoretical approaches underlying this phraseology still retain their timeliness for a number of Asian post-Soviet states).

But if we are speaking about the classic scientific heritage, it may make more sense to turn to Walter Rostow’s theory of the stages of economic growth, according to which the countries that are engaged in modernization are able to borrow the technological, social, and values-related achievements of other countries, in this way economizing on resources and pursuing a shortcut to development. Many successful modernizations have been based on catching up, including Japan’s (both during the Meiji Restoration and after the Second World War), India’s, China’s, and Brazil’s. This doesn't preclude these modernizers in the end surpassing, in a number of aspects, the examples they followed, or creating completely new niches in the global economy by retaining the unique characteristics of their civilization and using them as a competitive advantage. This is why we agree with Vladislav Inozemtsev, who, in characterizing the upcoming Russian modernization as catch-up development, noted, “Modernization means building into the world, not rebuilding the world to suit yourself.”

But perhaps Yakov Pappe has arrived at the most successful definition of the socio-economic aspect of modernization: “Concerning the situation in Russia, where a major economy that is backward or temporarily lagging is trying to catch up to others, I would formulate the goals of development as follows: to approach in a number of parameters the economies of the countries which we a priori consider to be the most developed and with which we are trying to catch up, making allowances, of course, for the competitive advantages and limitations that we have.”

Understanding the problems of Russian modernization as catch-up development makes much more sense than might appear at first glance.

First, the motivation of the elites who act as initiators and executors of the modernization development depends on this. Before the onset of the crisis, motivation in the economy and in foreign policy was «weakening»; the heady successes in statehood consolidation and economic growth created the impression that what lay ahead was a smooth progression of development, a shift from the quantity of growth to the quality of development, technological and administrative adjustments, and reinforcement of existing trends through a reliance on substantial accumulated resources. This was compounded by a psychological unwillingness to accept the notion of “catching up” and a underestimation of the impact of the crisis on the elements of the economy, social policy, and the organization of society. However, self-indulgence is a poor motivation for modernization. As a rule, successful modernization has been motivated by despair (for example, in the aftermath of a lost war), national responsibility (the threat of losing independence and/or the recognition of the deplorable condition of society), or fear of approaching collapse. The economic crisis is unlikely to change the motivation of the Russian elite so radically, but it will at least be a cold shower that will make them understand that what is necessary are serious changes, and ideally—the mobilization of forces and self-limitation for the sake of resolving the modernization problem.
Second, when modernization is understood in this way, it makes the authorities change their public rhetoric. Society, if less so than the elite, had been brimming with optimism from the economic rise of the country and the restoration of Russia’s position as a global power. In a situation like this, the authorities need to be particularly careful in how they choose to formulate their development plans for positioning to the public.

For the strategists of modernization, there is danger both in maintaining the former “rentier psychology,” which makes it more difficult to seriously motivate the public in support of modernization programs, and in allowing society to succumb to a sudden disappointment or fear in the face of the possible consequences of the crisis. One of the VTsIOM (All-Union Center for the Study of Public Opinion) surveys showed a sharp increase in the number of crisis phenomena perceived by the public, as indicated by the percentage agreeing with the following statements: “The standard of living among the population is declining” (up from 3% in September to 22% on November 1–2, 2008) and “Unemployment is increasing” (up from 2% to 10%, respectively). According to Levada Center data from the survey of November 14–17, 2008, the number of people who had already seen specific consequences of the crisis increased sharply between October and November (delays in paying salaries went up from 10% to 21%, salary cuts increased from 6% to 17%, and layoffs went from 7% to 20%). Although the approval ratings for the president, prime minister, and institutions of power are stable, the optimism felt by society is beginning to fade: the number of respondents who declared themselves “optimistic” in answer to the question on the situation in the country fell to 49% (it had hovered at the 55% mark for more than a year, and in September a surge in patriotism pushed it to 61%). It is obvious that this growing pessimism expresses not real changes in living conditions, but the fears that have been raised under the influence of background information (reports from the mass media and by word of mouth).

Thus, the main point in the modernization strategy is not whether to consider it catch-up or something else (the compromise term “adaptive” could be suggested), but to clearly formulate goals and the paths to achieving them, along with the formation of a “coalition for modernization” on which the authorities, possessing the will to accomplish the assigned goals, could rely.

**Industrial or postindustrial?** We have had particularly many debates on this topic. The specifics of Russian modernization lie in the fact that it has to deal simultaneously with three historical strata, including the “early industrial” one. Some territories in Russia, such as the North Caucasus and, to a lesser degree, Buryatia and Tuva, have maintained elements of traditional practices that the current authorities are trying both to overcome (predominantly in the economy) and at the same time to preserve (mostly in politics). Agrarian overpopulation, clannish social organization, and the catastrophic condition of the social sphere are all serious problems in these regions. Russia also has always had colossal gaps in levels of development in different parts of the country and, as Andrei Ryabov correctly pointed out, has experienced the consequential effect of enclave modernization. However, the cost of having such large gaps is especially great in the twenty-first century: figuratively speaking, the microcosm of Russia has both its own Twin Towers and its own Tora-Bora, where the plans to destroy the Twin Towers are riping. Under today's conditions, such a gap becomes something of a challenge of civilizations, and the inability to overcome it will present a threat to the entire Russian state and society. Of the five I's that Medvedev articulated, it is perhaps only the “I-institutions” that relates to the early-industrial stratum; that is, implying a gradual process of institutional development that includes the component “I-investments.”

The second stratum is “reindustrialization” (or “pre-industrialization”), which includes the most varied of components, as well as the development of the traditional sectors, without which the economy of Russia could not exist. Above all this consists of those connected with
“I-infrastructure”—energy and railroads. In this stratum there are problems with the development of new oil fields and the technological refitting of the drilling industry, primarily for oil and natural gas extraction. This component is more or less clear to both government and business, in particular to the large state corporations. However, it is important to determine the optimal sizes and purposes for such investments. Based on the role of these sectors and their position in the modernization strategy, they may serve as a source of savings, as infrastructure for the development of other sectors, or as purchasers and consumers of high-technology equipment, but in no way will they be “the engines of development.” The multiplier effect created by the development of such sectors in classic models of modernization will unavoidably be limited in Russia.

Russian modernization is connected with the industrial phase in yet another sense. In the 1990s, establishment of the market was destroying the Soviet economic and social institutions (the economy, social networks, and science) and hierarchies, an effect that many in Russia considered demodernization. Those clusters of economic and social activity that had been flooded with resources for completely nonmarket, mobilization reasons were especially hard hit. At the same time, the entire science sector suffered, as did the entire social sphere, and all the sectors that were not able to fit into the market economy quickly.

Be that as it may, reindustrialization in Russia will not lead to growth in the quantitative social indicators—urbanization, education, and a workforce engaged in the industrial sectors of the economy. For us these indicators are sufficiently “industrial” as it is, while a modernization breakthrough in Russia is capable of providing not quantitative, but qualitative growth. **So that means postindustrial, after all?** Let us return to Pappe's authoritative opinion on the condition of the technologically advanced and successfully operating sectors of the Russian economy. In those areas where Russia has maintained its competitive advantages (the nuclear power industry, defense, and related dual-purpose sectors), we find not only growth, but also development. The very structures that were conceived as institutions of development—for example Rostechnologies and Rosnanotech (see Vadim Volkov's article in this issue of Pro et Contra)—perform at best the function of an “anti-crisis manager”: the money invested in them has been handled with “financial conservatism,” “oriented toward reducing risks, not maximizing a potential breakthrough.” And as a result, such structures expedite "secondary industrialization,” to reproduce “what is already there now—an economy based on the export of raw materials.” I would like to boldly conclude that the continuation of current economic policies will in the best case provide for quantitative growth within the framework of the existing economic model, which means it does not free Russia from being hooked on oil and will not move it in the direction indicated in Strategy-2020. The impossibility of the economy developing inertially follows from at least the loss of two of its main drivers: extremely high oil prices and a vigorously growing domestic consumer demand.

The second important argument, which substantiates the idea that the current development model has run into a dead-end, relates to the potential for developing human capital. The Russian workforce, which is relatively cheap and highly educated, cannot provide the country with competitive advantages in a traditional industrial economy. A low-cost workforce has been maintained in Russia through the use of migrant labor, but this method will not help to accomplish the strategic goals of development. The Russian workforce can become efficient given two mutually related conditions: the creation of massive numbers of jobs that could produce value commensurate with their cost, and the transformation of the workforce’s education into the necessary set of qualifications. This would necessitate a fundamental reshuffling of the educational system, as well as the institution of a system of continuing education and professional requalification. To put it differently, the path Russia must take in preparing its workforce is no different from the path taken
by the countries that have already entered the postindustrial phase of development: industrial jobs migrate to the Third World (for example, to India or China), while Europe and the United States create jobs for their “expensive,” highly qualified postindustrial workers.

Yet this human capital needs another social infrastructure: a pension system (more broadly, a system for the accumulation of savings), health care, and management of leisure time. For all intents and purposes, we are speaking here of finishing the “incomplete reforms” inherited from the 1990s—or, from a different perspective, of creating the infrastructure for the middle-class. In this area we have not yet reached the level achieved by the industrially developed—that is, postindustrial—countries.

Modernization and Democratization

The debate about the compatibility or mutual causality of these two concepts should not leave any doubt as to the need to liberalize and democratize the political regime. With the possible exception of Singapore, there is no other country in the world with such high levels of prosperity ($13,432 per capita GDP in 2007, with adjustment to the purchasing capacity) and social development that is not a democracy. The modernization process cannot help but be accompanied by the democratization of society.

The real question should be phrased differently: how should modernization and democratization be combined in time, and what sequence of steps should be taken toward modernization and democratization? The consequent dilemma has been recognized for a long time: democracy makes it more difficult to concentrate resources and slows decision making, while the absence of democracy deprives the modernizers of feedback from society (including businesses) and bears the inherent danger that incorrect decisions will be made and the channels of social mobility blocked. We agree with Iosif Diskin, who asserted that authoritarianism always strives to control and limit social initiatives, and this is damaging in a situation when “mobilization of the activity and independence of the social subjects” is a strict imperative.

It can hardly be doubted that the processes of social, economic, and political development must move in parallel and more or less synchronously over the intermediate term, and to an even greater degree over the long term. The short-term fork of possible outcomes, however, appears as follows: at a bare minimum, successful modernization will require the reinforcement of the rule of law, effective measures against corruption, and at least a basic set of conditions to allow for competition among the subjects of policies, programs, and ideas (including the appearance of institutional channels for criticizing authorities). After all, the right to criticize appears to exist already, for Kasparov and Kasaynov do criticize, yet this criticism in no way relates to policy making, which is reliably isolated from any kind of opposition. The discussion should probably center on the institutional channels for such criticism; otherwise everything reduces to merely hollering into an unresponsive void of government power. But the limiting factor here is clear: rifts in the political mainstream should not get too deep, and the coalitions among the political elite should not collapse.

Development Scenarios for Russia

In 2008, two different groups of researchers presented their versions of development scenarios for Russia. For all the differences in their methodologies, there was a high degree of correlation both in the formulated scenarios, and in the estimates of their probability. Using the methods of qualitative sociology, the research project conducted by a group from the Moscow State Institute (University) of International Relations (MGIMO) uncovered the public's attitude toward four scenarios, while the
analytical report of the INDEM Foundation and the Moscow Helsinki Group used mathematical methods to summarize the expert evaluation of five scenarios. 

Each group of authors formulated a pair of polar (and in many respects similar) scenarios for the development of Russia: an authoritarian/isolationist future (termed “Fortress Russia” by MGIMO and the “Defense Dictatorship” by INDEM) versus successful modernization and democratization (termed the “New Dream” by MGIMO and “Smart Russia” by INDEM). Many shared characteristics turned up in the “modernization-without-democratization” scenarios (called the “Kremlin gambit” by MGIMO and "Development Dictatorship" by INDEM), with more deviation between the essentially inertial scenarios (termed the "Russian mosaic" by MGIMO and "Sluggish Russia" by INDEM). The second group suggested a fifth scenario as well: “revolution.”

There was a meaningful correlation between the evaluations made by the population and by the experts (who are not connected with one another and moreover were evaluating different sets of scenarios). Both groups considered the most likely scenario to be “modernization without democratization,” while the scenario of democratic modernization was deemed not very likely, but at the same time was considered the most desirable in the evaluations by ordinary respondents.

The attitudes toward the “authoritarian isolation” scenarios turned out to be just as well expressed: the probability as evaluated by INDEM was 4.5%, while in MGIMO's research it was third out of four both in desirability and in probability; but emotionally, even the Russia’s Communist Party’s and Zhirinovsky’s LDPR party’s voters rejected it. The probability of the “revolution” scenario was also seen by the INDEM experts as low (1%).

We would like to point out one notable item: with a certain amount of conditionality, the “Russian mosaic” and “Sluggish Russia” scenarios are scenarios of inertia or aborted modernization. Both the experts and the respondents put the probability of occurrence of an inertial scenario in second place, but the latter consider it least desirable.

The overall verdict of the experts and ordinary citizens was as follows: modernization without democratization is probable and more or less acceptable, while modernization with democratization would be nice, but is rather difficult to believe in. Revolution and dictatorship in a fortress under siege are not needed. Sluggishness and inertia are not desirable but, alas, are quite likely.

Yet another point should be emphasized: in the opinion of the INDEM experts, in a severe crisis the “development dictatorship” scenario would remain the most probable, while the “sluggish Russia” scenario almost disappears, and second place goes to the “defense dictatorship” scenario, with the probability of the “revolution” and “smart Russia” scenarios increasing somewhat (see Fig. 1).

I would like to mention that similar scenario branches were indicated by the author of this article at the conference entitled “Russia: Challenges and Scenarios of Development,” which took place on October 22, 2008, at the Carnegie Moscow Center, as well as in the analytical materials “Russia and the Crisis,” prepared by the Center for Political Technologies on the basis of collective discussion.
Modernization: A Road Map

The impossibility of the tough scenario. Thus, as is clear from the way the problem has been posed, from objective modernization parameters, and from expert evaluations, the repercussions of the crisis mostly affect one aspect of the upcoming modernization. If the choice was virtually between successful and unsuccessful (“sluggish” or “mosaic”) modernization in a stable situation, then the crisis, on the one hand, introduces the risk of the authoritarian scenario, while on the other it makes the inertial scenario impermissible. In other words, after consuming all the reserve strength of the Russian authorities, the crisis should impel them to act decisively in order to avoid losing the trust of society.

Hypothetically, one of the options for such decisiveness could come about in the case of a severe development of the crisis, in particular massive layoffs. Such a turn of events still does not appear very likely. A slightly softened version of the same would be to further restrict the channels for opposition political activities. For example, if a recession and crisis phenomena (declining incomes, growing inflation, loss of jobs) give rise to protests (in other words, the beginning of a Toqueville syndrome), the authorities may try to erect new obstacles for the opposition and tighten the laws on parties, elections, nonprofit organizations, and mass demonstrations, and place even stricter control over the mass media. Especially since, in recent years, not a little experience has been gained with increasing the barriers to entry in the market of political competition. However, the ease with which such decisions are made is imagined. The reason why Russian society, including its socially active segments, agreed to the restriction of political competition is that there was not much need for protest: the social contract was being met by the authorities, and well-being was on the rise. Protests were either ideologized (as “marches of the disaffected”) or provoked by especially clumsy actions by the authorities (the “monetization of benefits” and the conviction of the driver, Scherbinsky, who
was charged after a speeding governor’s car collided with his, resulting in the latter’s death) or by employers’ stinginess (strikes held at well-off enterprises). Attempts to tighten the lid on a pressure cooker in which the water is about to boil, however, will be deliberately unproductive. On the contrary, it is in the interests of the authorities to create a release valve and promote the establishment of civilized forms of collective action.

We have to hand it to the Russian authorities: during both the crisis in the Caucasus and the stock exchange collapse they never flinched in the face of the dull waves of jingoism and the anti-Western and anti-market feelings rising in the political class, and never stopped reaffirming their dedication to the course of modernization.

Thus, the choice of strategy options for the Russian authorities is limited: a severe scenario, which may be provoked by a sharp worsening of the crisis, will not resolve the systemic problems, but only delay their resolution. The “inertia” (“sluggish”) scenario will gain them some time, but will require accelerated modernization in the foreseeable future. “Modernization without democratization” will at some time come to a point of bifurcation requiring a choice between putting on the brakes, or liberalizing the regime (with subsequent democratization). With a certain amount of conditionality, such a scenario tree would look like the following:

![Scenario Tree Diagram]

**The main thing is to get into the battle.** The Russian authorities cannot really be said to have a consistent program dedicated modernization. Their “Concept of Long-Term Development” to some extent plays this role. Nevertheless, many directions for action are obvious, and essentially without an alternative. From this standpoint, the program of actions contained in the president's address to the Federal Council contains important key elements.

**Law and politics.** The first of these actions, both in order and significance, is to “repair the government”: to reinforce legal principles, limit bureaucratic excesses, and to intensify battle against corruption.

This is an obvious course of action, and—no less importantly—there appears to be a consensus for it on the part of the vast majority of the elite, including those who were complicit in bringing pressure
on the judicial system and in corruption. However, as Thomas Carothers has warned, consensus with respect to such measures can be maintained only to the extent that they do not fall outside the bounds of the most basic measures (for example, establishment of minimum working legal relations in the business sphere). 23

President Medvedev’s posing of these problems is based on liberal principles: the law is viewed as safeguarding “the conditions for a truly human existence,” and the proposed measures address the most painful problems in the Russian judicial system (the need for independence of the courts, accelerated court proceedings, and the guarantee of enforcement of judicial decisions). On the whole, the package of anticorruption measures is based on standards that have been tried and tested in world experience. It is possible to argue with its specific provisions, but the most important thing is how those provisions will be put into practice.

As far as the reform of the political system is concerned, it will, obviously, also be of an evolutionary nature.

Medvedev’s proposals in his annual address to the Federal Council (on November 5, 2008) were, at a minimum, a signal that the trend toward concentrating power was over and, at a maximum, an indication that incremental liberalization was beginning. This gradualism is much in evidence. An instructive example is the increased transparency of the procedure for granting authority to the governors (candidates are nominated exclusively by a majority in the regional Legislative Council), but the more radical step of returning to electing governors was turned down by the president himself (although we did note his reservation, “for now and in the near future”).

A number of proposals have been de facto directed toward strengthening the institutional role of the majority party. It is the exclusive right of such parties to submit regional governor candidates to the Russian president for consideration, to make changes in the procedure how the Federation Council is formed, to initiate a constitutional amendment introducing the procedure for government’s reporting to the State Duma. The second block of proposals is aimed at expanding political competition: lowering the requirements for party numbers, loosening the seven percent barrier, decreasing the number of signatures needed for party registration in elections, expanding the parties’ access to the mass media, and condemning bureaucratic interference in the election process.

In and of themselves, these initiatives do not represent a solution to the core problems in the Russian political system. However, their overall direction stands in contrast to the trends of the past eight years: the legislative framework for political activity by the parties is expanding, not shrinking; bureaucracy at all levels is getting a signal to reduce administrative pressure. The ruling party gets at least a limited institutional lever to influence the executive branch.

If this trend is pursued consistently, it might open the way for a significant correction in the political regime, the realistic goals for which could become a combination of two factors:

• the transformation of United Russia from a “power party” (an entity controlled by the executive authorities and representing their interests in the legislature and to the public) to a dominant party—a broad coalition of mainstream elites, that would have real autonomy, would take positions on political power, and would work to influence personnel appointments;
• expanding the arena for political competition: creating the conditions necessary for normal activities on the part of the remaining political parties (including participation in elections,
having access to the mass media, enjoying relative equality in election campaigns, etc.). In
this case, the conditions will appear for strengthening new (or renewed) parties on both the
left and the right of the dominant United Russia party.

If the first factor is not accomplished, Russia will continue to drift toward a personalist-style
political regime. If the second factor is not accomplished, only minimal political competition will be
possible, and the country will begin to look like the “peoples' democracies” of Central and Eastern
Europe of 1950s–1980s.

The future of the Russian political regime will depend on how this new stimulus ends up working in
practice, how it will be utilized by the ruling party and the opposition, and, finally, how the
authorities react to the first shifts in the party field created by these phenomena. In an optimal
scenario, Russia could in several years shift to a qualitatively different, pluralist system with a
dominant party and a relatively weak but viable opposition holding various convictions. In a more
pessimistic scenario, political pluralism in Russia will remain in the same pitiful condition in which
it is today.

From the standpoint of modernization strategy, the most important thing is not who remains in
power and whether or not there will be a change in leadership. Rather, the main thing is that both
within the “party of power” (including the Kremlin-level authorities, the executive “power vertical”,
and the United Russia ruling party), as well as within other segments of the political arena, channels
have been opened that allow vertical mobility and competition of people and ideas. This is the only
way that a coalition for modernization can be formed.

The economic difficulties introduce yet another important dimension into the political reform
agenda: the legislative and administrative framework for regulating collective action needs to have
at least a minimum of flexibility restored. The well publicized idea of linking social organizations--
in particular the Russian Public Chamber—with law-making activity is wise, but does not resolve
the problem of grass roots activities, especially of protests. In order to fix the current situation, in
which any unsanctioned protest risks crossing a too-narrowly drawn legal field (as occurred in
Vladivostok on December 21), it is necessary to correct legislative regulations relating to strikes,
nonprofit organizations, and mass protests. This is the only possible measure—and moreover, a
preventive one—that will allow for a dialogue (even if it is not free of conflict) with society in the
event that the reasons for collective protest intensify.

**The economy and the social sphere.** The goals laid out in this sphere—at least verbally—also appear
to be correct. The president's address to the Federation Council set the goal to be at “the leading
edge of innovation” (with the comment that “it is not worth it to be tight-fisted” in pursuing this
goal, even during the crisis), to “flexibly combine the use of existing competitive advantages with
the creation of new ones,” and to help business “increase its effectiveness and enter new markets.” It
has an obvious focus in it on postindustrial model of modernization, without, of course, bypassing
the preindustrial phase. Objectives were also proposed for completing reforms in the social sphere—
specifically in education, health care, and the pension system.

However, the realization of these programs will require the consistent and successful resolution of
several sets of problems.

First, expenditures need to be minimized in order to overcome the financial crisis and the recession
that is already evident in the manufacturing sector. The “clots” that arose in distributing government
subsidies speaks not only to the weakness of the domestic financial system and malfunctions in government regulation, but also to the crisis of trust between bankers and their corporate clients. This problem may significantly complicate future economic policy.

Second, an adequate response must be found to address the difficulties that have arisen during the process of “anti-crisis regulation.” The correct assertions about the temporary nature of “forced nationalization,” the impermissibility of “dishonest competitive battles,” and the absence of any intent to control the newly acquired assets must be reinforced by specific government policy measures. The crisis, accompanied by changes in ownership relationships, gives the government an opportunity to readjust such relationships and increase their transparency (for example, by convincing companies to disclose their assets), but this can also be a temptation for the bureaucrats to try to “replay” the given relationships to their own advantage. For this reason, both a proactive anti-monopoly policy and anti-corruption laws are needed as soon as possible. Over the long term, the question will arise of denationalizing of the assets acquired by the government. The resolution of this problem is one of the key decisions to be made in the country's long-term modernization strategy. One can create “new oligarchs” from within the circle of close-ones, but a second, people’s privatization would be a better alternative if an adequate method of securitization of the distributed assets is found. In that case, not only will a new system of savings arise (including savings for retirement), but the middle class, along with its real investments, will be strengthened. This would represent a modernization reform of primary importance.

Finally, there is a third level on which the goals of economic modernization are addressed. The plans that have been announced to build an “innovation economy” and to break into new markets demands a particular type of owner and manager. I remind the reader that this is precisely the problem with our “institutions of development.” The current period of uncertainty, due to the crisis, is not the best time to demand a change in habits. But there may simply be no better time. The most important thing will be to reach the point at which owners and managers, in coming out of the crisis or recession, will have managed to acquire an ability for “postindustrial thinking”—if for no other reason than the fear that unless they become competitive on world markets, they will not be able to protect themselves from new crises or recessions.

I would add that, of all of the social reforms, the most important is education reform. The problem is not so much the quality of education, inasmuch as it is the creation of a proper system of motivation. In “laid-back” Russia, the leading motive for entering college (naturally, this doesn't apply to all higher-education students—only to a significant number) has become not a desire to receive a high-quality education and an ability to compete on the labor market (without which a career and high income are not possible) but a “token” diploma, to avoid working at a machine. This has led to hundreds of for-pay university departments, private colleges, and their “branches,” which for modest amounts of money allow candidates to acquire the infamous “token.” This is a degradation of the workforce and a distraction from the real needs of the labor market. There will be no modernization of the economy—let alone any newly created system—if the present situation continues.

The Will of the Authorities and the Coalition for Modernization

I still have not yet touched on the question of the diarchical nature of contemporary power in Russia. The role of “personality” in Russian history has always been great, and the current era is hardly likely to be an exception. However, the corridor within which these personalities operate is shrinking. It was the tandem of the second and third Russian presidents that has formulated the
modernization agenda. And it is this tandem that handles today's anti-crisis management and advances working plans for modernization under conditions in which the “inertia scenarios” are becoming practically impossible. The way their roles in this “tandem” have been distributed, and whether any changes will take place is important; after all, diarchical structures are by definition temporary. What is even more important is that the tandem should maintain a unity of will, and that this will should be directed toward modernization.

This is not an abstract wish. The constellation of factors described above indicates that, as always in Russia (as, for the bigger part, in the whole world), future modernization must be initiated at the top and executed from the top down. Both the social coalition to support such a project, and its motivating forces coalesce or strengthen only once modernization is under way. Successful modernization almost always means that a fundamentally different configuration will emerge—in comparison with its starting point—not only in the economy but in politics as well. Modernization itself will give rise to a new middle class, a new business community, and ideally a new bureaucracy. The formation and management of such a coalition is perhaps the most difficult task facing the Russian authorities—the heaviest “successor’s burden.”

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2 http://www.kremlin.ru/appears/2008/11/05/1349_type63372type63374type63381type82634_208749.shtml.
3 http://www.gazeta.ru/politics/2008/02/26_a_2649315.shtml.
4 Ibid.
10 VTsIOM. Press release no. 1092, November 12, 2008.
12 Ibid.
13 The apparent parallel with the aboriginal populations of such countries as the United States or Australia in fact does not work: emancipation of people living in a pre-class society is a totally different problem.
15 See, for example, Grigory Yavlinsky's or Valentina Fedotova's statements on “authoritarian demodernization,” in “Russia in the global and domestic worlds.” Nezavisimaya Gazeta, Feb. 21, 2001.
21 My commentary and conclusions have not been discussed with the authors of the scenarios. I feel it necessary to apologize in advance should any of the authors' concepts in my commentaries happens to be unwillingly distorted.
The crisis in regional perspective

Crises are sobering, and therefore there is hope that an understanding of the concept of the “corridor of possibilities” will arise in Russian politics, and that a more rational approach will prevail.

NATALIA ZUBAREVICH

The extent to which the world economic crisis will impact regional development in Russia will depend on its severity and duration. A strong and longlasting decline in the regions will afford no “quiet harbors,” just as there are already almost no countries unaffected, with the exception of those that have sealed themselves off from the rest of the world. Nevertheless, the crisis will not affect the Russian regions equally, and the exit trajectories for them will also differ, as suggested by the experience of previous crises.

Initial data on the way the situation has been changing in the regions show that the current crisis is by nature a center-periphery diffusion: it is spreading from the centers and regions most dependent on the global economy to the peripheral territories, which have participated in global trade much less. Spatial changes of this type have been described in Jonathan Friedman and Immanuel Wallerstein’s theory of center-periphery development, although what we are seeing now is a diffusion not of modernization, but rather of crisis which stands in the way of modernization.

A particular element of this crisis is that it raises doubts about the advantages of globalization. The thesis that globalization of the regional economies will favorably affect their development was confirmed in Russia during the whole of the transition period. Although a systemic crisis swept through the economy of the entire country in the early 1990s, some ten regions ended up being more stable, thanks not only to their competitive advantages (effects of scale, raw material resources, etc.), but also to the relative openness of their economies. The nation’s capital recovered more quickly from the fall through structural economic reconstruction, by attracting foreign investors, and by adopting new market institutions, while the leading oil and gas regions went through less significant rates of economic decline thanks to the export of resources. Beginning in the mid-1990s, to the belt of globalizing territories were added with “new exporters”—the regions producing metallurgical and chemical products reoriented for export. Their economies recovered faster.

The 1998 financial crisis struck the banking sector and the nascent market services sector, both of which were concentrated in the largest cities. At the same time, one result of the crisis was a rapid modernization of the services market by attracting international capital and then bringing in specialists from developed countries. The export sector of industry suffered not so much from the financial crisis as from an inadequate exchange rate, which the government had been shoring up over the previous period. The excessively high ruble exchange rate impacted export costs negatively during a period of structural decline in world market prices for raw materials. The decline in industrial production started before the crisis began (for January–August 1998 it was 7%), whereas after the default, as early as September 1998, rapid industrial growth began. The sharp decline in costs in the export sectors following the devaluation of the ruble and the subsequent increase in world raw material prices allowed the raw material-exporting regions to maintain their leading positions, although the largest agglomeration of federal cities grew even more quickly. Globalization
in the 2000s led to an expansion of the leading zone of growth: it included the port regions of the west and south, situated on the main trade routes.

The new crisis is developing differently. The greatest losses have been borne by the companies and markets most heavily engaged in the global economy (including through credit mechanisms). There are three mutually related processes that bring about negative consequences:

- the financial crisis itself, which struck the banking sector and the companies in various sectors of the economy carrying a large amount of foreign debt; the trust in the financial market necessary for issuing credit has been lost;
- the significant decline in world market prices for export resources by November 2008, prices fell more than twofold for oil and light metals, by 25%–50% for wheat, diamonds, and steel, and by 15%–20% for gold and timber; and
- the decline in global and domestic solvent demand, especially in the sectors of the investment cycle: export of metallurgical production declined almost twofold, while domestic demand for rolled steel, which is used in construction, fell sharply; in the cement industry, both demand and prices declined by 30%–40%.

The combination of these factors creates different levels of risk for the various sectors of the economy. The most problematic groups are banking, development (construction), and to a lesser extent the retail sector. The highest company debt load is held by the developers, who have been using mostly borrowed funds for construction. The retail chains also financed up to 70% of their new projects with borrowed funds. For the second group, the raw materials export sectors (ferrous and nonferrous metallurgy, oil and gas drilling, diamonds, the pulp-and-paper industry), the significant decline in world prices has added to its large amount of credit indebtedness, although this problem affects companies to different degrees, and the effect on government has been mitigated by the guarantee of budgetary support. At the same time, the greatest risks are in ferrous metallurgy, since the sharp fall in prices has been accompanied by a significant reduction in demand on the world market and in Russia. The third group consists of the import replacement sectors (the cement industry and auto manufacturers, especially those producing cargo vehicles), which have seen a strong decline in demand and risks are growing significantly owing to the decline in prices for its products.

The Russian export sectors and investment cycle sectors, as well as the banking sector, are characterized by a high degree of spatial concentration, so the current crisis will affect the regions to differing degrees. It is still difficult to measure the spatial impact of the crisis, since Russian regional statisticians are not accustomed to having to hurry (for comparison, preliminary information on the gross regional product and unemployment level for the first half of 2008 has already been posted on the website of the Statistics Agency of Kazakhstan, while similar data for the regions of Russia are available only for 2006). One must rely on reports in the mass media and expert evaluations based on analysis of the condition of the sectors and the structure of the regional economies.

Projection of industry risks across the country

For the industrial (including raw materials and processing) and service sectors, the crisis has not been uniform in its spatial projection; the sectors of industry that are subject to the greatest amount of risk are also nonuniform. In assessing the situation, we must take into account the labor requirements of the sectors and the condition of the individual enterprises. The greatest risks are
concentrated in ferrous and nonferrous metallurgy, not only because of the drop in world prices and in the demand for their production but also for other reasons. This sector is more labor intensive, but the employment optimization process for it has not been completed; moreover, the smaller and older enterprises have not received the investment necessary for technological modernization. The situation is exacerbated by the concentration of metallurgical assets in a small number of regions, in particular the Urals, and by the single-industry nature of the cities involved in the metallurgical industry. Recent statistics confirm these problems for metallurgy: in October 2008, energy consumption fell by more than 5% in eleven of the regions of Russia, including the majority of the metallurgical regions (Chelyabinsk, Lipetsk, Kemerov, and Vologda Oblasts, as well as Bryansk, which is engaged in conversion metallurgy and heavy machine construction).3

Most vulnerable in the coal sector is coke coal mining, which supplies primarily the Russian metallurgical enterprises, and coke production. The mines in the Kuzbass (Kemerovsk Oblast) and Pechora coal fields are mainly owned by metallurgical companies, which will keep both the coal and the iron ore assets in vertically integrated holding companies. As a result of the sharp drop in demand for coke coal and the low mobility of miners, reductions in the workweek and in wages will be unavoidable, but any decrease in the level of employment in the coal cities and towns will most likely be limited, since there is a high risk of inciting social tension and protests.

In contrast to the metallurgical cities and regions, the leading regions of the petroleum industry carried out a program of employment optimization as early as the beginning of 2000s, which was accompanied by a noticeable increase in unemployment in the cities of the Khanty-Mansiisk Autonomous District. In addition, population mobility is much greater in the oil cities of Siberia and the North than among the inhabitants of the metallurgical cities of the Urals, since the oil cities are inhabited by first- and second-generation migrants. Mobile inhabitants react to changes in the situation on the labor market more appropriately. There have been three instances of out-migration from the autonomous regions of the Tyumensk Oblast: during the first years of the systemic crisis (1991–93), during the period of extremely low oil prices (1997–98), and beginning in 2006, owing to the decrease in new jobs on the labor market. A consequence of the new crisis will be yet another increase in migration outflow, while at the same time the oil sector is not very labor intensive, and all of the large oil companies have already optimized their employment levels and outsourced the support and service enterprises. In addition, companies in the oil regions could lower tensions on the local labor markets by adjusting their shift employment. Compared to the oil companies, Gazprom has done much less for employment optimization in the Yamalo-Nenets Autonomous District, but here there is someone else who will pay attention: its problems are also the government's problems.

The pulp-and-paper combines are also located in single-industry cities, and the risks are therefore similar to those faced by metallurgy, the only difference being that the pulp-and-paper combines already went through a sudden structural market decline in the early 2000s. The owners therefore have faced surviving under difficult conditions, and the large enterprises have been more modernized and therefore are better prepared for the current crisis.

First to suffer in the machine industry were the manufacturers of cargo vehicles, with production localized in Naberezhnye Chelny (Tatarstan) and Nizhny Novgorod already beginning to decline. It is more difficult to evaluate the prospects for AvtoVAZ and other manufacturers of domestic passenger automobiles; as of November 2008, the market had only started to give in. Much will depend on the dynamics of the solvent demand of the population, government policy (the government has already announced an increase in customs duties for imported automobiles), and the time required for Western companies to open new automobile factories. The scale of the decline will
not become clear before sometime in 2009. Cement production is territorially more diffuse, with enterprises situated predominantly in the smaller cities, and the risks of a structural market decline will be softened by this sector's low labor intensity.

On the whole, if the crisis in Russian industry lasts only a short time (a year to a year and a half), the most severe problems will be limited to the single-industry cities and a few regions.

The crisis in the development and service sectors will affect most the development of the large cities in which these sectors are concentrated. The amount of risk for the largest cities of various sizes and status will vary. Moscow is distinguished by an extreme concentration of economic resources (see Table 1). It accounts for more than 23% of the total GRP of all the regions; this is a city with a postindustrial economy, with services reaching 80% of its GRP structure. Commerce and commercial services are extremely concentrated within the capital’s agglomeration, representing 25%–30% of the total volume in the country. Investment is also highly concentrated here, although investments have been redistributed within the agglomeration (at the end of the 1990s, every sixth ruble in the country was invested in Moscow, whereas in 2006 it was every ninth ruble). 20% of the new housing in the country is established in greater Moscow. In addition, Moscow has huge assets of its own, with a budget equaling more than 20% of the total budget of the RF regions, while over a third of all the investments in the capital are from the municipal budget (with less than 6% coming from the federal budget—that is, six times less). As these numbers show, against the backdrop of Russia as a whole, the economy of the largest agglomeration is immense, and the capital’s leaders should be able to soften the effects of the crisis. Moreover, the crisis will cool down somewhat an overheated labor market and excessive salary expectations.

Table 1. Breakdown of the main Russian social and economic indicators for 2006 for the largest cities, in %

<table>
<thead>
<tr>
<th></th>
<th>Moscow</th>
<th>Saint Petersburg</th>
<th>The Other 11 &quot;Million-Plus&quot; Cities**</th>
<th>Total for the Largest Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>7</td>
<td>7 (12)*</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Investment</td>
<td>16</td>
<td>11 (17)*</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>New housing</td>
<td>10</td>
<td>8 (20)*</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Trade product turnover</td>
<td>29</td>
<td>19 (25)*</td>
<td>8</td>
<td>4</td>
</tr>
</tbody>
</table>

* With the Moscow Oblast.
** Cities having over one million inhabitants, based on the 2002 census.

Saint Petersburg has a significantly smaller share of the indicators than Moscow, Saint Petersburg exceeding its percentage of the population by a trivial amount. The crisis risks to the northern capital remain relatively low, thanks to the special attention paid to it by the federal authorities, and not only through direct support from the federal budget (in 2006, the amount of federal investment in Saint Petersburg exceeded investment from the city's budget by 20%). Several large Russian companies have registered their legal addresses in Saint Petersburg and now pay taxes that help to fill the municipal budget.

One zone of risk during the crisis will be in the smaller service centers. These are chiefly the million-plus cities, in which development of the services sector and modernization of consumption
began to accelerate significantly only in the 2000s. Their weight in the retail market has grown noticeably in recent years owing to a massive influx of large retail chains (including international) and a growth in solvent demand among the population. In addition, because of the growth in residential construction, the share of million-plus cities in housing construction has increased. But the main problem—low investment attractiveness—remains unresolved: the investment share of these cities is less than their percentage of the population. It is obvious that the financial crisis will put the brakes on the already inadequate inflow of investment, and consequently on the rate of consumption modernization and on the standard of living. In an even more obvious form, the same problems are characteristic of the smaller regional capitals with populations of more than 250,000, in which expansion of the Russian retail chains peaked on the eve of the crisis. The medium-size and small cities in the country had no such significant impetus of the consumer modernization during the period of economic upsurge and therefore have nothing to lose.

The social consequences: Jobs and wages

As the experience of the crisis in the 1990s showed, the main approach used to adapt to the problems initiated by the transition to a market economy in Russia was not to cut employment levels (the unemployment level remained low during the mid-1990s), but to make large-scale wage cuts: by 1995, wages had declined to 40% of the 1991 level. This maneuver was followed by unstable growth, interrupted by the financial crisis, and by 1999 legal wages were slightly more than a third of the 1991 level. With this experience in mind, many experts have assumed that the primary reaction to the crisis in Russia will once again be in the form of wage cuts (and by excessive amounts, considering the fact that the economic declines of the early 1990s and during the financial crisis were less significant than the amounts cut from wages).

A consequence of the 1998 financial crisis was, for the first time, a significant fall in employment, with the ILO unemployment rate for the country as a whole growing from 9% to 13%. The employment structure changed significantly over the years of economic growth. As Vladimir Gimpelson's research shows, employment levels in the formal sector—the large and medium-size enterprises that provide the greater portion of GDP in Russia—steadily declined. In 1999–2005 the formal sector shed 10% of the workforce (4 million people), even though employment levels continued to grow in the budgeted-supported industries of the formal sector. Employment has increased among companies of the small business and informal sectors—the part of the labor market with the lowest productivity and the least social protection, where 45% of the employed work. The creation of new and modern jobs has been hindered by problems in the investment climate that destimulate the demand for labor. In spite of the economic growth over the years 2002–2004, the unemployment level in the country as a whole and in the majority of the regions has not gone down. Only in 2005 did it begin to decrease more steadily, falling in 2007 to the very low level of 5.6%.

Based on estimates from the Institute for National Economic Forecasting of the Russian Academy of Sciences, by the middle of 2009 the number of unemployed is expected to increase by 270,000–340,000 persons, with most of the layoffs affecting office workers and functionaries. With a total of 5 million unemployed, this will cause the unemployment rate to grow insignificantly to 7% of the economically active population—the level of the quite prosperous year of 2006. It is not easy to believe such numbers in light of the structural changes that have taken place in employment, specifically the greater percentage of jobs offering less in the way of social protection and the fact that layoffs have already begun at many large and medium-size enterprises, with the shrinking of the workforce proceeding quite rapidly. Nevertheless, only if this is a prolonged recession should the
The worst be expected: the unemployment level growing to 13%, as it did during the 1998 financial crisis period.

Compared to the country as a whole, the regional picture is much more differentiated: unemployment is practically nonexistent in the federal cities and the area around Moscow (1%–3%), while in most of the Northern Caucasus republics it exceeds 20%, and in Chechnya and Ingushetia it reaches 50%–70%, although the data for these two republics are not very trustworthy.

The changes in the regional employment picture during the crisis can be evaluated based on foreign and Russian experience. In the EU countries, as the economic situation worsens, unemployment increases more rapidly in developed regions than in the less developed areas, where it is already high. That tends to equalize regional differences. In Russia also, the last financial crisis somewhat equalized regional differences in the unemployment rate because of accelerated unemployment in the developed regions: in 1998, when unemployment in the country was at its highest, the best and worst indicators for some ten regions were separated by a factor of 2.9, while during the more prosperous year of 2002 these indicators differed by a factor of 5, and in 2006 by a factor of 6.4. Subsequent economic growth was accompanied by positive changes in the labor market, but in the most problematic regions the situation improved more slowly than in the economically developed regions, thus reinforcing regional differences. During the current crisis, the regional indicators will also be subject to cyclical change: the unemployment rate will increase more quickly in the economically strong regions, where it is now low, and more slowly in the poorly developed regions, where the shortage of jobs is a familiar problem.

If the economic decline and subsequent recession do not drag on for years, then drastic changes are unlikely to occur. But those regions with a greater portion of employed industrial workers are at greater risk than the other regions (see Table 2). Above all, this includes metallurgy and machine construction, which are more labor intensive but have had slower rates of structural employment reconstruction.

**Table 2. Breakdown of regions with the greatest number of workers employed in industry, as % of total employment**

<table>
<thead>
<tr>
<th>Oblast</th>
<th>2001</th>
<th>2006</th>
<th>2001</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vladimir Oblast</td>
<td>34.2</td>
<td>34.0</td>
<td>Yaroslavl Oblast</td>
<td>31.6</td>
</tr>
<tr>
<td>Kemerov Oblast</td>
<td>31.1</td>
<td>30.0</td>
<td>Tula Oblast</td>
<td>28.4</td>
</tr>
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<td>Ivanovsk Oblast</td>
<td>33.6</td>
<td>30.6</td>
<td>Udmurtia</td>
<td>28.9</td>
</tr>
<tr>
<td>Chelyabinsk Oblast</td>
<td>31.5</td>
<td>31.2</td>
<td>Samara Oblast</td>
<td>28.4</td>
</tr>
<tr>
<td>Sverdlovsk Oblast</td>
<td>32.3</td>
<td>31.0</td>
<td>Ulyanovsk Oblast</td>
<td>28.9</td>
</tr>
<tr>
<td>Nizhny Novgorod Oblast</td>
<td>31.5</td>
<td>26.4</td>
<td>Vologda Oblast</td>
<td>29.7</td>
</tr>
</tbody>
</table>

Source: Federal State Statistic Service, calculations by the author.

The real problems are concentrated at the municipal level, primarily in the single-industry industrial cities. As was noted earlier, the greatest unemployment risks are faced by the cities that lack modernized industries and rely more on labor-intensive production. It is here in particular that the social consequences may be most serious, both for employment and for salaries. However, specialists believe that the main mechanism will nevertheless be a correction to or a delay in paying salaries, since the regional authorities will oppose reducing employment out of a fear of increased social tension.
Such a scenario has already come to pass twice, in the early 1990s and in 1998, but there is some doubt that it will be the only scenario to take place a third time as well. The large companies located in single-industry cities where the employment-optimization process is still far from being completed—the metallurgical cities and cities of the automobile industry—are now able to move forward with it under cover of the crisis and will hardly overlook such an opportunity when there is such an urgent need to cut costs. In addition, the precipitous decline in production prices made the use of older low-efficiency assets unprofitable, especially in the medium-size and small cities of the Urals (with small enterprises in ferrous metallurgy, the copper and nickel sectors, and bauxite mining), the European North, and Siberia. The owners of these enterprises have already begun to curtail production; examples of this are the nickel plant in the city of Verkhny Ufaley and the Baikal pulp-and-paper combine, and the number of such examples will grow. It is important to consider that, compared to the 1990s, Russian big business has confirmed its capacity as owners, and thus is prepared to vigorously optimize both employment levels and assets. The regional authorities will no doubt oppose such measures, but business has a rather strong negotiating position: “War wipes the slate clean.” A compromise might be achieved in the form of significant severance allowances or laying off fewer workers, provided that the remaining workers be paid only a small tariff portion of their wages (their salary would then consist of this low tariff plus numerous flexible additional payments); the transfer of specialists and qualified workers to other parts of the company as shift employees is also possible. However, a significant reduction in the number of jobs for workers in such cities appears unavoidable. This process will be eased somewhat by the fact that significant numbers of industrial workers are approaching retirement.

In the federal cities, even large-scale layoffs in the banking sector and other market services sectors will not incur serious social consequences, since the agglomerates have a huge advantage in their diversified labor markets and offer a great number of alternative jobs.

A separate problem is the massive letting-go of construction workers, mainly migrant workers (including illegal migrants), many of whom had not been paid by their employers for several months, which makes it all the more difficult for them to leave the country. But no small number of those who have lost work will nonetheless leave Russia, and this is something that needs to be encouraged. For others, the authorities in the largest cities will be able to provide alternative employment in the form of lower-qualified labor jobs in the municipal economy. There is a high probability that the number of migrant workers and the number of jobs for them will gradually reach equilibrium. This applies not only to migrant workers from the CIS, but also to Russian migrant workers from adjacent regions working mainly in the numerous companies providing security or in business.

In all the larger cities, the most widely felt reaction to the crisis will be a decline in employment. The high mobility of the labor market should help ease the social consequences, and furthermore, labor force reductions in large cities are easier to execute: labor relations in the predominant employment sphere, the service sector, are more flexible and less formal, and on the whole the labor markets in the agglomerates react more quickly to both positive and negative changes than do other kinds of labor markets. First to react to the approach of the economic crisis were the largest cities in the country, which have the most well-developed service sector. As early as the first half of 2008, the per-capita income index for the population of Moscow began to exhibit a slightly negative dynamic (99.4% compared to the first half of 2007) against a backdrop of rapid growth throughout the country as a whole (119.6%). Growth continued in Saint Petersburg, but at a minimal rate (101.5% for the same period). The operational semiannual data will be corrected and a clearer picture will be obtained only once the results for the year are known.
There is yet another trend that affects the cities to a great extent: announced cutbacks in the numbers of government functionaries for a number of regions (Tatarstan, the Perm Krai and Ulyanovsk Oblasts, and the Altai Republic, among others). As some commentators have noted ironically, if it weren't for bad luck, there'd be no luck at all. And it is true that, from the end of the 1990s, the number of those working in government management more than doubled. These dynamics underscore the ineffectual structural transformation of the labor market during a period of economic growth, but at the same time, the picture differs significantly from region to region. As a rule, the greatest numbers of workers employed in management (7%–12% of the total number of employed) are in the poorly developed, highly subsidized republics. In such regions, this is the most enviable work; nothing else is comparable. Significant cutbacks in the numbers of government functionaries raise the threat of destabilization, and therefore a reasonable compromise needs to be found for these regions. The costs associated with supporting an excessive bureaucracy would probably turn out to be less than the expenditures needed to mitigate social and political tensions.

Analysis shows that the crisis will be expressed differently in the regional and local labor markets. The large cities will see simultaneous declines in both employment levels and real wages, and both declines will be maximal. As before, the raw materials–based regions and the main single-industry cities will apply different forms of wage reductions (such as paying “bare” tariff rates or delaying payment) while cutting back moderately in employment numbers at the cost of secondary production and less-qualified workers. But a “doomsday hour” that forces closures and massive layoffs may yet come to pass in several of the metallurgical monocities with the most problematic assets. For the poorly developed regions of Russia that do not participate in the global economy, the main mechanism will be a slight cutback in the numbers of budgetary workers, as well as cuts in their real wages, which tend to serve as a benchmark for other employers, although the extent of the cutbacks will depend on the rate of inflation and the amount of federal assistance.

**Budgetary risks**

Any crisis will increase tension in the budgetary system, but the risks here will also differ for the different regions, since in Russia the regions are sharply differentiated in their levels of budgetary funding. The effects of the crisis on the regional budgets will depend on three factors:

- the stability of indigenous revenue sources for the budget, which is most important for the economically developed regions;
- the credit load of the budgets, which again is a problem for the more developed regions, since the other regions were not allowed to borrow; and
- the stability of federal assistance, which is vitally important for the poorly developed recipient regions.

The stability of budget revenue in the regions where the economy is based on the export industry, especially in the single-industry regions, depends on the situation in the larger enterprises. The revenue structure of the budgets in these regions includes a high share of tax on profit, which is especially characteristic of the regions specializing in metallurgy—Lipetsk, Vologda, and Chelyabinsk Oblasts and Krasnoyarsk Krai (see Table 3). Moscow, where their headquarters are located, long ago became the main center of profit for the largest Russian companies in the oil and gas sector and the natural monopolies; therefore, in the capital’s budget the contribution of the tax on profit is maximal. Aside from the raw materials companies, profit in Moscow is provided by the
banking sector (80% of banking assets are concentrated in the capital), which is also not enjoying the best of times. The transfer of some of the companies to Saint Petersburg made its budget more dependent on the economic condition of Russian big business, although to a significantly lesser extent than is occurring in Moscow. For all of these regions, the problem of funding the budgets for 2009 will become noticeably more severe.

<table>
<thead>
<tr>
<th>Moscow</th>
<th>Orenburg Oblast</th>
<th>34</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lipetsk Oblast</td>
<td>Belgorod Oblast</td>
<td>32</td>
</tr>
<tr>
<td>Tyumen Oblast</td>
<td>Sverdlovsk Oblast</td>
<td>32</td>
</tr>
<tr>
<td>Krasnoyarsk Krai</td>
<td>Saint Petersburg</td>
<td>31</td>
</tr>
<tr>
<td>Khanty-Mansiisk Autonomous District</td>
<td>Samara Oblast</td>
<td>31</td>
</tr>
<tr>
<td>Vologda Oblast</td>
<td>Murmansk Oblast</td>
<td>30</td>
</tr>
<tr>
<td>Chelyabinsk Oblast</td>
<td>Tatarstan</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, calculations by the author.

It is the metallurgical regions, which have been living quite well in recent years, that suffer the most, since tax on profit is paid mainly into regional budgets (the majority of the metallurgical companies are “assigned” to these regions). For the fuel- and energy-based regions, the most important source of budget revenue was the tax on the extraction of minerals (MET), which used to be split 50:50 between the federal budget and the regions, but as early as the mid-2000s was nearly completely centralized in the federal budget: in other words, even before the crisis had begun, their main source of budgetary revenue was taken away. For the petroleum- and gas-based regions, taxes on profit for organizations play an important role, but a significant portion of the profit is determined at the location of the companies' main offices, typically in Moscow. This is also confirmed by budgetary statistical data: of all the taxes collected in the territory of the oil- and gas-producing autonomous regions of the Tyumen Oblast in 2007, 76%–82% went to the federal budget, while the share of taxes sent to the federal budget in the nearly single-industry metallurgic Vologda and Chelyabinsk Oblasts comprised 29%–32%, and in Lipetsk Oblast only 9%. The budgets of these regions will suffer significant losses during the period of the crisis, since the volume of production and the profits of the metallurgical companies have already started to fall.

The second risk is not industry-related, that is, it is not related to the inherited structure of the economy but rather is “hand-made.” It was caused by the risky borrowing policy that some of the regions and the investment funds they created had pursued. Moscow Oblast particularly distinguished itself by becoming the largest sub-federal borrower of all the RF regions. The Mosobltrastinvest Fund, created in Moscow by the regional administration, actually went bankrupt, and the total debt for the region exceeded half of its budget for 2007 (see Table 4). The federal government could hardly be expected to allow the default of a large region and will probably help to refinance the debt. The ability of the Yaroslavl and Samara Oblasts to pay off the credit obtained for co-financing infrastructure projects is now also highly uncertain. The problem is even more severe in Yakutiya, considering the 30% drop in world diamond prices, as it also is in the Belgorod Oblast with its metallurgical specialization. They are all becoming dependent on federal aid. The rest of the RF subjects will have fewer problems in repaying their debts.
Table 4. Breakdown of debt amounts of RF subjects (as of October 1, 2008) and the debt-to-revenue ratio in the 2007 budget

<table>
<thead>
<tr>
<th>RF Subject</th>
<th>Total Debt*, billion rubles</th>
<th>Loans to RF Subjects, bill. rubles</th>
<th>Revenue in the Consolidated Regional Budget for 2007, bill. rubles</th>
<th>Debt-to-Revenue Ratio in the 2007 Budget, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moscow Oblast</td>
<td>138.0</td>
<td>62.9</td>
<td>242</td>
<td>57</td>
</tr>
<tr>
<td>City of Moscow</td>
<td>110.4</td>
<td>74.6</td>
<td>958</td>
<td>12</td>
</tr>
<tr>
<td>Samara Oblast</td>
<td>22.2</td>
<td>19.8</td>
<td>82</td>
<td>27</td>
</tr>
<tr>
<td>Republic of Tatarstan</td>
<td>20.3</td>
<td>-</td>
<td>106</td>
<td>19</td>
</tr>
<tr>
<td>Republic of Sakha (Yakutia)</td>
<td>14.9</td>
<td>9.5</td>
<td>65</td>
<td>23</td>
</tr>
<tr>
<td>Kemerovsk Oblast</td>
<td>11.5</td>
<td>-</td>
<td>82</td>
<td>14</td>
</tr>
<tr>
<td>Yaroslavsk Oblast</td>
<td>9.2</td>
<td>6.3</td>
<td>35</td>
<td>27</td>
</tr>
<tr>
<td>Belgorod Oblast</td>
<td>8.8</td>
<td>3.7</td>
<td>46</td>
<td>21</td>
</tr>
<tr>
<td>Irkutsk Oblast</td>
<td>8.4</td>
<td>10.9</td>
<td>66</td>
<td>13</td>
</tr>
<tr>
<td>Omsk Oblast</td>
<td>7.9</td>
<td>-</td>
<td>51</td>
<td>15</td>
</tr>
</tbody>
</table>

* Total borrowing by RF subjects and regional investment funds created by the administrations of RF subjects.

Source: Ministry of Finance, calculations by the author.

Owing to the accumulated financial resources and the relatively stable condition of the federal budget, the federal government can provide stable assistance to the less developed regions. Transfers into the budgets of RF subjects over recent years has accounted for 13%–14% of total expenditures of the federal budget. For the vast majority of the least-developed republics, however, the share of federal assistance to the budget revenues has been much greater and has not decreased over the years of economic growth (see Table 5). This demonstrates the ineffectiveness of the policy of equalization and the stagnant nature of dependency. In actual fact, the federal center merely gave indulgences to the regions, rather than stimulation to develop their domestic resources.

Table 5. Breakdown of regions with the greatest amounts of nonrecoverable funds paid from the federal budget as revenue for the consolidated budgets of RF subjects, in %

<table>
<thead>
<tr>
<th>Region</th>
<th>2003</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chechen Republic</td>
<td>87</td>
<td>89</td>
<td>93</td>
</tr>
<tr>
<td>Republic of Ingushetia</td>
<td>82</td>
<td>89</td>
<td>90</td>
</tr>
<tr>
<td>Republic of Dagestan</td>
<td>79</td>
<td>77</td>
<td>79</td>
</tr>
<tr>
<td>Republic of Tuva</td>
<td>82</td>
<td>76</td>
<td>78</td>
</tr>
<tr>
<td>Chukotka Autonomous District</td>
<td>35</td>
<td>62</td>
<td>75</td>
</tr>
<tr>
<td>Altai Republic</td>
<td>68</td>
<td>73</td>
<td>71</td>
</tr>
<tr>
<td>Republic of Karachayevo-Cherkessia</td>
<td>72</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>Republic of Adygeya</td>
<td>51</td>
<td>60</td>
<td>63</td>
</tr>
<tr>
<td>Republic of North Ossetia</td>
<td>71</td>
<td>60</td>
<td>62</td>
</tr>
<tr>
<td>Republic of Kalmykia</td>
<td>44</td>
<td>49</td>
<td>61</td>
</tr>
<tr>
<td>Republic of Kabardino-Balkaria</td>
<td>73</td>
<td>58</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, calculations by the author.
If the crisis lasts no more than a year, noticeable changes should not be expected in the currently existing redistribution policy. But if the depression is protracted, it will be hard to continue to increase assistance to the problematic republics and the federal authorities will have to establish priorities. These are not difficult to define: in 2007, the budget of the Republic of Chechnya was a third more than the budget for Stavropol Krai (63 and 47 billion rubles, respectively), although the population of Stavropol Krai is 2.5 times greater. Per-capita budgetary funding in Chechnya exceeds the average for the country by 65%, and is two to three times greater than that provided to all the other regions in the Southern Federal District, including the most developed. This priority probably will not change, since the point is not just to finance the reconstruction of infrastructure destroyed in the war. Political stability costs dearly, and the federal authorities will certainly find the money. But even in the most favorable years it proved impossible to solve the problems of the North Caucasus by pouring money into the problematic areas: the budget of Dagestan in 2007 was only 60% of the budget of Chechnya, although its population is 2.5 times greater, and Chechnya’s per-capita budgetary funding was more than three times that of Dagestan. During a protracted crisis, the government will not have enough financial resources to soften the impact of the crisis in the republics of the South, but it will support the economy of Chechnya “to the last cartridge.”

The reinvigorating of regional policy through crisis: No cloud without a silver lining

Crises always play a cleansing role by forcing ineffective priorities in regional policy to be discarded, but at the same time, some projects are unlikely to be affected by a crisis. These projects were conceived for their political effects and include preparations for the Olympics in Sochi and the APEC summit in Vladivostok. The political significance of these projects is so great for the federal authorities that the resources needed to realize them will be allocated, even if other vitally important goals should suffer. Unfortunately, the crisis cannot lower the costs of the ostentatious “Russia rising from its knees” policy.

But all other priorities in the stimulation policy will most likely be reviewed. The economic growth of the 2000s established the conditions and created the resources to move from a mere leveling policy to a policy of stimulating development in the regions. Beginning in 2005, regional development strategies were conceived that were based on identifying the so-called regional “engines of growth,” to which their weaker neighbors could later be joined. The next step was to revive the Soviet priority of developing the east of the country and the large-scale industrial and infrastructural projects east of the Urals. For example, the Yakutiya development program includes metallurgical plants and hydroelectric power station cascades that will require investments totaling $20 billion, which is one and a half times greater than all of the direct foreign investment in Russia in 2006. The strategically important northern sea route has once again been announced, although the population and economies of the Far North have declined severalfold. Despite the crisis in the transportation infrastructure in the main population belt, where more than 90% of Russians live, the government has prioritized developing infrastructure in the zone where new natural resources might be obtained. However, it is dangerous to rely on resource wealth because of the structural market fluctuations in prices and the possibility of stagnation due to the “resource curse.” These risks have become illuminated by the crisis that has begun, and the ability to complete ultra-expensive resource projects will most likely decrease sharply.

In addition, the Ministry of Regional Development has engaged in planning specialization of regions for decades ahead, in the style of Gosplan. The regions are actually assigned industry specializations
in the Soviet style, despite what the future might hold for the different sectors of the market economy. The balance between the directive approach and the institutional liberal approach to regional policy has clearly shifted toward the former. But large financial resources are needed for directive policies and government investments, of which there will be little in the coming years—the crisis has hit.

Crises are sobering events, and as such there is hope that an understanding of the “corridor of opportunity” concept will take root in Russian regional policy, and that a more rational approach will begin to predominate. The factors of depopulation, population shifts into the more populous regions of the country and the largest agglomerations, and the lack of adequate human and financial resources for extensive development will all require a clear identification of priorities. In particular, it must be recognized that it is impossible to undertake any new development of the eastern regions or massive resettlement of migrants there; the clock cannot be turned back by pretending that there are no limits on resources. Life will force a change in orientation towards the development of large city centers, ports, and infrastructure corridors that support the less populated territories. The government will render only targeted infrastructural support for the most effective resource projects financed by private business.

For now, the Ministry of Regional Development hasn't grasped the idea that a regional stimulation policy must be based on the regions’ competitive advantages. Yet such a policy is needed so that the areas of exceeding growth can spur development in the country as a whole. Obviously, the growing competition of regions for human resources and investment has been underestimated, although it is specifically this competition, and not the plans of ministries or agencies, that will define spatial development in perspective.

The crisis will also accelerate the modernization of the institutions responsible for regional policy, but this is a long-term process. Instead of the government attempting to direct events, the goals of maximizing regional competitive advantages, coordinating government territorial strategy with business strategies, and mitigating the effects of the market collapse through effective redistribution must be addressed. For now, all we see is just another transformation of the role of the Ministry of Regional Development. Only a year ago the expert community was discussing what the possible consequences of Dmitry Kozak’s “superministry,” created with expanded authority, might be. The answer became clear in the period of the financial crisis: the Ministry of Regional Development will be transformed yet again (as it was in the 1990s) into an institution with vague goals and authority and with insignificant financial resources and government influence—a situation that will hardly allow the completion of any top-down projects. Cyclicality in the sphere of government management of regional development (involving multiple changes in the name of a ministry, its reorganization, dissolution, and reinstitution) occurs with perhaps even more regularity than do the cycles in the world economy. But in contrast to the economic crises, the invigorating effect of cyclicity approaches zero. The government has still not gotten over its love of directing, has not yet overcome the sense of its own omnipotence, and is still not ready to act effectively within a clearly understood corridor of opportunity.

As is the case with any sudden change the crisis increases an interest in forecasts, but in the event of an obvious lack of information, such an undertaking does not make much sense. Forecasting is somewhat easier for the regionalists, since spatial development is, after all, exceedingly inertial. If the crisis does not last more than a year, its regional projection will be more diffuse, and recovery
from the crisis will be yet another confirmation of the advantages held by the regions that are active in the global economy: they will grow faster because of the competitive advantages they possess. One probable political consequence of the crisis will be a review of the government investment programs. Although the priorities in this sphere will be determined principally on the basis of geopolitical factors, there will be fewer high-cost “cultivating” projects conducted in Siberia and the Far East. It is possible that the authorities will learn to make more rational decisions despite the efforts of lobbyists for large companies (even those belonging to the government). After all, the previous financial crisis did teach them how to run a budget without a deficit...

If the crisis is deep and long, it will have multilevel consequences for regional development:

- The worst enterprises in ferrous and nonferrous metallurgy will go out of existence, which will be a blow to the regions where they are concentrated (the Urals, and to a lesser degree the northern and the eastern regions).
- Unemployment will grow significantly in the single-industry cities that have more labor-intensive export sectors and some import-replacement sectors (machine construction).
- Employment in management positions will fall, but this is unlikely to be significant in the poorly developed regions where this sphere is particularly inflated, since these are the most valuable jobs in the labor market in such regions.
- The migration flow out of the leading oil and gas drilling regions in the northern zone (the autonomous districts of the Tyumensk Oblast) will increase and stabilize.
- Modernization of consumption and living standards will slow in the million-plus population cities, and especially in other large regional centers with populations of more than 250,000.
- Financing will be cut for high-cost and ineffective government investment policies in developing the eastern regions.

With the exception of the slowing modernization of consumption, all of the remaining trends work to cleanse the economy and the local labor markets, although with great costs for the population. The goal of the authorities is to mitigate these costs to households to the greatest extent possible. As far as business is concerned, on the whole it wins from such cleansing.

The slowdown in consumer modernization may give rise to greater autarchic or even xenophobic feelings, which have been increasing in the country. Perhaps the greatest risk for Russia is that the economy and the society of large cities could become less open to the outside world—that there could be a decline in the potential of the inhabitants of big cities to modernize. But this gloomy outlook is likely to come about only if specific political conditions prevail.

It will undoubtedly be a good thing for government investment policy to conduct a review of the highest-cost of the territorial development priorities, but the entire historical experience of Russia has shown that ineffective expenditures will definitely be made. Whether or not the crisis ends up being relatively short-lived, all efforts and resources in emergency operations will be thrown into enhancing the image of the authorities. And the construction of the Olympic Village may just eclipse the story of the Potemkin Villages.


“In the course of work.” Vedomosti, November 7, 2008.

Rosstat data for the end of November 2008. See http://www.gks.ru/bgd/free/b08_00/IssWWW.exe/Stg/d10/7-0.htm.


This low share is probably due to the fact that VAT payments are being made by the Novolipetsk Metallurgical Combine through a structure (legal entity) registered outside the oblast.
Will There Be a “Medvedev Thaw”?  

Even if the governing elite does decide to move towards liberalization, who specifically is prepared to make practical recommendations that the authorities could realistically rely on?  

MIKHAIL VINOGRAĐOV  

At first glance, expectations of a thaw in 2008 were unfounded and failed to gain any particular confirmation. Comparisons with the thaw of the 1950s do not stand up to critical examination. While the potential for an easing of the political climate had discussed in the expert community, these discussions were of a limited nature and did not energize intellectual life in any significant way; they were not put to use by the elites in their internal power struggles, and they led neither to détente in foreign policy nor to changes in the governing elite. In practice, the work of the law enforcement agencies also remained unchanged. However, a shift of a fundamentally different nature occurred in 2008, when the inertia that had characterized the political process during the 2005–2007 period and had blocked any possibility of serious change was cracked. The foundations of the existing system—a passive population, a political process reduced to a non-public battle between elite groups, and the lack of any alternative national strategy—remained in place, but the opportunities available to the authorities grew substantially. At the same time, the most varied political models—dirigiste, revanchist and liberal—remain possible for the course of national political development, and the proponents of each of these scenarios have tied their hopes to the authorities currently in power (who certainly haven't tried to dissuade them from doing so). The proponents of a dirigiste line remain optimistic because of the sharp increase in the state’s economic activity during the crisis and the activities of the state corporations, the revanchists draw their inspiration from anti-Western rhetoric and from the precedent set by the review of post-Soviet borders, and the liberals can be hopeful because over the preceding year, the authorities had relied partly on their recommendations.

Medvedev and the “Thaw”  

The word “thaw” used in connection to the possibility of Dmitry Medvedev becoming president was first heard as early as the day after Vladimir Putin announced his choice of successor. This author, however, expressed himself with caution: “Of all of the potential successors (who were predominantly of the KGB type), Dmitry Medvedev stands out in his humanness” was followed immediately by the qualification, “the new heir appears to be a weak politician.” We will be able to speak about a thaw only after Putin has left the scene entirely: it cannot be ruled out, after all, that they are “once again leading us down the garden path.”[1]  

There were several reasons to anticipate a thaw. First, some experts considered Vladimir Putin himself to be the main instrument of a “freeze.” Accordingly, his departure from the presidency was seen as opening a window of opportunity for at least a partial correction in the political direction. Second, there was a certain amount of exhaustion from the intense itinerary, as manifested particularly during the State Duma election campaign in 2007, when harsh invectives were directed toward the “cursed ’90s” and the “enemies of Putin.”[2] And third, Dmitry Medvedev himself was in no hurry to reject the notion of a thaw, and even seemed close to its most active advocates, in particular Igor Yurgens.
Analysis of the actions undertaken by the authorities during the first half of 2008 shows that the number of steps taken that could be considered as portending a thaw greatly exceeded the number of steps that would deny such a prospect (see Table 1).

<table>
<thead>
<tr>
<th>Arguments in favor of a thaw</th>
<th>Arguments against a thaw</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Dmitry Medvedev, the most “soft-line” representative of the “successor pool,” nominated on December 4, 2007</td>
<td></td>
</tr>
<tr>
<td>• Weakening of the position of the Nashi movement due to its reorganization in January 2008</td>
<td></td>
</tr>
<tr>
<td>• Medvedev’s “Freedom is better than no freedom” speech in Krasnoyarsk on February 15, 2008</td>
<td></td>
</tr>
<tr>
<td>• The nonaggressive style of Medvedev’s presidential campaign in January–March 2008[3]</td>
<td></td>
</tr>
<tr>
<td>• A series of publications and speeches in February–July by Alexander Budberg and Igor Yurgens (close to Medvedev’s team) that raised the possibility of a thaw and emphasized how serious in his convictions Medvedev was, the real top person in government[4]</td>
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<td>• Establishment of the Institute of Contemporary Development in March as the potential “brain center” for the thaw</td>
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<td>• Refusal on March 21, 2008, to consider a legal amendment that would have provided for stricter regulation of Internet access</td>
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<td>• Restoration of air service with Tbilisi on March 25, 2008</td>
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<td>• Establishment of discussion clubs within United Russia on April 9, 2008</td>
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<td>• Repudiation of United Russia’s claims to participation in forming a “party government” in May 2008</td>
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<td>• Presentation on May 12 by Elena Valyavina, first deputy chairperson of the Court of Arbitration, of witnesses’ testimony about pressure on the court exerted by officials of the presidential administration</td>
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<td>• Medvedev’s declarations in May–June 2008 that administrative pressure on business would be restricted and raiders would be opposed</td>
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<td>• Contrary to the expectations of many</td>
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<td>• The campaign against the activity of the British Council in Russia in January–February 2008</td>
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<td>• Angry speeches by some pro-authority ideologues and experts opposing a thaw</td>
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<td>• Continuation of the hard-line foreign policy rhetoric with respect to Ukraine and other CIS nations, especially in connection with the NATO summit in Bucharest on April 2–4 2008[6]</td>
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<td>• Putin’s appointment as head of government on May 8</td>
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<td>• Closure of the newspaper Moskovsky Korrespondent following the “Kabaeva affair”[7] (the reports in press about the alleged affair between Putin and the former gymnast and now Duma deputy Alina Kabaeva) in June 2008</td>
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<td>• Administrative pressure on the managers of TNK-BP in June–July 2008</td>
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<td>• Russia’s veto of the UN Resolution on Zimbabwe, in contradiction to promises made by the RF president during the G8 summit in June</td>
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<td>• Continued use of the power structures to settle interdepartmental conflicts within the government: on June 11, 2008, Alexander Bulbov’s term of arrest was extended and on September 30, 2008, that of Sergey Storchak was as well; on March 28, 2008, Dmitry Dovgy was removed from office, and on August 19 he was arrested</td>
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<td>• The “Mechel affair” in July</td>
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experts and officials, the imitation repressive model for combating corruption was not initiated in May–June 2008; these predictions had anticipated demonstrative acts of repression and an abrupt increase in the power and influence of the law enforcement agencies
• The decision rendered by the Constitutional Court in the case of Manana Aslamazyan on May 27, 2008
• A halt in the creation of new government corporations (the last of which, Rosatom, had been formed in December 2007)
• Formulation of the Krasheninnikov amendments in June, which opened the potential for a quick release of Mikhail Khodorkovsky; at the same time, the idea of Khodorkovsky’s potential release in the near future began to be mentioned with increasing frequency in the mass media
• Rejection by the State Duma on June 27 of the Shlegel amendment to the Law on the Mass Media
• Mintimer Shaimiev's speech of June 14, 2008, in favor of a return to gubernatorial elections
• Liberal pronouncements by members of the government during the St. Petersburg Economic Forum in June
• Administrative pressure with the purpose of introducing a price freeze on essential goods gradually fell to zero (most of the administrative limitations were lifted between January 1 and April 1, 2008)
• The Khabirov case in July: removal of the head of the presidential administration of Bashkortostan from office and an attempt to expel him from United Russia demonstrated the willingness of Bashkortostan president Rakhimov to stand up to the federal officials; a precedent was thus established for enhancing the autonomy of the heads of the larger regions

Expectations of a thaw were also voiced in discussions among experts in the spring and summer. These discussions proceeded along two lines.
The first had to do with how the actions of the authorities should be interpreted from the standpoint of a potential warming. Although no consensus ever emerged, even the most uncompromising critics of the authorities noted a certain easing of the climate. In the words of Vladimir Milov, “under the right circumstances, a ‘velvet’ scenario could very easily take place in Russia, one that doesn't assume mass unrest, but is nevertheless associated with increasing pressure by the most active part of society on the authorities in order to ‘push’ them into changing. Enough of this playing ‘protect the fatherland’—it's time to get back to a normal European path of development.”[8] This opinion was shared by many political experts. As Igor Bunin, president of the Political Technologies Center, noted, “we can now speak about a thaw; all of the indicators are there for one.”[9] However, advocates of the “being led down the garden path” hypothesis advanced in December by Ilya Milshteyn turned up as well. In the opinion of Ilya Barabanov and Andrey Kolesnikov, “before our very eyes, the Kremlin was playing a classic game of ‘good cop, bad cop’: the successor was liberal, a good man who seems to exude the promise of ‘thaw’; Putin was abrupt and rude, telling his Western partners they’d better learn how to cook borshch.”[10] Commenting on the outcome of the Mechel affair, Kirill Rogov asserted that “the roles have finally been established for the premier and the president: one is to frighten, the other to soothe.”[11]

The second line of discussion dealt more generally with the relative acceptability and permissibility of a thaw. Its adherents made their manifesto public in July 2008 in a report of the Institute of Contemporary Development, “Democracy: Development of a Russian Model.” In responding, opponents of a thaw scenario did not hold back. Gleb Pavlovsky noted that in conversations concerning a thaw, “the new administration’s programs (frequently the modernization programs) are replaced with alleged ‘renewal’ programs, which instead are actually destructive and obstructionist. The ‘thaw’ scenario in Russia is the destructive orgy of a good-for-nothing nomenklatura.”[12] Pavel Danilin asserted that “those who espouse some sort of ‘thaw’ could perhaps be compared with Goebbels in their blatant lying and baseness. It is quite apparent that their main thrust is not to ‘soften attitudes,’ nor to get away from the ‘aggressive rhetoric’; their chief aim is the destruction of Russia.”[13] In addition, Vitaly Ivanov wrote in June: “It has already become crystal clear that there is a greater likelihood of a thaw occurring on the Moon than in Russia.”[14]

The watershed moment was the Russo-Georgian war. In its aftermath, essentially all commentators have come to agree that there will be no thaw. Critics write that “the war resulted in the total political and moral bankruptcy of those who had been propagandizing ‘liberalization,’ ‘thaws’ and ‘demobilization’ in all of their permutations”[15] and promise to prevent “political slush.”[16] The liberal publications, for their part, do not just admit the collapse of hopes related to a thaw, they occasionally predict even more intense freezes. Kommersant Vlast noted in early September 2008 that “one notable consequence of the conflict with Georgia can be considered to be the final defeat of hopes for liberalization in politics. An inevitable consequence of the new foreign policy will be a sharp upswing in ‘rally-round-the-flag’ sentiments, a process that will definitely lead to new persecutions of radical opponents. One consequence of a new cold war would be a noticeable decline in the number of Russians traveling abroad.”[17]

However, within just a few weeks the apocalyptic predictions began to abate. Such a shift in attitude can be explained by several reasons: upswings in military-patriotic feelings in Russia (such as after the NATO bombing of Yugoslavia, at the start of the Iraq war, and during the relocation of the Tallinn monument) usually last no longer than a few weeks. Despite the dramatic events of the August war, the upsurge in public interest in this topic had already run its course by early October. Thereafter the developing financial and economic crisis and the election win of Barack Obama fundamentally changed both the agenda and the international alignment of
power. Russia modified its previous stern pronouncements and took an active role in developing anticrisis measures during the G20 Meeting. Finally, a number of internal political decisions were made that would not otherwise have been expected and that occasionally contradict one another and do not resolve into any kind of overall strategy (see Table 2).

Table 2. The Political Steps of October–December 2008

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<th>Steps in line with the logic of a thaw</th>
<th>Steps that logically indicate a freeze</th>
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<td>• Release of Sergey Storchak from detention on October 20</td>
<td>• Increase in term lengths for president and Parliament (approved by both houses of Parliament in November)</td>
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<td>• Replacement of the authorities in Ingushetia on October 31</td>
<td>• Medvedev’s sharp rebuke on November 18 in response to a suggestion to return to gubernatorial elections</td>
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<td>• Increased activity of the Institute of Contemporary Development in November–December</td>
<td>• An increase in import duties on used foreign automobiles on December 9</td>
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<td>• Initiatives within the November Presidential Address to the Federal Assembly to reinforce parliamentary control over the government</td>
<td>• Adoption of amendments limiting the use of jury trials by the State Duma in their third reading in December</td>
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<td>• Creation of the Pravoe Delo party (November 16), with Igor Yurgens among its leadership</td>
<td>• Introduction of amendments broadening the definition of the “state treason” concept in December</td>
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<td>• Luzhkov's speech on November 17 in favor of the restoration of gubernatorial elections</td>
<td>• Concentration in the hands of the government of the authority to compile the list of companies that will receive financial assistance (December)</td>
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<td>• Reorganization of Rossvyazkommnadzor on December 3 and the retirement of its head, Boris Boyarskov</td>
<td>• The brutal dispersal of protesting automobile drivers in Vladivostok on December 21</td>
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<td>• Appointment of Nikita Belykh to the position of governor of the Kirovsk Oblast on December 8</td>
<td>• Continuation of the anti-Western campaign in the state-run mass media (with emphasis on the role of the United States in the financial crisis)</td>
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<td>• Development of a draft by the Federal Migration Service in December rescinding the mandatory registration of citizens based on their place of temporary stay</td>
<td>• Refusal to take a decision in the case of Bakhmina (former Ukos lawyer) to free her before the end of the term</td>
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The contradictory nature of these tendencies went nearly unnoticed by the experts; at best, they spoke of the authorities’ attempt to combine “hard-line foreign policy approaches that border on creating a new ‘Iron Curtain’ with a certain amount of liberalization in domestic policy.”[18] Meanwhile, proponents of a thaw are splitting more and more distinctly into those who see an opportunity in ongoing events to soften the regime (using terms like “democracy” and “modernization” instead of a “thaw”) and those who hope that the current political order will be shaken by the economic crisis and an increase in protest activity by the population. In characterizing the activities of the latter, Vitaly Ivanov asserts: “Not long ago, the liberals were hoping for a ‘thaw’; now they see their opportunity in the crisis.”[19]
Components of the Thaw

Despite frequent use of the term “thaw” during expert discussions in spring and summer 2008, its essential meaning has been subjected to practically no analysis. Vitaly Ivanov also noted this lack of a common understanding of the term: “Some consider the ‘thaw’ to be a universal synonym for ‘liberalization,’” and don't think too much... about its historical significance. Others, consciously comparing Putin's epoch with Stalin's, now accordingly predict a thaw under Medvedev, just as there was under Khrushchev. […] For some, ‘liberalization’ represents a rejection or at least reduction of Dirigism, Corporatism, and Social Populism in economic policy, the ‘rehabilitation’ and restitution of economic liberalism in its Gaidar/Chubais, Illarionov and other versions. For others, it means a gradual restoration of the notorious ‘political competition,’ which will involve depriving United Russia of its special status, easing the procedure for the registration and operation of opposition parties (including those of an orange shade), instituting direct elections for regional heads, easing control over national television channels, and so on. For the third group, it will mean a new ‘friendship’ between Russia and the West, during which we again will be asked to ‘listen’ and ‘learn.’ There are those for whom the entire awaited ‘liberalization’ has been reduced to the removal of a handful of figures from the Presidential Administration and the power structures.”

Olesya Yakhno for her part assumes that a thaw would bring about the following changes: democratization of the political system as a mechanism for establishing and regulating relations between the state and elites and between the state and society; institutionalization of power (with the president remaining the main figure but the other branches of power, the legislative and judicial, having to go beyond the framework of formal authority and acquire political autonomy); the existence of a real public policy and political competition; mobility in the political system, with “dehermeticizing” of the elite; the ability to renew personnel based on professional principles; decreased administrative control over federal television channels; investigation of political murders; and the freeing of economic prisoners. “A thaw under today's conditions would not so much mean an overall democratization as a fundamental reform of political and economic relations on the whole.”

It would be unlikely that all of these changes could be accomplished in full measure, even if fundamental changes were made to the very foundations of the political regime: the instruments of power were developed and perfected over the 2000s have been adopted by the current political elite, and it is difficult to imagine that the elite would abandon them completely. In order to evaluate the extent to which the authorities themselves intend to transition to a thaw policy, the probability of the kind of changes occurring that could affect individual political trends and thus would indicate the level of preparedness to conduct liberalization must be investigated.

Rejection of political repression. Over the past few years, public policy in Russia has become mostly cosmetic. By establishing stricter control over political life in the country, the authorities have succeeded in achieving a situation in which public politics are run independently from the real struggle to get decisions made. In conditions such as these, the authorities can get by without resorting to repressive measures against their opponents. Those who have openly opposed the regime have not been given long prison terms (with the exception of the Khodorkovsky case and the numerous severe sentences handed down against Eduard Limonov's cohorts).

More frequently it is those participating in the infighting between groups of nomenklatura who become the objects of persecution. Clear examples at the federal level were the cases of Sergey Storchak, deputy minister of finance; Alexander Bulbov, head of the Operations Logistics
Department under Rosnarkocontrol; and Dmitry Dovgy, former head of the Investigative Committee under the Prosecutor General.

Such methods are less commonly used against governors. Only Aleksey Barinov, head of the Nenetsk Autonomous District, was tried and sentenced, while other criminal cases and searches of governors’ offices were resolved in compromise. In the Amur Oblast, administration heads Leonid Korotkov and Nikolai Kolesov were removed from office, after which the criminal cases against them were closed. In Primorsky Krai, law enforcement agencies refused to issue complaints against Sergey Darkin once he had gained political support at the federal level. More often it was the heads of the municipal structures who felt the pressure: with the participation of law enforcement agencies, the administrative heads of Arkhangelsk, Vladivostok, Volgograd, Pyatigorsk, Stavropol, Tambov, Tver, Tolyatti, Tomsk, and Khanty-Mansiisk and several other mayors were declared to be under investigation or were forced to resign under pressure from the regional administrations (Bryansk, Kostroma, Orel, and Saratov).

Total abandonment of the use of criminal prosecutions and arrests in the *nomenklatura* infighting seems unlikely in the near future, but there is little reason to expect that such means will be used more intensively at the federal level. Expectations of a possible reshuffling within the power structures (especially in the Ministry of Internal Affairs and the Office of the Prosecutor General) will restrict their independent activity in bringing criminal cases against high-level officials.

**Liberalization of the electronic mass media policy.** The government’s media policy currently is based on the following:

- A deliberate decline in interest in political information. A never-ending cycle has been set up here: the uniformity of political news reduces the demand for information among the citizens, while the television channels, not wishing to get into any conflicts with the authorities or lose television ratings (STS, TNT, Muz-TV), do not include any news in their network programming;
- Regulation of informational and political programs on federal television channels. Control over television is used to promote the popularity of the president and the prime minister and to shape public opinion on matters of most significance to the authorities; and
- An attitude of tolerance for relative editorial freedom on the less important television and radio channels and in printed mass media, on the radio, and on the Internet. The consolidation of a number of the leading mass media under the control of businessmen who are close to the authorities (such as Alisher Usmanov and Russia Bank shareholders) did not, contrary to fears, lead to any real modification of their information policy. The main risks here relate less to a tightening of the screws and more to the effects of the economic crisis, which could result in some publications closing.

The main problem for the authorities in 2009 might turn out to be the low quality of information-based work among the government television channels. With the disappearance of the competitive component from political news coverage, all three main federal channels simply repeat the authorities’ point of view mechanically. They make no attempt to offer convincing explanations of the behavior of those at the top, nor do they engage in discussions with anyone who might hold a different view. As social tensions potentially begin to grow in 2009, a modification of the federal television channel information policy will be vital.

**Openness of the political process to the public.** The complete or partial dismantling of a significant number of political institutions in recent years means they are no longer the centers of decision-making, and the procedure of political decision-making has itself become
nontransparent. Discussions on the economy and politics and squabbles between competing groups are allowed to be broadcast in the mass media to relatively small audiences, but their influence on the real decision-making process is negligible. In the summer of 2008, interclan conflict erupted in the public arena (a great number of information leaks were published on the conflicts between the Prosecutor General and the Investigative Committee, Rosnarkocontrol and the Investigative Committee, the battle between TNK-BP shareholders, and so on). Given the duopoly that exists in Russian political life, the question of public openness of the levers of power will likely become even more important. However, it is unlikely that the public political institutions that are currently on the periphery (the State Duma, Federation Council, and the political parties) will join this battle.

**Changes in the role and the competitive nature of elections.** The declining role of elections has been largely a reaction to the “color revolutions.” It was then that the course was set to transform the political elite into a closed corporation, with outsiders gaining access only with the greatest difficulty. Elections are no longer an accessible legal pass to enter the political elite. There are several factors that could increase the importance of elections:

- The insufficient return (in the eyes of the authorities) from the party projects (including United Russia) that had been guaranteed government preferences. The hypothetical possibility that this is so is manifest in the pronouncements of the authorities that the presence of social organizations in elections to public office at the municipal level should be expanded;
- A transition to a greater use of alternative party projects (A Just Russia, Pravoe Delo, etc.) in the infighting between nomenklatura groups;
- The need to increase the motivation of the regional heads in a time of economic crisis so that they will work to influence public attitudes. Currently, a significant number of appointed governors, having neither the skill nor the need to do otherwise, have consistently removed themselves from any dialogue with the citizens.

**Changes in fundamental personnel policies.** Yet another method for renewing the governing elite (beyond enhancing the role of elections) could be to change the criteria for selecting personnel. Medvedev formally noted the insufficiency of personnel available for government service back in the summer. However, the proposed remedies (such as the formation of a personnel reserve) have largely been mere propaganda slogans rather than instruments for renewing the elite or creating new social lifts. Still, the appointment of Nikita Belykh as governor of Kirovsk Oblast has demonstrated a relatively tolerant personnel policy, although not to the extent of overcoming the clannish nature of such appointments (it is widely believed that Anatoly Chubais lobbied for Belykh’s nomination as governor).

It is possible that the personnel policy in the near future will focus less on restoring the upper nomenklatura and more on filling the new vacancies created within the framework of anticrisis measures as a result of the state’s acquisition of a number of large assets. Appointments of this nature can be fraught with serious risks of corruption: the buying of employment positions and the “privatization” of management within nationalized companies could open up opportunities for mutual interaction between state officials and businessmen.

**The thaw in international relations.** Barack Obama’s election has raised hopes of a delayed thaw in relations between Moscow and Washington. The broad support that Obama enjoys in Western European countries limits Russia’s opportunities to play on the contradictions between the United States and members of the European Council. It would also be extremely difficult to try to establish alternative anti-American foreign policy camps using the partnership relations
with Belarus, Kazakhstan, China, India, and Venezuela, for such coalitions would require significant political or economic concessions from Moscow.

At present, a number of limiting factors preclude dropping the inertial foreign policy out of the predictions. These factors include the following:

- The thrust of diplomatic efforts is to achieve propaganda results domestically (opposition to NATO expansion, counteracting Georgia and Ukraine, casting the United States as the instigator of the global financial crisis, and so forth);
- There is little interest in international policy among the public and the elites. Attention is always focused only on individual events and only for a short time, after which the topic is neglected indefinitely (no particular interest is now aroused either by the political situation in Serbia or by the energy conflicts with Belarus, the Russian-Polish disagreements, and so on);
- Lack of experience in pursuing the subtle game of diplomacy; and
- A growth in pro-Western feelings among post-Soviet elites (Belarus and Uzbekistan, and in the future Kazakhstan and Armenia).

Overall, there is still less demand for a thaw in foreign policy than for one in domestic politics.

**Economic liberalization.** In the sphere of big business, the structure of power structure was changing in 2008, with the surviving oligarchs ending up even more dependent on the upper echelons of power. Moreover, it is not yet clear whether this process will be accompanied by additional pressure on big business to remain loyal to the current authorities. It is noteworthy that of all the representatives of the business sector who have maintained their political and economic influence, at least two are inclined to set out on their own independent political voyage, Mikhail Prokhorov and Anatoly Chubais.

On the whole, a renewed dirigiste trend in economic policy does not mean that the position of small and medium-sized businesses will be weakened, since the oligarchs have no such interest and the government does not yet have the instruments for the total consolidation of private enterprises. While the small and medium-sized businesses have only limited resources to lobby for their interests, the government, in light of the economic crisis, might reorient itself to support smaller businesses, to help citizens survive. However, such a step cannot be fully put into practice without weakening the political and economic influence of law enforcement agencies.

**A beginning of discussions on the previous political period.** Although this topic may seem to be of a secondary importance, and despite the peripheral nature of humanitarian discussions in contemporary politics, it was specifically the threat of a revision of Putin's legacy in 2008 that prompted some representatives of the elite and expert community who are inclined to support the authorities to disavow the idea of a thaw.

However, as the events of late 2008 (including the unrest in Vladivostok) have shown, attempts to shift responsibility for today’s economic difficulties onto the current president (“under Putin everything was fine, under Medvedev there’s a crisis”) will not succeed. Medvedev, for his part, is not inclined to blame the “cursed ’90s”; on the contrary, in his annual Presidential Address to the Federal Assembly he referred to the 15-year period since the Constitution was adopted as a single historical era.

Society on the whole is hardly likely to be any more receptive in 2009 to discussions about recent political history. Nevertheless, if any attempts are made to revise Putin's legacy, some members of the elites will see them as a desire to delegitimize the existing structure, and will try to block them.
In summarizing the results of 2008, it must be admitted that anticipation of a thaw turned out to be exaggerated. Since Russia has neither the subject, nor the public demand, nor the clear procedural means to bring about a thaw, thoughts of a thaw were based exclusively on the personal qualities of the new head of state. From the moment the current president entered office, there were a number of signals indicating a possible thaw, from the spring and autumn sets of measures mentioned above and the public speeches of Igor Yurgens to the phrase “Freedom is better than no freedom,” which invited the broadest possible interpretations and comparisons. However, advocates of a thaw are even more fragmented in 2009 than they were in 2008. They lack a common point of view on whether it best serves the goal in principle for reforms to be pushed through from above or whether they should wait for the authorities to weaken significantly, or even wait for a radical transformation of the existing political system. They are also divided over whether the current president is capable of fully or at least partially executing a thaw program.

On the other hand, Russia’s historical experience shows there is a greater likelihood of liberal transformation occurring in a crisis situation. The question is who specifically is prepared today to propose practical recommendations that the authorities could realistically rely on if the governing elite actually does come to feel a need for liberalization? The publicly proposed plans by the Institute of Contemporary Development (INSOR), aspiring to the role of a think tank for the thaw, are of a theoretical, rather than practical, nature and ill-suited to answering the inquiries of officials interested not so much in ideological orientation as in specific tools and proposals to repair the normative base, and in adapting successful global experience to Russian realities. INSOR’s proposals have yet to prove their competitiveness against the dirigist, egalitarian, and revanchist scenarios for managing the economic crisis, as well as to overcome the skepticism or open resistance on the part of the government apparatus. The latter will be an especially painful process, for in recent years the authorities have shown less and less interest in plans developed by independent experts. The competing camps within the government apparatus are on the whole in agreement in their perception of experts as something similar to speechwriters for the top people in the government: their theses can occasionally be used in government documents, but not for decision-making.

Aside from the difficulty of promoting a thaw in itself, there is a more fundamental problem in that the authorities are hardly capable of pursuing consistent, large-scale transformations of any kind regardless of their political logic. Although the inertial political model has run its course, time after time the new, radical initiatives advanced in 2008 were emasculated even before they were approved. This is how the proposals on limiting the power of government agencies were removed from the plans for battling corruption. As the final details of the draft law on authority were being worked out, the authorized representatives in the banks receiving government assistance were stripped of any serious authority; and after the president's proposals to expand the access of social organizations to participation in municipal elections, a draft law appeared that limited the possibility of such participation.

The year 2008 may have shaken the inertia, but no mechanisms have yet been created for coordinating the political initiatives developed by the Kremlin, the White House, and the Old Square. This is leading to internal contradictions in political direction and complicates the execution of any massive projects, including those relating to a thaw.

“The entire presidential primary election campaign became an obvious photo negative of the Duma campaign, without mantras or oaths, without seeking domestic enemies ‘hiding in the bushes,’ and without the gutter boorishness. Moreover, the results will probably turn out to be not at all worse than United Russia’s results of three months ago. The question almost asks itself: of what good (and for whom) were the shameful medieval ways and means that were so clearly manifested in October–November?” (Budberg, A. “Who Is Playing against Medvedev?” Polit.ru, Feb. 13, 2008).

“In the battle against a ‘thaw,’ which people who made out so well from the Duma campaign stigmatize using identical phrases, identical pathos and identical argumentation, the hidden goal is obvious. Nothing is to be touched, and nothing is to be changed. [...] And it is not important that during the development and realization of the ‘Putin Scenario,’ there was some doubt as to the effectiveness of a significant part of this elite, which had a cost-efficiency ratio that was outrageously spendy. [...] The fear that things will change is what forces them to continue to repeat their mantra endlessly: Medvedev was selected because ‘he was the weakest,’ ‘he will never interfere,’ ‘he is the young tsar,’ etc. [...] The president is not only at the tip of this vertical hierarchy, he is also the only one who legitimizes the system of power. [...] Even before Dmitry Medvedev’s inauguration takes place, both the entire country and the arrogant bureaucratic class will have to get used to the idea that there will be a presidency in Russia, not an empty throne set aside for 4 years ‘for safekeeping’” (Budberg, A. “Under the Carpet and on the Rug.” Moskovsky Komsomolets, Apr. 4, 2008).

From the interview with Yurgens: “When Medvedev was chairman of the board for Gazprom, remaining a highly-placed functionary in the government and before that being in local administration, the assets of Yukos were not transferred to Gazprom but to a different organization—I believe that this was a result of, in particular, Dmitry Medvedev’s legal mindset” (Vlast program on Ekho Moskvy Radio, May 30, 2008).

A great deal of comment was evoked in particular by a report by the newspaper Kommersant on the content of a conversation between Putin and George Bush: “But when the conversation turned to Ukraine, Putin flew into a rage. Speaking to Bush, he said: ‘...Ukraine is not even a state! What is Ukraine? Part of its territory is Eastern Europe, while the other part—and a significant one—was given to them by us!’” (Alenova, O., Geda, E., and Novikov, V. “The NATO Block Has Come Apart at the Blocking Stakes.” Kommersant, Apr. 7, 2008).


Vyacheslav Volodin, one of the leaders of the United Russia, spoke openly about the impermissibility of "slush" (The United Russia Promises Not to Allow Political Slush.” Vzglyad, Sept. 12, 2008). However, based on different information, this term was first used by the deputy head of the RF president’s administration, Vladislav Surkov (Kostenko, N., Tsvetkova, M., and Kornya, A. “There Will Be No Thaw.” Vedomosti, Sept. 11, 2008).


For more detail, see “Monitoring of incidents of pressure exerted against the heads of municipal structures by the Commission for Local Self-Administration and Housing Policy of the Russian Federation Public Chamber” (http://www.oprf.ru/files/Otstavqui.doc).

For more detail, see Levkin, A., “Groundhog Year,” Gazeta.ru, Feb. 27, 2006 (“Today, for example, is February 27, 2006. And what was happening a year ago, give or take a week? [...] a year ago, Bush was meeting with Putin, and they made up again. Mr. Kasyanov appeared in public after a year of silence. “Parliamentary leaders of the political parties met with each other to discuss amendments to the law on elections of deputies”—just like now, signing some anti-something agreement... It’s like ‘Find the Ten Differences’

From an interview with Anatoly Chubais: “If you were to ask me to estimate the risks, then I would put them at 50-50. 50% that the current political and economic system that had been established over the past 8 years will handle them, and 50% that we will have serious shocks in store for us—economic, social, and, it cannot be counted out, political as well” (Albats, E. “Anatoly Chubais: There’s Nowhere to Retreat—Industry Is behind Us!” The New Times, Dec. 22, 2008).
State Corporations: Another Institutional Experiment

Ownership in state corporations is governmental inasmuch as it is controlled by the head of government.

VADIM VOLKOV

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Several months before Vladimir Putin left office as president, he signed a number of laws that laid the foundation for a huge redistribution of government assets. In addition, decisions were adopted that related to the reorganization of the atomic and defense industries; in particular, the form of ownership for the main industry assets was changed. State corporations that had been created in 2007 became recipients of about $36 billion in budget funds, as well as government assets with an estimated value of over $80 billion.

In scale, this transfer of assets is comparable to the main episodes of property redistribution in 1993–94, 1996–97, and 1999–2002. Aside from the volume of transactions, however, the innovative institutional decision that was developed for this case is also worthy of note. State corporations represent a new and not quite fully understood form of commercial activity for the Russian economy, as they do not correspond to any of the other forms of property—government, private, and municipal—indicated in the Russian constitution, and seem rather to belong to the “other” category. At the same time, this category encompasses several branches of industry at once, above all those that had been deemed engines of modernization. Certain members of the government, presidential administration officials and deputies of the Federal Council have expressed criticism of the policy of creating state corporations. It will be a number of years before the success of this experiment can be judged, but the very institutional decision that the upper leadership of the country intends to use, as they themselves assert, to accelerate modernization merits attention already today.

What are state corporations?

Since the concept of state corporations is frequently taken to mean all large state companies, the sheer number of unusual new structurings in 2007 might be overlooked. In fact, the term “state corporation” correctly applies only to a few legal entities that were created under special laws introduced by the Russian president. In practice all around the world, such commercial entities are called statutory corporations, since a special law (statute) is written for each. They are few in number and were created under conditions of crisis or for post-war economic restoration. The Federal Deposit Insurance Corporation, for example, was created in the United States in 1933 at the height of the Great Depression, and the National Coal Board was created in Great Britain in 1946 to pull the energy sector out of crisis (it was reprivatized in 1994 following the reform of the sector).

There is also a certain amount of confusion in Russia stemming from the fact that the creation of our statutory corporations in the form of non-profit organizations (NPOs), which received property contributions from the government, occurred in parallel with another process, the combination of industry assets in the aircraft manufacture and shipbuilding industries in the form of open joint-stock
companies (JSCs) belonging to the government. The term “state corporation” is commonly used to designate both forms, although strictly speaking, only the NPOs actually relate to this category. Nevertheless, they really should be viewed jointly, as we intend to do in this article, since they are different versions of one and the same state policy.

The first version of state corporations matured in the depths of the Federal Agency for Industry during 2005 and came to fruition at the end of 2006 in the form of the United Aircraft Manufacturing Corporation (UAC) and, in 2007, as the United Shipbuilding Corporation (USC). The creation of both was overseen by then first deputy prime minister Sergey Ivanov. UAC came about as a response to the crisis in civil aircraft manufacturing caused by a lack of investment, fragmentation of the sector, and the consequent domestic competition for the meager foreign and Russian orders. The sudden need for modernization of the civil aircraft fleet and the competition for production of long-range and medium-range aircraft, which essentially had been lost to Boeing and EADS, the European Aeronautic Defence and Space Corporation, demanded that urgent decisions be made for the sector as a whole, since the domestic aircraft manufacturing industry produced only seven to nine civil aircraft a year and was gradually turning into a mere supplier of individual components.

This sector-wide monopoly was created in response to the fact that competition in this sector had moved beyond the borders of the country, while state control was instituted owing to the fact that the state was acting as an investor and the main entrepreneurial lobbyist for UAC interests at the interstate level. The state corporation combined sixteen military and civil aircraft manufacturing companies and factories, including the interests of private owners as well; moreover, no serious conflicts arose during the “assembly” of the holding company. The future will tell whether UAC will be able to achieve its declared purposes: to command 50% of the Russian and 10% of the world civil aircraft market, and increase sales to $12–$14 billion by 2015. But it is important to note that UAC, even though it is property of the state, nevertheless has a significant amount of independence under current management and remains a market subject responsive to standard criteria of success and effectiveness, such as market share and sales profitability.

The very same scheme was applied in reorganizing the shipbuilding sector. Civil shipbuilding, which, unlike military shipbuilding, had not been distinguished by great achievements even in Soviet times (in the Council for Mutual Economic Assistance, this segment had been covered by Poland), is on the verge of vanishing. Working at only 20%–25% of capacity and satisfying only about 6% of Russian needs, the sector has neither the personnel, nor the capacities, nor the technology to fill new orders from the merchant fleet or energy companies. The consolidation of all shipyards and the subsequent modernization of the sector should, in the opinion of the government, ensure that it is prepared to fill orders related to the continental shelf development projects in the Arctic and the Far East. But, as with aircraft manufacturing, it makes sense to compel Russian companies to place orders with domestic enterprises only if the latter are in a position to fill them. For this, not just monetary investments in technical re-equipping are needed, but also a reorganization of the obsolete system of Federal State Unitary Enterprises, or FSUEs, which the Russian ministries cannot manage effectively. If the construction of new shipyards and the acquisition of technologies from South Korean companies (which the Russian officials have now turned to) require private and government partnership, then USC, as a partner with independent management representing the state, would be more effective than the government bureaucracy, with its unclear authorities and diluted responsibilities.
The second version for the reorganization of state assets was conceived by the Sergey Chemezov group, which controlled Rosoboronexport. Chemezov confirmed this in an interview, complaining that he had been overtaken by others in bringing it to realization (we return to this point below).\(^5\) The idea boiled down to the use of the NPO “state corporation” legal form to take ownership of state assets. This legal form was first introduced in a supplement to the Law on Non-profit Organizations adopted in 1999 to create the Agency for Restructuring Credit Organizations, and was not used again until May 2007.

The first to successfully apply the “Chemezov option” was Vladimir Dmitriev, who converted the government-owned Vneshekonombank into the state corporation Development Bank, with a contribution of about $7 billion from the national budget. Development Bank must now become the main source or guarantor for investments in infrastructure, environmental protection, special economic zones, and other long-term projects. The crisis in the autumn of 2008, however, forced its own corrections, and Development Bank-VEB became yet another instrument for transferring government assets to the financial and real sectors to overcome the liquidity deficit.

In the summer of 2007, the Russian president signed two more laws, which created a Russian Corporation of Nanotechnologies (Rosnano) and the Housing and Utilities Reform Fund. Both, in essence, are funds that issue grants for performing certain types of socially important work: in the first case, the development of materials having assigned molecular properties, which promises to spark a new technological revolution, and in the second case, the replacement of pipes and utility lines in cities and the renovation of decrepit housing before the year 2016. Soon after, a special-purpose federal program was created using this same approach to construct the Olympic sites in the Black Sea resort city of Sochi, leading to the formation of the state corporation Olimpstroy.

Finally, the state corporations Rostechnologies and Rosatom were created at the very end of 2007. The holding companies that had earlier been controlled by the FSUE Rosoboronexport, as well as an impressive set of government enterprises and stocks, passed to Rostechnologies as a property contribution, while Rosatom received the civil and military assets of the Federal Atomic Energy Agency, some of the former RAO EES, (Energoatom) and simultaneously created OAO Atomenergoprom. Table 1 presents basic data on the new state corporations.
Table 1. The new state corporations

<table>
<thead>
<tr>
<th>Name</th>
<th>Date of Creation</th>
<th>Government Financial Contribution, $ bln</th>
<th>Assets, $ bln</th>
<th>General director/ position at the moment of appointment as general director</th>
<th>Chairperson, Supervisory Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Aircraft Manufacturing Corporation</td>
<td>Feb. 20, 2006</td>
<td>0.25</td>
<td>4</td>
<td>A. Fedorov/ general director of Russian Aircraft Corporation MiG, President of the IRKUT Corporation</td>
<td>S. Ivanov</td>
</tr>
<tr>
<td>United Shipbuilding Corporation</td>
<td>Mar. 21, 2007</td>
<td>1.1</td>
<td>2</td>
<td>A. Dutov/head of the Federal Agency for Industry (Rosprom)</td>
<td>I. Sechin</td>
</tr>
<tr>
<td>Development Bank</td>
<td>May 17, 2007</td>
<td>7.5</td>
<td></td>
<td>V. Dmitriev/ head of Vneshekonombank</td>
<td>V. Zubkov</td>
</tr>
<tr>
<td>Rosnano</td>
<td>July 19, 2007</td>
<td>5.4</td>
<td></td>
<td>A. Chubais/ chairman of the Board of Directors of RAO EES</td>
<td>A. Fursenko</td>
</tr>
<tr>
<td>Housing and Utilities Reform Fund</td>
<td>July 21, 2007</td>
<td>10</td>
<td></td>
<td>K. Tsitsyn/ Central Executive Committee of United Russia, advisor to director Andrey Borovev</td>
<td>D. Kozak</td>
</tr>
<tr>
<td>Olimpstroy</td>
<td>Sept. 30, 2007</td>
<td>13</td>
<td></td>
<td>V. Kolodyazhny/ mayor of Sochi+</td>
<td>D. Kozak</td>
</tr>
<tr>
<td>Rostechnologies</td>
<td>Nov. 26, 2007</td>
<td>30*</td>
<td></td>
<td>S. Chemezov/ general director of the FSUE Rosoboronexport</td>
<td>A. Serdyukov</td>
</tr>
</tbody>
</table>

* Provisional; a special evaluation was not conducted.

Why state corporations?

Owing to increasing revenues from the export of hydrocarbons, an excess of capital became the problem for the 2000s, unlike in the preceding decade. During the period 2000–2007, aggregate revenue for the national budget from the sale of Russian oil was about $700 billion. According to year-end 2007 data from the Ministry of Finance, this figure included $340 billion in surplus revenues (everything that comes in at an oil price higher than $20 per barrel) not intended for
domestic use, of which $116 billion was used to pay down foreign debt, $122 billion remained in the stabilization fund, and $102 billion was nonetheless transferred to government expenditures.\(^7\)

During Putin's second presidential term, the political leadership recognized the need for rapid modernization in Russia, in particular the development of infrastructure, diversification of the economy, and stimulation of innovation. It was becoming obvious that the state, where resources were been accumulating, would need to become its wallet. However, despite pressure from industrial and regional lobbyist and deputy groups and others who wanted to participate in cutting up the petrodollar pie, it was possible to hold down increasing government expenditures for an extensive period, not only—and even not so much—because of the unyielding position of the Ministry of Finance as because of a lack of effective institutional decisions needed to carry out massive state investments. There were no organizational structures or mechanisms that could receive such huge assets, dispose of them, ensure a rapid final resolution, and, most important, guarantee that these funds would not simply be stolen or, on the contrary, end up as dead weight on the Treasury books.

In order for the larger private companies to participate in carrying out the massive (which by definition are long-term) national development projects, the problem of so-called “credible commitment” must be resolved. Private business is inclined to make long-term investments only when a credible commitment has been made to property rights—that is, to the conditions under which no one will appropriate assets or future revenues. This is not a matter of good will or government promises, but of strict institutional constraints. The typically Western approach to the resolution of credible commitment problems has been to limit the authorities’ power on the basis of the rule of law and democratic, competitive elections. It was specifically these conditions that made long-term private investment possible (and not only of capital, but intellectual investment as well) and led to global leadership of the West.

But the rule of law and democratic checks are by no means to be found in every country where modernization and accelerated growth are or were taking place. Therefore, other methods have been devised to address the problem of credible commitment. If the state is also acting as a source of capital, then the problem of guarantees becomes a mutual one: the government must guarantee that it will not confiscate assets and revenues, while business must promise not to ignore state priorities, or at least not to steal blatantly from the government, and not to transfer the funds it receives from the state out of the country. The problem of credible commitment was resolved in Southeast Asian countries and Latin America with help from the institution of personal contacts, an arrangement that in analytical literature has been dubbed “crony capitalism.”\(^8\)

The crony capitalism system assumes that property rights are not guaranteed to everyone, but only to select asset owners, who do not care whether the guarantees are universal or exclusive. They do invest, since they have reliable guarantees, but this reliability is based on close personal ties between the selected owners and members of the government, and, most importantly, on the fact that the latter will receive their share of the revenues from the companies whose stability they ensure.

Benefits (rent) can be allocated to members of the political leadership through the most varied approaches: using corruption pay-offs, hiring relatives, contributing to selected election campaigns, contributing to party funds, purchasing real estate for political elites, transferring stocks, and so on. Such a system works well when there is only a small number of participants on each side, which makes it easier to come to agreement and exercise mutual monitoring of each other's actions while managing the economy in “manual mode.” Since the circle of those who can receive government
subsidies and credits is limited, property becomes more concentrated in their hands. Researchers have explained the rise of the South Korean family conglomerates (chaebol) by the fact that the military regime of Pak Chong-hui that came to power in 1962 appointed a limited number of families to carry out the development plans, and those families in turn tried to acquire as many assets as possible to protect themselves from excesses on the part of the military. The result was, in effect, a mutual hostage situation.\(^9\)

The approach taken to resolving the mutual guarantee problem in Russia after 2000 was euphemistically labeled the “new social contract,” which was urged both by business and by the authorities. But since the institutions of rule of law and democracy were not being developed, the system rapidly evolved in the direction of crony capitalism, accompanied by an increase in property concentration, the activation of the public organizations (the Russian Union of Industrialists and Entrepreneurs) and informal mechanisms for concerted interests, growth in corruption, especially in the form of kickbacks, and interexchange of staff between business and the authorities. Yet since the parties had not succeeded in solving the credible commitment problem, the system continued to remain unstable, as evidenced by the periodic conflicts accompanied by government pressure on private business and mandatory sales of assets at reduced prices, and accusations that private owners were removing assets, evading taxes, and pursuing other forms of dishonest behavior.

Since they couldn't count on government credit, private businesses began to solicit massive borrowings in international financial markets, while the government continued to experiment and to transform itself ever more into a commercial subject. Federal special-purpose programs were created, national projects have been launched, and new formulas for private and government partnerships were announced, but none of these forms became operative instruments for modernization. Federal programs got hung up in the ministries during the coordinating process, while national projects ended up as elements in primary election campaigns, which practically no one remembers after the elections.

Against this backdrop, state corporations became a new way to solve old problems. The government did not want to provide loans or guarantees to private entrepreneurial companies, but it also could not leave the resources at the disposal of ineffective distributors in the form of government structures. The sudden appearance of several of these state corporations at once and the volume of assets transferred to them suggest that it is specifically these companies that have become the very institutional mechanism that can open the tap and release a new flood of government investments.

In this way, the government is apparently counting on achieving several goals at once. Beginning in 2006, mergers and acquisitions became extremely important to Russian policy, affecting private and state companies as well as regions, universities, parties, and even cities (through creation of agglomerates). The idea was that concentrating resources could improve manageability in respective fields (especially where government interests are involved), as well as improve Russian competitiveness internationally, where major companies such as Boeing and Alcoa compete.

Following completion of the mergers in the oil and gas and aluminum sectors, the turn came for industry sectors considered high-tech. UAC, USC, Rostechnologies, and Rosatom were created as industry monopolies to compete in world markets, and simultaneously as instruments for greater manageability. Regardless of results, which are expected only in the distant future, this very combination of assets, appointment of their own people, and establishment of grandiose goals made it possible to solicit serious investments. As a result, arguments favoring inviolability of the stabilization fund gradually lost strength, and by the end of 2007 it was unsealed.
**Six plus two**

The creation of state corporations entails a number of contradictions and raises several questions. The first question concerns the disconnect between content and form. In content, four of the eight state corporations are represented by funds—Development Bank, the Housing and Utilities Reform Fund, Olimpstroy, and Rosnano—are intended for moving assets according to their charter goals. The other four—UAC, USC, Rosttechnologies, and Rosatom—are, in essence, industry holding companies. These funds either subsidize special-purpose activity that has been identified as socially significant, or invest the budget funds they have received in long-term special-purpose projects. The industrial holding companies work to encourage modernization of their corresponding sectors and successfully operate with high efficiency in the international market environment. Funds do not manufacture products, whereas the holding companies are key producers. Based on economic logic, the NPO legal form would be more suitable for funds, since their function is neither manufacturing nor commercial but project- and finance-related. For the industrial holding companies, the JSC form, which has been tested in the world and allows the government share to change flexibly, is more appropriate. Thus, proceeding from the intended tasks, the formula derived for state corporations was to have been “four NPOs plus four JSCs.”

In reality, things turned out differently. Rosttechnologies and Rosatom, which, based on their economic advantages, should have been created as JSCs, instead used the NPO legal form, as if they were something like a “Society for Aid to the Military-Industrial Complex” or a “Fund for the Peaceful Atom.” As a result, there ended up being six NPOs plus two JSCs. It is worth noting that as early as the end of 2006, Sergey Kiryenko had been energetically speaking out in favor of reforming the nuclear power sector through creation of the holding company Atomprom specifically as a JSC with 100% government participation, similar to UAC and USC, and this proposal appeared to be quite logical. But by early 2007, the process of creating state corporations took a different track, and the idea of the NPO Rosatom was born. What were the reasons and the logic behind adopting an organizational decision to register the two industrial state corporations as NPOs?

The big question is the form of ownership created when establishing state corporations. In the case of UAC and USC, the institutional decision was quite justified, and the property rights were specified: controlling shares remained with the government represented by Rosimushchestvo, and the profit, if not reinvested, was sent to the budget. In the remaining six cases, use of the NPO form did not add any certainty. Being formally NPOs, the state corporations have broad abilities to conduct entrepreneurial activities and derive profits, but at the same time they lack the procedures or clear criteria for decision-making about the sale of assets or how the profit is to be used.

The question of property may be reformulated as one of relationships between the private (or group) good and the public good. What would this relationship be in the case of state corporations?

A cursory glance at the composition of the supervisory boards and the state corporations’ top management is enough to understand that this ownership has been placed at the disposal of certain members of the Government and the Presidential Administration, some of whom occupy posts in several state corporations at once. If state corporation property has been removed from under the formal jurisdiction of the Russian Government, then in what capacity do high-level state officials handle it? The status of the management staff for the new groups and the range of their authority is yet another question that the creation of state corporations raises.
"A velvet reprivatization"?

A review of the circumstances surrounding the creation of state corporations and the interests of creators themselves may shed some light on the question of the choice of legal form, and consequently on forms of ownership as well. As frequently happens, new institutional forms arise because of particular people’s interests, but these forms are then copied by others and adapted to address broader goals. In the private sector, profit depends on market value, representing demand and satisfying some need of society. The social benefit of one or the other organizational approach is being moved to the forefront in the government sector, while personal or group interests (without which it is in fact impossible to get a single decision passed) are not shown in obvious form. Individuals and groups hide behind impersonal bureaucratic structures and an ideological curtain.

The essence of this ideology is to represent private or group interests as working toward the common good. During the process of creating state corporations, the interests of Chemezov’s group apparently played the most important role. What was good for Rosoboronexport turned out to be good for the country, too.10

Created in 2000 as a state monopoly middleman for the export of production from the military-industrial complex (MIC), Rosoboronexport acquired huge power in the market. This FSUE, of which Chemezov became director in 2004 (previously he had been deputy director), controlled an extremely important resource for the entire domestic MIC: market access. In the absence of any government orders, the MIC enterprises relied on foreign markets for their survival, and whoever had monopoly control over the export channel controlled the entire sector. By making use of administrative subordination through state-owned stocks, as well as founding an AO and subsequently contributing enterprise stocks to it, Rosoboronexport was able to take control of part of the MIC connected with the helicopter industry, machinery manufacturing, engine manufacturing (Oboronprom), titanium (VSMPO-AVISMA Corporation) and steel production (Russpetsstal), as well as AvtoVAZ, which had been overgrown by a multitude of dubious middlemen. The most apparent instance of the use of market power was the transfer of the Kazan Helicopter Factory to the holding company Oboronprom under the threat of depriving it of export orders. As Chemezov himself modestly put it, “FSUE Rosoboronexport has begun to expand little by little, and now has new industrial enterprises.”11

This expansion has led to a local contradiction between the “base” and the “superstructure.” Owing to its influential market position and personal contacts within the Kremlin, Rosoboronexport began to change from an export middleman into a management company, laying claim to the function of owner for the enterprises whose production was in demand abroad. But legally, being a FSUE formally belonging to Rosimuschestvo, it did not have any ownership rights, could not manage assets that were under a different form of ownership, and did not have enough administrative authority with respect to the enterprises it controlled as founder. The actual control required to be legitimized in terms of “production necessity” and formalized legally. The idea of a state corporation as an instrument that allows to convert power into property arose approximately within a year after Chemezov became the head of Rosoboronexport; at about the same time, Rosimuschestvo developed a program for having the FSUEs go public and be privatized, correctly considering them an extremely ineffective form of ownership.12

As a result, the prospect appeared of taking control of the FSUEs that were starting to issue shares, but there was still no suitable instrument with which to do this. Chemezov himself admitted that
Rosoboronexport, which was also a FSUE, was not suitable for the creation of industrial holding companies, and his group searched for a new legal form. The approach ended up being non-standard. As mentioned earlier, the “Chemezov option” was utilized by other government managers much earlier than by Chemezov himself. It was tactically justifiable to allow others to go first: they thus became groundbreakers and bore a significant portion of public attention and criticism. As a result, when Chemezov did make his move, Rostechnologies joined an already existing, broad-based “state corporation movement.”

Based on Chemezov's testimony, he and his team created and lobbied for the law for Rostechnologies as early as 2005. Using this law as a template, laws were then written for other state corporations as well. The law on NPOs had already contained a provision to the effect that the property contributed by the government during the establishment of state corporations stops being state property and becomes the property of the corporation. In 2007, laws were passed to expedite the creation of six state corporations and grant them property rights, with a special government order clarifying the list of property being transferred. These laws granted the right to conduct commercial activity using the assets or the temporarily freed-up monetary assets transferred from the government, but required that profits be directed to the pursuit of the state corporations’ charter goals. Yet the clarity with which goals are spelled out remain vastly different from corporation to corporation. The Housing and Utilities Reform Fund and Olimpstroy, for example, are restricted to specific kinds of work and work sites, as well as to specific time frames for completion. In this sense, Olimpstroy is worst off: the whole world will come to examine its work in 2014. The goals and functions of state corporations Rostechnologies, Rosatom, and Development Bank, on the other hand, are so broad that they permit practically any entrepreneurial activity.

By law, Rostechnologies must contribute to the development, production, and export of high-technology products; moreover, further down in the text of the law there is an impressive list of trade and economic functions for the corporation. And in Rosatom's case, it has goals that are appropriate for a government agency: to carry out government policy, to regulate standards and laws, and to manage state property in the area of atomic energy. So it turns out that the degree of freedom to dispose of transferred property is directly proportional to the scope of goals that have been assigned to a particular state corporation.

In Chemezov's words, the state corporation he created is the “most progressive and appropriate form of commercial activity for the current state of the national economy and the organization of defense and industrial production.” There were two key arguments in favor of such an approach to combining the enterprises in the sector: it allows for a more rapid distribution of technological innovations, and it improves the quality with which export orders are fulfilled.

From the perspective of the public good, the advantages of an NPO founded by the government over a JSC are not obvious. At the end of the day, only practical experience will show which is better for the country, the Chemezov option or the Ivanov option. The benefits for the Chemezov group are obvious. Chemezov's argument against the JSC as a legal form for Rostechnologies was that OJSCs are prohibited from engaging in the export of weapons. To lose this position and the influx of $6–$7 billion would be absurd. No less important is the fact that by going public and acquiring a new owner in the form of an NPO, Rosoboronexport was legally able to nail down control over the assets acquired earlier, gain the right to go public and to “gather” the former FSUEs into holding companies, as well as to take into its possession state-owned stocks in private companies. Aside from defense enterprises, the Chemezov group succeeded in gaining control over a significant segment of Avtoprom (state-owned stocks in VAZ, KamAZ, and the manufacturers of component
parts), aviation companies belonging to Air Union, and shares in mining companies and real estate sites. As a result, it ended up being a conglomeration of 426 enterprises, which are planned to be combined in twenty-four military and seven civil holding companies.

Formally, it would be incorrect to say that Rostechnologies has become a privatization scheme, since specific individuals occupying top management positions in the state corporation do not own the transferred assets. But the assets are also no longer owned by the government as an organization representing the public interests and limited in its activities by formal procedures. The struggle over the final list of assets for Rostechnologies was accompanied by criticism, and even produced clarification as to the nature of the state corporation. Minister of Finance Kudrin called the creation of Rostechnologies a form of hidden privatization and assets stripping, since the funds obtained from the sale of the former state shares are no longer listed in the government's budget. A similar level of apprehension was expressed in a Federation Council report prepared by the Industrial Policy Committee chaired by Valentin Zavadnikov: “The state corporation form creates the perfect conditions for a transfer of government property to the non-governmental sector with minimal financial benefits to the government and an increased risk of losing control over the use and removal of assets.” As Chemezov and the other directors of the state corporations have assured, there can be no talk of privatization: the assets of state corporations work for the state.

Or personalized state property?

In the case of Development Bank, Rostechnologies, and Rosatom, the nucleus of the assets and the managers associated with them formed even before the state corporation came into being; the latter only enhanced their authority and the possibilities for future acquisitions. In the case of UAC and USC, the leadership makeup was established during the process of creating new state holding companies and continued to change after it was completed. The state corporation Olimpstroy replaced the special-purpose program, while Rosnano and the Fund for Residential Housing Development were reconstituted, but in these three cases the organizational structure and team were purposefully formed first, and the resources were provided afterward. Despite the differences in starting scenarios, a new group of managers was established around these state corporations. The approximate number of persons in the decision-making circle who are not under the control of any outside entities aside from the president and prime minister is reduced to eight directors of state corporations (they also hold positions in supervisory boards), and approximately fifteen members of the government who chair or belong to a number of the supervisory boards.

In situations where the government has removed physical and financial assets to non-government organizations, but at the same time functions as their founder, the decisive factors in naming the circle of actual owners and their authorities become the procedure for appointing the upper managers, as well as the methods for exercising control over their actions. The laws on state corporations do not allow the Russian government to interfere in their activities. The law on bankruptcy does not apply to them. With the exception of Rosatom, the Russian Accounting Chamber does not have the right to audit them. During the battle over the final list of assets, Chemezov was forced to agree to concessions and to allow the Accounting Chamber to perform inspections. In other cases, government control has been minimal and has been superseded by supervisory board control and an annual independent audit.

Thus directors and supervising councils of state corporations enjoy an exceedingly high degree of autonomy in making both managerial and property decisions. Only the Russian president can
remove or appoint them. The nucleus of the supervisory boards is made up of members of the government, some of whom hold positions in several councils at once. A list of government members most actively involved in decision-making with respect to state corporations, as well as those who belong to or chair several supervisory boards, is presented in Table 2.

Table 2. Members of the government involved in managing state corporations

<table>
<thead>
<tr>
<th>Name</th>
<th>Position in Executive Government</th>
<th>Chair of the Supervisory Board</th>
<th>Membership in Supervisory Boards</th>
<th>Number of Positions in State Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>D. Kozak</td>
<td>Deputy Prime Minister</td>
<td>Olimpstroy, Residential Housing</td>
<td>Olimpstroy, Residential Housing, Development Bank, Rostechnologies</td>
<td>4</td>
</tr>
<tr>
<td>I. Levitin</td>
<td>Minister of Transport</td>
<td>No</td>
<td>UAC, USC, Development Bank, Olimpstroy</td>
<td>4</td>
</tr>
<tr>
<td>V. Khristenko</td>
<td>Minister of Industry</td>
<td>No</td>
<td>USC, Development Bank, Rosnano, Rostechnologies</td>
<td>4</td>
</tr>
<tr>
<td>V. Putilin</td>
<td>First Deputy Chairman of the Military and Industry Commission, Minister</td>
<td>No</td>
<td>UAC, USC, Development Bank, Rostechnologies</td>
<td>4</td>
</tr>
<tr>
<td>A. Serdyukov</td>
<td>Minister of Defense</td>
<td>Rostecholgies</td>
<td>UAC, USC</td>
<td>3</td>
</tr>
<tr>
<td>E. Nabiullina</td>
<td>Minister of Economic Development</td>
<td>No</td>
<td>Development Bank, Rosnano, Rostechnologies</td>
<td>3</td>
</tr>
<tr>
<td>A. Belousov</td>
<td>Deputy Minister of Economic Development</td>
<td>No</td>
<td>UAC, USC, Rosatom</td>
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<tr>
<td>V. Nazarov</td>
<td>Head of Rosimuschestv</td>
<td>No</td>
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<tr>
<td>I. Shuvalov</td>
<td>First Deputy Prime Minister</td>
<td>No</td>
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<tr>
<td>A. Siluanov</td>
<td>Deputy Minister of Finance</td>
<td>No</td>
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<td>S. Ivanov</td>
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<td>S. Sobyannin</td>
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Yet the question remains: what is the relationship between the government and state corporations? On the one hand, all state corporations have been removed to varying degrees from under the jurisdiction of the Russian government, its ministries, and other formal government structures. They are special, statutory commercial subjects. On the other hand, the management of their property has been exceedingly personalized, with high-level officials and members of the government delegated to manage them. They are something like “overseers” from the government. It would be possible to call everything that has been created in this way “personalized state ownership” in the sense that its disposition is not overseen by faceless bureaucratic structures, but by specific individuals, the list of which, at least nominally, is decided upon by the Russian president. This property continues to belong to the state to the extent that it continues to be controlled by the head of state. At the same time, a change of directors or supervisory boards in the state corporations will mean a change in owners. On this basis, it would be difficult not to agree with points made by authors of the report prepared by the Federation Council concerning the fact that “the economic behavior of such structures is dependent upon the political cycle of presidential elections and the political landscape, and even more than that, creates stimulus for the state to attempt to manipulate the political process via state corporations.”

Specifically with respect to the state-controlled corporate sector, the issue of succession and successor stands as the issue of property and owner. Nevertheless, it would be unfair to reduce the logic of the creation of state corporations only to personal entrepreneurial and group interests. In the systemic dimension, this would most probably be the logic of despair, not of personal interest. The fact that state corporations, and with them huge chunks of property and sacks of money, have been transferred out of the jurisdiction of the government (that is, the main apparatus of the state) speaks to the fact that the country’s leadership recognizes the ineffectiveness of the latter and is aware of its inability to address goals of modernization. This means that Russia has not yet succeeded in ensuring credible guarantees of private property rights or of carrying out government reform. Instead, a group of managers has formed that enjoys the personal trust of the president. These managers are not constrained by formal procedures for coordination and control over expenditures of budgetary assets. They face great goals, such as the renovation of infrastructures in the cities or the development of high technology, and they have been granted decision-making freedoms, significant resources, and high salaries. The fears of critics that private self-interests in such situations frequently overtake social interests (that managers will get rich while problems will remain unresolved) are quite justified. The only course left is to rely on personal responsibility: tables accompanying the present article list the names of those who need to be asked about the success or failure of the largest projects, or even of whole sectors of the national economic system. After all, in the case of state corporations it is inappropriate to complain about a lack of resources or sabotage by bureaucrats.

Also inappropriate are any references to the crisis. The economic crisis will affect state corporations least, since they have financial resources at their disposal and are not dependent on the vagaries of the consumer, and any worsening of the labor market will allow them to address their personnel problems more successfully. Anatoly Chubais’s words about Rosnano being an “organization that has money, in cash; we are an organization without credit debt, we are an organization without collateral—without any burdens whatsoever—so of course we feel like we're living the sweet life” can now be aptly applied to other state corporations as well, aside from Rostechnologies, the assets of which are weighed down in debt. The only complication is the fact that the state corporations might have difficulty obtaining additional assets in the not-so-distant future, owing to emergency budgetary expenditures. But by that time, that is, in two to three years at most, it will be possible to gauge the success of this institutional experiment.
See the list of enterprises and open stock companies on the UAC website, http://www.uacrussia.ru/ru/corporation.

The goals were announced in the UAC development strategy. See http://uacrussia.ru/ru/corporation/strategy.


The historic phrase, “What is good for the country is good for General Motors, and what is good for general Motors is good for the country” (1952), belongs to Charles Wilson, president of General Motors, who also became U.S. secretary of defense.


See the interview with the head of Rosimuschestvo, V.L. Nazarova, “Bureaucracy has usurped the rights of the market.” Vedomosti, March 28, 2005.

An exception is Rosatom, which by special government decision was granted limited property rights and for only a portion of the enterprises.


For a full list of the assets contributed by the state to the state corporation Rostechnologies (presidential decree of July 10, 2008), see http://www.rostechn.ru/about.shtml.

When the draft bill on creation of Rostechnologies was introduced, only Arkady Dvorkovich (who called the fetish for state corporations dangerous), Mikhail Fradkov (who openly spoke out against Chemezov), and German Gref allowed themselves to criticize state corporations.

See Kommersant, June 10, 2008.


Representatives from the Federation Council, the State Duma, and the Russian Public Chamber also belong to the supervising councils of the various state corporations, but they are not involved in the process of creating and transferring property.


According to information from the newspaper Vedomosti from November 25, 2008, the aggregate debt of enterprises making up Rostechnologies amounts to 120 billion rubles.
THE NORTH CAUCASUS: WHEN THE WAR ENDED

The armed conflict between Russia and Georgia is inevitably leading to destabilization in the outlying territories.

ALEXEY MALASHENKO

Along with recent claims that, after the so-called "Five-Day War" between Russia and Georgia in August 2008, we live in a different world, more specific forecasts are appearing about the long-term development of events directly in the Caucasus region. And although the Caucasus is being seen as a single geopolitical unit as never before, focusing the discussion along subregional rather than regional lines sheds light on the potential implications of the conflict for the North Caucasus in particular, and thus for Russia as a whole.

In a speech given in early September 2008, Deputy Konstantin Zatulin of the RF National Duma asserted that “the conflict between South Ossetia and Georgia has helped stabilize the situation in the North Caucasus.”¹ His words betray a natural desire to cast hope as reality. It must be conceded, however, that any entity that previously might have toyed with the thought of confronting Russia will now think again before starting something, since force is respected in the Caucasus (as it is virtually everywhere). And while Moscow's show of force is likely to cool off some hotheads in the North Caucasus, several other consequences of this war must also be considered, not least Russia's recognition of the independence of South Ossetia and Abkhazia. Further complicating the situation is the fact that, as suggested by ethnographers, almost all the republics of the North Caucasus have the highest conflict potential rating in all of Russia, with three republics—Kabardino-Balkaria, Ingushetia, and Chechnya—topping the list in 2007–2008.² Meanwhile, negative trends have continued to develop almost as a matter of course in the North Caucasian republics, both during and after the Five-Day War.

Post-war escalation

That said, activity at the end of August and September 2008 (in other words, after the hostilities had formally ended) appeared to be more intense than before the war, marked by more political and military incidents. Armed clashes erupted simultaneously in various parts of Dagestan, and several large villages in the Magaramkentsk, Derbentsk, and Tabasaransk Regions were blockaded. There were attacks and wildfires in the Tyrmuz and Zolka Regions of Kabardino-Balkaria. The situation in Ingushetia deteriorated precipitously when several armed skirmishes took place almost simultaneously, including fighting on the Pliev-Malgobek road, and Bekkhan Zyazikov, cousin of the then Ingushetian President Murat Zyazikov, was killed. In mid-September the Ingushetian opposition published the names of individuals on their “blood feud” list. This extraordinary document starts with the name of the president himself and continues with names from the upper ranks of the Ingushetian secret service, many of whom are related to Zyazikov.

There have been numerous high-profile incidents involving human rights watchers and members of the mass media. In Ingushetia on August 31, Magomed Evloev, an opposition leader and owner of the highly popular website Ingushetia.ru, was shot by a policeman under circumstances
that remain unclear. The anchor of the television company TV-Chirkey, Telman Alishev, who had spoken out publicly against Islamic radicals (he was one of the authors of the controversial documentary film “Ordinary Wahhabism”), was murdered in Dagestan on September 3, and in Kabardino-Balkaria, Miloslav Bitokov, editor of the popular and relatively independent newspaper Gazeta Yuga, was wounded. If those responsible for Alishev’s death were believed to be Wahhabists, then the attempt on Bitokov was attributed by human rights watchers to members of the power structure who had been angered by the Nalchik journalist’s critical publications. (Nalchik is the capital city of the Kabardino-Balkaria Republic.) A meeting in protest of the illegal activities of the local power structure and the attacks on people was held in the center of Dagestan’s capital city, Makhachkala.

One can hardly state with certitude that there was a direct relationship between the Russo-Georgian conflict and Moscow’s recognition of the independence of Abkhazia and South Ossetia, on the one hand, and the deteriorating situation in the North Caucasus at the end of August–September 2008 on the other. The North Caucasus situation might have been a result of the internal dynamics of the process, or a cyclic fluctuation (the “autumn rush” before the “green leaves” disappear), or a consequence of financial pump-priming from outside or inside. If an armed conflict should erupt, however, its aftershocks would inevitably lead to destabilization in outlying areas.

Two new national entities have suddenly appeared on the map of the Caucasus. The international legal status of Abkhazia and South Ossetia will remain uncertain for some time to come. However, no matter what the future of these republics turns out to be—whether they become truly sovereign nations, join the Russo-Belorussian Union, or become administrative subjects of the Russian Federation—they will be perceived in the region as part of Russia, or, more exactly, as a kind of appendage to Russia’s Southern Federal District.

Among the republics of the North Caucasus, the new nations will be greeted with ambiguity. After the initial euphoria, it will become clear that both Abkhazia and particularly South Ossetia will wind up as informal administrative subjects subsidized by the center, thus taking their place alongside Ingushetia and Dagestan. Of course, these republics relied on Moscow for support even before the war. At the time, however, this was seen as support for national (or, as one used to say in Soviet times, “national liberation”) movements. Now, having achieved their main goal, South Ossetia and Abkhazia can hardly be considered among the “insulted and humiliated.” The North Caucasus republics of Russia will begin to apply a different standard of measure. In short, the appearance of new pretenders to subsidies from the center is expected to intensify the competition for financial resources and favors from the center.

Even now, the funds allocated in the RF budget for rebuilding South Ossetia (25.5 billion rubles 3 are comparable to, and in some areas even surpass, the size of the income portion of the budget, for example in Chechnya. For the federal budget, the funds allocated for South Ossetia amount to “mere kopecks,” 4 according to economist Mikhail Delyagin. To the rest of the federal subjects in the Caucasus, however, these “kopecks” demonstrate that Moscow has new favorites. The center can readjust its system of priorities in the North Caucasus. Symptomatically, the head of South Ossetia, Eduard Kokoity, already considers his republic to be an “exclusive” ally of Moscow, which can only annoy the head of Chechnya, Ramzan Kadyrov, who has become accustomed to an exclusive status.
There is yet another delicate matter that is not spoken of: religion. During the first days of the war, the media continually floated the assertion that Russia was helping out its Eastern Orthodox brothers in faith (they preferred not to mention that the Georgians are also their brothers in faith). This did not go unnoticed among the Muslims of the North Caucasus.

**The threat of separatism**

Intensified separatist activity is possible in the foreseeable future, although perhaps not in its most extreme form. It is common knowledge that separatism in the North Caucasus did not end with Chechnya. It has existed in some of the republics, although it has not been very influential. For example, the possible secession of these republics from the Russian Federation was discussed by the People’s Assembly of Ingushetia as the Ossetia-Ingushetia conflict was ramping up in 1991, and again in 1993. Not until 1994 did the separatist sentiments begin dissipating. The Balkarts have also raised the notion of sovereignty from time to time. For example, in 1992–1993 the idea came up of creating a unified Cherkessian state made up of Cherkessia, Kabarda, and Adygea, joining with the Shapsugs (an ethnic branch of the Cherkessians), and seceding from Russia. These stabs at sovereignty took place in the charged atmosphere of those years, when the center was weak and somewhat liberal, and was making concessions to ethnic fringe groups. Relations between Moscow and the republics were structured within the context of the famous Yeltsin formulation, “take as much sovereignty as you can swallow.” Separatism also received a particularly strong push from the armed conflict in Chechnya, which began in 1994.5 Among the various ethnic branches, sovereignty became a popular topic of conversation. The fact that the separatist mood of the early 1990s coincided with the Georgia-Abkhazia War, in which volunteers from many national groups in the Caucasus fought on Abkhazia’s side, is also worthy of note.

The separatist phenomenon in itself is so deeply rooted in the consciousness (and subconsciousness) of society that it can find expression under the most diverse circumstances. It exists in prosperous Canada, Belgium, Spain, France, and Great Britain, not to mention the non-European countries. After Yugoslavia’s disintegration, the final official act of the process being the recognition of the independence of Kosovo, the question was left hanging in the geopolitical atmosphere of the Caucasus: “Why are they able to do it, but we can’t?” This frustration has only been reinforced by Russia's recent actions in the Caucasus. Of course, under current circumstances, serious separatism is impossible, if for no other reason than the North Caucasus republics’ lack of economic self-sufficiency, their polyethnicity, the danger of an outbreak of civil war, and the fear of reprisals from the center, all of which combine to shore up a sense of self-preservation.

Moreover, the local elites, by countering any nascent movements toward separatism, enhance their authority and political position in the eyes of Moscow, without whose support the presidents of the republics would have no hope of existing. At the same time, all of them, above all President Ramzan Kadyrov of Chechnya, understand very well that if the situation on the southern borders should get complicated, then maintaining stability will double in cost. This is the reason why the Chechen president never stops negotiating with the federal center and prizing ever newer concessions.
As Kadyrov has put it, “Chechnya is an integral part of Russia.” But this is largely compensated for by the fact that the Chechen president has not rejected the idea of Chechnya being a special subject of the federation, although he does not mention this in public. In fact, the “pacification of Chechnya under the leadership of Kadyrov the younger was only possible through informal recognition of the exclusivity of the status of this republic.”

Second, a segment of the society, chiefly the youth, sees Kadyrov as the guarantor of a particularly Chechen “semi-sovereignty.” Third, there are still real separatists, whose number is unknown but whose activities in 2008 increased compared with the previous year.

“The present Russian version of keeping Chechnya within the Russian Federation,” suggests Chechen analyst Musa Basnukaev, “looks like the concept of a voluntary entry by Chechnya into the structure of Russia. Against this backdrop, it would appear utopian to try to provide a maximum of freedom and a maximum of independence for Chechnya, but only within the structure of Russia.” In the North Caucasus, of course, the criticism of U.S. presidential candidate John McCain was immediate and unified in response to his statement that “the West's answer to the charge of using a double standard should be a return to the question of independence for Chechnya.” However, public opinion in the Caucasus is not convinced that Chechen separatism will in fact remain a thing of the past, especially since no one doubts the power and influence of the Islamic radicals operating throughout the North Caucasus, who have no intention of abandoning their main strategic aim, the establishment of a sovereign Islamic state in the region.

In the immediate aftermath of the murder of Magomed Evloev in Ingushetia, the opposition members approached several countries—Great Britain, the Netherlands, the United States—with a request that they be issued the passports of these countries. It was also announced that Ingushetia would leave the RF if Moscow didn't replace President Murad Zyazikov. As the new owner of the site Ingushetia.ru, Maksharip Aushev, emphasized, “We do not reject Russian citizenship, we are only trying to ensure our security. We have no separatist feelings.” However, the rhetorical threat in appealing for foreign citizenship is more than just a fronde. There is a hint here of the possible turn of events should the demands of the opposition, which reflect the aspirations of the majority in society, be ignored.

Caucasian separatism should not be made into an absolute. It will not be able to bring Russia down. But the danger lies in the risk that it will little by little weaken one of its key regions.

**Divided peoples**

This primarily concerns the Ossetians, who have got a chance for reunification from recent events. The problem of dealing with ethnic division has been around for a long time, with the border between South and North Ossetia being so tentative and the southerners (Kudartsy) having Russian passports.

The formal unification of the two parts of Ossetia has always been a topic for consideration. The Kudartsy participate directly in the community and the political life of the Republic of North Ossetia. The International Congress of Alans holds its meetings and all Ossetians have a common historical and cultural heritage. Many of those who took part in the last war came from
North Ossetia. The reunification of the two parts of Ossetia could cause an upturn in Ossetian nationalism and an increase in tensions with neighboring peoples.

The reunification of the two Ossetias within the RF would create very serious problems. If it were to happen, Russia would be accused of annexing Georgian territory, setting a dangerous international precedent. Obviously, Moscow is in no hurry to make a final decision. On September 11, 2008, during a meeting between President Medvedev and the members of the Valdai Club (which includes foreign specialists on Russia), South Ossetian leader Eduard Kokoity unexpectedly began speaking about the unification of Ossetian territory almost as though it were a settled issue. Within two hours, however, he was obliged to disavow his own words and explain that he had been misunderstood. In commenting on the matter, North Ossetian President Teymuraz Mamsurov was diplomatic, even reserved, declaring that “work on unification has also been going on, and for a long time, in the hearts of the Ossetians.”

The largest of the divided peoples of the Caucasus is the Lezghins. There are 250,000 of them living in the North Caucasus, chiefly in Dagestan, and approximately the same number living in Azerbaijan. The question of creating a Lezghin national homeland had never been raised, either in Russia or in Azerbaijan, nor had the question of uniting the Lezghins into any kind of single structure. The Lezghins themselves had not insisted on this, being more concerned about their freedom to travel across national borders, which is quite understandable in a situation in which families have been separated.

Nevertheless, the idea of a Lezghinistan emerged in the mid-1990s. The Muslim politician Nadirshakh Khachilaev, who was popular in the North Caucasus at the time, tried to play the Lezghin card, and had some success in arousing the respective emotions of a certain number of the Dagestan’s Lezghins. His activities were rather abruptly curtailed by the Russian authorities. There was no conflict, but there is inevitably concern in Baku over the possibility of new outbreaks of the idea of Lezghin reunification.

The “Lezghin question” could become even more serious should a conflict erupt around Nagorno-Karabakh. There is a widely held belief among the Azerbaijan’s Lezghins that during the war with Armenia, it was their sons in particular who had been sent to the most dangerous parts of the front (the author also happened to witness conversations that Lezghins had allegedly been Christians before converting to Islam, and had been Islamized by force.) Thus, the Lezghin problem, though dormant over the past few years, still retains a potential for conflict.

**Unresolved borders**

Borders in the North Caucasus have changed many times as a result of historical circumstances. The administrative borders—national, republican, and regional—are relatively stable when they coincide with ethnic boundaries. When they fail to coincide, however, ethnopolitical, political, and simply administrative and commercial frictions result.

On the one hand, the ethnic patchwork in the region will act to tamp down centrifugal tendencies, but will also keep the North Caucasus in a state of constant social tension. Mixed marriages, common commercial activities, and the gradual erosion of the “ethnic Mafias” will act to internationalize society. But incomplete modernization, the semi-traditional nature of the
society, the departure of the Russian population, which had been a consolidating factor, as well as the process of retraditionalization that began in the 1990s—all function to preserve ethnic separation. This is the source of the continual discussions about who lived where, who should live where, and whose land this is. From this perspective, the Georgian-Abkhazian or the Georgian-Ossetian borders are not very different from the borders between North Ossetia and Ingushetia—there is the same lack of division of the land between “us” and “them.” The border question is “an irritant for all of the Caucasian peoples without exception.”

The borders in the North Caucasus have changed continually during the twentieth and twenty-first centuries; one need only recall the artificial nature of the borders of Abkhazia and South Ossetia and the repositioning of the borders of Chechnya and Ingushetia as a result of the deportations of 1944. Such border fluidity encourages the expectation that another “correction” of the borders to suit political circumstances might be possible.

It is primarily the borders between North Ossetia and Ingushetia that come to mind. It was this problem in particular—the affiliation of the Prigorodny Region—that brought about the 1992 war, in which 500 were killed, 900 were wounded, and 200 were unaccounted for. Data from various sources indicate there were between 30,000 and 64,000 refugees at that time. The problem still has not been resolved. As a direct result of the last Caucasus war and recognition of the independence of South Ossetia, there could be a resumption of the Ossetia-Ingushetia conflict.

First, the existing balance has been disrupted: it is not merely North Ossetia that is engaged in the Ossetia-Ingushetia confrontation, but “Greater Ossetia,” which enjoys particular favor with the federal center. As Caucasus specialist Artur Tsutsiev noted, the national “Russian umbrella is a very familiar and traditional one for Ossetia.” The sympathies of the authorities and, for a time, of the Russian public (combined with the above-mentioned annoyance about the presidential appointment of Murat Zyazikov) have made the Ingush feel more vulnerable and offended.

Second, there are apprehensions in Ingushetia that it is specifically the disputed Prigorodny Region where the migrants (fugitives) from South Ossetia will be sent, as was the case in previous years. "Today, new arrivals from South Ossetia are being forced to settle throughout the Prigorodny Region… where the population is mostly Ingush." Arrivals from South Ossetia have the reputation of being resolute and well adapted to situations of serious conflict. The Ingush are uneasy about this as well. Incidentally, quite a few Kudartsy served in the guard of the former president of North Ossetia, Akhsarbek Galazov (1994–1998).

The border between Chechnya and Ingushetia has not been delineated since 1992, and two regions, the Sunzhensky and Malgobeksk, remain in dispute. The Sunzhensky Region, divided essentially in half, has two governments in operation. No final decision has been made on the border of the Aukhovsk Region, also known as the Khasavyurtovsk Region, which is the border district for both Chechnya and Dagestan.

The issue of reconstituting Checheno-Ingushetia was discussed periodically during 2005–2006 and elicited the most diverse opinions, ranging from the feasibility of unification in the name of achieving stability in the entire region to recognition of the fact that the reunification of
Checheno-Ingushetia would inevitably be a perpetual source of conflict. The merger idea was supported mainly by the Chechen politicians—such as speaker of the Chechen Parliament Dukvakhoi Abdurakhmanov—who believed the dissolution of Checheno-Ingushetia to have been a mistake, and was met by protests from ordinary Ingush. Some say that the question of affiliation for the Sunzhensky Region can only be resolved through the unification of Chechnya and Ingushetia.

The status of one of the republics is now doubtful: the Republic of Adygea, which is now a part of the Krasnodarsky Krai. Adyghe constitute more than 25% of the population of the republic. A number of local community organizations, in particular the Slavic Union of Adygea, have insisted on a change in the status of the republic and annulment of its sovereignty. A petition to the RF president to conduct a referendum on the status of Adygea gathered 20,000 signatures. In effect, this would mean the absorption of Adygea by the Krasnodarsky Krai. The Cherkessian Congress, which insists on self-determination for the republic, espouses the opposite opinion. At the time that the crisis was deteriorating in 2005, sociological research data showed that only half of the ethnic Adyghe in the republic were in favor of unification with the Krasnodarsky Krai, while 80% of the total number of residents in Adygea supported this idea. The head of the republic at that time, Khazret Sovmen, labeled the discussions on merging with the Krasnodarsky Krai “provocation.”

The borders between the regions within the republics themselves are also in question, such as, in Chechnya, the Shalinsky, Kurchaloevsky, and Groznsensky Regions and the borders between the city of Argun and the Shalinsky Region. The problem of internal borders is frequently complicated by the ethnic factor. This, for example, is characteristic of Kabardino-Balkaria, where the inhabitants of the Balkar settlements of Belaya Rechka, Khasanya, and several other villages have been demanding ethno-administrative self-determination. In Karachayevo-Cherkessia, debate has centered on the boundaries of the Ust-Dzhegutinsky Region. There have been problems caused in connection with the establishment of regions for the Abazins and the Nogais.

Today the matter of borders might be approached as follows: if national borders can be changed, thus altering the integrity of the state, then why can't the same be possible on a lower level, that of a republic or even a region? Farsighted politicians in the Kremlin also see a danger of cross-border conflicts. The former presidential political representative for the Southern Federal District, Dmitry Kozak, has frequently spoken out against redoing the borders.

Finally, it must not be forgotten that it was the Chechen separatists who were most decisively in favor of changing the republican and even national borders, in that they intended to combine Chechnya and Dagestan to form the Caucasus Emirat. The respective unification structures were already being formed: the Congress of the Peoples of Ichkeria and Dagestan, the General Sharia Court, and so on. The Chechen site Kavkazcenter continues even today to speak on behalf of the “Caucasus Emirat.” The Islamic radicals do not recognize existing borders, and recent activities of the Russian army, the soldiers of which are referred to as no less than “occupiers,” in fact reinforce their position, based on the concept, “if they can do it, why can't we?”

One way or another, the borders within the North Caucasus, and now even around its perimeter, are becoming ever shakier.
The policies of the Center in the region

In the Caucasus, believes analyst Vladimir Davydov, “Russian statehood is being put to the test…” I consider such an assertion, made under the cloud of armed conflict with Chechnya, to be excessively linear. I would say that the wars in Chechnya were more of an exception to the rule according to which in general the communities of the North Caucasus are interested in maintaining Russian statehood. After all, in the absence of such, they will unavoidably face the threat of conflicts of a different type. This should be the starting point. Otherwise, political activity in the region, which reduces to attempts to obtain concessions and privileges from the central authorities (even if engaging in speculation on possible separatist excesses), would mostly be comprehensible. Local politicians trying to “spook” the Kremlin will never consciously go so far as to destroy Russian statehood. Then there is the game of confronting the center, within certain limits, of course, and mostly rhetorically, which will remain one of the most efficient means of getting one's own way for a long time to come. This circumstance is gradually becoming appreciated by the federal elite, which accepts the rules of the game, even though it remains apprehensive that the development of events might get out of control.

One way or another, Moscow will need to decide for itself how it would like to see the North Caucasus, either modern and reformed or the same as it is now, an economically backward region on the verge of a great transition to who knows where, with an elite that is totally dependent on the center. Things here are not quite so simple. There is Ramzan Kadyrov, undoubtedly the strongest of the local politicians, who controls the situation in his own republic and is not afraid to make demands of Moscow. There also was, however, the leader of Ingushetia, Murat Zyazikov, who was obviously unable to establish control over the republic he administered but who would never even dream of making any demands on the center. The federal authorities would probably be interested in something intermediate between the two: a president needs to be strong enough to ensure security and stability in his own republic, but should not apply too much pressure on the center. This is more or less the picture that we have in the North Caucasus as well.

At the same time, it is particularly important for the center to know who will act and how in critical situations. In this connection one can recall the indecisiveness of some politicians and the energetic actions of others during the Beslan tragedy, the miscalculations of the President of Kabardino-Balkaria Valery Kokov, which were partially responsible for the armed confrontation in Nalchik in 2005, and the mistakes of Karachayevo-Cherkessia president Mustafa Batdyev.

One thing may be said with certainty: there will be no return to the system for electing governors, even though the local population is quite ambivalent about it. The results of a public opinion survey conducted in 2005–2006 show that the question of whether the appointment of governors would stabilize or would destabilize the situation was answered in the affirmative by respectively 20% and 60% of the residents of Ingushetia, 27% and 44% in Adyghe, 49% and 30% in Dagestan, and 65% and 29% of the residents of Karachayevo-Cherkessia. Thus, we see that the trends are multidirectional. In any case, it is clear that the idea of appointing the governors is not popular in a number of the republics.

The situation that developed following the Russo-Georgian War may additionally complicate the implementation of economic and social reforms. Any reasonably deep modernization contains within itself serious risks of destabilization. Some politicians even use modernization as a means...
to frighten, defining it as “going on… a strict diet” and “freedom of action only within a very narrow corridor under strict disciplinarian control.” But the local elites are not willing to go along with this, since they are happy with the status quo and will agree only to cosmetic measures. Both the center and the local authorities are afraid of disrupting the normal way of life. But maintenance of the status quo means stagnation and widespread corruption. Dmitry Kozak's attempts to enforce at least a measure of order and to instill a bit more transparency in the financial relations between the center and local territories ran into two dead ends, one in Moscow and one on the periphery.

The conflict with Georgia has created an unstable situation on the southern borders of the North Caucasus, and at this point no one can say how long it will take to finally settle (it is clear that Georgia has not accepted the loss of its territory and is actively rearming). The northern and western lines of the Georgian borders with Abkhazia, South Ossetia, and the republics of Russia remain sources of tension. This recalls the Pankisskoye Gorge, which during the wars in Chechnya served as a base for the Chechen radical opposition.

All of this might compel Moscow to begin to implement the mobilization model in the North Caucasus, many of the elements of which are already present in the region. The mobilization model implies a firm response to any opposition, the battle against which in the North Caucasus, in spite of varying degrees of success, has never stopped. The demonstration of force in relations with Georgia may be taken as a signal that any attempts to destabilize the situation will be countered by the federal center with force. And if the invasion of Georgia turned out to be permissible, then the use of forceful measures within a nation's own territory would be all the more perceived by the world as unavoidable and even necessary. However, the subsequent clamping down in Ingushetia, Dagestan, and other republics and the unjustifiably harsh actions undertaken by the agencies of law and order could elicit a reaction in the society, which would become increadingly intransigent.

If destabilization should occur, the forces that follow the slogans of radical Islam, the infamous Wahhabists, against whom the battle is becoming an eternal one, will become even more active. This in turn will once again attract the attention of radicals and extremists from other Muslim countries and the international Muslim organizations to the North Caucasus. Then it will all come full circle: North Caucasian internal problems will again become internationalized.

Solidarity with the Ossetians who suffered directly in the course of the conflict and with the Abkhazians over a certain amount of time might weaken the ethnophobia and negative attitudes toward "persons of Caucasian nationality" that have spread through Russian society, especially since the official propaganda carried no blatant attacks against Georgians. President Dmitry Medvedev has frequently emphasized that the Russian and Georgian people are “brothers.” In contrast to the first instance of strain in Russo-Georgian relations in 2006, this time there were almost no cases of ethnic persecution of Georgians in Russia. Information is available that suggests that the relevant directives were issued by the agencies of the Ministry of Internal Affairs. But the situation could easily change. There are forces that are prepared to provoke a conflict. A long article was published in the newspaper Izvestia, for example, that bore the meaningful title, “Did Georgia go to war with money sent from Russia?”, at the end of which a district policeman’s account is presented that during the war in South Ossetia, Georgians were allegedly drinking shots in honor of Saakashvili.
The Russo-Georgian conflict will not cure Russia of its phobia about the Caucasus, the roots of which lie in economic and social problems. Until these problems are resolved, the attitude toward people from the North Caucasus is not likely to change. If an improvement is to be expected, it would be only with respect to the Ossetians, which are of the "same religion" as we, if one pays attention to the media.

The main problem—the establishment of a system of national values shared by the whole society—remains unresolved. The idea that it might not be possible to establish one without incurring at least some casualties cannot be ruled out. But ongoing, persistent efforts must be made in this direction. Archbishop Feofan of Stavropol and Vladikavkaz has noted the existence of “processes of ethnic differentiation that are of concern” in the North Caucasus. However, differentiation is also occurring on the part of the Russian community, where signs of ethnic Russian nationalism are becoming more pronounced. These mutual tendencies are dangerous both for the North Caucasus and for the rest of Russia. Moreover, the very fact that the worsening of the situation is again coming from the Caucasus reinforces the mistrust of this region and provokes public irritation against it.

**The North Caucasus as a foreign policy factor**

The conflict will refocus attention on the North Caucasus in Russian foreign policy. It all started with the conflict in Chechnya, when that North Caucasian territory became the object of close international attention. What was in fact a civil internal Russian war had acquired an international dimension. The conflict in Chechnya developed with the active participation of global Islam, it reverberated in the South Caucasus, and foreign organizations from the West, including defenders of human rights, attempted to participate in its resolution. The situation in Chechnya has directly affected the world's attitude toward Russia. With the end of the Chechen conflict, its importance has declined significantly, but it would be careless not to note that the North and South Caucasus today are bound to each other as never before, and that new attempts to pressure Russia by manipulating its North Caucasian difficulties must not be completely ruled out. On the other hand, in pursuing its external policies, Moscow itself will not hesitate to play on the threat of destabilization of the North Caucasus from without, especially since objectively, the North Caucasus has been and continues to be one of the most vulnerable parts of Russian territory, largely because of its complex and intricate ethnosocial composition.

In the region itself, both politicians and the public have traditionally felt suspicious and even somewhat hostile toward the West. This hostility has been exacerbated further by the conviction among the local Muslims that the West is against Islam and the Muslim world. The North Caucasus is fully and absolutely on the side of the Palestinians and is sympathetic to the Afghan Talibs. The actions of the United States in Iraq have provoked not only honest protest but also a burning desire to send volunteers to that country to aid the Iraqi resistance. Based on available data, in Dagestan alone as many as 6,000 volunteers were ready to travel to Iraq. In addition, many are convinced that the religious extremists operating in the North Caucasus coordinate their efforts with Western secret services.

Anti-Western feelings also grow out of tension in Russo-American and, more broadly, Russo-Western relations. In this sense, the opinion of National Duma deputy Mikhail Zalikhanov from Kabardino-Balkaria is typical. He asserted that European and transoceanic structures “would be
happy at the destabilization of the situation in the Caucasus, so as to be able to weaken Russia through the Caucasus.”24 Such opinions are expressed in the region continually.

Nevertheless, there is no expectation of increased American or European activity in the North Caucasus, which will most probably remain at previous levels. The Americans will concentrate their efforts in the South Caucasus. The Europeans, on the other hand, will continue to pursue their humanitarian projects and, if the situation in the region should worsen, will call up the international human rights organizations.

A relatively new factor in the political situation of the Caucasus is Turkey, which is taking advantage of the situation to reinforce its position in the region. While maintaining solidarity with NATO, Ankara has simultaneously distanced itself from the policies of the United States and is trying to run its own game. Another motivating factor for Turkish self-expression is the Turkish sense of being “not completely European.” After being constantly pushed aside by the European big players, primarily Germany and France, Turkey has persisted in trying to find its own niche in the world of geopolitics, the Caucasus included.25

Turkish diplomatic goals in the Caucasus are motivated by the fact that Ankara would again like to try on the role of, if not a regional leader, then at least a regional mediator. No sooner had Russia wound up its military operation against Georgia than Turkish prime minister Recep Erdogan traveled to Moscow with a proposal to create a “platform of peace and stability in the Caucasus.” And his proposal was met with a certain amount of interest.

The main focus for Turkish diplomacy is the South Caucasus,26 but most important for us is the fact that the Turks prefer to speak of the Caucasus as a single region, recognizing Russia as a part of it. Ankara is counting on Moscow's favorable attitude toward its economic and cultural activity in the North Caucasus.

Particular intrigue has developed in Turkish politics due to the appearance in the region of an independent Abkhazia, which used to have longstanding ties with Turkey. The manner in which Turkey handles its relations with Abkhazia will have an impact on Russo-Turkish relations and the overall situation in the region. It will undoubtedly affect the situation in Abkhazia itself, where there are still hopes of pursuing a relatively independent course, even if within the framework of a predominantly Russian influence.

Moreover, part of the population of Abkhazia (11%–14%) consists of adherents of Islam. As historical experience has shown, in the presence of some sort of external pressure, the numbers of Muslims tend to grow rapidly and their religious identity becomes more conscious, as seen in the recent example of Yugoslavia. In addition, contacts with the mukhajirs—the Muslims who migrated to Turkey in the nineteenth century—will probably strengthen. According to various estimates, between 135,000 and 400,000 Muslims were exiled from Russia in 1859–1865.27

Today, hundreds of thousands of ethnic Caucasians are living in Turkey and the Near East (Syria, Iraq, and Jordan). The Adyghe communities in these countries have already expressed their satisfaction with Abkhazian independence, and have also announced their willingness to pursue contacts with their “tribal brothers.” Naturally, the nations in which they are based today will assist them in this effort.
In a word, in accepting Turkey as a natural, if situational, ally, Moscow needs to clearly define the boundaries and forms of interaction with this country.

**The North Caucasus and Russian domestic policy**

The range of opinions on the consequences of the Russian presence in the Caucasus is very broad, extending from the extreme, such as Aleksandr Minkin's pronouncements accusing Russia of “having pursued a brainless policy for what will soon be 20 years, which makes the peoples of the area less and less cultured and more and more aggressive,” to the more measured and constructive, such as the opinion expressed by Aslan Borov, an analyst from Nalchik, who wrote about “the need to find particular forms of national political organization for the North Caucasus that reflect its ethno-territorial and ethno-cultural particulars, but which also function to integrate local communities into the overall Russian social and political process.” While agreeing with the formulation, we still must ask, why haven't most of these problems been solved yet? After all, if they could only be solved, the situation in the North Caucasus could at least be relatively positive.

However, this hasn't happened, and this provides room for speculation that the North Caucasus plays a particular instrumental role in Russian internal politics, both at the center and in outlying areas. No one has yet disproved (nor has anyone proved) the assertion that both wars in Chechnya were planned in order to resolve problems related to power struggles in Moscow, that the taking of hostages in Beslan became the final deciding argument in favor of suspending gubernatorial elections, or that the war on Wahhabism is used by the local authorities to suppress any opposition. Finally, the tension surrounding Abkhazia and South Ossetia can serve as an excuse for inaction, or even as cover for direct sabotage by the authorities. As a functionary from the Kaliningrad Oblast, for example, chided a Moscow-based correspondent, “Why are you so hung up on the corruption story when there's a war going on in South Ossetia?” One way or another, the Russo-Georgian War and the subsequent deterioration of the situation could easily be used for internal political purposes.

It is hardly likely that the declaration of independence by Abkhazia and South Ossetia will precipitate any sort of catastrophe in the North Caucasus, such as strife from ethno-national separatism; only the Ossetia-Ingushetia conflict over the Prigorodny Region might intensify. However, these changes will eventually find expression in the popular mood of the region. The question of why some can and others can't will inevitably stick in the consciousness of the people, just as they remember how some nationalities in Russia are able to deal with problems in a matter of days, while for others the resolution might drag on for years. Finally, after the euphoria brought on by achieving independence, Abkhazia and South Ossetia will sooner or later have to recognize the fact that a close union with Russia would also mean having to share in its internal difficulties as well. Both of the new republics will experience quite a bit of disappointment here as well.

This is the context in which the implications for the North Caucasus of the Russo-Georgian War of August 2008 and the consequent appearance of two new independent countries should be considered.

2 Bulleten Seti etnologicheskogo monitoringa i rannego preduprezhdeniya konfliktov, no. 80, August 2008; spec. ed.: Voyna v Yuzhnoy Osetii, p. 80.

3 12.5 billion rubles were spent directly on military operations during the Five-Day War.


10 It may be added that in March 2006, a package of orders was issued that expanded the border zones of eleven administrative subjects of the RF, affecting all of the North Caucasus republics. See Samptev, I., “Situatsiya vokrug Dzheyrakhskogo rayona Ingushetii.” Kavkazskiy ekspert. Institute of the Caucasus, Gadzhi Makhacheva Foundation, no. 7, 2006, p. 2.

11 After Stalin had the Ingush and Chechens deported, the Checheno-Ingush Autonomous Republic was dissolved in 1944 and its lands were transferred to North Ossetia and Dagestan. Under Khrushchev, the deported peoples were rehabilitated, but Prigorodny Region remains part of Northern Ossetia, together with the homes that once belonged to the Ingush.


15 It is appropriate to recall here that the Checheno-Ingushetian Autonomous Oblast was created in 1934 from the merger of the Chechen and Ingush Autonomous Oblasts, and in 1936 the AO was changed to an autonomous republic, in 1944 the Checheno-Ingush Autonomous Republic was dissolved, in 1957 it was restored, and in 1992 it split up into two independent republics.


17 “Konfliktnyy potentsial i protsessy transformatsii v Kavkazskom regione.” Analiticheskie zapiski MGIMO (U) MID RF, no. 4 (16), May 1996, p. 32.


It must be noted that use of the term “genocide” as applied to this situation seems exaggerated and conjures up certain associations that are negative for Russia, since it automatically brings to mind the wars in Chechnya. I would point out that China insisted on removing the word "genocide" from the resolution adopted in August 2008 at the Dushanbe Summit of the Shanghai Cooperation Organization.


24 Bulleton Seti etnologicheskogo monitoringa and rannego preduprezhdeniya konfliktov, no. 74, July–August 2007, p. 12.


26 In this case we leave outside of the scope of analysis the energy problems—hydrocarbon transit, as well as the fact that 29% of the oil and 63% of the gas comes to Turkey from Russia. See Sarkisyan, P., “Ankara smeschaet kavkazskiy aktsent.” Nezavisimaya Gazeta, September 15, 2008, p. 20.


28 Obviously, such an evaluation is groundless and hardly fair. See Minkin, A., “Tsena pobedy.” Moskovskiy Komsomolets, Sept. 16, 2008, p. 5.
