RUSSIA: The Next Ten Years

A Collection

of Essays to Mark

Ten Years of the

Carnegie Moscow Center

Editors Andrew Kuchins and Dmitri Trenin

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The idea for this book was conceived in Moscow, but it received vital support from our colleagues in Washington: Jessica T. Mathews, president of the Carnegie Endowment for International Peace; Paul Balaran, executive vice president; Carmen MacDougall, vice president for communications; and Anders Aslund, director of the Endowment's Russian and Eurasian Program. To them we are sincerely grateful. We likewise extend our heartfelt thanks to those members of the Carnegie Moscow Center staff without whom this publication would not have been possible: Natasha Yefimova, who organized and oversaw the process from start to finish; Marina Pavlova-Silvanskaya, who edited the Russian texts; and Timofei Bordachev, who helped liaise with the authors. We were especially pleased that so many of the Center's former scholars responded positively to our idea and signed up to join our team for this project.

Andrew Kuchins, Dmitri Trenin

CONTENTS

Preface

Recognizing the historical magnitude of the end of the Cold War, the collapse of the Soviet Union and the emergence of a new Russia struggling to transform itself into a liberal democracy, 10 years ago under the leadership of my predecessor Morton Abramowitz, the Carnegie Endowment for International Peace responded by creating the Carnegie Moscow Center. When it opened in 1994, the Center became the first public research institution of its size and kind in the region — a resource sorely lacking after 70 years of communist monopoly on policy discussions. Over the past decade, it has secured its place as a vital forum for free intellectual exchange and the development of new ideas.

We have sought and continue to seek to demonstrate the value of truly independent research and analysis on major public policy issues in Russia. We strive to both stimulate and inform public debate on the great challenges Russia has faced and will face in the future. Not constrained by the daily challenges of policymaking and not answering to any special interests, independent "think tanks" should be incubators of innovation that can bridge the worlds of academia, government, media and business.

Through its seminars and publications — in Russian, English or both — the Center has informed policy debate on an impressive range of issues: nuclear non-proliferation, migration, economic reform, corruption, ethnic conflicts and nation-building, changes in the security environment of Europe and Asia, Russia's domestic political developments and its relations with nations across the globe, from Asia to the Baltics to the United States.

The scholars working at the Center enjoy an environment where independent thinking and a plurality of views are not only possible but encouraged. The Center's internationally renowned team further broadens its scope through a constant influx of visiting scholars and regular exchanges with the Endowment's esteemed Russian and Eurasian Program in Washington.

We are excited now to be embarking on a new decade for the Center. There is much to debate about the achievements and disappointments of the last 10 years in Russian domestic and foreign policy, but that is not our goal with the publication of this set of essays. Rather, as the title *Russia: The Next Decade* suggests, this is a very forward-looking publication. Andrew Kuchins and Dmitri Trenin have commissioned a set of essays from current and former Moscow Center and Washington-based Endowment staff that address many of the key challenges for Russia in the years ahead. While no one volume can be fully comprehensive, this anniversary collection of essays displays the multi-disciplinary and pluralistic approach to policy challenges that embodies the Endowment's vision for the Carnegie Moscow Center.

Jessica T. Mathews
President, Carnegie Endowment
for International Peace
March 2004

Russia: The Next Decade

(An Introduction)

If I had a dollar for every time a Russian has told me with a wry smile that Russia is an "unpredictable country," *nepredskazyuemaya strana*, I would have retired long ago in order to prepare for my second vocation as a professional golfer. This is the country famously described by a very wise observer of international relations, Winston Churchill, as "a riddle, wrapped in a mystery, inside an enigma." The study of Russia has been likened to peeling an onion — an endless process of uncovering layer after layer that eventually will bring you to tears. For historians Russia offers a remarkably rich subject of study fraught with the most colorful personalities and the stark juxtaposition of tragedy and brilliant human achievement. The geographical vastness of the steppe is seemingly matched by a wider spectrum of the possible and imaginable.

Russians often revel in the supposed uniqueness of Russia. Of course, this is true in many respects. Russia does have a quite unique endowment of natural resources and a vast physical and northern geography that presents special challenges. Also by virtue of its geography Russia is not simply part of Europe or part of Asia. Rather it is a massive Eurasian landmass that places Russia on the periphery simultaneously of Europe, Northeast Asia, the Middle East and South Asia. The unfortunate legacy of more than 70 years of misdevelopment under Soviet rule also posed a fairly unique set of challenges when the Russian Federation embarked on its efforts to become a market democracy more than a decade ago.

But it is also true that Russia has undertaken this transformation in a far more interdependent and interconnected world than the one in which, for example, the Bolsheviks carried out their revolution almost a century ago. The choice for autarkic development is not a realistic option today since it would consign Russians to relative poverty and further diminished international status for any foreseeable future. President Putin and any other viable Russian political leader in the future will have at the center of their

program the goals of increasing the prosperity of individuals and the power and influence of the nation.

Achieving these goals will require many important decisions about a myriad of crucial domestic political, economic and social issues, as well as foreign and security policy issues — many of which will be complexly interrelated. In the past decade or so Russia has essentially chosen to pursue capitalism as economic organizing principal, but this agenda includes much important unfinished business such as banking reform, administrative reform, reform of natural monopolies and a host of other challenges to improve Russia's competitiveness and economic performance.

The extent to which Russia has endorsed democracy and the development of an open and civil society and an effective and universal legal system has come under increasing question in recent years. The 1990s were no utopia in this regard, but there was greater hope than today. The consolidation of greater power in the hands of the Kremlin and the maturing of a political system dubbed "managed democracy" strongly suggests that Russia's "transition to democracy" has been sidelined. The trend-lines coming out of the 2003-2004 electoral cycle are not encouraging. The key questions in my view are how sustainable is the "super-presidential" system and will it encourage or discourage the growth and diversification of the Russian economy as well as promote further development of a broadly based middle class.

Russia's capacity to be a strong player and functional partner in international affairs depends a great deal on how effectively it deals with core domestic challenges. This is especially true when we examine the potential for greater integration with an expanding European Union and the efforts to join the World Trade Organization (WTO). I would not be going out on a shaky limb in predicting that in the next 10 years Russia will be a mem-

ber of the WTO and will not be a member of the EU. But just how far and how fast, for example, Russia will go to adopt political, legal and economic measures to make it more compatible with European standards remains an open question.

Similarly, I would feel reasonably confident in predicting that Russia will not be a member of NATO or engage in an alliance relationship with the United States in the next decade. But to what extent Russia and NATO on a multilateral basis and Russia and the U.S. on a bilateral basis can move beyond platitudes about common interests and partnership to engage in real concrete tasks that promote our mutual security is unclear. We have also moved beyond the simplistic question of whether Russian foreign policy should be oriented East or West. Obviously given Russia's geography it faces challenges and the imperative to become more integrated in both Asia and Europe, and the two orientations need not come at the expense of each other. Of critical importance in the coming years will be the kinds of relationships Moscow develops with its other post-Soviet neighbors and what role Russia will play in leadership transitions in Central Asia, the Caucasus, as well as Ukraine, Belarus and Moldova. Will the Georgian or the Azeri generational leadership transition model prevail?

In the following volume of essays that was commissioned to mark the 10-year anniversary of the Carnegie Moscow Center, we have asked current and former staff of the Center in Moscow and the Carnegie Endowment in Washington to address what they see as some of the core challenges and questions for Russia in the coming decade. The task is not so much to predict — that is asking too much — but rather to elucidate the context for critical choices for Russian policymakers and the Russian people. It may be banal, but it is worth repeating that these choices are important not only for Russia, but for the rest of the world as well. The last 15 years have not been easy for the Russian Federation by any means and certainly subopti-

mal in many respects. But my operating assumption has always been that whether successful or not, even in the best case, Russia's transformation would require at least 20-30 years. Final judgment may be premature today; today's task remains to endeavor to bring our most creative and rigorous thinking to bear on addressing the challenges ahead to stimulate public debate and inform the policymaking process as possible. We will leave it to future historians to evaluate how well we have all done.

Andrew C. Kuchins
Director, Carnegie Moscow Center

Economic Growth in Russia: Opportunities and Limitations

Yevgeny Gavrilenkov
Managing Director, Chief Economist, Troika Dialog, Moscow;
Former Scholar-in-Residence, Carnegie Moscow Center

Following the long decline of the 1990s, when the gross domestic product fell by more than 40 percent, the Russian economy once again shows a high rate of growth: During the period following the crisis of 1998 it has grown on average 6.7 percent per year. Significantly, the growth rate in 2003 increased by comparison with the previous two years and, overall between 1999 and 2003, GDP increased by more than a third. How stable is this trend? Can Russia repeat the success of Asian countries and maintain high rates of growth for decades? If so, what conditions will be necessary for that to occur?

Clearly, the ambiguous processes that occurred in the Russian economy in the last decade of the 20th century not only laid the basis for the current growth but also brought about such well-known problems as doubts about the legal status of property and the growing role of the bureaucracy. This has influenced and may continue to negatively affect the pace and quality of economic growth.

In May 2003, in his address to the State Duma, President Vladimir Putin set the objective of doubling GDP in the next 10

years, which will require a yearly growth rate of more than 7 percent. Such a goal is attainable: Many states (China, Korea, Japan and others) steadily grew over fairly long periods, as had the Soviet Union for a certain period.

In the middle of 2000 the Russian government developed a long-term strategy aimed at the establishment of a vibrant, developing economy, increased efficiency, modernization and decreased dependence on vacillating international prices for raw materials and energy. The key to attaining these goals was supposed to be a liberal economic model with simple and clear rules of the game in which the government would both reduce its interference in business to a minimum and significantly enhance its role in guaranteeing stable conditions for commercial activity.

The 1998 crisis gave rise to several objective prerequisites for the start of general economic growth. The high rate of growth attained in 1999-2002 — especially immediately after the default — was largely a result of the new opportunities for increasing production capacity. Initially, the devaluation of the ruble also made a positive impact, drawing a substantial share of domestic demand over to Russian-produced goods: At the end of 1998 and beginning of 1999 the average monthly volume of imports declined by some 50 percent compared with pre-crisis levels. Over the following years, growing oil prices continued to stimulate both consumer and investment demand on the domestic market. The return of cash earnings to Russia, and their subsequent redistribution to other sectors of the economy (through the budget, the financial system and increased demand for investment on the part of large exporters) helped to increase the level of income across a broad spectrum of the economy.

However, by the end of 2002, it was clear that the post-crisis model of economic growth had exhausted itself. This occurred not only because much of the excess production capacity had been fully utilized, but also because, with the rise in incomes, the structure of demand had changed. In essence, producers had to meet qualitatively new requirements. Demand shifted from relatively simple and inexpensive goods — an area in which domestic producers were quite competitive — to more expensive and higher-quality products, in other words, the segment of the market where Russian producers lag behind their foreign counterparts. Therefore, even if certain sectors retain some spare production capacity, it makes no sense to set the goal of increasing production given the lack of demand.

Overall, in the past few years, the volume of imports grew significantly faster than the economy on the whole, and not on account of a real increase in the ruble rate, which has remained relatively stable since

2001, and showed significant growth only in 2003, although imports had continued to increase as before. The only exception is the service sector (not counting tourism), which cannot be imported. The rise in income greatly increased demand for services, and that in turn stimulated the growth of GDP.

Thus, the increase in domestic demand in itself can no longer guarantee high rates of economic growth on the whole. Without an overhaul of production technologies and significant improvements in business culture, the quality of government activity and the investment climate, artificial stimulation of domestic demand — for example, through the budget — will only increase imports.

Some believe that Russia can generally follow the course taken over the decades by Asian countries. However, this is hardly realistic. As studies show, the most substantial contribution to the economic development of Asian countries, in particular South Korea, was the accumulation of capital

The increase in domestic demand in itself can no longer guarantee high rates of economic growth on the whole.

assets. Similarly important factors were rapid population growth and increased labor supply created by migration from the countryside to urban areas. Production grew more efficient, but at a slower rate.

A similar trend occurred in the Soviet Union from 1960 through the 1980s, when, over three decades, industrial output almost doubled and capital assets increased by a factor of eight, while employment rose only by a third. The excessive growth of capital assets was not accompanied by — indeed could not have been accompanied by — the necessary growth in labor resources. (In present-day conditions, some of those capital assets can be qualified as "wrong" since they were formed in an entirely different economic system as a result of inefficient investment.) Labor turned into a restrictive factor of the economy, which remained labor-intensive despite the steady increase in capital assets. There are natural limits to extensive development. As a national economy approaches these limits, it undergoes crises, and overcoming them requires institutional reform.

Disaggregated data on growth shows that the situation in developed economies differs fundamentally from the one typical of southeastern Asian states. In the case of the former, economic growth results from a steady increase in productivity, which outpaces both employment rates (which may not be growing at all) and the accumulation of capital assets.

In the long term, the Russian population will continue to decline. Furthermore, Russia cannot count on a large inflow of inexpensive labor from rural regions to the cities, which played an extremely important role in China, Korea and other Asian countries. By European standards, the share of Russia's rural population is still high (just over 20 percent), but it is much lower than the figures recorded in the Asian countries at the time they embarked on their period of rapid economic growth. In other words, Russia cannot rely on human resources to make a significant contribution to economic growth. In the medium term, the labor supply will likely remain unchanged or will grow initially at a maximum annual rate of 0.5 percent, and will subsequently begin to decline.

As econometric studies show, in order to increase growth in capital assets to 0.5-1 percent per year, investment must grow at a rate of at least 10 percent. But even if the rate is faster, the accumulation of fixed capital will remain slow, especially at the beginning, because, compared with the levels already accumulated, current investment is weak (in the 1990s it fell by nearly 80 percent).

Thus, in order for the Russian economy to grow by 7-8 percent per year, total factor productivity (TFP) must rise at a rate of 5.5-6.5 percent, while the 6-7 percent average yearly growth that the country experienced after 1998 would require a parallel increase in TFP of 4.5-5.5 percent. Such an increase is possible on the condition that capital investment go not only toward the fuel and energy complex but also to sectors that produce goods with higher added value — the service sector, machine building and others.

Institutional Restrictions on Growth

Clearly, steady growth in TFP is possible only if increased investment activity is accompanied by an improvement in the quality of government-provided services and the quality of corporate governance. Investment in fixed assets will be able to spur economic growth.

The quality of state economic policies and corporate governance are important factors for the investment climate. Soon after the crisis of 1998, gov-

ernment regulation, above all macroeconomic policies, took a turn for the better. The default and devaluation enabled the government to rectify the macroeconomic imbalances that had arisen by 1998. They arose because of an extremely lax fiscal policy combined with a strict monetary and credit policy, which, despite the macroeconomic imbalances, maintained a fixed ruble rate. The debt crisis of 1998 was caused by a chronic budget deficit, and the attempt to carry out a strict monetary and credit policy incompatible with the budget only brought the crisis to a head. Over the past few years, thanks to the transition to a floating ruble rate and policies geared toward a surplus budget, the threat of a crisis — from a macroeconomic standpoint — has been averted, both in the short term and in the foreseeable future.

It is important to understand, however, that the macroeconomic imbalances are rooted not only in weak macroeconomic policies but also in the lack of developed market institutions, the inefficiency of structural government policies and poor corporate governance. In "problem" economies these causes tend to go hand in hand.

If Russia's advances in the field of macroeconomics over these past years have been tangible, then structural reforms and the development of market institutions have made far less progress. Admittedly, the implementation of balanced macroeconomic policies was facilitated to a great extent by the long period of high oil prices. In that respect, the post-crisis period can be called a period of "cheap growth" that allowed economic agents to get by without widescale qualitative changes: Businesses could boost output and productive capacity, while the government, thanks to the steady inflow of cash, could maintain macroeconomic stability and increase reserves.

Given its current situation, Russia can achieve steady growth only if it revamps the entire structure of the economy; the fuel and energy complex alone is incapable of doing so. International experience following World War II has shown that countries that export resources have developed far more slowly than those that import them but produce goods with a higher share of added value.

The first signs of change for the better appeared in Russia by 2003. The model of economic growth began to change not only on the macro- but also the microeconomic level. Industrial output increased by 7 percent, while employment in this sector declined by almost 6 percent. Expenses that arose from an increase in tariffs for heat, energy and transport forced businesses to consider ways of reducing other expenditures. Excess employ-

ment, a legacy of Soviet times, was the first target. Restructuring was also accompanied by an expected increase in the real ruble rate.

The government's general economic policies were partly responsible for these positive changes, especially its macroeconomic policies. Additionally, the government took serious measures to reform the tax system and somewhat increased the effectiveness of its spending. Such basic documents as the tax, budget and land codes began to take effect. Legislation was adopted on pension reform, electric-energy reform, the streamlining of bureaucracy for small business and other reforms.

However, the implementation of these adopted decisions sometimes fell short of expectations, and many reforms mentioned in the long-term economic strategy of 2000 have yet to be carried out. Among them, first and foremost, is reform of the so-called natural monopolies. The government has not managed to limit the growth of budget outlays, eradicate corruption and noticeably reform the financial system, particularly the banks. The Cabinet did not undertake administrative changes until the end of 2003 and judging by the looks of things, they will remain nominal.

Thus, the positive trends in the development of the economy can largely be attributed to the natural evolution of large and medium-sized business prone to growth. The statistics on capital flows are revealing in this respect. In the first two quarters of 2003, the outflow of capital from the Russian economy virtually ceased, while the inflow of borrowed funds that Russian corporations were able to attract from abroad greatly increased. This means that domestic big business not only grew stronger but also became more transparent. Businesses that attracted funds from foreign markets met international accounting standards and began publishing lists of their shareholders. As a result, despite the increased tensions between the government and business, the sheer outflow of capital over the past year has significant decreased. Over the past decades (not only the 1990s), the Soviet Union and Russia exported capital. In Soviet times, for example, one form of export through government channels was support for communist regimes. If capital flows are reversed definitively and a new business culture takes their place, then the rate and quality of growth can greatly change for the better.

Economic Growth and the Development of the Financial System

Increasing growth will require not only the presence of significant foreign capital in the domestic economy but also an increasingly active role of the

financial system, especially banks. The role of capital markets must also be stepped up. The need to finance economic growth and attract financial resources on a repayable basis would increase the transparency of businesses and spur the process of restructuring.

There are, however, fundamental factors limiting the possibility for growth that are especially important in analyzing the long-term prospects for the Russian economy and financial markets. Those factors include the following:

1. Monetization of the Russian economy remains low. Although in 1999-2003 the ratio of the M2 money supply to GDP grew, it was still much lower than in the majority of emerging economies, not to mention industrially advanced nations.

2. Monetization cannot be increased quickly and artificially. It increases according to economic growth, the growth in per capita income and profits of other economic agents, strengthened trust and the emergence of incentives for savings. Statistical data show that the higher the level of monetization of an economy, the higher the per capita GDP of a country.

3. In economies with low monetization, it makes more sense to measure trends in the financial sector — particularly in the securities market, whether index or capitalization — against trends in money supply rather than GDP. The same is true for macroeconomic indicators of banking sector development. In developed countries, however, the correlation between M2 and GDP is close to 100 percent, and it is therefore not especially important which indicator is used — GDP or M2.

The low monetization of the Russian economy, together with the fragmentation of the banking system, which currently includes more than 1,300 banks, limit opportunities for obtaining credit. Such monetization means that money turnover is high, making long-term bank loans unlikely. Their term will increase in step with monetization.

The Russian economy combines the predominance of large enterprises and small banks — this is one of its principal contradictions. Small banks prevail in Russia; only 15 banks have assets exceeding $1 billion. Consequently, the overwhelming majority of domestic banks are incapable of servicing rapidly expanding large companies that require large long-term credits. Naturally, therefore, the level of borrowing from abroad by the non-financial sector is growing.
Regarding smaller companies that, for a number of reasons, are not ready

to turn to foreign creditors, the situation is different. Given that they are unable to obtain relatively large and long-term credit from a single bank — due to the low capitalization of the majority of them — the companies increase issues of ruble-backed bonds and thereby attract resources from a large number of creditors. This segment of the financial market will continue to display rapid growth in the coming years.

At some point in the distant future, the development of the financial system will match the trends in money supply. As a result of re-monetization, the role of the financial sector, particularly financial markets, will grow. Given that financial markets are more flexible than the economy on the whole, their growth in the short term can be spurred on by sound fundamental indicators and good news. However, bad corporate and political news can push down stock prices, while an outflow of capital forces up interest rates even if macroeconomic indicators are strong.

Another important factor: The bigger the gap between the volume of capital truly circulating in the economy and the capitalization of the market, the higher the risk that capitalization will fall. The same applies to other segments of the financial market, like the currency and government bonds markets, as well as other elements of the financial system.

The above suggests that further economic growth — in the event that economic reforms move forward — will be accompanied by a continuing increase in monetization and, thus, money supply will increase more quickly than GDP. If, on top of this, in the long term the market starts growing as quickly as the money supply, then the growth rate of Russian stocks — backed by general economic growth and further re-monetization of the economy — should surpass that of GDP. This is precisely what has occurred in recent years, fueling fast-paced growth throughout the financial system. However, the overall rapid growth that the market and financial system can be expected to display in the long term does not preclude short-term fluctuations.

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It should be noted, however, that the risk of short-term declines in the market will remain significant. Such changes manifested themselves after the 1998 crisis and in the second half of 2002. In the second instance, the drop in stock prices was most likely brought about by changes in the model of growth: The upward trend in the economy slowed down because the mechanism of growth that had arisen after the 1998 crisis had exhausted itself. The market began getting back on its feet at the start of 2003, propelled by an increase in investment activity. However, the Yukos case and the political tensions that it caused temporarily brought the market down.

The long-term fundamental economic risks in Russia are perhaps lower than in many other developing economies since, in the coming years, the country's balance sheets will likely remain very positive — above all thanks to the current structure of the national economy. The floating currency rates and the government's intention not to allow budget deficits will enable it to avoid a crisis like the one in 1998. Even under the least favorable circumstances that may arise, namely in the event of a long-term drop in oil prices, the potential devaluation of the ruble will be gradual and will make it possible to maintain a positive foreign trade balance.

If economic reforms continue, Russia's GDP will grow at a faster rate than the world average, and the financial system, particularly the stock market, will develop even more quickly. In other words, the returns from long-term investment in Russian securities could turn out to be higher than in many other countries, which would stimulate the flow of investment into the Russian economy.

Public Administration Reform and the Development of Civil Society in Russia

Mikhail Dmitriev

Director for Research, Center for Strategic Research;
Former First Deputy Minister of Economic Development and Trade, Russian Government;
Former Scholar-in-Residence, Carnegie Moscow Center

The main objective of public administration reform in Russia is to bring the institutions of the executive branch of power in line with a market economy and the principles of the rule of law. This objective was set at the beginning of the 1990s, but it has yet to be achieved. The principles underlying the work of the executive branch — formed in Soviet times under a totalitarian political system and planned economy — have barely changed. In its present form, the executive branch constitutes a historical anachronism, but reforms in this sphere have been postponed repeatedly, mainly because reformers were overwhelmed by other urgent problems of transition.

Today, a fundamentally new context has arisen and the problems that have come to the fore require new, unexplored solutions. This can be explained not so much by the evolution of Russian society as by the changes that the international economy has undergone at the turn of the century.

Russia can no longer afford to mechanically copy Western government institutions that have formed over time and have a history of their own. In recent years they themselves have embarked on a process of comprehensive transformation, mainly in response to the demands of the information age and a global economy. Decision-making processes involving large groups of citizens are becoming more and more complicated. The diversity of social interests and the volume of information flows are rapidly increasing, there-

fore new solutions for public management become necessary. To resolve specific problems of transition, Russia now has to take into account the challenges imposed by recent global economic developments in goverment administrations worldwide.

By comparison with the rest of the world, the quality and effectiveness of Russia's public administration lags behind not only developed countries but the majority of countries with a similar level of economic development. The

Russian public administration is so ineffective that this alone necessitates radical administrative reform.

untapped potential for raising government efficiency in Russia is far greater than in any developed country. Therefore, the positive impact of administrative reforms in Russia could surpass the outcomes of similar reforms in the majority of developed countries. Russian public administration is so ineffective that this alone necessitates radical administrative reform. Maintaining the government without reform is becoming far more risky than forcing through radical and innovative transformation. Indeed, public opinion, which holds the state of government administration in low esteem, seems to be ready to support even the most radical of proposals.

New Role for Civil Society

For the moment, public administration reform in Russia has a broad agenda. Perhaps its most radical and controversial dimension is the new role that must be played by civil society. Nonetheless, despite all the debate, there is a common understanding that without the active engagement of civil society the potential of administrative reform is unlikely to be fully realized.

The elements of the strategy for strengthening the role of civil society are far from being fully explored, but their general direction is already clear. First of all, it is necessary to diversify the forms and channels of interaction between state and society and to create new mechanisms of social influence on decision-making in public administration.

At least five objectives can be set in this regard:
– The development of a public dialogue at early stages of policy development;
– Transparency of public administration;
– Engagement of civil society in oversight of public agencies and organizations;
– The establishment of effective pre-court mechanisms for appealing decisions made by the authorities;
– The involvement of NGOs in providing public services.

Increasing Opportunities for Feedback

In recent years the federal authorities have learned many painful lessons while trying to resolve socially sensitive matters behind the scenes, without proper public debate. Reforms are needed to establish effective mechanisms for collecting feedback from society at early stages of policy development.

In particular, public discussion on many categories of draft laws and regulations should be made mandatory. Representatives of civil society and independent experts should have a mandate to participate in a wide range of policy issues that are of particular significance to society and the economy.

Mechanisms for the participation of outside experts have already been set forth in a number of recently adopted legislative acts (for example, the law on technical regulation). Other areas, like regulatory impact assessment, still need to be legislated. A particularly difficult issue is the development of a mechanism for selecting experts that could guarantee objectivity and a high level of competence, while excluding the possibility of manipulation.

Alternative mechanisms must be put in place as channels of influence for citizens on issues of public governance. For example, bills on civil service and access to information require participation by representatives of civil society in ministerial commissions on the ethical conduct and competitive recruitment of civil servants.

In order to facilitate feedback, citizens should have the opportunity to lodge effective complaints against unfair decisions and actions of government bodies and to file claims in the event that government bodies provide them with inadequate services. However, appeals to the courts are usually

a laborious and lengthy affair, which most Russians try to avoid at all costs, unless absolutely necessary.

From a citizen's point of view, pre-court appeals procedures have several advantages. First, they may be faster and more accessible than going to court. Second, the decisions of pre-trial complaints bodies for public officials could be final and not subject to be challenged by them in courts. On the contrary, such decisions should not preclude citizens from taking a case to court and appealing a previous decision. Third, pre-trial complaints bodies are meant to be independent of government bodies whose decisions they consider. And, finally, the appellate bodies are supposed to be organized on a collegial basis and with the participation of representatives of civil society.

Providing Social Services

Today civil society organizations and citizens have rather limited opportunities to influence the activities of public providers of social services. This exacerbates even further the decay of public social services. One possible way to improve the situation envisions a comprehensive democratization of service delivery by strengthening the role of consumers. To this end, several measures could be introduced, including:

- Extending access of NGOs to public contracts for providing social services;
- Increasing transparency of providers of social services;
- Broadening the participation of citizens and civil society associations in the management of providers;
- Developing private-public partnership schemes for financing social projects;
- Expanding the freedom of consumer choice by the introduction of competitive financing methods, including ones based on the principle "money follows the customers."

Of course, such reforms will have to be well integrated into a broader reform agenda in health, education, pensions and social protection. They would also necessitate the reconsideration of the legal status of public organizations providing most social services. A new type of state or municipal non-profit organization would have to be introduced in order to replace a large number of existing public providers. Such specialized organizations could be accountable to consumers through boards of trustees that monitor their performance. Such organizations would also be required to provide much better information disclosure than existing types of public organizations operating in the social sphere.

Private-public partnership in the social sphere could develop in at least two ways: either through joint public-private participation in autonomous, non-profit organizations that provide social services or through joint public-private financing of social programs via non-governmental charitable funds acting as intermediaries.

Strengthening Civil Society

Civil society in Russia has not matured enough to take advantage of the full potential of new channels of influence on the government. For example, many institutions of civil society are still constrained in their capacity to delegate representatives to numerous supervisory councils, expert groups, collegial bodies and working groups, which would be introduced in the process of reform. But without such delegation new forms of social dialogue would make little sense. In every such structure, there must be persons who effectively represent a wide spectrum of social interests in the relevant areas.

> The supply side agenda for civil society in Russia remains even less developed than the agenda on the demand side.

For the time being, such representative mechanisms have been more or less established by trade unions and employers' associations under the Russian Tripartite Commission on Social and Labor Relations. The commission's experience proves that the emergence of government "demand" for social dialogue can accelerate the development of civil society.

But beyond the Tripartite Commission there are still only a few other examples of relatively successful regular dialogue between government and representatives of civil society. In many of these areas legislative work aimed at creating stronger demand for social dialogue on the part of the government is already in progress. But this work could prove far more effective if accompanied by concerted efforts by the government and the third sector to strengthen the "supply side" of NGOs' activities in response to an emerging demand from institutions of public administration.

In many respects the supply side agenda for civil society in Russia remains even less developed than the agenda on the demand side. This means that the next stages of reform should put stronger emphasis on policies that facilitate institutional development within the third sector. Such policies could include:

– Favorable tax regime;
– New legislation on charities;
– Better access to public information;
– Higher transparency of NGOs;
– Capacity building for non-governmental expert analysis;
– Assistance to develop network-building capacity;
– Infrastructure development for sector self-regulation.

Dilemmas of Privatization in Russia

Anders Åslund
Director, Russian and Eurasian Program, Carnegie Endowment for International Peace

One of the foundations of any economic system is ownership of the means of production. One and a half century ago, the early socialist Pierre Proudhon exclaimed "Property is theft!" Karl Marx and Friedrich Engels declared the "nationalization of the means of production" as one of the prime aims of the dictatorship of the proletariat.

Seventy years of state socialism made evident that nationalization was a bad idea, causing many problems. First, any concentration of ownership to one single owner meant a corresponding concentration of political power or dictatorship. Second, a market economy required several owners, so most markets were precluded, and markets have proven more efficient than state monopolies. Private companies can be monopolies as well, but politically they are difficult to sustain. Third, centralized state ownership was not very operative. State enterprise managers assumed the cash rights, while the central government was left with the control rights, that is, the right to buy, sell or otherwise transfer state property. As a result, managers had an inherent incentive to divert the cash of their state enterprise. Fourth, the line between enterprises and the central government was blurred, politicizing enterprise management. State enterprises have persistently proven more agile than private enterprises in getting state subsidies.

The liberal revolutionaries who followed the communists focused on four slogans: democratization, liberalization, financial stabilization and privatization. Democratization was the precondition of the whole transformation, because the old Soviet establishment desired minimal change. No

market could exist without the liberalization of trade and prices. Financial stabilization made money scarce, forcing firms to economize. Initially, financial stabilization appeared the key to economic growth. An early survey of Polish enterprises showed that not only private but also state enterprises were cutting costs and labor when financial stabilization imposed hard budget constraints upon them. By contrast, from 1996 to 1998, Russia, Ukraine and Kazakhstan saw low inflation and stable exchange rates combined with continued output decline, because their economies remained exceedingly regulated. The focus moved from stabilization to liberalization.

The benefits from privatization, however, became apparent after 1998. Admittedly, regression analyses indicated positive effects from private ownership from the outset, but mainly in new start-ups and foreign-owned companies. The conventional wisdom arose that Russia had made a mistake to privatize too much too early. Especially, Joseph Stiglitz argued that the quality of privatization was more important than its speed: "It is easy to privatize quickly if one does not pay any attention to *how* one privatizes: essentially give away valuable state property to one's friends."

Neither the state nor weak collective owners tend to undertake strategic restructuring.

But since 1999, something remarkable has happened. Russia, Ukraine and other post-Soviet countries have excelled with more than 6 percent average annual economic growth for half a decade. Their economic recovery has been spearheaded by large private corporations, reviving old Soviet energy and metallurgical companies. The new stars are companies such as Yukos, Sibneft, Tyumen Oil (TNK), Norilsk Nickel, Severstal, Novolipetsk, Russian Aluminum, SUAL, MDM, Interpipe and System Capital Management.

These corporations are big. The ten largest private Russian companies have about 200,000 employees each. They have all been bought by outsiders, either from the state for a song or equally cheaply from former private

owners. The new core owners are few and because of their concentrated ownership they can undertake the necessary radical restructuring. As a consequence of this radical privatization of old Soviet smokestacks, Russian oil extraction is skyrocketing, and modern metallurgical plants work at nearly full capacity in both Russia and Ukraine. The fully privatized Russian coal industry is booming away with high profits.

In Central Europe, by contrast, the old heavy industry is still dwindling. The Polish coal industry, for instance, is fully state-owned. Consequently, its production continues to fall, and it is overstaffed, making losses while extracting large state subsidies. Only in 2003, Poland at long last privatized four large steelworks. Big enterprises have almost disappeared in Central Europe. If they are not lingering under state ownership, they have been bought by foreign investors who did not know how to manage such huge Soviet enterprises, but closed down everything but the small parts of interest to them. As a result, poor Ukraine has more billionaires than Poland, and the six richest Ukrainians made their fortunes on Soviet steelworks reanimated as private property, while steelworks were still state-owned in Poland.

A number of conclusions follows. Privatization matters in the long run. To begin with, hard budget constraints arising from financial stabilization persuade all kinds of enterprises to cut costs. Next, enterprises need sufficient freedom to act rationally. Finally, however, they require strong private owners with the right incentives to undertake strategic restructuring and expansion. Entrepreneurial, risk-taking owners are needed. Neither the state nor weak collective owners tend to possess that ability. In Russia, this became apparent only by 2000.

Concentrated ownership to a few core owners appears preferable in the early stages of capitalism, because the owners cannot easily control hired managers, accustomed to management theft. Mass privatization rendered privatization definite and made property rights transferable. Although stocks were spread to many, they could swiftly be purchased on the market when a stock soared in value, easily leading to concentrated ownership.

The main consideration for when privatization should be undertaken is when it is politically possible. Empirically, Russia proved that early mass privatization was possible. Immediately after the collapse of communism, expectations of various social strata were vague, politically facilitating privatization. In particular Poland has illustrated how difficult it is to privatize large enterprises later on. Each individual privatization has to be negotiated for years, truncating choices, because vested interests are activated and

turn stubborn. They have to be paid off. While interests in themselves are respectable, many are wedded to corruption. Senior state officials tend to sit on the boards of several state companies, which generates substantial incomes, exceeding official salaries. Postcommunist states with many remaining state enterprises have become cobwebs of corruption.

State revenue was no major goal of postcommunist privatization and rightly so. The earlier a corporation was privatized, the less the state revenue, because economic uncertainty and risks were great, while companies were unrestructured, but early privatization helped create a critical mass of

Many Russians have proven perfectly competent in restructuring such companies.

reforms necessary for new economic growth. Then, both GDP and tax revenues will start rising, easily outweighing potential revenues from privatization, and total welfare, that is GDP, is of course far more essential for society than tax revenues.

Privatization changes the incentives of businessmen in so many different ways. Spin-offs are rare around state enterprises with their bureaucratic culture and regulatory approach, while they are frequent in the vicinity of private corporations. Today, Russian corporations are swiftly expanding into other postcommunist countries that have been slower to privatize because Russian entrepreneurs have had more time to learn their trade and accumulate capital, they have been more exposed to competition and business conditions have normalized. When Belarus finally undertakes its transition to a market economy, one of its great dilemmas will be agile Russian and Ukrainian businessmen buying whatever they can before their Belarusian colleagues have learned to walk.

The dearth of small enterprises is rightly one of the greatest complaints about the Russian economy, but the blame should be put on the Russian bureaucracy rather than on the big enterprises that manage to break through the red tape. Indeed, many big Russian companies promote small and medium-size enterprises, realizing their need for more suppliers and

more competition among them. Moreover, the big corporations do not feel threatened by competition from small firms. Oil and metallurgy involve great economies of scale, and in such industries large corporations are an economic necessity.

In fact, Russian businessmen have mostly outdone Western investors in the early restructuring of large Soviet corporations. For years, Western investors in Russia have argued that it is unwise to take over an unrestructured Soviet enterprise with more than 1,500 employees because of a lack of relevant skills, but there are many such enterprises. Fortunately, many Russians have proven perfectly competent in restructuring such companies. First, able Russian entrepreneurs know how to manage relations with both the federal and regional government. Second, they understand how to work in an environment with limited law abidance and they can clean out standard criminality in an enterprise. Third, as engineers, they understand the old Soviet technology and can assess where it is useful. Fourth, while knowing the old Soviet enterprise organization, they have learned Western management techniques. Fifth, the new Russians can also assess which social demands are ultimate or merely formal. The advantages of foreign investors arise at a later stage, when new technologies, markets and financing are required. The devastation of large industrial plants in Central Europe can be blamed partly on the long duration of their state ownership, partly on foreign owners' interest being limited to only part of the plant and only partly on necessary structural changes.

But if privatization is so beneficial, why is it so disliked? Well, the ultimate judgment on privatization is if it is politically and socially acceptable. If not, it may be undone, as will its benefits. People do not necessarily like what is good for them, and public understanding of the benefits of privatization is very limited. Russians must learn how economic welfare is actually created. Rather than focusing on the growth of the common cake, public discussion tends to focus upon its distribution.

Any administrative redistribution of private property rights will undermine future economic growth.

An additional explanation is that privatization suffers from its transparency. If an oligarch robs the state of billions of dollars through transfer pricing and financial machinations, nothing is evident to the onlooker, but if an old smokestack is privatized, everybody notices, and even the exact price is often known. A far greater tragedy occurs when valuable assets are being left unutilized and are wasted because no new owner comes to the fore.

Characteristically, everybody criticizes successful "oligarchs," who tend to be young, able, outside investors, while most people have long forgotten the old state enterprise managers, who literally stole most state enterprises, but mostly failed in their management at great social cost. If the issue were welfare, people would be more upset with failures than with successes, which suggests that the ultimate issue is just jealousy, a deadly sin better combated than left to guide society. Still, the fingers are very firmly pointed against the dozen enterprises involved in the loans-for-shares privatizations.

While most of Russia's early reforms were partial and not very successful, Russia did manage to carry out a huge mass privatization, and that is one of the country's greatest achievements and the base of the current economic growth. Rather than undo it for little but jealousy, Russia needs to move ahead and swiftly sell off the remaining state stakes in thousands of enterprises, which poison Russian society with corruption and poor management. No economic system has brought as much economic welfare as capitalism, and capitalism requires predominant private enterprise. When the state functions as badly as in Russia, the state sphere should be considerably smaller than in the West. Any administrative redistribution of private property rights will undermine future property rights and thus economic growth. The best Russia can do is to accept the privatization as it has occurred and safeguard the property rights that exist, so that their uncertainty does not continue to breed corruption and denigrate economic welfare.

Foreign Investors and Russia

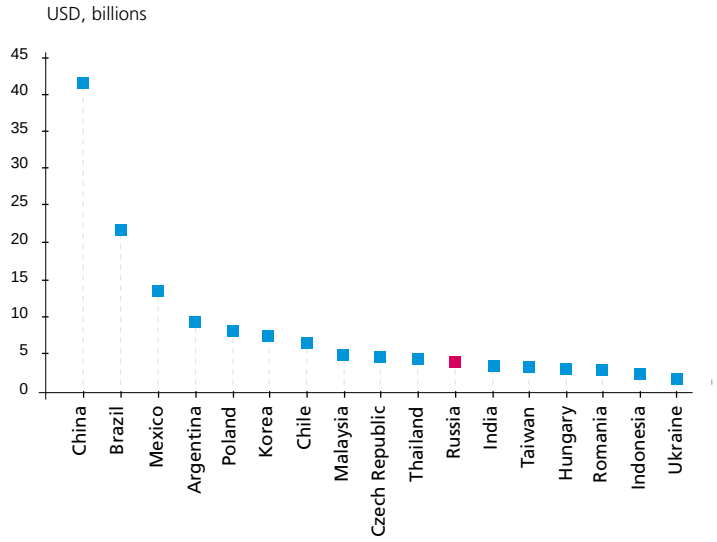
Ksenia Yudaeva
Scholar-in-Residence, Post-Soviet Economies in Transition Program, Carnegie Moscow Center;
Senior Economist, Policy Director, Centre for Economic and Financial Research (CEFIR), Moscow

Until recently, foreign direct investment in the Russian economy had remained rather modest. According to this indicator, Russia not only lags behind such giants as China but behind the substantially smaller economies of Central and Eastern Europe as well. Recently, the situation has improved somewhat: In 2003, just one deal, TNK-BP, brought Russia more direct foreign investment than the average annual inflow of the preceding few years. However, Russia is still far behind the world's leaders in this area.

With regard to portfolio investments, the picture is more favorable. In the mid-1990s, primarily thanks to the market for state treasury bonds (GKOs), Russia was ahead of most developing and transition countries. The crisis of 1998, and the subsequent forcing out of minority shareholders from Russia's largest companies, reduced somewhat the interest of portfolio investors in Russia. Recently, however, thanks to the country's economic growth and improvements in corporate governance within private companies, the interest of portfolio investors in Russia has grown once again.

Since, on the one hand, portfolio investors have limited opportunities for exercising control over enterprises and, on the other, the leading Russian companies operate in such ever-popular areas as the oil and gas industry, the future of portfolio investments in Russia is quite predictable. Of course, periodic crises are always possible, but on the whole, Russia will remain attractive to portfolio investors, and Russia's businessmen and authorities are unlikely to do anything that might hinder their influx. The future of direct investment, meanwhile, is extremely ambiguous.

DIRECT FOREIGN INVESTMENT
Average annual net influxes in the period 1995-2002



Why So Little FDI: On Laws and Lawlessness

There are two main types of direct foreign investment: horizontal, where the investor is attracted by a huge domestic market for a finished product, and vertical, where the investor is attracted by the presence of certain factors of production, be they a relatively cheap labor force or natural resources. In the first instance, the output is produced for domestic consumption; in the second, it is mostly exported. Basically, the prevailing forms of FDI in Russia are horizontal investment (for example, in the food industry or in the manufacturing of automobiles) or vertical investment oriented toward natural resources (mainly oil and timber). Vertical investments that employ Russia's labor force — comparatively cheap given its skill level — are substantially fewer. Nevertheless, it is this last type of investment that is considered the most favorable for the development of a host country's economy, since it is the only type that can guarantee that the country will get cutting-edge technology and, in the future, will produce internationally competitive goods.

Why do foreign investors have little interest in Russia? The Russian market is substantially smaller than China's, but most foreign investors acknowledge that it is sufficiently large and fast-growing to be attractive. With regard to Russia's workforce, things are a bit more complicated: It is obvi-

ous that discipline and the work ethic in Russia do not always meet the mark, and that the country exhibits a clear shortage of managers who know how to operate in a market economy. Nevertheless, Russia's potential in this area has clearly not been fully tapped. So, why aren't foreign investors coming to Russia? Numerous surveys of potential investors have given the same answer year after year: because of the barriers put up by Russia's inefficient and corrupt bureaucracy.

Paradoxically, Russian laws concerning foreign direct investment are some of the most liberal in the world. There are only minor restrictions in certain branches of industry. There are many more restrictions in the services sector, but, on the whole, Russian law is substantially more liberal than, say, Chinese law. The numerous problems faced by foreign businessmen arise not from barriers established by the law, but from the multitude of technical requirements put forward by bureaucrats responsible for executing the law. Examples of such barriers are well-known. For various "technical" reasons, not one foreign company has as yet been able to take part in auctions for the privatization of large state-owned companies. At the regional level, foreign investors often run up against demands linked to employment policy or requirements for purchasing components, obstacles to the construction of necessary infrastructure and so on. In other words, they are confronted with a slew of measures that make investment unprofitable.

What lies behind these discrepancies between the law, as well as official rhetoric, and the de facto policy being conducted? Before we answer this question, let us note that, for Russia, such a situation is nothing new. A similar picture could be observed in the latter half of the 19th century: While the Russian Ministry of Finance periodically declared the need to attract foreign investment to develop the domestic economy, the operations of foreign companies were in fact restricted in a great many branches of industry (marine and rail transport, insurance, coal and iron mining and others). Foreign companies were also prohibited from owning land. The distinction between then and now is that, in the 19th century, there were no uniform requirements for foreign investors. Each joint stock company was formed through a separate law signed by the tsar, and restrictions on foreign capital could vary not only from industry to industry and region to region, but even from individual business to individual business.

The well-known economic historian Thomas Owen links the restrictions on foreign capital that existed in Russia in the 19th century with the xenophobia of Russian citizens. It is quite true that Russian society has traditionally been much more closed to citizens of other nations than, for example, Europe, and that there has traditionally been a strong mistrust of for-

eigners in Russia. The current state of affairs resembles the 19th century to some extent. Nevertheless, when the economic stakes are high enough, xenophobia can be overcome. Nineteenth-century China was a more — not less — closed society than Russia, but this did not stop it, by the end of the 20th century, from becoming one of the world's leaders in attracting foreign direct investment.

The economic reason behind the restrictions apparently lies elsewhere: During the first decade of reforms, Russian companies were quite cheap to buy and provided considerable income — not so much through production revenues as through asset stripping. Under these conditions, neither bureaucrats nor the Russian entrepreneurs closely connected to them were willing to let foreigners get hold of existing stock. At best, declarations regarding the need for foreign investment masked a desire to get donations; more often, they were simply an attempt to put a good face on a bad business. The best opportunities for foreign investors opened up to those who were bold enough to set up completely new production units; however, even such entrepreneurs could run up against a slew of various demands from local authorities. In part, this situation could be explained by the peculiarities of Russian fiscal federalism, under which governors and lower-level regional officials did not see any great advantage for themselves in the development of production on the territories under their control. Throughout most of the 1990s, it was more profitable for regional authorities to wrangle allocations from Moscow than to collect taxes in their own regions. Moreover, collecting taxes and bribes from existing large-scale enterprises was a much simpler and more profitable task for local officials than fostering the rise of new businesses, Russian or foreign. Today, the situation is somewhat different, but it is still not clear how a favorable economic situation in a given region will affect the career of its governor. In circumstances such as these, governors can still opt to reap immediate benefit from the enterprises they control, rather than to promote the overall development of their regions.

The Coming Decade: What Next?

From an economic point of view, the early 21st century was marked by the end of the main phase of the privatization process. Even though a significant number of assets continue to be state property (primarily in the areas of the so-called natural monopolies and the management of public housing and communal services), they make up substantially less than half of all Russian assets. The completion of privatization is tantamount to a final fixing of property rights. Some limited redistribution is possible, but it is clear

that the main sources of income will now lie in managing property that already exists. This could lead to a significant change in the attitude of both Russian businessmen and authorities toward foreign investors.

Many Russian businessmen are beginning to understand that the consolidation of property with its subsequent sale to foreign investors can bring in greater income than asset stripping or attempts to efficiently manage property on their own. Many economists interpret such a change in behavior as a pre-sale preparation of assets ahead of transfer to foreign investors. The recent deterioration in relations between business and the government could accelerate this process and lead either to a number of Russian businessmen getting out of Russian business altogether, or to the partial sale of companies to foreigners in order to limit the authorities' arbitrary onslaughts (like the "sale-that-didn't-happen" scenario of Yukos-Sibneft, or the creation of TNK-BP).

As far as the authorities are concerned, things are not quite so clear-cut. On one hand, the authorities could oppose the sale of assets to foreigners on the grounds that domestic businessmen are easier to control than foreign businessmen. Until recently, this was the model of behavior preferred by the federal authorities. On the other hand, as domestic entrepreneurs consolidate their assets, they are beginning to look too rich and independent,

The recent deterioration in relations between business and government could speed up sell-offs to foreigners.

thereby posing a threat to the authorities. Foreign companies look much more attractive in this respect: At least they won't get involved in politics. Given this, the authorities could always turn to the Chinese option, actively engaging foreign investors while maintaining significant barriers for the development of domestic private business.

At present, there is much speculation that the new generation of bureaucrats that has come to power feels that it has been left behind in the course of privatization, and that it might use the public's dissatisfaction with the results of privatization to carry out a revision of these results. However,

from the viewpoint of attracting foreign capital, a revision of the results of privatization — or, more precisely, changes among the main stockholders of companies as a result of various kinds of criminal proceedings, primarily in connection with the non-payment of taxes — could have a number of different consequences. If the old mistrust of foreigners and reliance on "one's own people" prevails once again, assets could fall into the hands of a new generation of domestic oligarchs. However, in terms of material gain, selling to foreigners could prove not less but even more profitable for the current authorities than dividing up assets among insiders. Therefore, the Chinese model of development via the sale to foreigners of assets taken from previous owners is entirely possible. If such a scenario were to be played out, part of the acquired proceeds from such sales would be transferred into the state budget, but a significant portion would end up in the pockets of those who are in power at the moment.

What's Good for Russia?

The benefits of attracting foreign direct investment are common knowledge. They include improvements in firms owned by foreign companies and the positive effects on domestic enterprises that get more information about state-of-the-art technologies and methods of management. Nevertheless, attracting foreign investment should not be an end in itself. The aim ought to be the creation of a competitive environment in which different types of domestic and foreign businesses have equal rights, and the state erects no barriers to the development of private business, be it domestic or foreign. Unfortunately, the likelihood of seeing such a scenario enacted in Russia within the next 10 years is not terribly great, since it suits neither the authorities nor the richest Russian businessmen.

Russian Power in 2014: An Attempt at an Intuitive Forecast

Lilia Shevtsova
Scholar-in-Residence,
Domestic Politics Program,
Carnegie Moscow Center

What will become of Russia's system of government 10 years from now, by 2014? Few people will claim to be capable of giving a serious forecast of Russian political developments even for the much nearer-term future. We are living in a society whose period of transition is not yet complete. Russia has become stuck between historical eras, in some ill-defined hybrid state that contains elements of different civilizations. Consequently, the most unexpected and even abrupt bends in the road are still possible, fraught with changes not only in the form of governance but also in its content. What is more, the very incompleteness of Russian reforms has acquired its own internal logic. This means that if certain stabilizing factors remain in place — primarily the high price of oil, the lack of any serious political alternatives to the ruling class and society's generally modest aspirations — it is quite possible that the current political mechanisms will continue functioning for another decade. Taking into account the archaic nature of our authorities, this will increase the threat of political crises.

Whatever the case, we should not believe that the Russian system of government has taken shape once and for all. It will continue to change both in form and, even more noticeably, in content. What shape might these changes take?

Forms and Methods of Governance

There is no doubt that the form and method of ruling established under Boris Yeltsin will pose the main challenge for Russia's future. On one hand, power remains personalized

and undivided, divorced from society and beyond its control. This is the tradition of governing under the "Russian system" — which has been reproduced in Russia for centuries. On the other hand, this traditional type of power is being legitimized in a new democratic way, since all the old ways of legitimizing it — violence, party ideology, succession to the throne — have long become outmoded. But a hybrid power consisting of incompatible components is genetically incapable of being durable and stable; it is constantly being torn apart by conflicts, and its mutually exclusive principles and trends contradict each other. In trying to find a means of self-preservation, the Russian political class will search for different types of regimes that would allow it to preserve the status quo. If one form of power fails, it will transform into another. Theoretically, such a hybrid form of power is a temporary, fleeting occurrence, and sooner or later it inevitably begins to shift either toward real democratization or toward more outright authoritarianism and even totalitarianism.

Under Yeltsin, the hybrid was embodied by an elected monarchy built on mutual connivance and relative pluralism. This form of power relied on big business as an influential and, later, dominating political force. During the first stage of his presidency, Vladimir Putin began moving in a different direction — toward a bureaucratic-authoritarian regime. But at first he

Putin's new regime will be much more capable than the previous one of carrying out selective repressions.

continued to rely on several political forces at once — the bureaucracy, big business, the law-enforcement and security services and the liberal technocrats. In short, Putin initially retained quite a few elements of Yeltsin's hybridism and ambiguity in the structure of his power base. Such a regime, however, did not guarantee Putin and his team reproduction of personal power and control over the state's resources — for in a situation with several elites, the president had to share his powers with the Yeltsin group. At the end of his first presidential term, Putin moved toward a more distinctly bureaucratic-authoritarian course. It should be noted, however, that despite the differences in their regimes, neither Yeltsin nor Putin went beyond the boundaries of the traditional Russian system: power identified with a particular person and government unaccountable to society.

Nonetheless, it would be a mistake to regard Putin's new vector as a move toward dictatorship. The state's limited resources, the pragmatic mindset of the president himself, his pro-Western orientation, his dependency on the bureaucracy — which is not interested in a strong leader — and corruption within the so-called power ministries will scarcely make it possible for Putin to move toward totalitarianism during his second term in office. It is important to note, however, that Putin's new regime will be much more capable than the previous one of carrying out selective repressions, should this be required to maintain the status quo and prevent the ruling elite from tumbling. Also, we can hardly expect greater economic efficiency from this regime. The bureaucratic consolidation under Putin, i.e. the transformation of the bureaucracy into the country's chief political force, will inevitably lead to stronger government regulation of the economy and limit economic freedom.

What might be the political results of Putin's second term? It is doubtful that a democratic alternative to the current system of personalized power will take shape during this time. If an atmosphere of stagnation and apathy persists, the Russian public is unlikely to have the incentive to reform the system of government. As a rule, reforms begin as a result of crises, when people — both in the elites and in society at large — begin to understand that the old order has to be changed. Judging by the main trends in Russia's development, Putin and his team in 2004-2008 will most likely concentrate on implementing the main mission — and raison d'être — of the "Russian system": They will strive to guarantee the reproduction of the ruling elite and the transfer of power to the successor they select. (It is doubtful that Vladimir Putin will remain president for a third term.)

The most interesting development to observe will be the term of the third Russian president, Putin's successor, in 2008-2012. By that time, new political components will appear: The current ruling elite will have left the scene to be replaced by a new generation of politicians. If Russia retains its prior way of ruling, which squashes public initiative and does not allow the dynamic strata in society to evolve, it will have an increasingly difficult time meeting global challenges. Thus far, Putin has applied a traditional triad for modernization — reforms from above, suppression of society by the state and use of Western resources. The most this formula can achieve is to ensure society's survival, and even that gets done through restricting public interests and freezing internal impulses for development. This model worked for peasant Russia's breakthrough into the era of industrialization, but the post-industrial world requires a new formula for the functioning of society and the authorities, one that would allow personal initiative to come to the fore. The preservation of autocracy for another 10 years would

signify that a dead-end course of development has prevailed in Russia, threatening to bring about the ultimate decay and agonizing collapse of the state.

It is possible, however, that irreconcilable contradictions will have accumulated by the 2008-2012 period, and society will begin looking for ways to pull itself out of stagnation. There are two possible approaches to overcoming a hybrid reality in which incompatible trends oppose each other. The first way is to try once again to reinforce the status quo, this time by means of truly harsh administrative measures and force. The second way is to begin a gradual "decompression" of the existing system of governance. The former would lead to an actual dictatorship of the bureaucracy or the leader — fundamentally, it does not matter which. This scenario is still possible in Russia; moreover, it is a likely one — unless we see the emergence of a powerful liberal-democratic opposition ready to assume responsibility for the country. But a dictatorship in Russia cannot be stable for a number of reasons: Society is fragmented and is growing used to pluralism, part of the political class has a pro-Western orientation and the there are no prestigious, high-paying jobs in the "power" agencies. So any attempt to retain the current Russian system by force is doomed to failure. And the longer it takes Russian society to overcome the totalitarian syndrome once and for all, the higher the price.

What are the chances of carrying out the second scenario — a decompression of the existing system? This option becomes realistic under three conditions: the rise of an organized and influential liberal-democratic opposition; a willingness among part of the ruling elite to undertake systemic reforms (without this, a departure from the current system will be much more painful); and a readiness within society itself to change the rules of the game.

A successful systemic transformation would also require a favorable international climate. At present, the Western world is more interested in a stable, albeit authoritarian, Russia. The West fears any changes that might be accompanied by upheavals; it is simply tired of them. The chances for Russia's systemic transformation will greatly increase if the West recognizes that long-term stability in Russia as well as its integration into Western institutions are directly dependent on the results of Russia's internal transformation.

But preparations for Russia's future systemic transformation must begin now. For this to happen, it must be understood, at least among experts and intellectuals, that the system built, like an Egyptian pyramid, on the princi-

ple of society's subordination to the state and the personalization of power has exhausted itself. Let us recall that in the 1970-80s, the intellectual community in Hungary, Poland and Czechoslovakia was willing to offer an anti-systemic alternative and ways to build a new system well before society had understood that communism was insusceptible to reform. This made it possible to accelerate the liberal-democratic transformation and avoid agonizing standstills and setbacks. Is the Russian intellectual community capable of carrying out this preparatory work? This is still an open question.

If Russia's system of government begins undergoing reform in 10 years' time, this would signify a breakthrough in the country's historical development. Above all, reforming the Russian system would entail the following: dismembering the monolith of personalized power; forming a presidency that is accountable to the people; creating viable parties that fight for the right to form a government answerable to the parliament; and shaping conditions for mass media and public opinion to exist independently of the state and the "oligarchy."

Of course, this process will advance in stages, and their sequence is of great importance. The first step on the way to building a true, not imitation, democracy must be administrative reform, which would make it possible to weaken the mightiest force opposed to any form of renewal — the bureaucracy. The ability of the leader and the political class to push ahead with such measures will mean they are willing to take further steps to reform the irresponsible system of power towering over society.

Will Russia risk going this route 10 to 20 years from now? It all depends on how quickly society can overcome the illusion that Russia can only be ruled by a strong hand. The current economic stability does a good deal to nurture this illusion in the eyes of an apathetic public. Let us recall, however, that a similar situation under Leonid Brezhnev and his short-lived successors — the so-called period of stagnation, which was also propped up by oil dollars and public indifference — resulted in the collapse of the state. It is paramount that Russia start thinking about systemic reform now, before a new generation of leaders comes to power, and before the situation careens out of control.

Between Democracy and Dictatorship

Michael McFaul
Senior Associate, Russian Domestic Politics, Carnegie Endowment for International Peace; Associate Professor / Research Fellow, Hoover Institution, Stanford University

In 1991, Russian leaders faced three enormous challenges as they struggled to create a new independent state. First, they had to define the borders of the new state. Would the new Russia be confined to the borders assigned to the Russian Republic within the Soviet Union? Or would Russia expand to include the millions of ethnic Russians living on its borders? Second, Russia's new leaders faced the gigantic problem of economic collapse. What is the most effective way to dismantle a command economy? Should all aspects of the command economy be destroyed? And if so, how can a market economy be built on the ruins of seventy years of an autarkic, state-dominated economic system? Finally, Russia's new leaders had to create a new political system to replace the totalitarian regime that had just collapsed. Was Russia suited for democracy, or would another form of autocracy be more suitable for Russian traditions and expedient for the task of implementing economic reform? Even those who believed that Russian democracy was the only viable replacement for Soviet dictatorship lacked blueprints for building it or roadmaps for getting there.

Simultaneity further complicated the enormous challenge of tackling this triple transition. The sudden collapse of the Soviet

Union after the aborted coup attempt in August 1991 thrust these three agenda items onto the table at the same time.

When the scope and scale of change that began a decade ago is remembered, it is amazing how much Russia has accomplished since independence. Well into the 1990s, it remained unclear (1) if boundaries between new states would become permanent and peaceful, (2) if capitalism would ever take hold or (3) if democracy would ever be consolidated. Only a decade after this revolution began, two out of three of these transformations have been completed.

First, Russia's borders are well defined today. The Soviet empire is gone and will never be reconstituted. Belarus may join Russia again, but the likelihood of coercive subjugation of states and peoples adjacent to Russia's borders is remote. To be sure, Russian President Putin seeks to expand Russian influence throughout the territory of the former Soviet Union. As the largest economy and most powerful military power in the region, Russia will no doubt continue to exercise influence in its neighborhood. But the current regime is unlikely to use force to redraw state boundaries. Though thousands of lives have been lost as a result of this empire's dissolution, Russian decolonization has been relatively peaceful compared to the collapse of other empires.

Second, the Soviet command economy is also extinct and will never rise from the dead. Russia today has a market economy. This market system is severely flawed. But the fundamental institutions of the Russian economy today look more like other capitalist economies around the world and less like the command economy practiced by the Soviet ancien régime. Even the Communist Party of the Russian Federation now accepts the legitimacy of private property and markets. Communists and liberals continue to debate what kind of capitalism Russia should develop. And what has taken shape so far in Russia is still not what most in the West would recognize as a market economy. Nonetheless, the trajectory is in the right direction.

The one great remaining unknown facing Russia in the coming decade is the nature of the political regime. The autocratic institutions of the Soviet ancien régime have collapsed and will not be resurrected. But Russian democracy has not consolidated. The transition *from* totalitarian rule is over, but the transition *to* democracy is far from complete.

Democracy did begin to take hold in Russia in the 1990s. That every major political leader in post-communist Russia has come to power through the ballot box is a real accomplishment for a country rich in centuries of auto-

cratic rule. That the Constitution adopted in 1993 has remained the highest law in the land is also a good sign. In addition, every serious poll conducted in Russia in the past five years shows that a solid majority of Russian citizens support democratic ideas and practices. Generally, Russian individuals and political parties that adhere to the Constitution are allowed to participate in elections, although some parties were not allowed to participate in the 1993 parliamentary elections, one group was denied access to the ballot in the 1999 parliamentary vote, and others have been scratched from the ballot in regional contests. (Those Chechen groups labeled terrorists, including the last elected president of Chechnya, also do not have this

Russian democracy remains the unfinished agenda item of the revolution launched a decade ago.

right). The Russian political system also exhibits some aspects of liberal democracy; most religious, ethnic and cultural groups can express their views openly and organize to promote their interests (although again the one place of exception to this standard is Chechnya). Likewise, most citizens are equal under the law and most individuals can express their beliefs, assemble, demonstrate and petition.

Yet, compared to the deeper roots of Russian independence and Russian capitalism, Russian democracy remains the unfinished agenda item of the revolution launched a decade ago. In fact, the trajectory has begun to move in the opposite direction.

The process of democratic erosion began under President Boris Yeltsin. Since coming to power in 2000, however, President Vladimir Putin has done much to weaken already fragile democratic institutions. Instead, most of Putin's political reforms have served to strengthen his political power without undermining formally the democratic rules of the game.

In Chechnya, Putin's armed forces continue to abuse the human rights of innocents on a massive scale. Russia may have had the right to use force to defend its borders. But the means deployed to fight this war — torture, including summary executions, bombings of villages, the rape of Chechen

women and the inhumane treatment of prisoners of war — have exposed the president's weak commitment to defending human rights. Putin has framed the war in Chechnya as a struggle to rein in renegade political forces there. The war represents his strategy for reasserting Moscow's control over the region.

Chechnya is not the only situation in which Putin has sought to strengthen the state and weaken non-state actors. He has waged a similar kind of campaign against independent media. Under Putin, Russian state authorities have orchestrated the transfer of ownership of Russia's last independent (though by no means non-partisan) national television network, NTV, into more friendly hands. NTV's staff tried to stay on the air, first as TV6 and later as TVS, but both of these ventures failed. State authorities also have silenced or changed the editorial teams at several national newspapers and weeklies. In 2003, Freedom House downgraded Russia's freedom-of-the-press ranking to "not free." Reporters Without Borders, which published its first worldwide freedom-of-the-press index in 2003, ranked Russia 121st out of 139 countries assessed, one of the worst performers in the post-communist world even below Uzbekistan and Kazakhstan.

Putin also has put into place a new system for constituting the Federation Council, Russia's upper house of parliament. Under earlier formulas, members of the Council were elected. Now they are appointed, making the body much less legitimate and much less of a check on presidential power. Putin also has launched an aggressive campaign to increase the reach of the federal government into the affairs of regional governments. The campaign has included the construction of seven supra-regional governing bodies, which now represent the interests of the federal government, as well as the creation of a national political party, United Russia, which all regional heads of administration have been encouraged (by means of carrots and sticks) to join and support. In the 2003 parliamentary election, 30 governors and presidents of republics appeared on the United Russia candidate list, helping the party capture more than a third of the popular vote. Regional executives also demonstrated their loyalty to Putin's party by helping United Russia win more than a hundred seats from single mandate districts.

More generally, state intrusion into Russian society has increased dramatically on Putin's watch, from the arrest and harassment of human rights activists, environmentalists and academic researchers, to the creation of state-sponsored "civil society" organizations whose mission is to crowd out independent actors. In October 2003, the arrest of Russia's richest man, Mikhail Khodorkovsky, signaled that Putin and his aides want to rein in

powerful independent actors of all sorts. To be sure, Khodorkovsky may be guilty of crimes committed a decade ago. What has been most disturbing about his case is the arbitrary enforcement of the law against him but not others and the violation of his constitutional rights in the process.

Perhaps most ominously, the Kremlin has intervened egregiously to influence the electoral process, removing without just cause candidates in regional elections, and doing little to provide a level playing field for candidates in national elections. Boris Yeltsin also took advantage of state resources to help his 1996 re-election campaign. Under Putin, however, the state has played an even greater role in parliamentary elections, an intervention that has contributed to the decline in influence and independence of political parties. After the December 2003 parliamentary election, Putin's landslide victory has ensured that this political institution has become completely subservient to the Kremlin.

Putin of course did not personally orchestrate all of these democratic rollbacks. But he also has done nothing to reverse them.

A decade from now, it is highly unlikely that Russia will have reverted back to some form of a command economy. It is also very unlikely that the Soviet Union will have reconstituted. Some borders may change; Belarus may even join the Russian Federation. A full scale redrawing of the borders within the former Soviet Union, however, will not occur. These two stable outcomes — a new economic system and new borders — are real achievements.

A decade from now, however, it remains very uncertain if Russia will have consolidated democracy. The current trajectory is in the wrong direction. Despite his campaign to erode democratic institutions and practices, Putin has remained very popular. There is little demand today from society for a more liberal, democratic order. While some pockets of civil society have tried to resist authoritarian creep, the vast majority in Russian society has demonstrated little interest or capacity to withstand Putin's anti-liberal reforms.

Over the next several years, "managed democracy" could consolidate as the economy grows and Russia maintains friendly relations with its neighbors. However, a more rapid drift toward full blown dictatorship — unlikely under Putin, but not necessarily out of the question after Putin — will limit Russia's economic potential and erode Russia's international standing with its neighbors and more broadly. In contemporary dictatorships, capitalism rarely thrives. China is the exception; Angola and Saudi Arabia the

rule. There is already mounting evidence that corruption has increased dramatically during the Putin years, suggesting that Russia could soon suffer the economic fate of other "petrostates." Similarly, the erection of an autocratic regime in Russia could even disrupt the relative peace and stability among states in the region, since a dictator in the Kremlin would have to rely on nationalist ideology and the military to remain in power — a volatile combination.

Demand for full-blown dictatorship, however, also remains weak both among elites and in society. Consequently, the form of government — a regime somewhere between dictatorship and democracy — could be in place for a long time in Russia. On the twentieth anniversary of the Carnegie Moscow Center, we could very well be speculating about the future of this same kind of political regime.

Can Russia Abandon the "Super President"?

Andrei Ryabov
Scholar-in-Residence,
Domestic Politics Program,
Carnegie Moscow Center

The further evolution of contemporary Russia's political system periodically becomes the focus of heated debate, both academic and political. A majority of politicians and political analysts continue to insist that a system of government based on a strong presidential authority (a "superpresidency") is the best model for Russia. The view that a mixed presidential-parliamentary system is better for the country crops up from time to time; however, at the level of practical politics, the political elite invariably rejects it. Nevertheless, the issue remains on the agenda. Hence, it is worth attempting, on the basis of an analysis of Russia's previous development, to determine the possible paths and prospects for the development of the Russian political system in the near future.

The Roots of Russia's "Superpresidency"

When Russia's current Constitution was adopted in the nationwide referendum of December 1993, there was an extremely widespread belief that it would lay the foundation for creating an authoritarian regime. The imbalance between the powers of the president and the other institutions of government was all too obvious. However, authoritarianism did not arise under Boris Yeltsin, Russia's first post-Soviet president.

This had nothing to do with Yeltsin's democratic convictions; rather, it flowed from the objective reality of the time. To begin with, the Russian political environment was marked by a huge degree of fragmentation, involving numerous different groups. On top of that, neither the political elites nor the public at large displayed a readiness for political mobilization — a crucial ingredient for the creation of an authoritarian regime, especially in a transitional society.

For quite some time, people also believed that the 1993 Constitution had been written especially for Yeltsin and that, after he stepped down, the country's supreme legal document — and the political system along with it — would inevitably have to be changed. However, Vladimir Putin's first presidential term has debunked this assumption. The Russian Constitution and the political system based upon it have turned out to be quite flexible and capable of adapting to changing realities.

It was entirely natural that a system delegating huge powers to the office of the president should arise in present-day Russia, as well as the majority of other post-Soviet states. As the system of Soviet statehood crumbled and a variety of conflicts broke out, the institution of the presidency appeared — both in public opinion and in the eyes of the elites — to be a bastion of stability in an ever-expanding sea of chaos, offering the only chance of consolidating government, society and emerging political nations at a critical moment in history. Also, given the virtual paralysis of the regulatory bodies, the elites regarded the institution of the presidency as the most effective instrument for ensuring that the privatization of former state property would proceed rapidly. It was this process that determined the essence of the CIS nations' domestic policies in the 1990s, and laid the socioeconomic foundation for the formation of a new ruling class in these countries.

In Russia, another argument in favor of a superpresidency was found in the deep-seated conflict between the Soviet-era "parliament" — the Supreme Soviet — and the president. This deadlock, which culminated in the bloody clashes of October 1993, largely hinged on the overwhelming public rejection of the policy of radical market reforms conducted by Yeltsin and his government. This served only to convince the post-Soviet elites then taking shape of the need for a strong president capable of carrying out privatization in the shortest possible time, without broad public participation, and of defending the new order against attempts at a Communist restoration.

The superpresidency that now exists in Russia has a number of distinguishing features.

The president, having concentrated in his hands the main powers of government and standing above the political system, is effectively no longer subject to oversight or control not only by the public but by the elites and other institutions of government as well. This helps to create a large number of informal centers of power, all of which are doing their best to monopolize influence on the president. (Initially, for example, the so-called Yeltsin family was one of the groups with an exclusive opportunity to influence the president in pursuit of its own ends.) As a result, corporate or group interests outweighed national interests in decision making, and the prevalence of cliental relationships devalued professionalism, rendering it irrelevant.

One more characteristic of the Russian presidency is the enormous gap between the office's extensive powers and a virtual absence of political accountability. (The impeachment procedure prescribed by the 1993 Constitution is quite a difficult one.) The president makes all key decisions, but other institutions bear the responsibility for implementing them: the government, the parliament, the regional governors. The experience of the previous decade has shown that if the Cabinet and government — which, under the Constitution, are responsible for the day-to-day handling of the nation's economic and social development — are sufficiently effective in performing their duties, they will eventually start to become independent and to strive for autonomy from the president. With time, this undermines the monocentrism of the political system enshrined in the Constitution, opening up possibilities for a dualism in the executive branch that could in principle serve as a foundation for the gradual transformation of the superpresidential republic into a mixed presidential-parliamentary system.

Finally, Russia's superpresidency functions according to the principle that "a bad decision is better than no decision at all." This means that if the president fails to make a timely decision or hands responsibility for doing so over to other institutions, "vacuum zones" start to appear in intragovernmental relations. These lacunae get filled by those players who are the most active, have the greatest initiative and pursue their own corporate and group interests. As a result, the entire system becomes less manageable.

Putin's Innovations

As noted above, the political regime of Boris Yeltsin, which had assumed its final form by the mid-90s, existed in a highly fragmented political environment. Additionally, the events of 1993 apparently dealt a heavy blow to Yeltsin's faith in his ability to bring about the far-reaching modernization of the country over his years in office. Instead, he set a specific, peculiar task:

to ensure the political survival of the president, both as a leader and as an institution. Given the government's institutional weakness, the Yeltsin regime rested mainly on two foundations: his personal charisma, which made up for the inefficiency of his administrative chain of command, and the system of delegating power to two main groups — regional leaders and big business, also known as the "oligarchs." In exchange for expanding their rights and granting them greater independence, the president could count on the political, administrative and financial support of these elites any time he needed it. Thus, the mobilization of the regional leaders and oligarchs in support of Yeltsin played a decisive role in his victory in the 1996 presidential elections. Under Yeltsin, "shadow" centers of power proliferated and vied for influence, undermining stability in the country's political life. Often, Yeltsin himself would initiate conflicts at the highest levels, so that he could later act as supreme arbiter. Helped along by his inborn political intuition, which allowed him to make crucial decisions when the moment was ripe, Yeltsin managed to keep the entire political system in a state of "managed instability."

The political regime of the next president, Vladimir Putin, began to take shape under entirely different historical circumstances. An era of stability had set in. The president reinforced the institutional foundations of the political system, and it began to acquire a hierarchical character. Under these new circumstances, governing through conflict became inefficient. Putting the political system in order and making it hierarchical was possible only after its consolidation. With this aim, procedures for coordination in the decision-making process gained a new significance — most notably in the interactions between the government and the State Duma during the development and passage of the budget. The informal centers of power began ceding their functions to official institutions of government.

However, initially, a number of restrictive factors hindered the president's ability to push ahead with socioeconomic and political modernization. The administrative chain of command controlled by the president had not been completed, and Putin could not make up for this with personal charisma. So he built his power on two pillars: a balance of forces at the top, largely shaped by his predecessor, and a strong dependency on public opinion, which was often perceived as valuable unto itself. Both of these factors contributed to stability, but substantially limited the president's freedom of action and hindered his ability to implement the pro-active policies indispensable for wide-scale change.

Can the System of Governance Change?

On the threshold of his second term in office, Putin moved to expand the support base of his political regime by "reformatting" the balance of power at the highest echelons of the Russian government on his own terms. He mapped out a program for strengthening the administrative chain of command in the federal government by enlarging the country's constituent territories, or regions, and further limiting their powers. Contrary to the logic of a political system that obliges the head of state to be above all institutions, Putin placed his bets on the creation of a strong "party of power." Apparently the president intends to use it, when necessary, as an instrument for reining in other political figures — for example, regional leaders, oligarchs or even his own administration. All of these measures have substantially enhanced Putin's power, giving him greater independence both from the elites and from public opinion.

Considering that these measures have been accompanied by the downsizing and weakening of virtually all political actors independent of the executive authority and the state as a whole, it would seem reasonable to predict the rise of an authoritarian or semi-authoritarian regime — a "managed," "regulated" or "limited" democracy — on the basis of the superpresidential system. Initially, this could create favorable conditions for continuing the socioeconomic modernization of the country. If it also helps attract considerable foreign investment to the Russian economy, the political system described above could become long-lived.

Judging by historical precedents, such regimes prove durable and effective only if accompanied by relatively stable, crisis-free development. However, in the face of new external challenges, this political system rapidly loses its ability to react adequately, since it has no reliable channels of communication with the public and lacks mechanisms for the coordination of interests on a horizontal plane. Therefore, it seems entirely possible that in several years, perhaps even during the next election cycle, there will be a return to the idea of a "mixed" republic. The factors that once led to the creation of a superpresidency have partially lost their previous significance or are losing it now. The state, as compared to the early 1990s, has become noticeably stronger. On the other hand, the elites, who used to need a strong president as a supreme referee, have become so strong and have amassed such huge financial, political, administrative and informational resources that they would like to promote their interests through more flexible procedures for coordination and conciliation. For them, a transition to a presidential-parliamentary system would open up precisely such possibilities.

Will Russian Federalism Live to See 2014?

Nikolai Petrov
Scholar-in-Residence,
Domestic Politics Program,
Carnegie Moscow Center

The presidency of Vladimir Putin began with an essentially anti-federalist "federal reform." The initial package of reforms included several components: the establishment of seven federal districts with plenipotentiaries of the president at the top and with chief federal inspectors in the regions; changes in the structure and membership of the Federation Council with significantly increased control over it by the Kremlin; and the juridical legitimization of federal interference in regional affairs, which made it possible to oust nationally elected governors. Later, there came a severe centralization of the budget process and a redistribution of tax receipts in favor of the federal government, along with the restoration or reinforcement of a top-down system of governance, including such elements as the law enforcement agencies and a redefined party of power. Moscow cancelled the bilateral agreements with regional authorities that had been reached between 1994 and 1998 and renounced the institution of offshore zones on the territory of Russia. The powers as well as the resources of the federal center and regions were delimited more strictly than established under the Constitution. The federal government began actively interfering in regional elections and introduced a so-called vertically structured system of election commissions; it also began to blackmail "uncooperative" officials and use the judiciary against them.

During Boris Yeltsin's presidency, the development of relations between the federal government and the regions resembled the swing of a pendulum. But at the same time the federal government grew steadily weaker, especially when conflicts within the federal elite escalated, e.g. the early 1990s, 1992-93

and 1996. The influence of regional leaders reached its apogee in 1998-99, when, rallying within the upper house of parliament, they began to be less subordinate to the Kremlin. Using its constitutional powers, the Federation Council refused three times to uphold the president's decision to dismiss the prosecutor general; then, for several crisis-ridden months, the upper house became, hands down, the most authoritative and legitimate branch of power in the country, whose approval was required, in particular, to confirm a new prime minister. Perhaps this is why President Putin felt such a threat emanating from the regional leaders, and why his first strike was directed against them.

Strange as it might seem, the threat to federalism stems not only from the Kremlin but also from the regional leaders.

In 1999 the country passed a fork in the road: It managed to avoid disintegration at the cost of growing authoritarian tendencies. Who will find the price too high?

From that moment, the pendulum swung back in the opposite direction and continues to move along that course. It would be wrong to say that re-centralization did not encounter resistance from regional leaders. Among the 42 agreements reached under Yeltsin with the constituent territories of the Russian Federation, only eight remain in force, although they are the most significant and influential ones — with Tatarstan, Moscow, the Sverdlovsk region and the so-called "nesting doll" regions. Work on a bilateral agreement is under way with Chechnya. Tiny Kalmykia exemplifies the form that relations sometimes take on: In mid-2003, a decision was made to fire the local police chief, but doing so required a special operation — the obstinate general was lured out of the republic, and only then taken into custody. Furthermore, if Moscow is unable to discipline willful officials all at once, it is beginning to do so gradually. And time is working in its favor.

However strange it might seem, the threat to federalism stems not only from the Kremlin but also from the regional leaders themselves. In 2000, regional leaders' time in office was restricted to two terms. In 2004, 50 regional governors will be serving a second — and, therefore, final — term; in 2005, this will

be the case for 67 regional leaders; in 2006, for 75; and by 2007 for 88. Wishing to preserve their positions, the heads of many regions now prefer appointment to the post rather than the existing system of elections. Such a change in status will significantly strengthen their dependence on the federal government, and the independence of the regions they govern will become ephemeral. Yet another means of resolving the "third-term problem" is enlargement of the regions. Pilot projects of this kind are now being tested in the Urals and Siberia.

Federalism Caged: Constructing Vertical and Horizontal Relations

The new federal political elite, emerging from semi-military agencies, believes that increasing effectiveness requires simplifying systems of management. Is is not accepting of democratic elections, with their sometimes unpredictable outcomes, or any other kind of relations except those of subordination. The new elite prefers a primitive hierarchy to complex modern methods of governing and, therefore, is constructing vertical chains of command in various spheres — administrative, security and military, law-enforcement and mass media.

The evolving wide-ranging establishment of "vertical" relations has institutional, personnel, financial and other aspects. Examples of recent institutional changes include the imposition of full control by the federal authorities over the appointment of regional police chiefs or the partial subordination of regional election commissions to the central federal commission. The most notable innovation in the area of personnel policy is the revival of a system of horizontal rotation at the top of security and law enforcement bodies. During Putin's first term in office, the regional heads of the Interior Ministry, Federal Security Service (FSB) and Prosecutor General's Office were almost entirely replaced; moreover, the new generation of security and law-enforcement chiefs, in contrast to the previous one, had not made their careers in the regions where they worked, and therefore had not managed to establish close ties with the local political clans. Finally, the financial factor plays an especially prominent role in the case of the courts and law-enforcement agencies: A sharp increase in federal funding has nullified their dependence on the regional administrations and made these institutions real conduits for pushing through the interests of the federal government.

As a result of such policies, the system of politics and governance has become tighter, but its capacity to adjust to changing circumstances has decreased. Furthermore, variety among the regions themselves is being eroded.

Two Parties of Power

During the parliamentary elections of 2003, governors participated more actively than ever before in the work of the party of power: The heads of two regions were at the top of the federal candidate list for United Russia and almost 30 more headed the regional lists. After the elections, the new party system became much more centralized and uniform than the previous one. It is based on a new kind of party of power very reminiscent of the Soviet Communist Party. United Russia has no ideology and is knit together by strict party discipline, established, in particular, by giving preference to functionaries rather than outstanding, prominent politicians. It relies on an administrative machinery and claims to be broad-based, citing a rank-and-file membership in the hundreds of thousands.

In its current state, the party-of-power project appears complete. The first step was the adoption of the law on political parties, which conferred the status of a political party only on those groups that have branches in at least half of Russia's constituent territories. Since 2003, regional legislative assemblies have been formed using a "mixed" system, under which half the seats must be distributed among delegates from federal parties. In the 2003 Duma elections, the number of such parties was essentially reduced to two — United Russia and the Communist Party. During the simultaneous elections to the legislative assemblies of seven regions, United Russia scored a resounding victory, and Moscow won, if not a controlling stake, than at least a "blocking vote" in the regional parliaments.

In its role as an election machine, United Russia is mainly designed for federal elections. In the interval between them, the main pillars of the regime are being built anew through a centralized tri-level network (an "inner party") made up of:

– Presidential plenipotentiaries, or envoys, in the seven federal districts (the relatively small staff of the plenipotentiary himself is supplemented at this level by scores of other federal bodies with district offices, including United Russia);
– Federal government inspectors in the regions;[1]
– Local "reception offices" *(priyomniye)* in 3,000 cities and regional districts across the country. These offices allow the Kremlin to maintain direct lines of communication with citizens and to collect feedback from them (over the heads of regional officials) and also serve as training grounds for reserve staff at the local level. Such offices are often headed up by a deputy of the regional legislative assembly or a local administration official, who are helped by dozens of staff members and volunteers. Local businessmen finance the work of these offices.

Unify and Rule

The process of enlarging the regions is just beginning. In some areas it is well under way: The Komi-Permyatsky Autonomous District, for instance, is already returning to the fold of the Perm region. This is a relatively clear-cut case. But what can we make of the many proposals to unite Chechnya with Ingushetia, Novgorod with Pskov, the Yaroslavl and Kostroma regions, Sverdlovsk with the Chelyabinsk and Kurgan regions, and so on? The growing trend toward centralization in the country as a whole runs counter to the idea of enlarging its constituent territories, since the merger of two or three regions would make the resulting entity polycentric. Therefore, we are likely to see the emergence of an additional administrative level, akin to the reforms carried out at the beginning of the 1990s in Moscow or the Sverdlovsk region.[2] The simplest option, if this happens, would be to use the federal districts, or super regions, as the new "level."

The justification usually cited for enlarging the regions is their economic weakness. Effectively, what is happening is an attempt at so-called "gubernization" (from *gubernia*, the major unit of regional government in tsarist times), which politicians of different stripes have lobbied for in the past as a way to avoid the explosive mixture of the regions' ethnic and territorial elements. There is a positive side to such a policy: The emerging polycentrism could form the basis for political pluralism and an easing of ethnic tensions. But the negative side effects are more numerous. First, direct elections of new regional leaders would inevitably be abolished, else there would be a growing risk of separatism. Second, reforms would be accompanied by the destruction of established social welfare networks, including civil society groups. Third, the reforms would require significant financial resources that could otherwise be used to better effect. Finally, if certain republics, above all Tatarstan, that once served as the locomotive for federalization start losing their special status, the whole train will plunge downhill.

With the exception of a few cases — necessary to resolve a contradiction inherent in the 1993 Constitution, whereby a single region can simultaneous-

In 2003, Moscow won at least a "blocking stake" in the regional parliaments.

ly be both a constituent territory of the Federation and part of another territory — a wide-scale enlargement of the regions at the turn of Putin's second presidential term can hardly be a systematically implemented plan. Rather, it is a threat that the Kremlin can turn into a reality only if the country's economic well-being — resting for now on high oil prices — is shaken, or if tensions with the regions force the Kremlin to introduce what it regards as safety measures.

The Federal Districts

The idea of creating the federal districts, or "super regions," arose under the influence of two initiatives. The first came when Putin, as director of the FSB, created "cluster" councils of the security service's regional offices. The second was a Russian Security Council announcement about the need to integrate all security and law-enforcement agencies into a single manageable network. However, the districts not only organized the work of the security forces, they also have come to serve as the basis and infrastructure of the political regime as a whole. The districts organized society more rigorously, on the basis of a semi-military subordination; they pervade it with vertical chains of command and reinforce a clear-cut division of responsibilities, as well as strict adminis-

> Federalism continues to be the sole way for Russia to remain a united state.

trative control over business and institutions of civil society. Indeed, with the emergence of the districts, "vertical" administrative relationships have eclipsed "horizontal" ones by taking control of the latter away from the governors. Established to fulfill specific objectives, this new institution has begun to play a far greater role in myriad spheres of life, gradually turning into a new level of the administrative-territorial system, capable of giving the regions a run for their money.

Conclusion

The choice between pro- and anti-federalist courses of development is secondary when compared with Russia's general development strategy. The dismantling of federalism at the beginning of the 21st century, as was its "flourishing" at the start of Yeltsin's presidency, is not so much the embodiment of a conscious strategy as a side-effect of the strengthening or weakening of the state. Russian federalism is characterized by agreement between the federal and regional elites, but is weakly rooted in society. Lastly, it does not fit in with the clear desire to restore some form of empire, whether conservative or liberal. The centralization and enlargement of the regions in the 1930s could serve as a historical parallel, a time when, on the one hand, there was a need to mobilize the economy and, on the other, to break up local barriers, reshuffle elites and eradicate the remnants of regional identity.

Although the dismantling of federalism that has characterized the past four years will no doubt continue, federalism continues to be the sole way for Russia to remain a united state. Given the nation's economic growth, the centralization that began under Putin could even be considered a positive development, since, otherwise, the uneven distribution of this growth within the country might have led to deeper contrasts and conflicts among the regions. However, there is greater cause for pessimism than for cautious optimism. The second decade of the 21st century will undoubtedly see Russia become a more unitary and centralized state than today. At the same time, the number of regions could remain almost unchanged (with the exception of some autonomous districts returning to their "mother" regions) or be reduced to 30-40 or even 20. They could be headed by either elected or appointed governors, perhaps with prefects overseeing them. All that's left is to hope that the federalism of the 1990s, often spontaneous and chaotic, has left behind some seeds that might sprout in the future.

[1] Although federal government inspectors are reminiscent of Yeltsin's plenipotentiaries, there are important differences between them. First, the inspectors are operating in all the regions, without exception, whereas Yeltsin had been unable during the nine years that the institution of plenipotentiaries existed to extend it to several "ethnic" republics. Second, unlike their plenipotentiary predecessors, the inspectors are loyal to the federal government and strictly arranged according to an administrative hierarchy. Lastly, they are not politicians but rather functionaries and representatives of the ruling team, many of whom have come from the security services or law-enforcement agencies.

[2] After changes to the administrative and territorial structure in Moscow, some 30 legitimately elected district councils were effectively nullified; they were replaced by dozens of appointed prefects. In the Sverdlovsk region, the heads of the newly created *okruga* were appointed from among the elected heads of cities and regional districts.

Unpredictable Nationalism and Predictable Islam

Aleksei Malashenko
Scholar-in-Residence, Ethnicity and Nation-Building Program, Carnegie Moscow Center

The creation of a Russian national, or civic, identity — a complex and internally contradictory process — will continue within the Russian Federation in the coming years. This is a primary condition for achieving stability in the country, and offers a chance to carry out economic and social reforms. The nature of the new Russian identity will largely depend on the development of interethnic and interconfessional relations inside the country.

The "Chechnya Inoculation" Against Separatism

Interethnic relations are not about to undergo cardinal changes. Tensions may escalate periodically in one region or another, leading to negative political consequences, but this will not trigger clashes like those that took place in the North Caucasus in the 1990s. The ethnic factor will not play a substantial role in relations between Moscow and the country's "non-Russian" regions, as was the case, for example, in the dispute over the status of Tatarstan. The new situation is the result of stronger authoritarian trends in the governing of the country, which have made attempts to use the ethnic factor in political struggles not only unprofitable but, sometimes, downright risky.

There are no grounds for expecting a new outbreak of separatist sentiments. The conflict in Chechnya has demonstrated to potential separatists the hopelessness of any sort of struggle, including the use of armed force, to secede from the Russian Federation. The "Chechnya inoculation" has thus undermined any speculation on the possibility of Russia's breakup along ethnic lines.

In the Volga region, especially in Tatarstan, interethnic relations will not be subject to any serious transformation. There are, however, a number of factors that could create problems. For instance, the desire of some Tatar intellectuals to switch to the Latin alphabet from the Cyrillic could prove to be an irritant. Another point of concern is the impending retirement in 2005 of the republic's president, Mintimer Shaimiyev, who has thus far managed to keep interethnic and interconfessional relations under control and has not allowed latent conflicts to take on an acute form.

The change in government in other republics will take place comparatively painlessly, as has already happened in Ingushetia, Adygeya and others. It is unlikely that any of the major non-Russian politicians would start publicly playing the ethnic card. Neither is there any noticeable desire among the opposition to appeal to ethnic identity. While relying on "their own people" for support, the political forces in the republics simultaneously do all they can to stress their adherence to internationalism and their loyalty to the central government, whose support is of great importance to them. The idea of defending an ethnic minority is thus peripheral. In addition, experience shows that any attempt to defend an ethnic group can make the group's situation worse.

Public Irritant No. 1

Nevertheless, this comparatively positive forecast does not mean that the issue of interethnic conflicts in Russia is closed once and for all. In the medium term, underlying tension in this area will continue to build up, which could later on result in a spontaneous escalation of conflict. Something like this happened toward the end of the Soviet era, when the loudly proclaimed "eternal friendship of peoples" suddenly turned into discord and hostility.

The early 21st century will see the country's ethnic Russian population shrink more quickly than before, both in absolute and relative terms, while the proportion of ethnic minorities, who have higher birthrates, will rise. Furthermore, the growing ethnic migration into Russia's largest cities will

further strengthen the position of new arrivals from the Caucasus and Central Asia in the economy, especially in trade. In other words, Russia will increasingly turn into a multiethnic and multiconfessional society.

Along with ethnic migration, albeit at a slower pace, ethnic Russians will continue to move out of non-Russian regions, especially the North Caucasus. The "ethnic outsider" will remain one of Russian society's main irritants. Putting an end to this situation would require effective and strenuous efforts by both the government and society as a whole. It would be necessary to "re-educate" not just the Russian majority but the migrants themselves, by explaining to them the need to adapt as quickly as possible to their new living conditions and to reject certain standards of behavior considered acceptable in their native environment. People of different nationalities would have to be convinced that there is no acceptable alternative to adapting to one another.

Many Russians have proved unable to meet the domestic challenge of dealing with other ethnic groups. Furthermore, they are plagued by the growing feeling that Russia has been harmed by its foreign policy, under which, according to widely held opinion, its role has been reduced to that of a junior partner of the United States, it is clearly losing out to China, and it is becoming a defenseless victim of Islamic terrorism.

Taken together, all of this will provoke the rise of Russian ethnic nationalism. In the next few years, Russian nationalists will hardly be able to take the political stage as an independent and consolidated force. However, attempts in this direction will continue, and could sooner or later lead to success. The 2003-2004 election cycle presented a case in point, as regular public appeals to voters' nationalist sentiments came not only from leftist and populist forces, but from centrists and, in camouflaged form, from democratically inclined right-wing politicians as well. It appears that this trend will grow stronger in the future.

Ethnophobia will remain a persistent psychological and behavioral stereotype in Russian society, one that is widespread among both the Russian majority and the country's ethnic minorities.

In this regard, the south of Russia remains the greatest problem area. It is there that the worst interethnic friction will continue, both latent and, less often, explicit. Bilateral tensions pervade Nagorny Karabakh and Karachayevo Cherkessia, while an overall worsening of ethnic relations — linked to a new redistribution of administrative authority among ethnic groups and accompanied by a growing property gap — looms over multi-

ethnic Dagestan. Against a backdrop of general poverty, one people can appear to be a bit richer than their neighbors, leading to a strong sense of injustice.

The Islamic Factor

Besides the Muslim-Christian borderlands in the south of Russia, the most vulnerable regions in terms of interethnic stability remain the Volga region and the large cities — especially Moscow, where the number of Muslims already exceeds one million, some 10 percent of the city's population.

In the foreseeable future, the effect of the Islamic factor on the overall situation in Russia will remain limited since there has not been a nationwide politicization of Islam. No influential Islamic political parties or organizations have appeared, let alone a unified Russia-wide Muslim movement, nor do they show any signs of appearing. Neither will any charismatic leaders emerge in such an environment.

Russia's Muslims will not be able to consolidate themselves into an ummah. Geographically, they will remain a dual community consisting of an essentially Russian segment (which may conditionally be labeled the Tatar-Bashkir group) and a North Caucasian segment. The harmony and cooperation between the Muslims of the Volga region and the Caucasus will remain predominantly declarative in nature, and will still occasionally be interrupted by ideological and political confrontation. Furthermore, both groups will continue to face internal contention between supporters of integration and proponents of regional autonomy.

Across most of Russia, the influence of radical Islam will be confined to particular hot spots. The threat of Wahhabism spreading in the Volga region, the southern Urals, Siberia and Moscow is so insignificant that it will remain a scare tactic among a small contingent of politicians and clerics. Most members of the new generation of the Muslim clergy — who received their education in Saudi Arabia, the Persian Gulf countries and the Middle East — are relatively quickly finding a niche in the social and religious life of the Muslim community. Only a few among the "new imams" are ready to preach radical Islamic ideas. The overwhelming majority of the clergy will remain conformist-minded. The secular intellectuals, meanwhile, are more inclined toward ideas of modernization. Consequently, promoting the idea of "EuroIslam" could prove to be productive, as it is capable of breathing new life into reformist thought among educated Muslims in Russia.

More complicated, however, is the situation in the North Caucasus where radical Islam, or Wahhabism, will retain, and perhaps even increase, its influence on society, despite the authorities' active efforts to suppress it. Despite having failed in open clashes with secular administrations and the traditional clergymen who support these administrations, Islamic radicals refuse to admit defeat. They have succeeded in maintaining their organizational structures and, most important, their authority in society. Islamic radicals will remain an influential opposition force, especially in Dagestan, where they may change their tactics by abandoning direct confrontation with the authorities and, instead, trying to strengthen their influence via a gradual incorporation into the local administration, which they have already begun doing. The efforts of radical groups could bear fruit, since the socioeconomic situation in the North Caucasus will hardly get much better in the foreseeable future, and popular protest, as we know, can often assume a religious form.

As a result, it is safe to assume that the Russian authorities will also have to change their tactics. Alongside the use of the harshest measures against radicals, including military force, the authorities may have to open up a dialogue with moderate Islamists.

The radical wing of North Caucasian Islam will continue to receive outside material support. Completely rupturing its financial ties with confederates in the greater Middle East and other Muslim regions would be virtually impossible. Islamists outside Russia will attempt to diversify their methods for transferring money and will probably concentrate on organizing short-term channels, making various banks and companies unwitting accomplices by concealing the addresses of real recipients and giving bogus bank details.

For Russia, international terrorism will remain a significant threat. And we are not talking here about isolated acts of terrorism. The general motivation of the terrorists is to "punish" Moscow for its policies in Chechnya, to avenge the deaths of loved ones and relatives and so on. But the terrorism emanating from the North Caucasus is increasingly becoming a component of international terrorism. Its initiators are formulating new strategic goals and are gradually starting to take part in the operations of extremists on a global scale. One indication of this is the common "style" of terrorists in different parts of the world. It is possible that in the near future extremists from the North Caucasus will take direct part in acts of terrorism beyond Russia's borders.

Ethnic Nationalism and Islamophobia

At the very least, the war against terrorism will continue for the rest of the next decade. The fact that there are men and women from the North Caucasus fighting on the side of the extremists has become indisputable. One response to specific manifestations of Islamic ideology and political culture in Russia has been the emergence of Islamophobia. These attitudes, however, will most likely be limited and will remain an element of the general anti-Caucasian sentiment in the country. Xenophobic hostility, for example, will not extend to Muslim Tatars; more likely, on the contrary, the Tatars themselves will grow less accepting of Muslim migrants in their community.

In Russian society, Islamophobia will remain primarily a domestic phenomenon, playing an insignificant role in relations with the Muslim countries of the CIS. At the same time, many average Russians, as well as many Russian politicians, will be sympathetic to Islamic extremists who speak out against the policies of the United States, "Western expansionism," globalization and the like.

In its foreign policy, Russia will use the Islamic factor more actively. In 2003, President Putin announced the Russian Federation's intent to become a member of the Islamic Conference. The Kremlin's strategic goal is to occupy an advantageous position as the relationship between the West and the Muslim world undergoes redefinition. Joining in actively on the "Muslim playing field" could bring Russia both dividends and serious problems. A great deal depends on the choice of goals and the strategies for achieving them, and on the quality of the diplomatic support for Russia's foreign policy.

Freedom of Speech and the Future of Russian Mass Media

Maria Lipman
Scholar-in-Residence,
Civil Society Program,
Carnegie Moscow Center

Mikhail Gorbachev, the first Soviet president, gave speech its freedom in the second half of the 1980s; when Boris Yeltsin, the first Russian president, took the helm, private mass media appeared — professional modern-day press and television not controlled by the state; then Vladimir Putin, the second Russian president, curbed freedom of speech substantially, declaring that it had never existed in Russia in the first place.

Freedom of speech was the first perceptible result of Gorbachev's perestroika. The press played an immense role in the demise of communism: The coup orchestrated by the so-called State Emergency Committee failed precisely because a shift had occurred in the self-perception of Soviet people — freedom of speech had helped to rid them of their fear, had helped them to believe that the country's destiny was in their hands and to put up resistance to the communists' attempt to seize back power.

But freedom of speech did not yet mean professional political journalism. The publications of the perestroika period served as a rostrum for journalists and a pulpit for historians. Newspapers that believed news to be their business appeared only at the beginning of the 1990s.

The first were *Nezavisimaya Gazeta* and *Kommersant*, which were set up from scratch and were unburdened by the censorship of the communist past. These newspapers hired staff who had not been through the school of Soviet journalism, who did not have experience adhering to "the only true policy" and depicting it by means of "the only true word." The new Russian journalists had to acquire entirely different professional skills, like how to find a source of information, how to make sure it was authentic and convince the reader of this, how to arrange news items in the proper order, and how to get to headline news before anyone else. In contrast to their Soviet predecessors, they were not speaking for the state, but for society; in contrast to the perestroika press, their main purpose was not sharing their thoughts with their readers, but informing them of what was going on. They mastered the profession quickly and successfully, and the state did nothing to stop them. They saw themselves as a professional community with its own corporate interests — one of the first things liberal reporters did was to draw up a Moscow Charter of Journalists, a document that set forth their professional code of conduct.

Gorbachev reconciled himself to the free press, apart from "taking measures," although not particularly effective ones, whenever he was personally criticized. Freedom of speech was extremely important for first Russian President Boris Yeltsin, probably because it was one of those freedoms he secured for Russia. What is more, journalists were Yeltsin's natural allies in the fight against the communist opposition, a struggle that lasted throughout Yeltsin's rule. And even if Yeltsin had wanted to restrict freedom of speech, his government probably did not have the levers to do it.

In 1993, NTV, the first nongovernment television station in Russian history, appeared alongside the nongovernment newspapers. As early as the station's second year, NTV's reporters had to learn how to be war correspondents, a task they rose to with dignity, daily presenting the Russian viewer with a true picture of the war in Chechnya. However, loyalty to the democratically elected anti-communist president did not stop anyone from showing the war he started in its true colors, and the president did nothing to squelch the journalists' efforts, despite the fury this aroused among military commanders and the fact that NTV's work was of immense detriment to his popularity. NTV quickly grew into a professional and modern-day television station that operated at the level of world standards.

Analyzing NTV in the mid-1990s, Vsevolod Vilchek, a sociologist specializing in television, said that it was creating an image of Russia as it should be, perhaps some time in the future. The image is of a "richer, freer, more colorful and European Russia. Even its anchors... seem like people from a new

and different world. They are disconnected from the entire Soviet experience and culture… NTV offers a picture of the world that keeps the viewer within the framework of democratic ideas."

Money, talented people, the creative use of Western experience and first-rate organization were needed to make a high-quality television station, and all of this propitiously combined in NTV in the mid-1990s. But the station, like other new and modern Russian mass media, had to work in a real, not an imaginary Russia, which, as described once by Yegor Gaidar, is two generations behind the developed world economically and sociopolitically, a country where reforms crawled along at a snail's pace and most people continued to rely on the experience and ideas prevalent in the USSR, a paternalistic police state.

The press did not become either a means of advancing public politics or a tool for ensuring the authorities' accountability.

The imperfection of state institutions, secret collusions instead of open political competition, large-scale lobbyism not regulated by law and growing corruption all naturally had an effect on the activity of the mass media. During the second half of the 1990s, paid publications, as well as the use of compromising information to deal with political and economic rivals (one of the reasons why the genre of journalistic investigation never developed in Russia), became ubiquitous among the domestic mass media. Of course this did not apply to all media. The best publications, television stations and journalists retained their passion, curiosity, ethical principles and accumulated skills under these conditions too, but their professional mastery could not address the main problem: The free press in Russia had not become an institution.

The Russian parliament, party system, independent judiciary and federalism, just like the mass media, tried to follow the best, time-tested Western models, but they essentially did not become institutions either. The ingrained mutual mistrust between the government and society, the isolation and inertia of citizens and the growing tyranny of the state bureaucracy did not allow them to take root.

Similarly, the press did not become either a means of advancing public politics — since public politics itself in Russia was gradually reduced to naught — or a tool for ensuring that the authorities were accountable to the people. Russian citizens were too accustomed to having no say in state affairs and did not call the government to account, and the government didn't have the slightest inclination to be accountable to anyone. Nevertheless, as long as state-owned and private television stations competed with each other, the viewer was assured freedom of choice; this in and of itself was of benefit to Russia, which had lived too long with a state monopoly on public expression.

In order to keep this freedom of choice alive, the mass media supported Yeltsin over Gennady Zyuganov with all the force they could muster in the 1996 presidential race and did not allow the communists to regain power. For many journalists, although not all of them, rejecting objectivity was a conscious sacrifice: Civic sentiment overrode professional duty.

At that time, the communists were ultimately defeated and this, in all likelihood, saved Russia from a pernicious rollback. But while Yeltsin's victory over the communists was a chance to establish the rule of law and develop democracy, no one jumped to take advantage of it. Victory was achieved through the powerful joint effort of big business, some of the Kremlin elite and the liberal press. Just as perestroika and the freedom that came with it were bestowed by the state (although society welcomed them with enthusiasm), the public can be given little credit for resisting a communist comeback. Civil society in Russia was still extremely weak; only a minority regarded the freedom salvaged earlier, including the freedom of speech, as something of intrinsic value.

Under these conditions, nothing stopped the Russian tycoons with major investments in television from using this powerful tool in their business interests. The fight among the moguls for the state-run telecommunications company Svyazinvest, in which full use was made of the mass media they owned, was extremely destructive. A blow was dealt to the whole country, but it fell particularly hard on the journalistic community, on journalistic solidarity and professional ethics.

So it was relatively easy for Putin to bring the mass media into line after he came to power. Russian society did not perceive the attack on freedom of the press as an infringement on its rights. Although people empathized with their favorite NTV, which fell victim to the repressive state machinery, only 4 percent of the population in 2001 believed that the campaign against the station had anything to do with freedom of speech. Even liberal politicians

preferred, echoing the official version, to talk about the economic side of the matter. The liberal journalism community, seeming to forget that once it considered itself a united whole, did not show any solidarity with its NTV colleagues. After this, the government easily did away with two more privately owned networks and completely wiped out all nongovernment national television in Russia. Most Russian citizens appeared not to need freedom of choice and an alternative to the government point of view: In the fall of 2003, 36 percent of respondents in a VTsIOM poll said that intensified state control was to the benefit of the mass media, while only 25 percent opposed this view. The authorities actively took advantage of television

The printed press enjoys significant freedom compared with television because it causes little trouble.

to achieve their own ends, be it advertising the pro-Kremlin party during election campaigns, "correctly" covering topics important to the state or preventing "unnecessary" topics from being broadcast on the air.

After the onset of market reforms, the circulation of liberal newspapers dropped drastically, quickly whittling down their readership to the Moscow political and intellectual elite. A newspaper with a circulation in the tens of thousands is not attractive to advertisers, but it does allow the luxury of writing for a "narrow readership," for enlightened, thoughtful, analytically minded people who are quick on the uptake and value refined sarcasm and subtle hints. The authorities pay attention and show an interest in clever — and bold — newspapers, but the influence of these outlets on public attitudes is naturally extremely limited. So under Putin, who in contrast to his predecessor treats the press with deliberate disdain, and at times even with outright hatred, the printed press still enjoys significant freedom compared with television: Dailies and weeklies are left in peace because they cause little trouble. But should the government feel that any of them are overstepping their bounds, there will be no difficulty in getting rid of them — for there will be no one to stick up for them.

Putin's professional inclination toward control and secrecy has essentially changed the relationship between the authorities and the press. In all the

post-communist years, the Kremlin and other government agencies have never been so closed to reporters. Attempts by journalists to find out anything the government is trying to hide are met with a severe rebuff from the authorities, and from the president in particular. Suffice it to recall the furious words Putin addressed to the press after the Kursk submarine disaster, accusing journalists of subverting the army and navy, or after the terrorist hostage-taking at the Dubrovka theater when Putin, who did not want the cause of hostage deaths to be a topic of public discussion, expressed indignation at NTV's coverage, after which a more loyal director was appointed to run the television station.

If there is no public demand for an independent critical view of the state of affairs in the country, and if the public does not require the powers that be to account for their actions, the journalist ceases to represent the public and his or her work becomes meaningless. "The profession of political journalist has ended in today's Russia," Yevgeny Kiselyov, who had worked consecutively at all three television networks taken over or closed down by the state, said in the summer of 2003.

Under these conditions, most journalists prefer not to stir up trouble. The bosses of the mass media, and particularly the television stations, certainly do not want to argue with the authorities; on the contrary, they actively and willingly cooperate with them. In the summer of 2003, journalist Andrei Kolesnikov described the atmosphere in the mass media the following way:

> No one is forcing anyone to write cautiously or not to write about things that are really worth writing about. But the computer keyboard comes up with the necessary words itself and stops the hand at the place where the department editor might have to answer to the editor-in-chief, the editor-in-chief to the investor, and the investor to … you know who.

But aside from the political atmosphere, the prospects for modern-day liberal newspapers are not good. There are too many of them — about a dozen — for a small enlightened, mainly Moscow-based audience. Beyond this readership, the Russian public has essentially outgrown the habit of reading a serious "central" newspaper every day, and the younger people are the more they turn to the Internet instead.

The dropping circulation of serious daily newspapers and the threat of their being replaced by broadcast media and the Internet is a ubiquitous problem, but in Russia the circulation of print media is particularly low. Increasing circulation means that a newspaper must lower its intellectual

standards and toe the government line: The editor-in-chief of Komsomolskaya Pravda, Russia's only daily newspaper with a nation-wide readership, openly admits that he does both. The elite press will not disappear, but the number of newspapers may decrease. As for repressions, an attempt to close a particular newspaper by fiat will most likely have the reverse effect — increasing interest in it. What is more, if one small newspaper is closed another can always be opened, or it can go into hiding on the Internet for a while.

The mass media in the regions enjoy much less freedom than in Moscow and are forced either to serve the interests of the local governors, or not show an interest in politics at all.

After establishing control over national television, which will long play the role of Russia's main mass medium, the government is unlikely in the foreseeable future to give up this privilege to anyone else. Today this is not a matter of media ownership. Even if the law restricts the number of television channels belonging to the government, even if public television appears in Russia, it will not change anything; it is enough to recall the fate of the TVS channel collectively owned by a group of business tycoons, but closed down by the state. Under Putin, the authorities sometimes very successfully control what does not officially belong to them.

Without a free press there can be no political competition, or real elections, or a fight against corruption, or an accountable government. But a free press itself can only exist as long as political institutions function, the law is above political and economic interests and the judiciary is independent. And what is even more important, there should be public demand for free independent mass media. There must be enough people in the country who find it unacceptable to live under government control and who feel a pressing need for responsible choice. When these people emphatically insist on their right to know who makes government decisions and how and on what basis, and when they believe in their right to demand this information, a free press will appear once more in Russia. Whether this happens gradually, or as the result of economic or political cataclysms, remains to be seen.

Social Strata and Social Policy: From Lessons of the Past to New Strategies

Tatyana Maleva
Director, Independent Institute for Social Policy;
Former Scholar-in-Residence, Carnegie Moscow Center

The role of social policy and "the human angle" is growing throughout the world, and Russia is no exception. However, while interest in social problems has risen in Russia in recent years, the concept of social policy has remained undefined and contentious. The limits of the possibilities and the responsibilities of social policy have not been established, not in the academic sense, or the social, or the political. Of course, any economic activity has (or can have) social consequences. For example, privatization has exacerbated the disparity in income and property ownership in Russia, although this is not in and of itself either social activity or social reform. At the same time, social institutions themselves must be reformed — in the areas of health care, education, social security and others — and this would involve paying a high price economically. These two processes are not one and the same. However, in the public consciousness, and sometimes in the scholarly community, they are often confused, giving rise to unfounded and dangerous social expectations.

In terms of social policy development, Russia passed through two stages in the 1990s. During the first one, at the beginning of the decade, social policies dealt mostly with the consequences of economic reform. In response to the reforms and to changes in the principles of funding social programs, policies were adopted that brought with them their own institutions. But social reforms themselves essentially did not move forward.

The social processes of that period can be viewed in various ways. Was there a window of opportunity? Apparently there was. Social policies could have followed a different trajectory. But history does not allow for "could have been's." One thing is clear: The first Russian governments acted without regard to social policy. It was not a threat politically, which allowed the government to carry out a number of economic reforms. Moreover, from the outside, such an approach could even seem justified: The dramatic decline in the standard of living experienced by most Russian citizens during that time, growing disparities in social status and income, the emergence of overt and hidden unemployment, the destruction of former social patterns in the absence of new ones and other factors gave reason to predict an imminent social explosion. But this did not occur. The Russian people showed uncommon restraint, and in that respect the authorities should be given their due for their keen intuition. However, underneath the external political well-being there hid a dramatic reality: Within the new socioeconomic coordinate system, all economic players, including private individuals, found their own niche and assumed new forms of adaptive behavior that were not subject to any kind of control.

The first post-Soviet governments acted without regard to social policy.

The second stage of social policy formation began in 1996-97. In terms of giving social problems priority status, the authorities went from words to deeds. What caused such a turnaround? Apparently, pragmatism. The authorities came to understand by the mid-90s that from a financial and budgetary point of view, maintaining the social sphere in its current form would be costly and ineffective. It became clear that the dramatic demographic trends, social insecurity (especially with respect to income), the lack of effective social institutions and other factors were impeding further economic growth.

By the middle of the decade, only one significant economic achievement could be cited: financial stabilization. Hyperinflation had been overcome

by 1995-96, but financial stability was only a prerequisite for economic growth, not a guarantee of it. It became clear that many sources of economic growth lay in the social sphere itself, in such large-scale institutional changes as new labor legislation, pension reform, the development of health insurance, education reform and others.

The social policies of any government should be based on a more or less precise understanding of the social structure of society. Only in this way can the government properly assess efforts in this area and their prospects. How does the Russian social pyramid look 13 years after the beginning of economic reforms that changed the entire structure of the Russian economy and society? What are the lessons to be drawn from the changes that have been implemented? What are the prospects for the future?

Sketch of the Russian Social Pyramid

It's no secret that Russian society is not homogeneous. The first stage of economic reforms brought about a clear and sharp differentiation in the income and social status of Russian citizens. The main features of the current Russian social pyramid are the formation of a huge poverty zone and its chronic reproduction. Measuring the extent of this poverty is still a matter of heated debate, and estimates vary from 7 percent to 50 percent of the population. At the opposite end of the spectrum there are people with extremely high incomes, who number no higher than 2 percent of Russian citizens. The middle classes have until now remained an elusive element in the intricate Russian economic model. Russian researchers give greatly varying estimates of their numbers: from 15 percent to 70 percent of the population.

Recent research, including an extensive study carried out by the Carnegie Moscow Center in 2000, which examined 5,000 households in 12 regions of the Russian Federation, has provided some clarification on the matter.

The study showed that 21.9 percent of households could be considered middle class according to their social and professional status, 21.2 percent were identified as such in material terms and 39.5 percent identified themselves as middle class.

The overlap of these indicators accounts for about 7 percent of all Russian households. These families possess every basic characteristic of the middle class and could form the "nucleus" of the middle classes.

Moreover, households exhibiting two middle class traits are so close to being middle class that they should also be taken into account — particularly if the goal is not simply to assess the current size of the middle class but also to understand what conditions are necessary for its absorption of new social strata and what groups in society have the greatest chances for upward mobility. Twelve percent of Russian families display (any) two signs of belonging to the middle class, so the overall number that can be said to belong to the general middle class is about 20 percent. Whether this figure is high or low depends on one's point of view. In any case, the results of the study refute both the thesis that there are no middle classes in Russia and the opposite belief that the majority of Russian citizens are middle class.

The overall number that can be said to belong to the general middle class is about 20 percent.

In developed market economies the middle class comprises around 60 percent to 70 percent of the population. That is significantly greater than in Russia, but, in my view, even 20 percent is large enough a figure to attest to the existence of a middle class in modern-day Russia. It is not, however, cause for excessive optimism.

Apparently, the maximum extent of the Russian middle class attainable in the foreseeable future amounts to 50 percent of the population — and that only in the event of the country's successful socioeconomic development. Those social groups who now belong only partly to the middle classes are precisely the ones who still have a chance to become part of its core and to form a full-fledged, stable and confident middle class.

Hence, although not numerous, the Russian middle classes do exist. The problem, however, does not end with this mere statement of fact. It is far more important to determine the social milieu of such classes. Which social strata, classes or groups have a chance of approaching or joining their ranks? Who, on the contrary, will remain outsiders? Such strata must be identified if only to answer the question: How do the middle classes, in essence, differ from others?

A little more than 10 percent of Russian households belong to the poorest strata. In terms of their material situation, they are below the poverty line. The adult members of these families have not received a higher education and are therefore uncompetitive on the labor market or are destined to work in low-paying jobs lacking prestige. In addition, they perceive themselves as belonging to the lower classes.

Analysis of the other social strata is not so clear-cut. What is clear is that there is an intermediary group between the middle and lower classes that can be described as "higher than the lowest but lower than the middle" classes. The overwhelming majority of Russian households — about 70 percent — belong to this group. This part of the population has access to certain social and economic resources and, consequently, opportunities to move into the core of the middle class. But will this occur? The future of this social group hinges on the answer to this question. Indeed, the future of this group can be considered the essential criterion in determining the success of Russia's socioeconomic development in the coming decade.

Some 70 percent of Russian households are higher than the lowest but lower than the middle" classes.

Political Alternatives

Does economic growth guarantee an expansion of the middle class, a shrinking poverty zone and increasing social mobility? An affirmative answer to this question is normally considered a foregone conclusion: People have been promised that that would be the natural reward for their long-suffering. Moreover, the social indicators of the past four years seem to give cause for optimism. Against the backdrop of a relatively high rate of economic growth (9 percent increase in GDP in 2000, 5 percent in 2001, 4.3 percent in 2002 and 6.7 percent in 2003), the real income of the population has grown even faster (13 percent in 2000, 10 percent in 2001, 9 percent in 2002 and 14.5 percent in 2003).

However, this positive trend can be misleading. First of all, it involves, at best, a return to pre-crisis levels — i.e. prior to the 1998 default. Secondly, the incomes of the Russian population are far from uniform, and if one takes into consideration the rise and fall in income and the social prospects of separate strata (the lower, middle and upper classes), the picture that emerges is a different one altogether.

The financial situation and social position of the first group, the lower classes, much depends on the efforts of the government and social programs. The majority of these people fit into traditional categories of the poor — pensioners, the unemployed, families with many children, the disabled and others — and their material situation is determined mainly by government funding and the social security system. However, there is also a new category of the poor in Russia: the working poor, who work mainly in the public sector, as well as depressed branches of industry and in the regions, where wages barely cover even the basic needs of families. The growth in income observed in recent years in this social group is the result of direct government regulation, various kinds of indexation, allowances and social programs.

Economic recovery is not a universal phenomenon in Russia but a local one, coming through in particular sectors and regions.

As for the middle classes, the majority of this group is employed in relatively efficient economic sectors. These are mostly people working in the secondary economic sector — in organizations and companies involved in foreign trade, general commercial activities that keep the market functioning, the banking sphere or the fields of finance, credit and insurance. In the real economic sector, the leaders in terms of wages are the fuel and energy industry (mostly oil and gas), the non-ferrous metals industry, construction and transport. These were the sectors that felt the impact of economic growth and reacted to it by increasing the income and wages of their workers. In other words, economic recovery is not a universal phenomenon in Russia but a local one, and it comes through in particular sectors, branches of industry and regions.

What can be said of the other social groups, who make up no less than 70 percent of the population? They are precisely the ones who get left on the sidelines of economic and social policy. The impetus resulting from the country's positive economic momentum and from the government's attempts to raise the standard of living has either failed to affect these groups or has affected them only in curtailed form.

Consequently, each political paradigm concerns only "its own" part of the pyramid: The direct regulation of income produces some results in the poverty zone, while economic growth strengthens the financial standing of the most prosperous income groups. The "lower than middle" class turns out to be the most vulnerable and has been transformed into a problem zone. Representatives of this stratum are not part of the economic growth; they are lookers-on, unaffected by its results. This means that for the absolute majority of citizens, economic growth is no panacea. The possibilities afforded by direct regulation of income under the existing paradigm are not boundless, and if this model persists it would mean, at best, the stabilization of income, not a substantial improvement in the financial situation of the majority of the population.

The key to the problem of raising incomes does not lie only in the regulation of wages and social programs, as people often seem to think today, as if operating on autopilot. This is above all a matter of structural and institutional reform.

The working poor, the absolute majority of whom are employed in the public sector and belong to the "lower than middle" class, cannot be helped through a modest indexation of their wages. At best, such regulation will keep people in this social group from sinking into outright poverty, but will not ensure them a decent existence. Only by reforming the state sector can this problem be fundamentally resolved.

Russia has yet to tap into such a huge economic resource as the development of small business. It continues to play a woefully insignificant role in the country's economy, despite the many assurances of the intention to stimulate its growth. Among the main reasons for this are the many remaining bureaucratic barriers and high transaction costs connected with registering legal entities, licensing, mandatory certification of goods and services and other obstacles, as well as political risks. Furthermore, the development of small business would not only bring about the revival of many economic sectors and strengthen market competition; it would also lead to the creation of far more new jobs than the futile attempts to artificially create them at existing enterprises or the equally unproductive

efforts to preserve existing but inefficient jobs. The income of small-business employees does not depend on oil dollars, and its growth would truly make it possible to enhance economic activity and raise the standard of living of the population.

One of the most significant institutional and social reforms involves the problem of education. The myth about a relatively high level of education and the high qualifications of the Russian labor force persists to this day. Indeed, if the statistic being considered is the number of students as a percentage of the corresponding age group, then a rather large portion of the population can be regarded as significantly advanced in terms of education. According to this traditional indicator, Russia is among the top 10 countries in the world, and in terms of the number of people employed in the sciences per million inhabitants, it is in the top three, behind only Japan and the United States (with the difference between Russia and the latter being relatively insignificant). However, if the indicators under consideration are more "innovative" ones, which better reflect modern economic and information needs (for example, access to computers or the Internet), Russia lags behind — by an order of magnitude! — not only by comparison with the world's leading nations but with poorly developed economies such as Argentina, Greece and Malaysia. Access to top-notch higher education will determine the future development of the labor market, income trends, the quality and standard of life and, consequently, the prospects for economic growth.

Without such reform, a social pyramid in which an absolute majority of the population does not have real economic instruments and reliable social guarantees will be maintained for many years. It is precisely this challenge that Russian social policy faces in the coming decade.

Migration Challenges in the Coming Decade

Galina Vitkovskaya
Program Research Coordinator, International Organization for Migration;
Former Scholar-in-Residence, Carnegie Moscow Center

Over the past decade, migration has become an increasingly pressing policy and security matter in Russia, as throughout the world. Migration is now officially among the government's top priorities, and a broad spectrum of policymakers and experts, together with the relevant state agencies, have joined the search for solutions to migration-related problems. Concern stems not only from the scale of migration — by Russian standards it is not yet all that great — and the challenges that it poses globally, but also from the consequences of the migration policies that the Russian authorities have implemented up until now. Such policies have exacerbated existing problems by making it more difficult for migrants to become naturalized and to find employment, thereby driving them underground and creating fertile ground for corruption.

These policies have been both motivated by and manifest in unjustified alarmist tendencies — fueled, in part, by the media. They also include vestiges of Iron Curtain-era mentality and the system of state-controlled job assignments. Defenders of departmental and regional interests use the bugaboo of massive illegal migration as a means of pressuring the federal government and legislative branch when it comes time to allocate budget funds and delimit powers. Some politicians make migrants out to be enemies and blame them for the country's social and economic problems. Alarming statistics that do not coincide with any calculations and run counter to numerous studies constantly make their way into the public domain. Claims have been made, for example, that migrant workers export around $15 billion yearly, amounting to some $4,300 for every migrant per

year, or $360 a month. However, a survey of 3,000 illegal migrant workers conducted by the Moscow program of the International Organization for Migration (IOM) in 2002 showed that in Moscow, where their wages are highest, they earned on average $240 per month, or some $2,900 per person per year. Migrants spend a substantial share of that sum in Russia — to pay for housing, food, transport, health care and, not least of all, fines and bribes. In other regions, the monthly wages of migrant workers do not even reach the $200 mark. Furthermore, about three-fourths of labor migrants are paid under the table, which makes it impossible to calculate the sums sent abroad by migrants separately from the general flow of unreported income taken out of the country by Russian citizens.

Distorted data have painful repercussions for society at large, fueling anti-migrant sentiment and social tensions.

Nevertheless, such distorted data have painful repercussions for society at large, fueling anti-migrant sentiment, social tensions and the emergence of radical nationalist forces. Given the inevitable rise in migration, these conflicts will likely continue in the coming decade.

Objective Grounds for a Rise in Immigration

Over the past decade, Russia has become a country that simultaneously exports and receives migrants, however it receives far more of them than it loses. Immigration will continue to grow, whatever quotas the Russian government might impose and whatever legislation or bureaucratic barriers it might put in the way. This can be explained by world demographic and economic imbalances, as well as by the needs of Russia itself.

Russia is undergoing a natural population drop, especially among the working-age population, and migration flows ceased to compensate for that loss by the second half of the 1990s. If at the start of 2001 the resident population of Russia was 145.2 million, a year later it was already down to 144 million. This decline took place as the migrant population increased slightly, by 72,300 and 77,900 persons in 2001 and 2002 respectively.[1] According to population forecasts, the yearly decline in the working-age

population for 2006-2007 will be 1 million persons, and by 2015 the figure will rise to 1.5 million.

Furthermore, the economic recovery that has begun in Russia has already run up against a growing labor shortage. As the Russian migration expert Zhanna Zaionchkovskaya has shown repeatedly, labor is becoming Russia's scarcest resource.[2] Economic statistical data show that 6 percent of Russian companies experienced labor shortages in 2000; by 2001, the figure had climbed to 27 percent. The declared demand for labor at the turn of this century has skyrocketed: By the end of 1998 it was approximately 328,000 persons, in 1999 it rose to 590,000, in 2000 to 751,000 and by 2001 it reached 887,000. In 1996, there were 10.8 unemployed persons for every advertised employment opportunity, in 1998 there were 6.6 and in 2001 only 1.5.[3] It is telling that until 1999 this indicator was lower than 1.0 only in Moscow; by 2001, 14 regions had crossed that threshold, while in Moscow and the Tyumen region for every job vacancy the "number" of unemployed applicants was 0.4. Sweeping changes!

The possibility of the depopulation of several regions naturally worries the politicians and officials concerned, given that a paralysis of the local economies would mean the end of their rule.

Therefore, due to the growing demographic and labor shortages, the need for migrants will continue to increase in the coming decade.

Reaction of the Host Society

The migration situation in Russia has gone through two stages. In the early 1990s, the country began absorbing ethnic Russians forced to repatriate from the new independent states. However, the way in which they were welcomed by government agencies and the public[4] has amounted to a missed opportunity for Russia to offset its demographic and labor short-

The economic recovery that has begun in Russia has already run up against a growing labor shortage.

ages, at least temporarily, by integrating ethnically and culturally similar migrants with a relatively high level of education and qualifications.

At the end of the 1990s, the nature of migration to Russia changed: It is gradually becoming voluntary rather than forced. Compared with 1997, when legislation on refugees and forced migrants had come into effect and the official number of forced migrants reached its peak of 1,147,000, the number of such migrants in 2003 dropped by more than 50 percent, to 506,000 persons. The number of migrants officially acknowledged as forced migrants has decreased every year: 79,000 in 1999; 59,000 in 2000; 42,000

Illegal migration greatly exceeds the increase in the legal migrant population.

in 2001; and 21,000 in 2002. So has the number of refugees: 381,000, 277,000, 134,000 and 51,000, respectively. The migration flow into Russia is now mostly made up of labor migrants.

The ethnic makeup of the new migrant population has changed as well: There are progressively fewer Russians and more persons from other ethnic groups, which the statistics refer to as "predominantly residing outside Russia." Among those coming to Russia from the Commonwealth of Independent States and the Baltic states in 1992, 66 percent were Russian; in 1993, 65 percent; in 2000, 54 percent; and in 2002, 55 percent. These figures include only officially registered migrants; among illegals, the share of Russians is much smaller. According to a study conducted by the IOM Moscow Migration Research Program in 2002, for example, Russians accounted for some 23 percent of the illegal migrants in the Stavropol region and some 16 percent in Moscow. This is significantly lower than the share of Azerbaijanis, Armenians and Georgians, who made up more than 45 percent in the Stavropol region and 23 percent in Moscow.

Unfortunately, the Russian authorities proved equally incapable of developing an adequate policy at this second stage of the migration situation. This is manifest in two trends.

The first is the scope of illegal migration, which greatly exceeds the increase in the legal migrant population. In recent years, Russian government statistics have indicated a notable decrease (compared with the mid-1990s) both in the number of officially registered immigrants from the CIS and Baltic countries and in the general growth of Russia's population as a result of migration from those countries. Net migration figures reached their maximum in 1994 with 914,600 persons; in 2000, Russia took in 266,900 persons and, in 2001 and 2002, 123,700 and 124,300, respectively. However, those figures are indicative not so much of a decline in immigration as a decrease in the share of legal migrants.

Estimates of the number of illegal migrants in Russia vacillate between 1.5 million and 10 million persons. The figure cited by officials — 5 million — seems the most probable. According to data from a study conducted by the IOM in 2002, 28 percent of illegal migrants intend to obtain Russian citizenship and remain in the country permanently. In Moscow, where almost 25 percent of illegal migrants are concentrated, the figure is higher: 40 percent. It thus follows that immigration for permanent residence in Russia should be estimated at around 1.5 million persons (76 percent of them, or some 1.2 million persons, have immigrated in the past three years), which is more than twice the officially registered growth of the migrant population during that time. Approximately 7 percent, or 350,000 illegal migrants, are using the territory of Russia for transit to other countries. The remaining 65 percent, more than 3 million persons, according to our research, are temporary labor migrants. However, official work permits have been granted to only 200,000 to 300,000 foreign nationals (213,300 persons in 2000 and 283,700 in 2001). Quotas for hiring foreign workers have been set at about the same level — just over 200,000 persons.

The second indication of inadequate migration policies in Russia is the rise in anti-migrant sentiment, xenophobia and extremism. These are manifested both in the activities of the authorities, especially in certain regions, and in everyday life. Immigration policies have become stricter, force has become an accepted method in regulating migration and the role of the police and security forces has grown considerably; in some regions there have even been reports of attempts to deport particular ethnic groups. The public has increasingly negative stereotypes about migrants. There have even been instances of violence, attacks on migrants have often had fatal consequences and the popularity of radical nationalist parties and movements is growing.

Sociological studies point to a clear rise in such sentiments, especially intolerance toward peoples from the Caucasus and migrants from Central Asia.

In 1998, the IOM commissioned a survey of public attitudes toward forced migrants. Of people surveyed in five Russian regions, 28 percent expressed negative views about the peoples of the Caucasus (17 percent described their attitude toward this category of migrants as "more negative than tolerant," while 11 percent said "extremely negative") and 9 percent responded that their attitude toward other non-Slavic peoples was negative (including 4 percent who said it was "extremely negative"). Ethnic Slavs were not mentioned in any negative context at all. The Center for the Study of Forced Migration in the CIS included the same questions in its 2002 survey of four Russian regions. Between 28 percent and 37 percent of those polled said their attitude toward peoples of the Caucasus was "more negative than tolerant," as compared to 17 percent in 1998. Moreover, migrants from the Caucasus now have new "competitors" — natives of Central Asia: They were mentioned in replies to this question by 34 percent of respondents in the Orenburg region and 6 percent to 19 percent in other regions. If in 1998 fewer respondents had an "extremely negative" attitude toward peoples of the Caucasus than a "more negative than tolerant" one, by 2002 the number of those who held extremely negative attitudes was significantly greater — 32 percent in the Nizhny Novgorod region and 42 percent to 44 percent in the remaining regions studied.

During his tenure as minister for nationalities policy, Vladimir Zorin acknowledged that illegal immigration and extremism are closely linked. He also said that "we have never before encountered such a process on such a scale, and it is no secret that migration has become one of the sources of tension in society. The rise in extremism in society is connected with uncontrolled migration."[5] In particular, migrants' illegal status is precisely what makes them powerful in competing with Russians on the labor market. However, there is an inverse connection as well, since the rejection of migrants by the host society, including through restrictive policies, contributes to the growth of illegal migration.

The decline of tolerance among the Russian host population was reflected in the election results to the Russian State Duma on December 7, 2003, when around 21 percent of the Russian electorate voted for parties with a nationalist bent, which had received barely more than 5 percent in previous elections.

Outlook for the Coming Decade

Given the unlikelihood that Russia will manage in the coming decade to establish full control over its borders — especially its land borders, and

above all the one with Kazakhstan — immigration will continue to grow, and the main factor influencing migration and its consequences will be Russia's migration policies.

If those policies continue to follow the current pattern, the scale of illegal migration could double, at the very least. This would be accompanied by a number of effects: a weakening of control over the economic and demographic situation in particular regions and in the country as a whole; a rise in corruption; escalating tensions between migrants and the rest of the population and between employers and the state; and the growing influence of radical nationalistic and pseudo-patriotic movements.

Possible ways to counteract such a scenario include the broadening and liberalization of legal opportunities for migration, government amnesty programs, measures to decrease under-the-counter sectors of the economy and public awareness campaigns to promote tolerance. For that to occur, Russian migration policy must rise to the challenges that face it.

[1] *Population Figures and Migration in the Russian Federation in 2002* (statistical bulletin), State Statistics Committee of Russia (Goskomstat), Moscow, 2003. Pages 9 and 15.
[2] See, for example, *Immigration Policies of Russia: Ethnic Context*, IOM Open Forum Information Series, No. 5. Moscow, 2002. Pages 17–18.
[3] Regions of Russia: Socio-Economic Indicators for 2002. Statistical Digest, State Statistics Committee of Russia (Goskomstat), Moscow, 2002. Pages 103 and 105.
[4] See G. Vitkovskaya, "Forced Migration in Russia: Summing Up a Decade," *Migration in CIS Countries*. Edited by Zh.A. Zaionchkovskaya, Moscow, 1999. Pages 159–195 and "Forced Migration and Fear of Migrants in Russia." *Intolerance in Russia: Old and New Phobias.* Edited by Zh. A. Zaionchkovskaya, M., 1999. Pages 151–192.
[5] *Trud* newspaper, October 12, 2002.

Power, Democracy and U.S.-Russian Relations

Andrew Kuchins
Director, Carnegie Moscow Center

Two times since the collapse of the Soviet Union high hopes — probably unrealistic — about the possibility of a very close partnership or even alliance between the United States and the Russian Federation have resulted in some degree of disappointment. The brief 1991-92 flicker of romance quickly dissolved in Russian economic collapse and the instability of the Yeltsin administration and the yawning chasm of power and capacity that emerged between Washington and Moscow. The second honeymoon after the tragic terrorist attacks on the U.S. on September 11, 2001, has also ended. This essay will argue that the relationship risks further drift and even deterioration in the coming years if current trends continue. But I will also suggest some concrete areas of cooperation that may help give the relationship more ballast in the future.

The History in Leadership Images

Before pondering the future of the U.S.-Russian relationship, let us take a brief his-

torical excursion and make a few points that underpin the argument to be presented. Thinking about the relationship in a longer historical time frame, images of meetings between other top leaders flood the mind. The first image is of FDR and Stalin cooperating in the WWII alliance with Churchill and Great Britain to defeat the axis powers — the all-time high point for Russian-American cooperation.

Then a whole set of Cold War images follow. First there was then vice president Nixon debating Khrushchev in the model kitchen in Moscow in 1959 about the advantages of capitalist vs. socialist systems. Next comes the Cuban missile crisis showdown between Khrushchev and Kennedy. Then president Nixon and Brezhnev embark on détente in the 1970s to limit the extent of a nuclear arms race that had run amuck, and the signing of the SALT I and ABM Treaties. Next my mind's eye sees Carter and Brezhnev bear-hugging at the signing of the SALT II Treaty just before the fragile détente of the 1970s ran aground for good with the Soviet invasion of Afghanistan. Then we skip to the second half of the 1980s when the youngish Soviet reformer Mikhail Gorbachev embraced the old cold warrior Ronald Reagan in a new and deeper rapprochement that provided the seeds for the end of the Cold War. Recall the Reykjavik Summit where, to the astonishment of their advisors, Reagan and Gorbachev nearly agreed to full nuclear disarmament.

After the Soviet collapse in 1991 we watched for nearly a decade the "Bill and Boris Show," when the idealistic American president extended efforts many times to personally support the embattled Russian president. And finally today we return to the strong personal chemistry between George Bush and Vladimir Putin — in many ways a rather odd couple. The son of the U.S. aristocracy and the former Soviet intelligence officer have been drawn closely together especially post 9/11. With their leadership the United States and the Russian Federation achieved their most extensive level of cooperation since World War II to defeat the Taliban in Afghanistan in the fall of 2001.

At least from the U.S. vantage point, there is no other bilateral relationship that has been so defined by top leadership ties and images as the historical U.S.-Soviet/Russian relationship. This is explained not simply by the Cold War confrontational nature of the relationship, but more fundamentally it is because the relationship has been so dominated by security factors — core security issues that can only be finally signed off by top leaders. First there was the urgent common cause to defeat fascism in Europe in World War II. Second there was the equally urgent need to regulate the nuclear arms race. Third, in the post-Soviet period, U.S. policy was driven

first by the desire to secure Russian weapons and fissile materials and to denuclearize Kazakhstan, Ukraine and Belarus. Less urgently, the U.S. sought to promote the transformation of Russia into a market democracy firmly anchored in Western political, economic and security structures. But this policy was also embedded in a security framework, that of the liberal or democratic peace.

The flip side of a relationship defined principally by personal leadership ties and international security motivations is weakness in economic and society ties and either an absence of shared values, as during the Cold War, or a deep ambivalence about them, more characteristic of today. This absence of shared values or ambivalence towards them leaves the relationship without a firm and broad foundation and makes it more prone to wide swings up and down.

Both reasons behind the relative stability in U.S.-Russian relations are slowly losing relevance.

Liberalism and Realism

Obviously there is no question that the U.S.-Russian relationship today is far better than the Soviet period, and despite the many conflicts of the post-Soviet years, from Bosnia to NATO expansion to Kosovo to the ABM Treaty to NATO expansion again and finally and most recently to Iraq, the relationship has remained intact. And in virtually all cases Russia has acquiesced to U.S. policy desires. How many times was a new Cold War predicted over this or that conflict? Yet, the breakdown in the relationship never happened over any of these so-called "crises." It is important to answer the question why the breakdown never occurred.

There are two principle explanations. One is based on the balance of power, and it concludes that there was such an asymmetry in the power balance between the United States and Russia that the Russians did not have any good policy options but to grudgingly accept U.S. behavior. Trying to develop a counterbalance with China and India was both unrealistic and

not very attractive for a number of reasons. Another suggestion to band together with "rogue states" to thwart U.S. interests was even less appealing and would have been catastrophic for Russia's domestic economic development needs.

A second not necessarily alternative but competing explanation for Russian foreign policy under Yeltsin and Putin argues that Russia is undergoing a transition or even transformation into a market democracy and consequently shares more common values and interests with the United States and the West. Whether it is the impact of globalization, shared democratic values, economic interdependence or the desire to have influence in major international multilateral bodies, these are all variations of a liberal peace argument. Both explanations are powerful, have their supporters and, again, are not mutually contradictory.

What should give us pause for concern as we look forward — and it is not apocalyptic or hysterical as the roof is far from caving in on the U.S.-Russian relationship — is that each of these explanations is slowly losing relevance, albeit hardly at the same pace. The balance of power between the United States and Russia is not going to fundamentally change in the next year or five or even ten. But Russian power is no longer in free-fall decline as it seemed to be throughout the 1990s. The Russian economy is now enjoying its sixth consecutive year of robust growth. And while one can debate the sources of that growth, be they high oil prices, devaluation of the ruble or reform efforts, and one can point to a myriad of other social, health and demographic challenges for Russia, there is increasingly a sense in Russia, at least, that Russia is on the rebound.

We have seen evidence of this in an increasingly assertive Russian foreign policy toward the weak former Soviet republics on its periphery, first through the exercise of economic leverage and especially energy dependencies and domination of transport routes. Continuing Russian troop presence and maintenance of military bases also emerged again in the fall of 2003 as a conflicted political issue with Georgia and Moldova that brought on strong criticism of Russia by U.S. Secretary of State Colin Powell at the OSCE meeting in Maastricht in December. The combination of the Russian probe of Ukraine at Tuzla along with efforts to strong arm Georgia and Moldova to revisit the OSCE Istanbul base closing commitments of 1999 raised the question for U.S. policymakers whether we are seeing the unveiling of a strategic shift in Russian behavior on its periphery or a set of actions that played well to an increasingly nationalistic Russian public during an election campaign.

The second half of my concern, however, stems from the backsliding of democratic values and practices that has accumulated during Mr. Putin's presidency. The December 2003 parliamentary elections, let alone those held in Chechnya in October 2003, demonstrated how far Russia is from being a consolidated democracy. This is not to say that the Russia of the 1990s was some kind of democratic utopia — far from it. As far as democratic development goes, Russia is like a lot of countries. If you are an optimist and see the glass as half-full, then you might conclude that Russia is quasi-democratic. If you are a pessimist who sees the glass half-empty, then you may reach the conclusion that Russia is a semi-authoritarian state. But perhaps agreeing about terminology is less important than identifying trends. In Russia today, the trend is clearly in the direction of greater consolidation of all levers of power in the hands of the president, his administration and the unaccountable bureaucracy. The system increasingly lacks effective checks and balances. Mr. Putin's goal to build a strong state in Russia is right — you cannot have a real democracy without strong state institutions. But in Russian history too often the idea of a strong state morphs into an authoritarian or totalitarian state, and too rarely does the notion of a strong state coexist with a strong society.

Growing Russian power that features more aggressive behavior on its periphery — behavior that some will call "imperialist" — accompanied by decreasing democracy will be a recipe for a more contentious U.S.-Russian relationship. In the near term these trends will likely not keep us from cooperating to prevent the proliferation of weapons of mass destruction and to fight terrorism where and when it suits our mutual interests, or even to expand bilateral energy ties. But in the medium to longer term, these trends, if they are not reversed, will erode the sense of partnership and negate any possibility of a broader and deeper alliance between Russia and the United States and the West.

Strengthening the Agenda for U.S.-Russian Partnership

At the outset we should acknowledge that the U.S. or another foreign state or international organization has little or no leverage over how deeply democracy will take root in Russia. At a minimum, however, policymakers, scholars, journalists and others need to look at what is happening and speak clearly about its implications. In this regard it was very refreshing to hear and read Secretary of State Colin Powell's measured criticism of Russian domestic developments during his visit to Moscow in January 2004. This was a sharp contrast and a needed corrective to the gratuitously

"happy talk" from President Bush during Vladimir Putin's visit to Camp David only a few months previous.

It is also counterproductive, in my view, to discuss the possibility or need for an alliance-type relationship anytime soon. We have already noted the considerable distance in values that separates us. But most importantly and fortunately, we do not face a compelling security threat of the magnitude to push us to alliance as existed, for example, in World War II to combat Hitler's Germany and the axis powers. Many Russians and Americans are concerned about the rapid growth of China, but realistically China is decades away from developing the full military capacity to become a mortal security threat to the U.S. and Russia justifying alliance even if leaders in Beijing chose such a confrontational path. We also certainly want to avoid taking measures that may provoke China to adopt a more confrontational stance. To the extent that we face a common threat from international terrorism, the threat seems too amorphous to justify a military alliance including traditional security guarantees. Rather, it seems more appropriate to build on the foundation of partnership and cooperation in intelligence sharing, law enforcement coordination and other measures to more effectively combat the terrorist threat.

While a military alliance may not be appropriate in the foreseeable future absent major changes in international relations, the United States and the Russian Federation can and should go considerably further in developing security cooperation on a number of fronts. An area that remains not only underdeveloped but is increasingly becoming a front of confrontation between Moscow and Washington is the former Soviet space. With a modest U.S. military presence in Central Asia and the Caucasus, U.S. and Russian military forces are in very close proximity to each other. Despite their avowed shared goals of regional stability there has been very little cooperation, and the region is still regarded in zero-sum rather than positive-sum terms. If we want to develop a tradition of security cooperation and partnership, this is an obvious area to start. We should be engaging in joint

Russia and the U.S. do not face a security threat sufficiently compelling to push us to military alliance.

training of local forces as well as joint exercises that have concrete goals. But this requires both a joint vision of the common interests in promoting the development of strong regional states, as well as leadership from the very top to help overcome military bureaucratic inertia and enduring Cold War habits in Moscow and Washington.

Preventing the proliferation of weapons of mass destruction has long been at or near the top of the list of U.S. security interests since the end of the Cold War. Already we have seen progress in U.S.-Russian cooperation in the past year in the six-sided talks on North Korea as well as some movement

The economic side of the U.S.-Russian relationship remains underdeveloped.

in the Russian position on Iran. The Russian decision before the G-8 meeting in June 2004 to join the Proliferation Security Initiative — which calls for further intelligence sharing geared to the interdiction of transfers of WMD materials and technologies — marked a positive step. Of broader importance for the future will be the development of common approaches about how to improve the nuclear nonproliferation regime that recent revelations in Iran and Libya have shown to be inadequate for existing and future challenges. Part of this effort will require Russia and the U.S., as well as other P-5 countries, to revisit the role that nuclear weapons play in their own nuclear strategies in order to make considerable progress on really reducing the size of existing arsenals.

The economic side of the U.S.-Russian relationship remains underdeveloped. We should not expect, of course, that the United States should become a more important economic partner for Russia than Europe is or will be in the future. Nevertheless, let me address two points briefly. Much has been made about the potential for energy partnership between the U.S. and Russia. In September 2003 at the Energy Summit in St. Petersburg there was a lot of excitement about increasing Russian exports of oil to the U.S., the longer-term potential of natural gas and what seemed then to be the imminent sale of a considerable piece of the soon-to-be-merged (and now unmerged) Yukos-Sibneft to a U.S. major oil company. The arrest of

Yukos CEO Mikhail Khodorkovsky has put a damper on the notion of an energy partnership, but I expect this to be a very temporary setback. Nevertheless, while a merger between a U.S. or Russian oil company may or may not happen in the coming years, it is almost certain that at some point Russia will build the additional pipeline(s) to promote greater oil exports to the U.S. market in the next 5-10 years. Bringing Russian liquefied natural gas (LNG) to the U.S. will take minimally ten years and will require considerable investment both in the development of new Russian gas fields and the infrastructure for large exports as well as huge investments in U.S. infrastructure to receive large amounts of LNG. The sooner the Russian government makes key decisions about energy infrastructure development, the sooner Russia can potentially become a significant supplier of oil and gas resources to the huge U.S. market.

The second and final point concerns the possibility of greater U.S. portfolio and equity investment in the Russian economy. One often hears the question, "Why is there so much more U.S. investment in China, which is still a communist country, than in Russia?" Obviously China is not more democratic than Russia. But investors, especially equity investors, highly value a stable investment environment where they feel they can count on the rules of the game remaining fairly consistent and welcoming of foreign investment. The Russian economic environment, despite the high returns most investors have enjoyed, has been neither very stable nor welcoming. In the wake of the Yukos affair, Mr. Putin and his administration have a considerable amount of work to do to give U.S. and other foreign investors greater confidence in Russia.

> We need to avoid unrealistic expectations and sugarcoated analyses. The relationship is mature enough for straightforward dialogue.

In conclusion, we need to avoid unrealistic expectations as well as sugarcoated analyses of current Russian realities. The relationship is mature enough for straightforward dialogue at the state-to-state level. If the Russian government desires broadening the security relationship as well as economic ties including greater U.S. investment, this can and should be

made clear enough early on by Mr. Putin in his second term. Potential U.S. investors and economic partners will make decisions on their own. But on the security side of the relationship, we should be prepared to think openly and creatively about concrete opportunities that meet our mutual interests. Once again, as in the past, this will require presidential leadership on both sides to move the sometimes intransigent bureaucracies along.

New Priorities in Russian Foreign Policy: The CIS Project

Dmitri Trenin
Deputy Director,
Carnegie Moscow Center

By the second term of Vladimir Putin's presidency, the Russian Federation has stabilized as a qualitatively new system: an authoritarian political regime relying primarily on the bureaucracy; an evolving capitalism closely bound with the ruling bureaucracy; and a civil society that has not yet formed or awakened to its identity. In the international arena, it has become clear that Russia, albeit much smaller than the USSR, is a force unto itself. It cannot be and does not want to be integrated into the structures of the expanded West.

In terms of its regime, economic model, quality of civil society and identity, Russia differs dramatically from the countries of Central and Eastern Europe, as well as from postwar Germany and Japan, which chose to integrate with the West. Even in its weakened state, Russia sees itself as a great power able to rely exclusively on itself. Although they have rejected a "specific Russian path" for shaping society's internal structure, Russia's leaders are still insisting that the country play an independent role in the world. To them, "integration" means developing ties with the international community as a whole, rather than joining any particular part of it.

The Russian ruling elite has rejected the chance to turn the country into the United States' junior partner and a second-rank member of the Western community. After the disintegration of the Soviet Union, the governing elite became ever more convinced that international relations fall in the sphere of Realpolitik. People in these circles believe that "real politics" in the 21st century combine geopolitics and

geoeconomics, with military power retaining a significant role. Meanwhile, governments' ideological preferences and societies' values do not play a decisive role.

Thus, President Putin does not view relations with the West as a policy imperative in terms of ideology or values, but as an external resource for the country's economic modernization. In contrast to his Soviet predecessors, the second Russian president is placing the main emphasis on economic factors. A proponent of strong central government at home, he becomes an enlightened patriot in the international arena. The ultimate foreign policy goal of Putin's modernization project is to raise Russia's status, primarily in its relations with the United States and the European Union.

The current Russian leadership does not expect help from the West. Past hopes for foreign assistance fell flat.

The current Russian leadership does not expect help from the West. Past hopes for foreign assistance — a "Marshall Plan for Russia" — fell flat. Instead of the slogan "We'll get help from abroad," a different one has come to the fore: "No one can help us apart from ourselves." The Kremlin has set the absolutely top-priority task of doubling GDP. Joining the WTO is not an end in itself. Moscow is prepared to take protectionist measures in order to successfully diversify the economy and eliminate dependence on the export of energy resources. Foreign investments in the Russian economy are still viewed as beneficial and desirable, but they are not considered critical. The belief is that Russia's primary tool for economic recovery can be Russian capital.

The Kremlin has defined its fundamental position on the United States: Since the Americans respect only strong partners, Russia must retain and enhance those components of its national power that put it on par with the United States, namely its missile and nuclear potential. A strong link with NATO would have deprived Russia of strategic independence, and would have subordinated it to U.S. interests. A confrontation with America would be dangerous and unfavorable for Russia, but an alliance as equals is also impossible. What remains to be had is a flexible combination of limited partnership and local rivalry.

"Joining Europe" in the sense of complying with the criteria for membership in the European Union is something Russia, with its current problems, must put off until some undetermined point down the road. This is all the more true since Russia's economic backwardness and low standard of living are not the only factors diminishing its prospects for EU membership. Were it to become a member of the European Union, Russia is big enough to play a dominating role in it. Under these conditions, Russian-European relations largely boil down to trade and political and legal disputes on human rights and basic freedoms.

China also cannot be Russia's junior partner; rather, the opposite is more likely. Moscow recognizes that China is a growing force unto itself, which could very well pose a challenge to U.S. domination by the middle of the 21st century. In light of these conditions, Russia will have to tread cautiously in its relations with China, but the main goal of Moscow's Asia policy will now be to develop Siberia and the Far East.

From the Kremlin's point of view, Russia's membership in the UN Security Council and the G-8, along with its nuclear capability, are the most important elements in the nation's potential role in the world. Although Russia "temporarily does not meet the requirements" of its formal status, the Kremlin believes that it will be able to play an active role in global management in the future.

With resources at a premium, Moscow understands that it must tighten its belt and concentrate on vital interests. In the eyes of Russia's leaders, the country has all the makings of a great power, but is currently only a regional power. In the foreseeable future, Russia's most important interests will be primarily restricted to the CIS countries, and partly to the Baltic states.

U.S.-Russian relations boil down to a flexible combination of limited partnership and local rivalry.

Strategy for Restoring Russia's Status in the CIS

There is reason to believe that during his second term in the Kremlin, President Putin will try to gradually restore Russia's international role and weight. The main goal of this strategy will be to reorganize the post-Soviet space and to create a "center of power" there with Russia at the head. Moscow's new strategy can provisionally be called the CIS Project.

This does not mean creating a new state entity along the lines of the USSR. All the CIS countries would retain their sovereignty. The exception may only be Belarus: After President Lukashenko leaves the political scene, Belarus might join the Russian Federation.

Moscow's long-term objectives would be to form a single economic space for the leading CIS countries, common customs and currency unions, a collective security system and, ultimately, a common foreign and defense policy. The main factor in creating the new center of power would be to expand Russian capital to the former Soviet republics and to turn Russia into an economic magnet for them.

> Russia's most important interests will be primarily restricted to the former Soviet Union.

Relying on ever stronger economic ties, Moscow is sure to seek the CIS countries' political loyalty: They will have to participate in the security system headed by Moscow and to do away with the predominating influence of third parties (the United States, the EU, China and Turkey).

The main tool for implementing the CIS project will be reaching agreements with the ruling elites of the CIS countries. This will require long-term, painstaking work aimed at forming and promoting Moscow-oriented groups of influence in the neighboring countries, as well as gradually weakening and neutralizing pro-Western circles.

Evaluating the Feasibility of the CIS Project

The political regimes and economic systems in the CIS countries are pretty much comparable to Russia's. In most cases, there is no prospect of the new states' integration with the West. Many elites, which got rich quickly and achieved a dominant position, do not feel sufficiently confident. Gaining Russia's support on financially favorable terms might seem attractive, particularly since it would not entail forfeiting sovereignty (with the one possible exception already mentioned above). This does not mean that Moscow will easily achieve its goals. Anti-Russian, or "anti-imperial," sentiments exist throughout the region, but the strongest resistance to the CIS project can be expected from Ukraine, Georgia and Moldova.

Serious problems for Russia will be posed by foreign actors, such as the United States, Europe, China and Turkey. Putin's attempt in 2003 to get Washington to recognize Moscow's "special interests" in the post-Soviet space failed, as did a similar attempt by Yeltsin 10 years earlier. In contrast to Yeltsin, however, Putin is likely not to back down but to take action.

The Kremlin reckons that in the early 21st century the United States will be busy fighting international terrorism and the spread of weapons of mass destruction, restructuring the greater Middle East and, finally, managing China's growing power. It is unlikely, however, that Washington would remain oblivious of a new "concentration" of the post-Soviet space around Moscow. U.S.-Russian tensions and rivalry in the CIS are inevitable, but if the United States comes to believe that Russia has launched an imperial comeback, a second round of the Cold War would be all but inevitable as well. A new confrontation would be dangerous for both sides. It could exhaust Russia before it has had time to recuperate, and could also overextend America.

The European Union already considers Ukraine, Moldova, Belarus and the nations of the southern Caucasus as its "near abroad." Russia's active policy in the CIS will lead to direct competition with the EU over the future orientation of these states. If Russia makes heavy-handed pressure and force part of its policy, Europe could again come to see Russia as a potential threat to its own security. In this case, the EU countries, in part as NATO members, would be forced, along with the United States, to employ a policy of containment regarding Russia.

China has signaled its interest in the countries of Central Asia as well. Until now Beijing has been worried about Russia's sudden withdrawal from the region and the emergence of a vacuum, which might be filled by the United States, or by chaos, which would be a boon to separatists and reli-

gious extremists hostile to China. Viewing the region, to use a military analogy, as its strategic rear and as a potential source of energy resources, Beijing is bent on expanding its own influence there. The Shanghai Cooperation Organization primarily signifies China's presence in Central Asia. A stronger foothold for Moscow would change the situation. But if Russia continues to serve as a reliable rear for China and to supply energy resources, military hardware and technology, Beijing is unlikely to make any serious objections to the spread of Russia's influence in the CIS.

By the mid-1990s, Turkey had moved beyond not only the high point of its influence in the former Soviet Union, but also the high point of its interest in the region. The strengthening of Russia's influence around the Caspian, primarily in Azerbaijan, could revive anti-Russian sentiments in Turkey, but in the 21st century the Russian factor will most likely be a peripheral concern for Turkey. As in the past decade, Iran will mainly be interested in stability on its northern borders, and a stronger Russian presence may help boost it.

Thus, it looks as though Moscow's potential conflicts over the CIS region would be limited almost exclusively to the United States and Europe.

Imperialism in any form — whether conservative or liberal — is not to Russia's benefit.

Conclusions

At the beginning of the 21st century, Russian foreign policy appears to have entered its natural spatial boundaries. The formation of a single economic space and a regional security system with several of the former Soviet republics could give Russia additional opportunities and incentives for its development. In this sense, the CIS project as a long-term strategy aimed at strengthening Russia over the next 20-25 years may well be justified.

It must be understood, however, that imperialism in any form — whether conservative or liberal — is not to Russia's benefit. It is a costly undertaking

that threatens to lead to a clash with the West. Becoming carried away in geopolitical games would disorient and ultimately weaken Russia. We should keep in mind that for each of the CIS states, independence primarily means independence from Russia. Given this, a realistic goal for Moscow might be voluntary recognition of its leadership, based on its economic progress and social achievements. In the 21st century, Russia should be mainly concerned with itself, that is with the country's modernization and its adaptation to the global environment.

The emergence of a Russian "center of power" would require a clarification of the relations with the United States and the European Union. This is no easy task, but be that as it may, the Russian leadership must not allow a confrontation with the West. Many of Russia's and America's important security interests coincide: Fighting the spread of weapons of mass destruction, cooperating in the struggle against terrorism and forming energy partnerships are laying down a real, albeit limited, groundwork for cooperation. Regional stability, particularly in the Caucasus and Central Asia, is another promising area. In building relations with a united Europe, it is important for Moscow to bring the creation of the CIS Single Economic Space into harmony with the formation of the EU's Common Economic Space in order to ensure that the former be compatible with EU standards in terms of the latter.

The main problem with the emerging CIS project is that Moscow does not have a long-term strategy, the mechanisms to implement it or the people to promote it. This all makes the project fragile and precarious. A desire to achieve everything at once, an emphasis on the use of force and a belief in zero-sum games could not only turn Russia's prospects for strengthening itself into a reality of weakening itself, but could also mean an immense setback for the country as a whole.

Russian Nuclear Policy: Need and Self-Confidence

Rose Gottemoeller
Senior Associate,
Foreign & Security Policy
and Non-Proliferation,
Carnegie Endowment
for International Peace

In February 2004, the Russian military staged an all-out nuclear exercise that harkened back to the Cold War. The plan was to launch multiple ballistic missiles from the ground and from submarines; also satellites from Baikonur and Plesetsk, simulating the reconstitution of communications after their loss in a space attack. Unfortunately for the military leadership, the exercise was an opportunity for public failure. With President Putin in ceremonial attendance and cameras rolling, the Navy twice failed to launch ballistic missiles from its strategic strike submarines.

Whatever his private feelings, Putin was restrained in his public comments: "We have not had such exercises for almost 20 years," the President said. "Naturally, in the course of such exercises there are minuses and pluses … and those minuses will be detected and clearly we'll be drawing conclusions. It is only for the better."[1] He also announced plans for a new strategic weapon system, one that — from the evidence of media reports — involves maneuvering warheads that were first developed in response to President Reagan's "Star Wars" missile defense system in the 1980s.

Thus, the exercise seemed a microcosm for many of the issues that today confront Russia. The country finds itself embroiled in problems caused by the decade-long budget crisis. It wants to take advantage of its past position as a nuclear superpower. To do so, it tries to buy new systems and exercise the old, but suffers persistent failures.

In actual fact, the capabilities are no longer so relevant to Russia's current problems. To illustrate this point: The exercise scenario mimicked one last seen in 1982, when the

Soviet Union was at the height of its efforts to achieve nuclear war-fighting prowess and bolster its deterrent against the United States. However, Russia's official comment placed the 2004 exercise in a context quite different from Cold War deterrence. According to official sources, the exercises were planned to counter the threat of terrorism.[2]

Given the massive display of nuclear capability and the evident focus on the United States, this explanation at best seemed far-fetched: Would the United States somehow be involved in a terrorist attack and have to be punished for pursuing that course? Would Russia somehow be responding to a terrorist attack with nuclear weapons? Western experts often consider that the source of a terrorist attack would be difficult to discover, even in the case of state-sponsored terrorism, and thus would be difficult to punish and difficult in turn to deter. Had Russia somehow discovered otherwise, a magic key to make its nuclear forces useful in such a circumstance?

Probably not. The puzzling, bizarre nature of this exercise likely flowed from two sources: presidential politics, and the Russian military reality described above. President Putin got a photo opportunity out of it in advance of his re-election in mid-March. Overseeing the exercise, he was able to look presidential, recalling the days of Soviet power for at least the portion of his electorate nostalgic for it. And he was able to say to the U.S. Administration, recently critical of him, "You cannot ignore Russia." Finally, he was able to highlight for the Russian armed forces that he was paying attention, celebrating their stature as a national institution. Even with the missteps, the exercise thus was a political boon to Putin — not that he needed it in his land-slide election victory.

But as the prominent failures showed, the exercise was an expression of Russian military reality. For a considerable period of the 1990s, indecision and debate had wracked the Russian armed forces. The Minister of Defense, Igor Sergeyev, a former commander of the nuclear forces, and the Chief of the General Staff, Anatoly Kvashnin, argued long and hard about whether nuclear weapons were the key to maintaining Russian military strength, or new and modern conventional forces. The crisis in the Russian national budget was such that the military could not count on a modernization embracing both the nuclear and the conventional ends of the spectrum. Alexei Arbatov, then Deputy Chairman of the Duma Defense Committee, described the problem well:

> The exit from our dilemma is closely tied with the resolution of two key problems of military policy. One is the choice of priority between strategic nuclear forces and conventional forces. On this question there is no agreement among the top military leadership of Russia;

> what is more, personal and organizational motives have brought forth such sharp conflicts between the Ministry of Defense and the General Staff that they poured out into an unprecedented public fight in the summer of 2000. In reality, under the umbrella of the official Russian doctrine, there are now two military doctrines, with all the consequences flowing therefrom.[3]

The unprecedented public fight between the Minister of Defense and Chief of the General Staff was resolved in stages over the next few years. At first, it seemed that Marshal Sergeyev had lost, for he was replaced as Minister of Defense by Sergei Ivanov, one of President Putin's most trusted advisors. Kvashnin seemed to be getting the nod to proceed with a full-scale modernization of the conventional forces, and there was even talk of a "denuclearization" of the Russian armed forces. Kvashnin proposed, for example, to move from 756 land-based intercontinental ballistic missiles (ICBMs) to 150 by 2003.

The mood shifted, however, once the United States declared its intention to withdraw from the Anti-Ballistic Missile (ABM) Treaty in December 2001. The Russian Federation responded with restraint, officially calling the withdrawal a "mistake," but not otherwise overreacting. The Kremlin did, however, what it had long warned it would do: It stated that it would not implement the START II strategic arms reduction treaty. In this way, it would have the flexibility to counter future U.S. missile defenses that might impact the effectiveness of the Russian strategic arsenal.

The Russian decision not to implement START II, which had never concluded its ratification process and had not entered into force, meant that multiple-warhead missiles that would have been banned by the treaty could instead be kept in deployment for another decade or more. According to some analysts, the Russian ICBMs called SS-18, SS-19 and SS-24 could be refurbished and maintained well beyond their guaranteed life span, perhaps until 2020 or even beyond. The Russian nuclear arsenal was very far indeed from Kvashnin's stated goal of 150 land-based ICBMs by 2003, and Igor Sergeyev seemed to be vindicated.

But not completely: Sergeyev had been arguing for an expensive nuclear modernization. Once START II was gone and the Russians could maintain the deployment of earlier generations of multiple warhead missiles, they no longer had an urgent requirement to spend money on the strategic forces. Those monies could be spent on trimming, restructuring, re-equipping and reforming the conventional army. In other words, Kvashnin got what he wanted, too.

An effect of this outcome was that the strategic nuclear forces would retain essentially the same composition as they had had during the Cold War years. If START II had been implemented, it would have put more warheads at sea, because only single-warhead missiles could have been deployed on land. The Russians in that case would have had to carry out a major restructuring of their strategic forces, buying more submarines at a time when they had few funds for *any* defense acquisitions, never mind purchases of nuclear weapon systems.

So the Russians got a nuclear insurance policy, but wrapped up in a Cold War package. When they exercised their strategic forces against a terrorist threat, therefore, they had little choice but to fall back on that military reality. Unfortunately, the ineffectual nature of strategic forces in countering terrorism only highlighted the continuing weaknesses of the Russian armed forces.

But what of non-strategic capabilities? Are Russian conventional forces bolstered by nuclear weapons suitable for battlefield or regional conflicts? One of the oddest aspects of the debate between Sergeyev and Kvashnin over strategic forces is that it took place against the backdrop of a newly established consensus in the Russian military on the utility of non-strategic nuclear weapons to counter Russian conventional weakness.

In April 2000, a new version of the Russian military doctrine was issued, consistent with earlier versions *except* in its emphasis on the importance of nuclear weapons in deterring and countering attacks on Russian territory. This doctrine was preceded, in January 2000, by a National Security Concept that emphasized the same point.

The doctrine stressed that even a conventional attack on targets that the Russians considered of existential importance could bring forth a nuclear counter-attack. The exercise Zapad-99 showed exactly the type of scenario that underpinned this doctrine: Enemy forces (and NATO was heavily implied, in alliance with regional opponents of Russia) were beginning to overrun Russian territory, at the same time that they were using high-precision conventional weapons to attack major targets, such as nuclear power plants, on Russian territory. In response, Russia launched bombers armed with nuclear air-launched cruise missiles against enemy territory.

An important aspect of the January 2000 Strategic Concept was the suggestion that non-strategic nuclear weapons might be used in this limited way to counter a conventional attack, without spurring escalation to all-out nuclear use. The concept essentially restated long-standing policy,

renewing the mission of the nuclear forces to deter any attack, nuclear, chemical, biological or conventional, against the Russian Federation.

Thus a major trend was emerging in Russian nuclear security policy: Nuclear weapons would not only be used in a large-scale coalition war involving exchanges with a major power such as the United States. They might also be used in conflicts on Russia's periphery, where the Russians had no other option to counter a weapon of mass destruction attack involving chemical or biological weapons, or attacks by small-scale but capable conventional forces destroying targets that the Russian considered to be of existential importance.

Non-strategic nuclear forces are an inexpensive insurance policy for Russian weakness.

In fact, once the Soviet Union dissolved in 1991, Russian military leaders lost no time in retiring the politically motivated no-first-use doctrine of that era in favor of an approach that would give them more flexibility, especially in light of the conventional weakness of the residual Russian armed forces. In 1993, the no-first-use doctrine was replaced with a statement virtually identical to that maintained by the United States.

But non-strategic nuclear forces, deployed for battlefield or regional missions, are no more capable than the strategic weapons to counter terrorist threats. However, like the strategic forces, they are an insurance policy for Russian weakness that can be maintained at relatively low cost, because they are already present in abundance in the Russian arsenal. According to estimates by the National Resources Defense Council, the Russian Federation had over 3,000 non-strategic warheads in operational deployment in 2002, and over 8,500 stockpiled.[4]

Thus, the Russians seem to be drawing a measure of security from their nuclear capability, and are doing it "on the cheap." One problem will arise if that security becomes synonymous with the current high numbers of nuclear weapons and the Russian government decides it will no longer work to reduce its vast holdings of nuclear weapons and materials. Another

problem will arise if the Russians decide that they must begin to modernize their nuclear capability, developing and building new nuclear warheads, and possibly testing them.

This direction looked possible in 2003, as high-level officials made obscure references to the need for new "strategic weapons." President Putin, for example, remarked approvingly about new strategic capabilities in his "State of the Union" address in May 2003, but it was unclear whether he was talking about new advanced conventional weapons or new nuclear weapons.[5] And, once again, Putin announced a new strategic system in February 2004, but it seemed to resurrect a Soviet-era weapon system that had been originally designed to counter the U.S. Star Wars program.

Other Russian officials, however, watching the debate over new nuclear weapons in the United States, stated clearly, "We will not chase after you." In line with their attitude about U.S. ballistic missile defenses, they seemed to believe that existing Russian nuclear deployments could counter any new U.S. capabilities, offensive or defensive, for the foreseeable future. No need for panic, they conveyed, we will not be surprised or overwhelmed by new developments in the United States.

Thus, Russian nuclear policy looking into the future is an interesting admixture. It combines desperate necessity, an insurance policy against conventional weakness, with the national self-confidence to exploit Russian nuclear prowess, at least for political purposes. A key question for the international community, and indeed for the United States, is whether that self-confidence might be tapped for larger purposes than the Russian presidential election.

For example, can the Russian Federation be asked to accelerate controls over its nuclear arsenal and the nuclear materials that underpin it? Although the current U.S. Administration does not seem interested in such controls, which would of necessity engage it as well, there are good reasons to pursue them. In particular, controlling and eliminating nuclear assets is the best way to keep them out of the hands of terrorists and regimes inimical to the international order.

Even if the United States and Russia do not immediately turn their attention to new nuclear arms reductions, they could reinvigorate joint efforts to protect, control and account for nuclear materials. An early joint effort, called the "Trilateral Initiative" because of the involvement of the International Atomic Energy Agency along with the United States and Russia, made some progress on joint nuclear material protection in the

1990s, but then stalled over implementation costs and related issues. Russia and the United States could quickly reinvigorate this initiative, thus providing some important impetus to international efforts to control nuclear materials.

Likewise, the United States and Russia promised each other, at the time the Moscow Treaty on strategic offensive reductions was signed in May 2002, that they would examine new measures of transparency that would facilitate implementation of the treaty. Some of the most important of such measures could relate to monitoring warheads in storage. Both Russian and U.S. experts have spent considerable time jointly developing the technologies and procedures that would be necessary to monitor warhead storage, and this agenda could quickly be developed.

In another example of how the Russian Federation can put its nuclear self-confidence to work, can the Russians be asked to use their nuclear expertise more fully in the fight against proliferation? Already they have shown a willingness to take a firm hand with Iran over the supply of fuel to the Bushehr reactor project. Can such firmness be extended to working with other proliferation tough cases?

Consider the example of North Korea. Having provided nuclear research reactors and power technology to North Korea in the first place, Russia has significant first-hand knowledge of the foundations of the North Korean program. Moreover, Russia has indicated an interest in serving as an international repository for spent nuclear fuel. If North Korea has not reprocessed all of its 8000 nuclear fuel rods, it might be convinced to hand them over for storage at an international site. Because of its involvement with the North Korean program and its geographic proximity, Russia could provide this site for these materials.

In short, if Russia is confident in its nuclear expertise, it should be willing to turn that expertise to solving some of the major proliferation problems of the day. Such a step would help considerably to clean up Russia's reputation as a source of proliferation, particularly of nuclear technologies. Interestingly, as of this writing, the nuclear black market that has emerged into the open thanks to revelations about Libya and Iran is not centered in Russia. It is centered in Pakistan, with technology providers and front companies located in Asia, the Middle East and Europe. If Russia can now engage in helping to solve the proliferation problem cases, it could become part of the solution rather than part of the problem.

The United States and Russian Federation have a long history of working

together to solve nuclear problems, particularly in the realm of nuclear arms reductions. For the time being, Russian nuclear weapons must compensate for its conventional weakness. However, the excess in Russia's capabilities means that it can also be self-confident, turning its knowledge, expertise and resources to serve the country's strategic goals. In other words, Russia's nuclear policy need not be static and inflexible: It should serve Russia's larger interest in being a player in the world community.

[1] Quoted in Vladimir Isachenkov, "Russia Plans New Generation of Weapons," Associated Press, Moscow, Feb. 18, 2004.

[2] Ivan Safronov, "Russia Will Play Out a Nuclear Game with Itself," *Kommersant*, Jan. 30, 2004.

[3] Alexei Arbatov, "The Dilemma of Military Policy in Russia," *Nezavisimaya Gazeta*, Nov. 16, 2000; available at http://ng.ru/printed/ideas/2000-11-16/8_dilemma.html.

[4] Source: Natural Resources Defense Council http://www.nrdc.org/nuclear/nudb/datab10.asp.

[5] President Vladimir Putin's Annual Address to the Federal Assembly, reported by the Federal News Service (www.fednews.com), May 16, 2003. Deputy Prime Minister Alyoshin asserted after the President's speech that Putin was talking about a new strategic command and control system to allow "the use of in-depth space, air and earth systems," not new nuclear weapons. See Natalia Slavina, "Deputy Premier Says Russia Government to Pursue Tasks of Putin's Address," ITAR-TASS, May 16, 2003, transcribed in FBIS-SOV-2003-0516. See also "Russian Deputy Premier Calls For Developing IT-Intensive Weapon Systems," Moscow Interfax, May 16, 2003, in FBIS-SOV-2003-0516.

Russia and Europe: Continental Drifts

Hannes Adomeit
Senior Research Associate,
German Institute for International
and Security Affairs
(Stiftung Wissenschaft
und Politik, Berlin);
Former Visiting Scholar,
Carnegie Moscow Center

"By their mentality and culture, the people of Russia are Europeans," Putin stated in an interview in October 2003.[1] A legitimate question to be asked, however, is: What kind of Europeans are they? Not the kind of Europeans most Europeans would want as their neighbors, it is fair to say. Certainly, this is true if "Europe" is understood to be more than a geographic term and considered to be an idea that embodies principles of liberal democracy, a market economy with fair competition, civil society and respect for human rights. Such, indeed, are the ideas and ideals codified in the statute of the Council of Europe (COE) or in the charter of the Organization for Security and Cooperation in Europe (OSCE).

But does Putin subscribe to them? In principle, yes. "We firmly stand on the path of development of democracy and of a market economy," the Russian president asserted in the same interview. European governments, for reasons of *Staatsräson*, take such commitments at face value. But academic specialists, journalists and large portions of public opinion cannot be fooled. For, in practice, there is serious doubt about the content of the Kremlin's commitments. Most informed Europeans believe that the policies Putin has conducted in the past four years have increasingly turned Russia away from the

European idea. It is almost as if Russia and Europe lie on two separate tectonic plates that are drifting apart, with "clashes of civilization" developing along their fault lines.

There are no signs that such clashes will ever again, as in the past, turn into military conflict. But in the Gorbachev era and the first two or three years under Yeltsin the idea was prevalent that Russia lives in a "common European home," is part of a "Euroatlantic community" and should make stringent efforts rapidly to integrate into European institutions. This vision has largely evaporated.

This was demonstrated clearly by the so-called medium-term strategy for the development of relations between Russia and the European Union, which then prime minister Putin presented to the European Union *troika* at the Russia-EU summit in Helsinki in October 1999.[2] Russia, the document stated, was not aiming at integration into Europe. It wanted a "strategic partnership based on treaty relations." The document further clarified that the European concept of voluntary surrender of sovereignty to supranational institutions is anathema to Russia. The country should "retain its freedom to determine and implement its domestic and foreign policies" and its "independence of position and activities in international organizations."

Has there been a change of view since then? Not the slightest. Almost exactly four years later, in the interview referred to above, Putin relegated the idea of Russia joining the European Union to the "historic horizon." He left it up to "a new generation of decision makers in Russia to see to it how the relationship between Russian and the European Union will develop."

But while rejecting the notion of anchoring Russia firmly in the Europe of the European Union, decision makers in Moscow cherish the idea of integration in the Commonwealth of Independent States (CIS). "Russia intends to use the positive experience of integration within the EU with a view to consolidating and developing integration processes in the CIS," the medium-term strategy proclaims. But on the Eurasian tectonic plate it should be Moscow who should control the course of events: "Russia," the document clarifies, "will counteract any attempt at hampering economic integration in the CIS. In particular, it opposes 'special relations' by the EU with individual countries of the CIS to the detriment of Russia's interests." So much, then, for likely positive responses to the EU's New Neighborhood policies in a wider Europe.

Indeed, reintegration in the post-Soviet space is still a valid goal under Putin. A coherent strategy is lacking but corresponding attempts never

cease. In the economic sphere, one of their latest manifestations is the project of creating a Common Economic Space, as agreed upon at the September 2003 summit in Yalta. That organization initially is to embrace Russia, Ukraine, Belarus and Kazakhstan, but other countries have been invited to join as well. Another is the use of energy dependency and debts to acquire strategically important assets in these and other member countries of the CIS.

Reintegration in the post-Soviet space lacks a coherent strategy, but attempts never cease.

The picture in the political and military spheres is similar. In violation of international agreements and its own commitments, Russia continues to maintain units of the 14th army plus military equipment in separatist Transdniestr and two of previously four military bases in Georgia. Its attitudes to the EU membership of Estonia and Latvia are entirely negative as these countries are allegedly violating the rights of the Russian-speaking *(russkoyazychnye)* minorities. The EU disagrees, but the foreign ministry in Moscow insists that the EU adopts a double standard in its human rights policies and calls the minority issue a "sore spot" that should be healed before the Russia-EU partnership agreement can be extended to the two Baltic countries.[3] Minority questions not being an issue in its relations with Lithuania, other levers have been used, albeit unsuccessfully, in an attempt to align Vilnius's policies with those of Moscow. This concerns transit to the Kaliningrad enclave and the meddling of Russian security services in Lithuanian internal affairs as evident in the scandal surrounding then-president Paksas.

By "double standard" Russia obviously refers to the EU's and the Council of Europe's criticism of Russian repression in Chechnya. It was particularly incensed by the March 2003 report of the council assembly's committee on legal affairs and human rights. The report asserted that conditions in Chechnya had worsened and that if the "climate of impunity" continued, the international community should consider setting up an ad hoc tribunal to try war crimes and crimes against humanity in the republic. Moscow was equally furious at the refusal of a British court to extradite Chechen rebel

envoy Akhmed Zakayev. The court, among other things, found that there was a "substantial risk" that the Chechen leader would be tortured if he were sent to Russia for trial and that the fighting in Chechnya was a war, not an "anti-terrorist operation."[5]

Yet Moscow's attitude obviously is a case of the pot calling the kettle black. While decrying Europe's alleged double standard on Chechen separatism, it has been propping up separatist regimes not only in Transdniestr but also in Abkhazia, South Ossetia and until recently in Adzharia. And whereas Moscow is, as mentioned, posturing as champion of presumed or real interests of the Russian-speaking minorities in Georgia, Moldova and the Baltic states, it would surely react with outrage if, say, Ukraine or Azerbaijan were suddenly to act as advocates of the rights of their diasporas in Russia. Foreign policy is inseparable from domestic politics, and Russia is no exception to this rule. Thus, it is fair to conclude that the current attempts at reasserting Russian influence and control in the post-Soviet geopolitical space are corollaries to Putin's policies of reestablishing control over Russian politics, society and the "strategic sectors" of the economy. To that extent, Putin's decision to align itself more closely with the West after September 11, 2001, is not to be considered a return pure and simple to the Euroatlantic approaches of former foreign minister Andrey Kozyrev. It consists in an attempt to shield domestic politics from the consequences of an ostensibly pro-Western foreign policy.

Andropov would be proud of Putin and his agenda: economic modernization without pluralism and political liberalization.

Clearly contrary to European ideas about democracy, the personnel used to achieve this purpose has largely been drawn from the former KGB where Putin himself made his career. This applies in particular to the Kremlin administration where the influence of former secret agents has been growing. In fact, former KGB head and then party chief Yury Andropov would be proud of his pupil and his "reform" agenda: economic modernization without pluralism and political liberalization.

Part of this agenda has been the *Gleichschaltung* of the parliament, the government, the governors, television and business. Elections, therefore, have largely become a sham. Thus, the OSCE criticized the conduct of the December 2003 elections to the Duma because of the wide use of the state apparatus on behalf of the Kremlin's preferred party and intimidation of journalists. It raised doubts having to do with "Russia's unwillingness to move toward European standards for democratic elections."[6]

The use of state institutions to control business is another aspect of Putin's deviation from liberal democratic paths. It is not accidental, to use a common Soviet phrase, that business leaders who are defying the government are in danger of tax inquiries, arrest and prosecution. Conversely, those who play by the Kremlin rules are left unscathed. The obvious examples of the former are "oligarchs" such as Mikhail Khodorkovsky, his associate Platon Lebedev, Vladimir Gusinsky and Boris Berezovsky. All of them are either in jail or have fled abroad. In contrast, the head of the state-owned oil company Rosneft, accused by the Audit Chamber of having evaded tax payments to the tune of 1 billion rubles, is still at large. Against him no criminal proceedings have been initiated.

The difference in the treatment of top business leaders shows that another idea embodied in EU, COE and OSCE documents, that of independence of the judiciary and equality before the law, is not being taken very seriously by the current administration.

It is too early to say whether the drift of the Euroatlantic and the Eurasian continental plates away from each other will inexorably continue or whether it can be halted. Optimism is unwarranted, however. Putin's course of managed democracy, as the parliamentary and presidential elections proved, appears to be overwhelmingly popular.

[1] Steven Lee Myers, "Putin's Democratic Present Fights His KGB Past," *New York Times*, Oct. 8, 2003; see also his article "Russia Turns Away From the European 'Idea'," *International Herald Tribune*, Dec. 31, 2003. The present contribution in part draws on the latter.

[2] "Strategiia razvitiia otnoshenii Rossiiskoi Federatsii s Evropeiskim Soiuzom na srednesrochnuiu perspektivu," *Diplomaticheskii vestnik* (Internet ed.), November 1999. "Medium-term" in the document is defined as the period 2000–2010.

[3] Statement by Alexander Yakovenko of the Russian Foreign Ministry of Dec. 12, 2003.

[4] Council of Europe press release of April 2, 2003.

[5] Reuters, Nov. 14, 2003.

[6] Statement of the OSCE's International Election Observation Mission of Dec. 8, 2003.

Russia's Europe Dilemma: Democratic Partner vs. Authoritarian Satellite

Timofei Bordachev

Timofei Bordachev
Deputy Editor, *Russia in Global Affairs;*
Former Junior Scholar, Carnegie Moscow Center

The choice Russia faces is extremely simple: Ten years from now, it can either become a satellite of a renewed and vibrant Europe or an equal partner. Unlike the United States, Russia cannot limit its relations with the European Union to trade alone, however successful that may be. The vast extent of their common border, Europeans' interest in Russia's resources, their concerns over non-military threats emanating from the East and the democratic expansionism of the European Union — all these will inevitably lead both parties toward closer relations. Moreover, Russia is tied to Europe by a common cultural heritage, and neither the United States, with its global interests, nor a dynamic China can offer Russia more beneficial economic and political alternatives than Europe.

Background

In the 1990s relations between Russia and the European Union were not clearly defined. This can be explained by the fact that the partners themselves were undergoing internal transformations: The European Union was preparing to enlarge and was therefore revising its legislation, while Russia was witnessing a change in socioeconomic relations, forming a new political regime and developing new ways of acting on the international scene.

Although the Partnership and Cooperation Agreement between the Russian Federation and the European Union

was signed back in 1994 and entered into force in 1997, the quality of bilateral relations has not yet given grounds for optimism. Furthermore, the lack of progress in mutual economic relations, the huge asymmetry in the balance of trade and occasional diplomatic wrangles show that Russia and the European Union have yet to agree on a common agenda.

As of 2004, Russia has developed a regime that some analysts characterize as authoritarian state capitalism reliant on bureaucracy. However, the possibility that this might change, turning in one direction or another, in the coming decade should not be ruled out. What Russia will become in 10 years is still an open question.

The European Union, for its part, is gradually changing in appearance and substance. The united Europe has been working steadily toward a common Constitution. In May 2004 eight states of Central and Eastern Europe, as well as Cyprus and Malta, became full-fledged members of the EU, and in 2007 Bulgaria and Romania will join them. The EU has established a virtual protectorate in the Balkans.

It is clear that the European Union is now at a critical juncture with the sharp increase in membership and the attempt to advance toward a federal model of organization. Several outward manifestations of these processes have led some critics to warn of a crisis and even an end to the integration process. But such alarmist observations are hardly worth taking seriously.

It is possible to point out several internal and external characteristics of a united Europe that are not likely to change in the coming decade. First, the Europeans will remain committed to the principle of bringing their legislation closer in line as a more advanced instrument for cooperation than just trade. The Europeans believe that drawing partners' legislation and regulations closer to EU laws is a natural and integral part of constructive relations. Second, despite growing military and political integration, an enlarged Europe will continue to resolve disputes by peaceful means and exert pressure through economic influence. The success of European foreign policy will largely depend on the extent of economic ties and interdependence. Third, by expanding the common market to 25-27 countries, Brussels's role as coordinator will slowly but steadily increase. Despite resistance from national bureaucracies and the conservative mood of average citizens, the course toward removing internal barriers will result in Brussels's increasing responsibility for the administration of Europe, and its significance in the foreign policy of a united Europe will grow. Fourth and finally, Brussels will retain the trademark inflexibility that has at times

elicited the unconcealed irritation of the Russians and the Americans. This unwieldiness, however, is an objective result of the complex internal organization of the EU and the need to agree upon a good many varying interests as common policies are developed.

The Inevitability of the European Option

In the coming decade, the European Union will strive for a dominant position in the western part of the post-Soviet space, proposing closer forms of cooperation with Belarus (after Lukashenko leaves the political scene), Moldova and Ukraine, which would enable these countries to raise the issue of formally entering the EU within 10 to 15 years.

The democratic expansionism of the European Union in the East is rife with the potential for serious conflicts with Russia. Under the current regime, Moscow considers the CIS directly in its sphere of interests and will view the interference of Europeans as an openly hostile act. In the near term, there could very well be serious clashes surrounding the settlement of the conflict in the Transdniestr region. For the EU, the self-proclaimed republic has become a convenient testing ground for new instruments of military and political integration. If the Europeans begin putting on the pressure for a solution of the Transdniestr problem, their discussions with Moscow could quickly become even more heated than the well-known dispute over transit through Kaliningrad. However, even an acute diplomatic conflict is unlikely to impede the growth of the EU's influence in the western part of the CIS and the movement of the three above-named post-Soviet states toward some form of integration with Europe.

Russia will remain an onlooker in this process. The model of preparations for full-fledged membership in the EU, which has worked so well with the countries of Eastern and Central Europe, does not apply in Russia's case. Furthermore, Russia is not separated from Europe by natural barriers as are

In the coming decade, the European Union will strive for a dominant position in the western part of the post-Soviet space.

the United States or states of the Middle East or North Africa. Russia will hardly be able to limit its relations with the EU to trade, but the patronizing model of cooperation that Europe has adopted with respect to the Maghreb and is expected to adopt in the Middle East will not suit Moscow either. Russia has never been a colony of any European country; on the contrary, it once controlled part of the present territory of the European Union.

The prospects for bilateral relations will largely depend on their extremely important component — energy. In the medium term, Russia will remain the largest supplier of energy resources, foremost among them natural gas, which is becoming increasingly important in the 21st century. However hard the Europeans try to find alternative energy resources and to diversify their sources of supply in terms of geography, the Russian share of energy supplies on the European market is unlikely to decrease. And for Russia as well, the countries of the EU will remain virtually irreplaceable customers, given, first of all, that the infrastructure for supply has already been established; second, neither the Russian government nor domestic private business has sufficient means to develop production of liquefied gas; and, third, there are no players on the international market with the same purchasing power as the Europeans.
Given the immediate geographic proximity and scale of potential non-mil-

The prospects for bilateral relations will largely depend on energy, especially natural gas.

itary threats from the East, the Europeans would hardly risk excluding Russia from its immediate sphere of influence or, as European Commission president Romano Prodi put it, from the "circle of friends" of a united Europe. By its very nature, the EU objectively strives to develop a special international environment where integration partners receive compensation for the partial renunciation of their state sovereignty in the form of advantages resulting from access to the common market.

With respect to Russia, a distinctive model of integrational relations is likely to emerge, and those relations will be formed in the coming decade. The essence of this model will depend above all on the domestic evolution of Russia itself.

Two Options

Democratic countries delegate aspects of their sovereignty; authoritarian ones sell theirs in exchange for various kinds of material and moral support to the state as a whole or to some of its representatives. The main question Russia will face in 10 years with respect to its relations with the European Union concerns the terms on which Moscow will agree to renounce part of its sovereign rights in exchange for some measure of integration.

Theoretically, two scenarios for closer ties are now possible. The first of them resembles the current model of relations between the European Union and Norway. For a variety of reasons, Norway is not ready to enter the EU, although it meets all the criteria for membership. The compromise solution: In 1992, the European Union signed an agreement with the European Free Trade Association (EFTA), comprising Norway, Iceland and Liechtenstein, on the creation of a European free trade area. Under the terms of the agreement, the partner states were obliged to adopt a lion's share of European law domestically, and in exchange the EU would grant them free movement of goods, persons, capital and services. The European Union benefits more from this, but compared with other EU partners — such as Switzerland, Turkey, the countries of North Africa and the CIS — it is the Norwegians who have retained the most rights and opportunities to defend their interests in Brussels. For them, many formal and informal channels through which to influence the drafting and adoption of decisions have remained open. It should be emphasized that both within the EU and in its relations with nearby countries, the decisive role in protecting the players' sovereign rights is played by the opportunities afforded to their own civil society and business communities.

If Russia, in the coming years, develops according to the optimistic scenario, Europe will have a chance to use the Norwegian model in its relations with Moscow, albeit with some adjustments. If, however, the country adopts an authoritarian regime, ties with the EU would take on a less attractive form. On one hand, authoritarianism would be accompanied by a decrease in the role of the legislative branch, and consequently the weakening of democratic oversight over national foreign policy. But on the other hand, an authoritarian government would be forced to cooperate with the European Union — not just for the sake of Russia's modernization but for its very preservation. The only place that can provide Russia with the necessary resources and technology is Europe, so it is only a question of the price to be paid.

An undemocratic government that restricts the opportunities for private enterprise and carries out populist social policies will hardly be able to

mobilize sufficient internal resources for the development of resource-production sectors. Meanwhile, maintaining the necessary volume of energy supplies and the development of new fields and deposits require considerable funding. Given such conditions, the reinforcement of bureaucratic control over foreign trade will reduce its transparency and most likely lead to a veiled "sale of the homeland." Furthermore, the EU would be sure to criticize Russia's domestic policy, which would compel the Russian authorities occasionally to "buy off" the Europeans, granting them new assets and rights on the cheap without the knowledge of the general public.

Therefore, the state of Russian-European relations 10 years from now will depend on whether Russia turns into a democratic country with a market economy during that period or not. If it does, relations with a united Europe would be on an equal footing and based on Russia's delegation of some of its sovereign rights to Brussels. If, on the contrary, authoritarian trends prevail, Russia could effectively find itself becoming a satellite of the EU, with virtually no rights.

Some form of integration between Russia and Europe is inevitable; its terms, however, are for Russians themselves to choose.

Russia and the U.S. in the Southern Caucasus: Lessons To Be Learned

Anatol Lieven
Senior Associate, Foreign & Security Policy, Carnegie Endowment for International Peace

Over the 1990s, both Russian and American ambitions in the Southern Caucasus have met with very serious reverses. Neither country has been willing or able to deploy resources on the scale that would be necessary to stabilize the region under its exclusive influence; and the hopes of both have been baffled by certain intractable Caucasian realities. In consequence, the maximalist programs of both Moscow and Washington are bankrupt, and should be abandoned in favor of joint measures to share influence and prevent conflict.

Russian Ambitions: The Ends and Means Mismatch

In the wake of the Soviet collapse, powerful groups in Moscow were determined to recreate a Russian sphere of influence in the southern Caucasus, which would exclude other international players strategically though not necessarily economically. Much reference was made to the "Monroe Doctrine," mandating American hegemony in the Caribbean and Central America as a vital U.S. national interest. By 1994, Russia seemed well on the way to achieving this. National conflicts and internal civil strife had desperately weakened Armenia and Azerbaijan, while in Georgia the state had in effect collapsed. Western journalists in the region spoke of a new "Pax Russica."

In the course of their war with Azerbaijan over the disputed territory of Karabakh, the Armenians had reverted to their historic role of Russia's military protégés, and still form the chief base of Russian military power and strategic influence in the region. This alliance is cemented by strong ties

of religious and national sentiment. Most ordinary Armenians continue to see the Russian military presence as their ultimate guarantee against conquest by Turkey and Azerbaijan.

However, in Azerbaijan and Georgia too, the prospects for Russian domination for a while seemed bright. In both countries, the new nationalist governments, led by former dissidents Abulfaz Elcibey and Zviad Gamsakhurdia, had failed utterly to consolidate their power, leading to the rise of anarchy and warlordism. In both countries, the nationalism that these figures represented contributed to ethnic conflict, ending in disastrous military defeats at the hands of secessionists backed by Moscow.

In both countries, the nationalists were expelled from power and replaced by former local Communist bosses Heidar Aliev and Eduard Shevardnadze, who recreated their states on the basis of the old Communist elites, and promised among other things to establish good relations with Russia. The terrible decline in living standards and economic conditions in the region created widespread nostalgia for the peaceful and relatively prosperous days of Soviet rule.

Within two years, however, it became clear that Moscow's plans for renewed hegemony had failed. For this, four main factors were responsible. The first was the increasing interest of the U.S. in the region, and the determination of growing numbers of U.S. officials to "roll back" Russian influence. As will be seen, American commitment never matched up to Washington's rhetoric, but together they were nonetheless sufficient to deny Russia the exclusive domination it sought.

The other factors, however, had more to do with Russian weakness and the situation in the region itself. Russia's catastrophic military decline was made all too clear by Russian defeat in the first Chechen war, which began in December 1994. If the Russian army could be defeated by comparatively tiny numbers of guerrillas in a very small territory, the Russian military threat to Georgia and Azerbaijan clearly no longer seemed so frightening. In the second Chechen war, beginning in 1999, the Russian armed forces have not been defeated, but they remain mired in a seemingly endless quagmire, which also makes it extremely unlikely that the Kremlin would be willing or able to pursue military adventures elsewhere. The Russian military intervention of 1994 also had the disastrous result of sucking into the Caucasus international Muslim extremists linked to Al Qaeda.

Russia has proved equally weak in terms of economic influence. Russia remains in many ways the economic powerhouse of the region. Up to two million southern Caucasians work in Russia, and their remittances are of

crucial importance to the local economies. Georgia and Armenia are also dependent on Russia for energy supplies. But Russia has not been able to parlay this into political control, if only because in terms of economic power, it is quite outclassed internationally by the U.S. and the West in general. In the case of Azerbaijan, Russia simply cannot begin to compete with the West when it comes to the provision of capital for the development of Caspian oil and gas reserves.

Finally, Russia has not been able to resolve the frozen national conflicts of the region — and without such solutions, most Georgians and Azeris are going to remain locked into hostile attitudes to Russia, which they blame for supporting their victorious national enemies. In both Karabakh and Abkhazia, the only deals acceptable to Azeris and Georgians would constitute betrayal of the Russians' existing Armenian and Abkhaz allies. If any Azeri or Georgian government were to sign a deal on Moscow's terms, it would almost certainly be overthrown by nationalist upheaval at home.

U.S. Policies: Long on Rhetoric, Short on Commitment

What of the U.S.? America too has failed despite repeated efforts to bring about a settlement between Armenia and Azerbaijan. On Abkhazia, its position has consisted of blank restatements of Georgia's case — a pointless strategy, since there is no way that Russia, with a large pro-Abkhaz population among the related Circassians of its own Northern Caucasus, will ever be able simply to abandon the Abkhaz.

> America's strength is vastly greater than Russia's, but its ability to bring its strength to bear in the Caucasus is just as limited.

America's latent strength is vastly greater than Russia's, as is its ideological and cultural appeal to the Caucasian peoples; but its ability to bring its strength to bear in the Caucasus is just as limited. The U.S. has massive commitments elsewhere, especially since the occupations of Afghanistan and Iraq. The Caucasus by contrast is — whatever American rhetoric may sometimes suggest — only a third-ranking issue in the U.S. scale of priorities.

U.S. hopes of using Turkish influence as a local surrogate suffered a disastrous defeat with the overthrow of the strongly pro-Turkish Elcibey in Azerbaijan. Turkish influence had already been crippled by Turkey's refusal to fight for Azerbaijan in Karabakh, its inability to generate serious capital for investment in Azerbaijan and the resentment of Azeris at what was widely seen as a new attempt at outside cultural hegemony.

America too has been less willing to invest in the Caucasus than official language would suggest. On one critically important issue, American plans appear to be on track: namely, the construction of an oil pipeline from Baku to the Turkish port of Ceyhan, bypassing Russia and Iran and guaranteeing the U.S. access to Caspian energy exports. However, this project was delayed for years by the refusal of the U.S. government to subsidize it directly, and the concerns of private investors concerning both its security and its economic viability.

America too has been less willing to invest in the Caucasus than official language would suggest.

But American hopes for the Southern Caucasus went far beyond Baku-Ceyhan and the development of Caspian energy reserves, or the establishment of U.S. influence in the region. Washington committed itself to a revolutionary program of building stable free market democracies, which it believed would be naturally drawn towards the West and which would provide solid bases for U.S. influence and solid buffers against Russia. In the name of this state-building program the U.S. poured more than $1.5 billion in aid into Georgia, and comparable amounts into Armenia (though here, the Armenian diaspora in the U.S. also played a critical role).

This U.S. project has overwhelmingly failed. Armenia is ruled by what is in effect a military junta. Azerbaijan has become a kleptocratic and authoritarian sultanate of the Aliev family and its elite supporters, with rule passed on by inheritance from Heidar Aliev to his son Ilkham. Political and social stability has been maintained only because oil exports have given the regime more patronage to distribute — but very little of this is reaching the mass of the population.

In Georgia, Shevardnadze's regime could never be so effectively authoritarian in part because it had nothing to export and, so, less patronage to distribute. Instead, the equally kleptocratic Georgian former Communist elites essentially fed on their own country's entrails, swallowing state finances and Western aid.

The resulting economic decline eventually led to Shevardnadze's overthrow by a peaceful mass uprising, and his replacement by pro-American Westernizing reformers. However, the Georgian state has been so hollowed out by de-modernization and a kind of neo-feudalism that it remains to be seen whether they will be able to effect really successful reforms. They also of course face the intractable problem of Georgia's separatist regions.

Looking Ahead: A Case for U.S.-Russian Cooperation in the Caucasus

These failures of both Russian and American strategy over the past decade should lead to greater modesty and wisdom in both Russia and the U.S. Neither country is going to be able to shape the region as it would wish. Neither has the resources or the will to establish an exclusive sphere of influence. Russia has already been forced to accept that the Baku-Ceyan pipeline will be built. The U.S. could doubtless establish military bases in Georgia and Azerbaijan, but in the face of Russian hostility and local instability these could easily become not strategic assets but dangerous hostages to fortune — all the more so if their establishment was also seen as a threat by Iran.

Instead of this pointless and costly strategic competition, both countries should instead recognize that their only truly vital interests in the region lie in the avoidance of conflict, and the prevention of the creation of any more safe havens for terrorists. These interests are common to both Russia and the U.S., and can best be pursued jointly. Russia needs to recognize that the

For Russia and the U.S., the only truly vital interests in the Caucasus lie in the avoidance of conflict.

establishment of a greater American military presence in the region would not threaten Russia.

Equally Washington must recognize that Russia has ancient and legitimate interests in the region, comparable to those of the U.S. in Central America. Russian bases there do not threaten the U.S., and in some ways contribute to regional stability. If Russia and the U.S. work closely together, there may be some hope of resolving the regional conflicts which really do threaten both the region and U.S. and Russian interests there: Karabakh, Abkhazia, perhaps one day even Chechnya. Or they can continue the sterile competition for meaningless advantage which has characterized the past decade, and which has benefited neither Russia, America, nor indeed the Caucasian peoples themselves.

Russia and Central Asia: The Challenge of Turning Subjects into Friends

Martha Brill Olcott
Senior Associate,
Carnegie Endowment
for International Peace

Since the waning days of the Soviet Union, leaders in Moscow have been trying to figure out how to best manage their relations with the republics of Central Asia, but they have yet to hit on a strategy that will secure Russia's long-term interests in the region.

The time for Russia to capitalize on the cultural and political affinities between itself and these states is already passing. Russia will need to look to different strategies for maintaining its influence, when a new generation of leaders takes power in Central Asia. Although during the period of transition itself, Russia's opportunities could increase, if Moscow successfully plays the "succession card."

Central Asia's next generation of leaders are likely to have less in common, both with each other and with Russia's leadership, than the current political incumbents do, as all have come to power under locally specific conditions, in which outside forces may have played a supporting but less likely a decisive role. Moreover, however close the personal ties of some of this group of leaders may be to colleagues in Moscow, no longer will Russia seem a natural conduit for dealings with a broader international community. While the next group of leaders are almost certain to still speak Russian (in some cases the generation that comes after them may not), they are nearly as likely to speak English, and understand either Turkish or Persian as well.

Russia, though, is likely to continue to play a role in the region well into the future, especially in certain key economic sectors, like in gas and hydroelectric power, where

Gazprom and Unified Energy System (UES) are both assuming larger ownership and coordinating positions. But those pressing the Russian position will have to do so through invocations of shared interest among the parties involved, rather than by expecting "weak" states to bow to efforts by Moscow to assert Russian hegemony.

In fact, Russia has never sought the kind of hegemonic role that many feared it might in Central Asia, even in Kazakhstan where the Kazakhs only slightly outnumbered Russians at the time of independence, and where many of the latter lived in ethnically homogeneous settlements along a 7,000 kilometer border. Even there, Russia's policies lacked the hard edge that was sometimes seen in their policies towards the countries in the south Caucasus.

At the same time, Russia's leadership has always maintained its right to continued influence in the region, claiming the right to great power status in Central Asia because of its century's long presence, the millions of ethnic Russians living in these newly independent countries and Soviet-era expenditures to develop Central Asia's vast natural wealth that had only been partially realized.

But from the beginning Russia's leaders have found it difficult to translate their rhetoric into effective policies, although the level of rhetoric has bordered on neo-imperialism at times, especially around elections when it becomes important to appease nationalist domestic political constituencies.

As a result, Moscow watched its influence in Central Asia slowly dwindle over the first decade of independence, only to recover some of its position under the leadership of Vladimir Putin, who sought to treat the Central Asian leaders on more equal terms than had his predecessor Boris Yeltsin. Putin introduced a new style into Russian diplomacy in the region, one which offered recognition of the international stature of the region's leaders and what, at least at the beginning of Putin's presidency, was their greater international experience.

Ironically, the introduction of U.S. troops in Central Asia, in the aftermath of September 11, also allowed the Russians to expand their influence in the region, as Moscow was now pressing for "balance of powers" rather than for hegemony.

This eased the challenge for Moscow, which had long been trying to convince the leaders of the Central Asian states to accept the idea that Russia should continue to play a guiding role in their lives.

But for years Russia had had to compete with Western policy-makers and businessmen who were eager to integrate these states more directly into the global market, albeit with Western businesses serving as intermediaries and providing the capital.

So while Moscow was pushing membership in the Commonwealth of Independent States (CIS), or in new economic "communities" to be erected with some of its key members, institutions that would maximize Russia's economic position vis à vis these states, the U.S., Japan and Western European states were pressing these states to adopt European norms, to become members of the World Trade Organization and to accept guidance from international financial institutions such as the World Bank and the International Monetary Fund.

By the first few years it was clear that this was an uneven competition. The resources of the West were much greater than those of Russia. But what was less clear was how much effort the U.S. and the other Western nations were willing to expend here. The clear exception was in the oil and gas sector, where it was hoped that Caspian reserves would make an important contribution to energy security for the industrialized democracies.

For its part, Moscow sought to rely heavily on personal relationships that date from the Soviet period to advance its interests. Virtually all of Central Asia's presidents knew Boris Yeltsin from earlier political activities in Moscow, even if only briefly as was the case with Kyrgyzstan's President Askar Akayev. Presidents Niyazov of Turkmenistan, Karimov of Uzbekistan and Nazarbayev of Kazakhstan knew him from the Politburo and CPSU Central Committee, while Kyrgyzstan's President Akayev was his colleague in the Congress of People's Deputies, elected in the late 1980s. Only Tajikistan's Imomali Rakhmonov, who came to power in late 1992, during Tajikistan's civil war, came from outside of the old USSR ruling elite.

Moscow sought to rely heavily on personal relationships that date from the Soviet period to advance its interests.

Personal ties, among the mid-level elite and not just those at the top, were also of real importance. These continue to play an important role, even today, especially in the area of security relations, with Soviet era career professionals in the military, in internal security and in intelligence all showing a willingness to cooperate across national boundaries, at least on an informal basis.

But Moscow was less successful when it tried to use such contacts in a more organized fashion, to create a single security umbrella that would encompass all, or even a significant part of the states of the CIS. Four Central

Russia also tried to use Soviet-era economic interconnections to its advantage, but many early attempts to do so backfried.

Asian states were bound together in the Tashkent Collective Security Agreement, Turkmenistan having opted for a policy of "positive neutrality" instead, but when Uzbekistan opted out of the organization in favor of increased cooperation with the U.S. and NATO the agreement ceased to have a strong regional focus. While a strong tradition of military cooperation with Russia was sustained by Tajikistan, Kyrgyzstan and Kazakhstan, some of the goals of the original collective security agreement began to be met by the Shanghai Cooperation Organization, in which all the Central Asian states except Turkmenistan were members, as well as Russia and China.

Russia also tried to use Soviet-era economic interconnections to its advantage, but, in contrast to some of Moscow's more recent efforts, many of the earlier attempts worked to the opposite of their intended goal. Moscow's strict control over currency emissions and demands for common gold reserves eventually drove all of the Central Asian countries out of the ruble zone, while large energy debts made states like Kazakhstan and Kyrgyzstan consider introducing structural economic reforms on a faster timetable than might otherwise have been the case, in order to reduce Soviet-era dependencies on Russia. Similarly, Moscow's control over the USSR gas pipeline system, and the tough terms offered to Turkmenistan for the transit of this key resource, led Ashgabat to withdraw much of its gas from market, rather than have it transit through Russia.

All in all the last decade or so has been a learning period for all involved, those in the new Central Asian capitals, and those making policy in the Kremlin. In the 20th century few empires were dissolved with the relative lack of bloodshed that one saw in the Soviet retreat from Central Asia, as even the civil war in Tajikistan was an indirect rather than a direct consequence of it.

It should not be surprising that relationships between Russia and the various Central Asian states have been marked by the simultaneous presence of both mutual attraction and repulsion. For nearly a century and a half Central Asians were forced to deal with the outside world largely through Russian intermediaries, and in the case of the Kazakhs this was true for nearly 250 years. During all that time strong cultural affinities develop, and grievances accumulate. It will take decades for these countries to fully work out their past, for the Central Asians to fully appreciate that the colonial experience had many positive as well as negative features, and for the Russians to realize that the Central Asian states are five distinct countries, each with unique pasts that were only partly shared with Russia. But while all these lessons are being absorbed, geography will continue to force Russia and the Central Asian states to move forward at least partially in concert.

A Chance for the Far East

Vasily Mikheev
Scholar-in-Residence,
Asian Security Program,
Carnegie Moscow Center

One of Russia's main strategic challenges in the next decade is to effectively adapt to integration processes unfolding simultaneously in Western Europe and East Asia.

So far this is not happening, although it would seem that geographic conditions clearly speak in favor of a two-vector model of development, with European Russia, including western Siberia, oriented toward the European Union, and Asian Russia (the Far East and eastern Siberia) toward East Asia. While Russian strategists justifiably emphasize the important role of the U.S. and EU economies for the country, they unfoundedly ignore the distinctive macroeconomic features of Asian Russia; likewise, they disregard the opportunities for integration and cooperation with the economies of Japan, China and South Korea, whose combined GDP amounts to around 70 percent of the European Union's. Meanwhile, significant advances in the Russian Far East will be impossible in the foreseeable future without economic integration with Northeast Asia.

There is a marked difference between the economic landscapes of the European and Asian parts of Russia. The former is sufficiently well developed, with a high population density, relatively strong demand and good investment possibilities. This makes European Russia better prepared for full-scale free-market relations. In the case of Russia's Asian part, on the contrary, opportunities for developing market principles

and business mechanisms are limited. Take, for example, the transportation and energy industries. Based on the logic of the market, these industries cannot be profitable in the Russian Far East. Efforts to make them profitable under the laws of the market would lead to an increase in prices, reduction in demand and, ultimately, to a production shutdown and an exodus of the local population. Consumers cannot afford to pay for transportation and energy at a price that would cover producers' outlays. If they were forced to, the transportation and energy system would grind to a halt, putting an end to the development of Russia's Far Eastern territories.

In order to make energy supply and transportation services affordable for private businesses and consumers in Asian Russia and, at the same time, to cover the costs of their production, these sectors would require either enormous state subsidies — impossible under current conditions — or foreign investment. In either case, the money put into the region could be recovered indirectly — as a result of stepped up activity by Russian and foreign private capital drawn to a newly developed infrastructure.

A Two-Pronged Approach

One dilemma that arises is how to incorporate the idea of integration with Northeast Asia into Russia's economic development strategy, which envisages the country's integration into European bodies and the formation of the Common European Economic Space. One solution would involve making major adjustments to Russia's development strategy and carrying out a two-vector policy oriented toward both Europe and Northeast Asia.

This two-pronged approach would make it possible to better define Russia's place in East Asia and the Asia-Pacific Region as a whole, and to view it in two dimensions: global and regional. For the Asia-Pacific Region, the economy of the European part of Russia (including western Siberia) is a component of the globalized Russian economy; unfortunately, this "globalism" is limited to the oil, gas and rare metals markets and to a very limited range of high technologies, such as equipment for nuclear power plants and aviation, space, military and dual-purpose technologies. The economy of eastern Siberian and the Russian Far East, meanwhile, features as a regional economy in the Asia-Pacific Region. The important conclusion that can be drawn is that, in this part of the world, Russia needs a policy that would ensure a regional approach to its global interests and a global approach to the regional interests of its constituent territories.

A distinctive feature of Russia's situation in the Asia-Pacific Region is the absence of an integrating body along the lines of the EU, and it is unlikely that such a mechanism will arise in the coming 10 years. The Asian countries are interacting at three levels: (a) the Asia-Pacific Economic Cooperation forum (APEC); (b) sub-regional integration groups, including both those that already exist (like ASEAN) and those that are only at the blueprint stage (ASEAN plus China, ASEAN plus Japan and "ASEAN plus three," which would bring in China, Japan and South Korea); and (c) bilateral relations (for example, the Japanese-South Korean negotiations on a free trade zone).

The latest APEC summits and meetings in the ASEAN-plus-three format show the rapid onset of genuine integration in the region. APEC's original objectives of liberalizing trade and creating conditions for attracting foreign investments have now been supplemented with plans for overcoming the information and technology gaps between countries and with ideas for creating free trade zones in various bilateral and multilateral formats.

A proposal that could prove to be of fundamental importance for Russia is the creation of an East Asia Forum with the participation of China, Japan and South Korea — an idea that has won support from business and academic circles in these three countries. By way of a first step, the plan's supporters have formed a trilateral analytical group that presents the governments involved with coordinated recommendations for harmonizing economic and financial policy and developing cooperation in trade and investment.

The key integration problem in Northeast Asia in the next decade will be the search for funding for expensive regional projects.

Instability on global markets could prompt Tokyo, Beijing and Seoul to double their efforts to promote economic integration in Northeast Asia. However, this process could be adversely affected by the diplomatic competition between Tokyo and Beijing for first place in integrating with ASEAN. Most of the ASEAN countries are not ready to make the association's decisions binding. Most likely, the foundation for the integrated economy forming in East Asia will be the "integration field" of Northeast

Asia, which already encompasses Japan, South Korea and China. And this is where Russia belongs, as well.

Cooperation between Russia and Northeast Asia could develop along the following lines: Russia provides energy resources, scientific technologies and a transit territory linking Northeast Asia with Europe in exchange for Japanese and South Korean capital and investment equipment and Chinese foodstuffs, textiles and manpower.

Cooperation among China, Japan and South Korea could also be mutually complementary. But in this case it would not be based on the principle of "raw materials in exchange for finished products"; instead, it would take into account the "quality-to-price" relationship: Japan would supply the Northeast Asia consumer market with products geared toward wealthy Japanese, South Koreans and Chinese, as well as the upper middle classes in South Korea and Japan and the Japanese middle class; South Korea would produce goods for rich South Koreans, for the upper middle classes of Japan, South Korea and China and for the Japanese middle class; finally, China would cater to the Chinese upper and middle classes and to the poor strata of Japanese and South Korean society.

New Institutions

Furthering multilateral cooperation and integration in Northeast Asia would require a measure of legislative uniformity, which would provide for the free movement in the region of goods, finances, manpower and scientific knowledge and R&D. However, the institutionalization of integration-oriented cooperation in Northeast Asia has not yet reached the inter-government level. The main institutions of cooperation in Northeast Asia today are nongovernmental: the Northeast Asia Economic Forum, the Gas Forum and the Northeast Asia Economic Conference. The Tumangan project effectively failed due to the unwillingness of the North Korean command-administrative economy, which is on its last legs, to cooperate with the regional market economy.

The key integration problem in Northeast Asia in the next decade will be the search for sources of funding for expensive regional projects. According to current estimates, creating the necessary infrastructure would require annual investments of approximately $7.5 billion. There are plans to mobilize some $2.5 billion in funds from the member states and international financial institutions. In order to raise the rest, a Northeast Asia Development Bank must be established, with the governments of the

United States, Japan, South Korea and China as shareholders. Clearly, it would be in Russia's interests to participate in such a regional development bank.

One proposal for developing an integrated approach to the use of labor sees the creation of a Council for Northeast Asia Labor Resource Management, which would draw up regulations and quotas for labor migration and would work to stop illegal migration. A sub-regional institution responsible for creating a resource and transportation infrastructure could be the Northeast Asia Council for the Development of Transportation and Natural Resources, which would operate in coordination with the development bank.

Failure to participate in integration processes in Northeast Asia would deal a harsh blow to the economy of Asian Russia.

Other plans include the creation of a Northeast Asia Council for Sub-Regional Scientific and Technical Policy and a special body that would coordinate the macroeconomic and financial policy of the region's countries. The central banks of the Northeast Asia countries — with the exception of Russia's — have already begun accumulating constructive experience working together: In recent years, they have been exchanging deposits in national currency in order to ensure financial stability should currency markets collapse.

Initially, Russia could join Northeast Asia's integration initiatives using the concept of a special customs territory that would give the economy of Siberia and Russia's Far East a greater degree of autonomy, both strategically and in terms of tariff and monetary policy. The integration of the western and eastern parts of the Russian economy into the EU and Northeast Asia would lay the groundwork for Russia to serve as a link between West European and East Asian integration processes.

The logical extension of institutionalizing multilateral cooperation in Northeast Asia is the idea of forming an East Asian Economic Union. Its activity could be based on the principle of open regionalism, which implies

mobilizing global resources to resolve regional problems. This would insure against the possibility of the group's becoming a closed union.

In terms of practicability, the objective that could prove to be of primary importance in the next decade is the creation of an international Northeast Asian transportation infrastructure and fuel-and-energy system, which would encompass not only China, Japan and South Korea, but also Eastern Siberia and the Russian Far East.

This would involve the following:

- developing the oil and gas resources of the Russian Far East and Siberia and building an oil and gas supply network in Northeast Asia, as well as power transmission lines, which could become the basis for Russia's future economic integration into the Asia-Pacific Region;
- using Russia's geographic position and transport opportunities as a natural bridge between Europe and East Asia, with emphasis placed not only on reconstructing existing railroads, but also on building new, ultra-modern, high-speed railroads and highways connecting the Russian Far East with the Kaliningrad region and ports in the Netherlands, Germany and the Baltic states;
- engaging foreign labor to develop the under-populated regions of the Russian Far East;
- securing short-term and strategic benefits from Russia's scientific potential, which, despite its decrease, is still significant by Asian standards;
- creating a Strategic Oil Reserve Fund in Northeast Asia with the participation of Russia, China, Japan and South Korea, and holding regular Northeast Asia energy summits in the same format.

Russia does have opportunities for strategic cooperation with the countries of Northeast Asia. But capitalizing on these opportunities will require a strategic vision and targeted efforts both at home and in the realm of economic diplomacy. Failure to participate in the integration-related processes in Northeast Asia would deprive the economy of Asian Russia of a real chance to accelerate development and would exacerbate its systemic crisis. In this sense, the next 10 years could play the decisive role.

Russia and China: One Ambivalent Decade Succeeding Another

Bobo Lo

Associate Fellow, Russia and Eurasia Programme,
Royal Institute for International Affairs, London;
Former Visiting Scholar, Carnegie Moscow Center

The strategic partnership between Russia and China embodies numerous contradictions and ambiguities. In many respects, it is a model of international harmony, a signal illustration of political and strategic convergence, flourishing economic cooperation, and one free of debilitating disagreements. On the other hand, the relationship is colored by historical fears, civilizational prejudices and emerging uncertainties at a time of transition in both countries and the post-9/11 world more generally.

The next decade will be an especially testing time for Sino-Russian relations. Despite claims that things have never been better, Moscow and Beijing stand at a crossroads. What does the future hold — a gradual but inexorable slide into strategic enmity or lasting partnership on the basis of common strategic, political and economic interests? This question has enormous implications, not only for the relationship itself, but also for a Russian foreign policy still groping for a coherent vision in a world in which old "truths" are giving way to new realities.

Changing Strategic Calculus

Since coming to power in January 2000, Vladimir Putin has pursued a multi-vectored

foreign policy founded in the positive-sum assumption that Russia can be friends with East and West alike. Accordingly, he has presided over a significant improvement in relations with the United States and Western Europe, reasserted Russia's presence in the former Soviet Union (FSU), and built on the achievements of his predecessor Boris Yeltsin in expanding ties with China.

But in the wake of 9/11 and Russia's association with the new international security agenda established by Washington, this eclectic approach has come under increasing strain. Despite the rhetoric about a "universal" civilization with shared values and faced by common threats, the post-9/11 world is anything but united in its perceptions of threats, values and international norms. In this climate, in which even the notion of a unitary West has become undermined, Putin finds himself under pressure to make critical strategic choices.

The most difficult concerns China. In theory, a cozy relationship with Beijing is not incompatible with the Western-centric focus of contemporary Russian foreign policy. In practice, things are more complicated. The relationship with China epitomizes a larger dilemma in Russia's world-view. Putin has discarded the competitive multipolarity of the 1990s, whereby rapprochement with Beijing became part of a wider balance-of-power game with the United States. But China nevertheless remains Russia's chief point of reference in the non-West, outweighing a weak and unpredictable Muslim world and an underestimated India. The relationship with Beijing has become the fulcrum in the battle for Russia's foreign policy "soul": integration into the Western-dominated community of democratic nation-states versus an ambivalent approach characterized by alternating periods of cooperation and competition with the West, and close ties with the major non-Western powers.

The Real China Threat

Contrary to conventional wisdom, the emergence of a self-confident and powerful China does not directly threaten Russian security. The specter of millions of Chinese flooding into the sparsely populated Russian Far East is fanciful; Beijing has all but given up on its territorial claims dating back to the 19th century, and it has assiduously avoided strategic entanglements in Central Asia.

The danger is otherwise — Russia's marginalization from international decision-making. A rapidly modernizing China threatens to displace a

Russia that is neither integrated in the West nor strong enough to exert an independent influence on global affairs. Possessing limited economic clout, fragile political standing and declining moral authority, Russia does not sit comfortably in any international company. The conflict in Iraq highlighted the weakness of its much vaunted influence; a sometimes unsubtle approach in the FSU has revived concerns about an imperialist resurgence; while developments in Chechnya and authoritarianism at home have reinforced the common view in the West that Russia will always be an outsider.

In looking to establish Russia as a major international presence, Putin will maintain a broadly Western-centric foreign policy.

Hard Choices

In looking to establish Russia as a major international presence, Putin will maintain a broadly Western-centric foreign policy. Within those broad parameters, however, the key decision centers on whether to reinforce the strategic partnership with China or to keep Beijing at arm's length on the assumption that the latter's rivalry with Washington will become increasingly acute. Even more than with 9/11 and its aftermath, Russia's place and influence in the world depends on making the right choice.

Putting Off Decisions

In the short term Putin will adhere to his multi-vectored approach. As long as American attention is focused on the Middle East and Central Asia — specifically, post-conflict situations in Iraq and Afghanistan and Iran's nuclear program — there is no obvious urgency. Russia can continue to pretend at a geographically "balanced" foreign policy, garnished by the liberal use of civilizational labels: European when dealing with Europe, Asian and Eurasian in Asia, transatlantic partner to the United States, pro-integration in the FSU.

During this time, Putin will tick the necessary boxes in the China relationship. There will be convergence on most international issues — the UN's pri-

macy, combating international terrorism — and both sides will look to expand economic ties (official trade tripled during Putin's first term), whether in traditional sectors such as arms transfers, nuclear cooperation and shuttle trade, or in newer areas such as transnational infrastructural and energy projects.

Testing Times

The first test of this temporizing approach will come when, sometime in 2004-2005, Moscow makes its long-delayed decision on routing the Nakhodka oil pipeline, linking the East Siberian fields to the Pacific coast and onto the Asian market. The indications are that it is preparing to renege on an earlier agreement giving priority to construction of the Daqing spur to Manchuria, in favor of the main-line option to be financed by the Japanese. Although the Chinese have anticipated this change of heart, the decision when it comes will still provoke a strongly negative reaction in Beijing. China has said that it would regard postponement of the Daqing option as a serious breach of trust with larger consequences for the bilateral relationship.

> Disagreement over the Daqing pipeline is shaping up as the worst crisis in Sino-Russian relations since the fall of the Soviet Union.

Even allowing for diplomatic bluster, disagreement over the pipeline is shaping up as the worst crisis in Sino-Russian relations since the fall of the Soviet Union. The issue goes beyond economic interests, such as China's energy requirements, or even political trust. For many in Russia and China, re-routing of the pipeline would signify a fundamental reorientation of Putin's foreign policy — away from the policy of geographical "balance" towards a clearer strategic commitment to the West.

Nevertheless, Moscow and Beijing will seek to quarantine individual problems from the wider relationship, which will remain reasonably healthy for much of the decade. The broad convergence on international issues will continue and bilateral trade will increase. Russia will say the right things

on Taiwan, Tibet and Xinjiang, while China will offer moral support on Chechnya and act conservatively in Central Asia. Potential flashpoints, such as Chinese "migration" into the Russian Far East, will be managed. Moscow and Beijing will take every opportunity to reiterate the "strategic" and "friendly" nature of relations, even if differences in perspective and policy become more apparent beneath the surface.

Steady Distancing — 10 Years and Beyond

There will come a time, however, when no amount of packaging can mask the growing strategic divide. When the process of China's transformation from predominantly regional actor into global player gathers serious momentum, many of the traditional Russian fears about China will assume live and even virulent form. The changing strategic and economic balance between the two countries, the emergence of Chinese military power as a factor in international affairs, overt competition for spheres of influence in Central Asia and Northeast Asia — all loom as roadblocks in Russia-China relations.

A turn for the worse in Sino-Russian relations will occur regardless of domestic developments in both countries.

This turn for the worse will occur regardless of domestic developments in both countries. If Russia follows a "Western" path, with a quasi-democracy, a market-oriented economy and some of the substance of a civil society, then civilizational and strategic prejudices towards China will become increasingly overt. (It is, after all, the liberal Westernizers in the Putin regime who have been the most vocal critics of China.) In the event that authoritarianism in Russia takes root, then an assertive, nationalistic foreign policy is probable. Although much of this will be directed towards the West, such semi-confrontationism is likely to be expressed also in Russia's relations with the former Soviet Union and China.

Conversely, irrespective of how China develops as a modern state — democratic or authoritarian, stable or unstable — it will pose a threat to Russian

interests. For in the end the dominant reality is that Russia and China are both aspiring powers that are competing for the same prizes — international "respect" and recognition (principally from the West), regional and global strategic influence, foreign trade and investment. Paradoxically, it is the very similarities between Russia and China, rather than their differences, that will ensure their mutual alienation over the long term.

This is not to suggest that the two countries are headed for inevitable conflict, since both have too much to lose from such a catastrophic denouement. Their relationship will remain functional and pragmatic for the most part. However, like the "unbreakable friendship" of the Stalin-Mao era, today's "strategic partnership" will slowly lose its lustre as Moscow and Beijing look increasingly to the West in advancing their competing foreign policy agendas.

The Carnegie Mosaic

(Instead of a Conclusion)

This small book is not a Carnegie Center report on the future of Russia. It is a collection of opinions and reflections on where modern-day Russia is heading and what prospects lie ahead as it chooses its course (or, for that matter, as a course is chosen in its name). The views of the contributors diverge. Some suggest that efforts to establish democracy have failed, others speak of Russia's "return to normality." All agree, however, that after more than a decade and a half of upheavals Russia has entered a period of relative stability. Such stability does not mean stagnation. The transformation of the country will continue, and the face of Russia is still bound to change considerably. If the conceptual tools of "transitology" are still to be applied, it must be recognized that for several countries, including Russia, one step toward transition is far too little; several will be needed before state and society undergo any qualitative changes.

Without steady economic growth, Russia's prospects are bleak. The objective of doubling gross domestic product set by President Putin is certainly ambitious, but it is the nature, not only the level, of growth that will matter. Despite positive economic indicators for 1999-2003, the Russian economy has yet to undergo the ordeal of low oil prices. Consequently, any growth achieved is fragile. Whether it becomes more lasting depends on the course of reform — above all, administrative reform, but also reform of local government, the banks and the courts. Unless corruption and the almost unfettered power of the bureaucracy are curbed, and businesses are given a chance to develop, even the growth attained as a result of favorable conditions on world markets will harm rather than benefit the country, pushing it toward becoming a "petrostate."

Without the rise of a domestic middle class, socioeconomic progress is highly unlikely to take place in Russia. The astronomical gap between a handful of super-wealthy and the impoverished majority has created a dangerous situation. The lack of a solid middle class slows down private property's transformation into a firmly established institution and hampers the development of civil society, as well as changes in popular attitudes toward the

nature of wealth. It would be distressing to have a new schism arise in Europe between a relatively prosperous nucleus with an increasingly high standard of living — including former COMECON members and the Baltic states — and poor countries on the periphery, including Russia and a number of CIS states.

A new form of Russian authoritarianism is emerging, which raises serious questions for society. The often discussed vertical structure of power not only supports the bureaucracy but also depends on it. The authorities have demonstrated a sole interest: the desire to maintain power by periodically reproducing themselves. From their perspective, the best means to do so is through behind-the-scenes deals on transferring supreme power to a successor chosen by the elite and subsequently legitimized by popular plebiscite, referred to in Russia as "elections." However, this "ideal" plan will not necessarily work for the 2008 elections, not to mention the more distant future. Various scenarios are possible: from reform of the political system under pressure from new interest groups (motivated, above all, by economic interests) to an acute crisis followed by the country's evolution toward either a new round of democratization or a harsher, dictatorial version of authoritarianism.

The outcome will depend on the appearance by 2012-15 of the basis for a functioning democracy: a Russian *demos*. In other words, will there be a sufficiently large and independent group of people who consider themselves taxpayers and view the government (including the Kremlin) not as some sacrosanct authority but merely as a committee to govern the country using their tax money? Perhaps the set time frame is not enough for such a development. Nevertheless, defining general trends is interesting in itself. Today, hopes for a revamping of the Russian political system lie above all with the economy.

A distinctive feature of the Russian post-communist transformation is that the West does not serve as a magnet for integration but as a complex half-

partner, half-rival. Moreover, the rivalry factor could temporarily prevail. Estrangement seriously distorts all the processes involved in Russia's transformation, but that is the inevitable price to pay for the "great power" ambitions of the Russian elite. If Russia maintains its independence and distinctive character in terms of foreign policy, the country will be capable, in the very long term, of occupying a place on the international scene as a "third West" (alongside America and Europe), but that will require very significant internal changes, and also a fundamental modernization of foreign and defense policy. In the coming decade and a half these goals will be unattainable.

Modern-day Russia remains a matter for debate between optimists and pessimists. The stones from the "Carnegie mosaic," even if one were to put them all together, would hardly add up to an unambiguous picture with one point of view winning out over another. That Russia has not frozen in its tracks on the path toward transformation is good news. Nonetheless, that this journey will last for decades or even generations is difficult for people living today to accept. Everyone knows full well the starting point, but the ultimate destination remains unclear. When the Soviet Union and Poland, for example, "abandoned communism," they first made — albeit with something of a lag — the same stops. Now it has become clear that the routes of Poland and Russia, Russia and Latvia and, probably, Russia and Ukraine diverge. This is a matter of distinctions, not uniqueness, but the distinctions are substantial indeed. Finally, interest in Russia, whether tinged with optimism or pessimism, has not disappeared. The country matters to Europe, America, China, Japan and, of course, its immediate neighbors. The world knows enough about Russia to go beyond simply *being familiar* with the subject and to try to *understand* it.

Dmitri Trenin
Deputy Director, Carnegie Moscow Center

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Russia: The Next Ten Years: A Collection of Essays to Mark Ten Years of the Carnegie Moscow Center. Eds. Andrew Kuchins and Dmitri Trenin

Россия: Ближайшее десятилетие: Сб. статей к десятилетию Московского Центра Карнеги / Под ред. Э. Качинса и Д. Тренина; Моск. Центр Карнеги. — М.: Гендальф, 2004. — 150 с.

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This collection of essays, written by current and former staff of the Carnegie Moscow Center and the Carnegie Endowment for International Peace, marks the Center's ten-year anniversary. The pieces offer thoughts on the directions today's Russia is taking and on its prospects for the future. They also consider the most vital issues facing the country: sustaining economic growth, streamlining bureaucracy, presidential power and federalism, social policy, security, and relations with the West, Asia and the former Soviet republics. The publication is aimed at a broad spectrum of readers interested in Russia's economy and its domestic and foreign policy.

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE
1779 Massachusetts Ave., NW, Washington, DC 20036, USA
Tel.: +1 (202) 483-7600; Fax: +1 (202) 483-1840
E-mail: info@ceip.org
http://www.ceip.org

CARNEGIE MOSCOW CENTER
Russia, 125009, Moscow, Tverskaya Ul., 16/2
Tel.: +7 (095) 935-8904; Fax: +7 (095) 935-8906
E-mail: info@carnegie.ru
http://www.carnegie.ru

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