

50th Anniversary  
1961-2011

SECURITY & FOREIGN AFFAIRS / MONOGRAPH



# Hudson Institute

## Can We Manage a Declining Russia?

Richard Weitz

November 2011

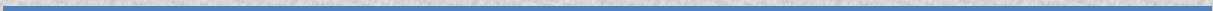
Hudson Institute  
1015 15th Street, NW  
Sixth Floor  
Washington, DC 20005  
[www.hudson.org](http://www.hudson.org)



# **CAN WE MANAGE A DECLINING RUSSIA?**

**Richard Weitz**

**November 2011**



# Table of Contents

## CORE MONOGRAPH

<b>PUTIN 2.0: AUTHORITARIAN UPGRADED?</b> .....	<b>6</b>
<b>ENERGY SUPERPOWER?</b> .....	<b>8</b>
<b>DEATH BY DEMOGRAPHICS</b> .....	<b>23</b>
<b>AN ECONOMIC HOUSE OF CARDS?</b> .....	<b>30</b>
<b>RUSSIAN MILITARY POWER</b> .....	<b>5</b> ERROR! BOOKMARK NOT DEFINED.
<b>REGIONAL FOREIGN POLICY PRIORITIES</b> .....	<b>64</b>
<b>KEY RECOMMENDATIONS</b> .....	<b>79</b>

## COMMISSIONED PAPERS

<b>RUSSIA AND THE LIMITS OF AUTHORITARIAN RESILIENCE</b>	
<b>HARLEY BALZER</b> .....	<b>85</b>
<b>RUSSIA’S DEMOGRAPHIC CONSTRAINTS: DIMENSIONS AND STRATEGIC IMPLICATIONS</b>	
<b>NICHOLAS EBERSTADT AND APOORVA SHAH</b> .....	<b>118</b>
<b>RUSSIAN ENERGY OUTLOOK 2020</b>	
<b>ARIEL COHEN</b> .....	<b>187</b>
<b>THE RUSSIAN MILITARY FACES THE FUTURE</b>	
<b>STEPHEN BLANK</b> .....	<b>212</b>
<b>APPENDIX: ADDITIONAL INSIGHTS</b> .....	<b>289</b>

The material in this monograph results from a year-long study conducted by the Hudson Institute and partially supported by the Smith Richardson Foundation. Principal Investigator Richard Weitz produced the monograph, supported by several commissioned papers and a day-long policy workshop, to assess the possible evolution of the main foundations of Russian power, focusing on key transition points and the windows of strength and vulnerability they create for Russian policy makers. Hudson commissioned experts to write commissioned research papers analyzing the key variables that could affect the evolution of Russia's foreign policy capabilities. Hudson then convened a workshop on April 11, 2011, during which the participants commented on one another's drafts, which were circulated in advance. They then revised them after exchanging their views at the workshop. Dr. Weitz then integrated the workshop findings, the commissioned papers, and his own research and produced this monograph that analyzed the questions addressed by this proposed project.

The imminent return of Prime Minister Vladimir Putin to the Russian Presidency leads one to recall the mixed legacy of his previous eight years in that office. Putin was brought to power by Russia's first president, Boris Yeltsin, who saw the young Putin as a loyal and efficient aide who would protect Yeltsin's friends and family from the constant disorders afflicting Russia at the time. When Yeltsin unexpectedly retired at the end of 1999, he designated Putin as acting president. The move strengthened Putin's candidacy for the March 2000 presidential elections, which he won with slightly more than half the vote. He assumed office on May 7, in a peaceful transition of political power, a rarity in Russian history.

Putin then began a major campaign to restore the authority of the Russian presidency, which had waned under Yeltsin's erratic leadership. Yeltsin's rule was marked by protracted struggles among the factions within his presidential administration, between the president and a parliament filled with many influential opposition legislators, and between the central federal government in Moscow and many semi-autonomous regional entities that at times appeared out of Moscow's control. Although Yeltsin generally made the key decisions regarding Russian foreign and defense policy, large sways of the Russian bureaucracy ran their own operations, often in conflict with other agencies. Meanwhile, wealthy Russians ("oligarchs"), who had seized Soviet assets through questionable privatization schemes, used their wealth to buy political influence as well as private security forces. And regional leaders exploited the chaos in Moscow to carve out considerable autonomy.

Putin slowly consolidated his power, relying heavily on his contacts within the former Soviet security forces. He appointed many of these strong men (Silovoki) to the presidential administration as well as the government bureaucracy and major state-controlled corporations. He tamed the oligarchs by enforcing peace among them while turning on a few of them who had challenged his power. Under the pretext of fighting terrorism and crime, Putin curbed the power of regional authorities and concentrated political authority in Moscow. For example, he ended popular elections for regional governors, instead giving the Kremlin the power to select regional governors. He also rolled back some civil liberties and media freedoms despite the protests of human rights groups. Given that Soviet communism and Western-style liberalism had both failed to bring Russians peace and prosperity during the previous decade, Russian voters generally approved of Putin's "law and order" program and he easily won reelection in March 2004, with 71% of the vote.

In addition to the state's control of the media and the discrediting of alternative ideologies, another factor sustaining Putin's popularity was the economic recovery Russia experienced during his presidency. Starting from the nadir of 1998, Russia's economy grew by very high rates, approximately 7% annually. Putin was lucky that he happened to assume office just when world oil prices started rising and the 1998 currency devaluation made Russian products more competitive in domestic and foreign markets. He also introduced some good economic reforms. The Putin administration exploited its control over Eurasian energy flows to punish unfriendly foreign governments and discourage European criticism of Russian policies. The growing prosperity allowed the state to expand its social programs as well as stabilize military spending.

In his early years in power, Putin continued Yeltsin's policy of seeking good relations with the West and China while launching his own initiative to restore Russian political primacy in Central Asia and the South Caucasus. Putin demonstrated a strong pragmatic streak that enabled him to accept without much fuss the U.S. occupation of Afghanistan, establishment of military bases in Central Asia, and the withdrawal of the United States from the Anti-Ballistic Missile Treaty. Starting in 2006, however, Russian-American differences over ballistic missile defense spilled over to disrupt bilateral relations in other areas. In 2007 and 2008, Putin adopted an increasingly critical, and sometimes belligerent, stance toward NATO countries and partners.

In 2008, many observers expected that Putin would arrange to circumvent the constitutional limit on two consecutive presidential terms. Instead, Putin declined to become president for life, a model followed by some other former Soviet republic leaders. He designated Dmitry Medvedev, a longtime aide and adviser, as his successor. With the backing of Putin and his allies, and with the government's restricting the opposition candidates, Medvedev easily won the March 2008 presidential elections with more than 70% of the vote. After his election, Medvedev carried out his election pledge to appoint Putin his prime minister. Although Dmitry Medvedev is Russia's first post-Soviet president, having been a student at the time of the USSR's disintegration, he has pursued policies that differ little from those of his predecessor.

Some Russian and Western analysts expected that Medvedev's background in private business combined with his liberal reputation—he never joined the Communist Party or served in the KGB or military—would lead him to roll back some of Putin's authoritarian measures in the kind of "thaw" that sometimes occurred after a change in Soviet leaders. Certain observers even thought that Putin chose Medvedev as his successor precisely in order to reduce tensions with the West and to take responsibility for moderating some of Putin's earlier decisions. During his campaign and while in office, Medvedev has publicly called for greater freedoms, for less corruption, and for greater respect for the rule of law.

Despite some high-profile initiatives to promote these objectives, Russia's quasi-authoritarian political system has continued, though power is now awkwardly shared between Medvedev and Putin rather than concentrated solely in the office of the presidency. The changes that have occurred in Russian politics have primarily been those of style rather than substance.

Medvedev is shorter, younger, and generally less threatening in stature and discourse than Putin. Whereas Putin regularly resorts to street slang and gutter language when referring to his domestic and foreign critics, Medvedev's rhetoric is embedded with legal terms and reasoning. The intimidating nationalist (critics would say fascist) youth groups that gained prominence during the last years of the Putin presidency have adopted a much lower profile under Medvedev. In contrast to his secretive predecessor, moreover, Medvedev has increased presidential transparency by posting travel logs and other musings on the Internet, reporting his household income and property (and requiring other senior Russian officials to do likewise, though without providing means of verification), and by conducting interviews with liberal newspapers such as *Novaya Gazeta*, several of whose journalists were killed in still unsolved murder cases.

Under Putin and Medvedev, the prime minister and the president have dominated decision making, coerced the legislature into serving as a highly compliant body under the overwhelming control of pro-Kremlin parties, and reigned in the autonomy of Russia's regions, media, corporations, and other key political and economic actors. Pro-Kremlin political parties, receiving substantial Kremlin support, dominate the political landscape, while other political movements—nationalists, communists, and liberals—have been marginalized.

The distribution of rents earned from energy sales and other sources is very important for the Russian government. The Kremlin uses material benefits and other patronage to purchase support among key elites while threatening to withhold such rewards from would-be defectors from the elite coalition. The government has skillfully created "loyalist" opposition parties and sponsored pro-government non-governmental organizations to crowd out genuine political opposition and those NGOs outside the government's control. The state-controlled and the pro-government business leaders with state contracts dispose of most natural resource revenues and therefore exert the most influence.

The ruling ideology of "sovereign democracy" stresses Russia's need to ward off external predation and hostile foreign influence, but it also implies that Russians must prioritize economic growth and political stability over political freedoms. Although Russia's political system relies on economic growth to generate the rents needed for political manipulation, Russian leaders prioritize political stability and therefore eschew economic reforms that, while promoting economic modernization, could threaten their political support. For example, the state limits privatization and deregulation that could relinquish its control over national economic assets that could provide resources to potential political opponents. Political reformers stress the need to diversify the Russian economy beyond natural resources and pursue innovation and modernization. But Putin's team has considerable personal financial interest in the resource-based development model centered on distributing rents. The government also tightly regulates foreign investment, despite its negative effects in constraining access to foreign capital and technologies.

Russia's leaders pursue modest economic and political liberalization to mitigate pressures for more comprehensive political and economic reforms. The political authorities tolerate groups that have non-political agendas and mobilize to address specific problems, but repress groups,

by social manipulation when possible but with force if necessary, that seek to overturn the existing political system through mass action. Media controls are scaled, with the most extensive government controls applied to the most widely used communication sources, such as television. The Internet, specialized journals, and other less popular media are often manipulated rather than controlled. The government hires pro-regime writers and bloggers to communicate its messages. Russian officials are aware that excessive Internet controls can inhibit economic growth by denying business and public decision-makers access to important information.

Observers constantly speculated about the relationship and relative influence between the two men. Observers constantly discussed the extent to which Medvedev was trying to distance himself from Putin. Some analysts see Medvedev as trying to introduce genuine reforms but lacking the power to do so. The president is surrounded by many officials and aides appointed by, and presumably loyal to, Putin. In addition, Medvedev lacks any formal role in the ruling United Russia Party, which Putin heads. Although opinion surveys show that Medvedev enjoys broad popular support, if somewhat less than Putin, Medvedev lacks any strong support base beyond perhaps the legal profession. Putin still enjoys the allegiance of the dominant political, business, and security elite that wields real political power in contemporary Russia.

Now the end of the Putin-Medvedev tandem might bring greater order to the Russian inter-agency system by enshrining both formal and informal powers in the single personality of Putin rather than dividing them between the presidency and the prime ministership

## **PUTIN 2.0: AUTHORITARIAN UPGRADED?**

In his essay “Russia and The Limits of Authoritarian Resilience,” Harley Balzer of Georgetown University analyzes the Russian political system’s potential for “authoritarian upgrading,” in a comparative context, with China and the Arab countries serving as the main points of comparison. Scholars have devoted particular attention to the active efforts by authoritarian rulers to “upgrade” not only their repressive security systems, but also their media and other proactive techniques to strengthen their respective holds on power. For example, authoritarian regimes have appropriated and contained civil society, managed political competition, manipulated the benefits of selective economic reforms, adopted means to control new communication technologies, and sought and received support from authoritarian powers like China.

The distribution of rents earned from energy sales and other sources is very important for the Russian government. The Kremlin uses material benefits and other patronage to purchase support among key elites while threatening to withhold such rewards from would-be defectors from the elite coalition. The government has skillfully created “loyalist” opposition parties and sponsored pro-government non-governmental organizations to crowd out genuine political opposition and those NGOs outside the government’s control. These government organized non-governmental organizations (“GONGOs”) include labor unions, public chambers, and mass movements like the pro-Putin youth movement Nashi (“Ours”). Rents and extra-legal payments are also important in the private sector. For example, the best

countermeasure businesses can use to counter “raiderstvo” (raiding) by politically connected criminal groups is to employ their own “anti-raider” groups. The state-controlled and the pro-government business leaders with state contracts dispose of the most resources and therefore exert the most influence.

The ruling ideology of “sovereign democracy” stresses Russia’s need to ward off external predation and hostile foreign influence, but it also implies that Russians must prioritize economic growth and political stability over political freedoms. Although Russia’s political system relies on economic growth to generate the rents needed for political manipulation, Russian leaders prioritize political stability and therefore eschew economic reforms that, while promoting economic modernization, could threaten their political support. For example, the state limits privatization and deregulation that could relinquish its control over national economic assets that could provide resources to potential political opponents. Political reformers stress the need to diversify the Russian economy beyond natural resources and pursue innovation and modernization. But Putin’s team has considerable personal financial interest in the resource-based development model centered on distributing rents. The government also tightly regulates foreign investment, despite its negative effects in constraining access to foreign capital and technologies.

The government pursues modest economic and political liberalization to mitigate pressures for more comprehensive political and economic reforms. The political authorities tolerate groups that have non-political agendas and mobilize to address specific problems, but repress groups, by manipulation when possible but with force if necessary, that seek to overturn the existing political system through mass action. Media controls are scaled, with the most extensive government controls applied to the most widely used communication sources, such as television. The Internet, specialized journals, and other lesser used media are often manipulated rather than controlled. The government hires pro-regime writers and bloggers to communicate its messages. Russian officials are aware that excessive Internet controls can inhibit economic growth by denying business and public decision-makers access to important information.

Russia’s current political system has several short-term and long-term vulnerabilities. Restrictions on political expression deny the authorities a feedback mechanism for identifying and correcting flawed policies. The case of Georgia’s Rose Revolution demonstrates that authoritarian regimes are vulnerable when fraud and political manipulation grow so extensive that they undermine a regime’s legitimacy. The Arab Spring illustrates how denying people opportunities to express even minimal political opposition can lead to mass social protests that demand a change of regime rather than merely its policies. The “power vertical” dominating economic and political life in Russia stifles personal initiative and institutional reform due to excessive control. Poor economic performance threatens political instability by weakening the regime’s ability to generate the benefits on which elite and popular support payments depend. Yet, sustained economic growth can over time create a larger class of wealthy or middle-class individuals who can afford to make an “ideological investment” in democratization even if it means incurring some short-term economic costs by losing regime payments.



The Chinese authoritarian system is more effective than the Russian regime at increasing political institutionalization, improving governance, and providing economic benefits to a growing portion of the population. Unlike China, Russia has yet to develop an effective system of political succession or a rotation of elites. The current “tandem” relationship between President Dmitry Medvedev and Prime Minister Vladimir Putin both reflects and reinforces weak political institutionalization. The roles and constitutional responsibilities of both offices have become confused. Since 2000, Russia’s authoritarian government has reduced political uncertainty, but made the process of selecting political leaders less transparent and therefore is contested in both formal and informal ways that threaten stability. The Chinese people know who the “selectors” are, even if the process of selection itself is opaque. Chinese popular criticism regarding pervasive corruption and other regime problems is focused against local officials rather than the central government or Communist Party. The current Russian regime has been fortunate in that it faces a weak and divided political opposition, but this favorable condition is not guaranteed to endure forever.

Yet, the ability of political and economic elites to undermine President Medvedev’s reform efforts demonstrates that genuine economic and political change requires a significantly modified political system. Needed reforms include: restoring competitive national and local politics, guaranteeing an independent judiciary and restoring jury trials, reforming the fiscal system, reducing the bureaucracy’s role in the economy, encouraging greater worker migration into the less populated parts of Russia, promoting genuine federalism and horizontal links among federal elements, ending conscription, and promoting security sector reform and the rule of law.<sup>1</sup>

## **ENERGY SUPERPOWER?**

As Ariel Cohen notes in his paper, the Russian Federation currently stands as a monolith in the field of global energy production. Russia is one of the largest and most influential energy producers, with 77.4 billion barrels of proven oil reserves and an astounding 44.8 trillion cubic meters of natural gas reserves, amounting to almost one-quarter of the global total. Over the course of the last decade, Russia has steadily produced between 500 and 600 billion cubic meters of natural gas per year, with production topping out at 601.7 billion in 2008 and amounting to 588.9 billion in 2010, an 11.6% increase from 2009. All told, in 2010 Russian natural gas production accounted for close to one-fifth of the global total, all while maintaining a reserve-to-production-ratio of 76, signifying the immense potential for growth in the Russian natural gas sector.<sup>2</sup>

The expansion of the Russian energy sector into the largest such sector worldwide has of necessity translated into increased influence in global energy markets and political clout in its relations with the numerous states that remain more-or-less dependent on Russian energy.

---

<sup>1</sup> *Obretenie budushchego: Sretegija 2012* (Moscow: The Institute for Contemporary Development, 2011), [http://www.insor-russia.ru/files/Finding\\_of\\_the\\_Future%20FULL\\_.pdf](http://www.insor-russia.ru/files/Finding_of_the_Future%20FULL_.pdf).

<sup>2</sup> “BP Statistical Review of World Energy,” BP, June 2011, pp. 6, 20, [http://www.bp.com/assets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2011/STAGING/local\\_assets/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_report\\_2011.pdf](http://www.bp.com/assets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2011.pdf).

Furthermore, the centrality of energy production and energy revenue to the health of the Russian economy as a whole has also brought energy issues to the forefront of Russian domestic politics and foreign relations. The Kremlin considers energy security to be absolutely vital to its vision of the Russian future and the wellbeing of the country as a whole. The Russian Energy Strategy, adopted in 2003, enshrined this philosophy and has prompted a series of aggressive policies on the part of the Kremlin. In its efforts to ensure the success of its energy strategy, Moscow has demonstrated a willingness to use its energy resources for political and economic leverage in its foreign relations.

While Russian natural gas production rates have remained relatively stable if enormous over the course of the last decade, Russia has steadily enhanced and expanded its oil production over that same period. Since 2000, during which Russia produced 6.536 million barrels of oil per day, making it the third largest oil producer worldwide behind only Saudi Arabia and the United States, Russian oil production has seen a marked increase each and every year. In 2010, Russia produced 10.27 million barrels of oil per day, amounting to a 57.1% increase in oil production over the past decade and making it the largest producer of oil globally for the second year running, after surpassing Saudi Arabian production in 2009. As a function of its status as the largest producer of both oil and natural gas as of 2010, Russia has cemented itself as the largest, most influential global energy producer of the early 21<sup>st</sup> century. Furthermore, much of the Russian Arctic and swaths of Siberia remain unexplored with regards to energy production and many energy experts have predicted that these untapped regions will yield as much as one-quarter of the global energy supply throughout the early part of the 21<sup>st</sup> century.

Moscow's EU-energy policy is to approach the different EU states on an individual basis in order to price-discriminate and get the maximum price possible from each. Additionally, Russia attempts to lock in supply by consolidating control over strategic energy infrastructure throughout Europe and Eurasia. For example, in 2002, Moscow attempted to buy major energy infrastructure holdings in Lithuania and Latvia. When both countries refused to cede control, Moscow sharply cut oil deliveries to both states. Additionally, in April of 2010, Russia used its control over Ukraine's gas supply to extend its Black Sea Fleet's lease of the naval base at Sevastopol for an additional 25 years, in exchange for lower gas prices to Kyiv. These instances of Russia leveraging its energy primacy for geopolitical gain in Europe are likely to repeat themselves. Russia's energy policy is based around maintaining control of these energy corridors and denying Europe any alternative energy pathways. European demand, particularly from Eastern Europe, was very high before the recent economic crisis, and is projected to grow further, provided the current geopolitical instability does not cause another global recession. Russia has criticized Europe's approach to international energy security as limited to the energy importers' interests. While talking of interdependence and dialogue, Russia has insisted on providing demand guarantees for the producers, and sharing responsibilities and risks among energy suppliers, consumers, and transit states. Russia's actions have not backed up its visions for a new "global energy security" due to the state policy of not budging from monopolizing gas production or oil and gas pipeline transportation. To Europeans, energy dependence on Russia is unsettling.

The existing Soviet-era oil and gas pipelines from the Baltic to the Black Sea give Russia strategic control over oil and gas flows in the former Soviet Union. Putin-era expansion plans

have allowed Russia to bypass problematic transit countries such as Belarus and Georgia, while further consolidating control over Europe's oil and gas supply. The EU and United States have supported several large projects to diversify energy supply routes into Europe, yet the Kremlin has assertively opposed any Western-controlled pipeline projects. Russian owned companies have consistently working to undermine the European Nabucco project, which aims to bring Caspian gas via Turkey, Bulgaria, Romania and Hungary to Austria and the heart of Europe. Moscow is signing multibillion-dollar deals with individual European states to construct the following pipelines, under Russian control: Nord Stream, South Stream, and Blue Stream II. A suggested approach for Europeans to deal with Russian dominance of energy supply routes is to apply EU anti-trust laws.

These policies and the aggressive ethos that underlies them remain of concern to the various states of Europe, the European Union, and the United States, among others. Even though the United States is not an importer of Russian energy, almost all of its major European allies are major importers of Russian oil and gas. Even as EU energy consumption has dipped in the wake of the most recent global recession and the debt crises that have plagued the Eurozone, the EU continues to be very dependent on Russian energy exports. In 2009, Europe is estimated to have consumed 13.63 million barrels of oil daily, amounting to approximately 4.975 billion barrels on the year, and 487.9 billion cubic meters of natural gas, and experts predict energy demand in the EU will increase significantly over the course of the next few decades, including a 14%-23% increase in demand for natural gas until 2030.<sup>3</sup> As of 2008, Russia energy exports constituted the largest percentage of EU imports of hard coal, crude oil, and natural gas, accounting for 27.3%, 29%, and 31.5% of the totals respectively.<sup>4</sup> To put that dependency in perspective, oil and natural gas accounted for approximately 60% of all energy consumed within the EU in 2009, with solid fossil fuels making up a further 16%.<sup>5</sup> The sheer volume of energy supplied by Russia to the EU will make it extremely difficult for the EU to divest itself from the relationship or challenge the Russian government in bilateral or multilateral relations without fear of experiencing crippling delays in supply. Similar tactics have been used by the Russian government to influence policies in many of the states of the Commonwealth of Independent States (CIS) and the Former Soviet Union (FSU). As much of the Russian energy infrastructure operates through a system of pipelines built during the Soviet era, these states often remain wholly or partially dependent on Russian natural gas to a much greater extent than does the rest of Europe.

As expansion in the Russian energy sector has in large part fueled the ongoing Russian economic resurgence and become the backbone of a Russian economy that has averaged 7%

---

<sup>3</sup> "Country Comparison : Natural Gas – Consumption," CIA World Factbook, 2009, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2181rank.html>; and "Long-term Outlook for Gas Demand and Supply, 2007-2030," Eurogas, June 5, 2010, p. 2, [http://www.eurogas.org/uploaded/Eurogas%20LT%20Outlook%202007-2030\\_Final\\_251110.pdf](http://www.eurogas.org/uploaded/Eurogas%20LT%20Outlook%202007-2030_Final_251110.pdf).

<sup>4</sup> "Main Origin of Primary Energy Imports, EU-27," Eurostat, October 22, 2010, [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:Main\\_origin\\_of\\_primary\\_energy\\_imports,\\_EU-27\\_\(%25\\_of\\_extra\\_EU-27\\_imports\).png&filetimestamp=20101022072021](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Main_origin_of_primary_energy_imports,_EU-27_(%25_of_extra_EU-27_imports).png&filetimestamp=20101022072021).

<sup>5</sup> "Eurogas Statistical Report 2010," Eurogas, 2010, p. 5, [http://www.eurogas.org/uploaded/Eurogas%20Statistical%20Report%202010\\_Final%20291110.pdf](http://www.eurogas.org/uploaded/Eurogas%20Statistical%20Report%202010_Final%20291110.pdf).

GDP growth since 1999.<sup>6</sup> It is likely that over the next few decades the Kremlin will continue, and possibly speed up, this expansion, particularly in the realm of natural gas. However, since Moscow has demonstrated that it views free energy markets, both domestically and regionally in both the FSU and Europe as a whole, as detrimental to its interests, the Russian energy future will likely be characterized by state-directed consolidation, centralization, and control. Such a combination will present unique challenges both internationally and regionally as importers of Russian oil are faced with the difficulties brought about by what will likely be an increasingly monopolistic Russian energy regime that commands a larger global market share and which remains centrally controlled. Russian energy dominance will most likely translate into political power, especially in bilateral relations with its patrons, which will provide Moscow with leverage and a greater breadth of action on the international stage. In order to counteract this trend, the United States and Europe must work cooperatively to develop alternative sources of supply, thereby lessening Russian influence over its energy clients.

The Russian oil and gas sector is notorious for easing domestic and foreign corporations out of majority equity stakes in Russian mega-projects and for consolidating domestic ownership in the hands of government-controlled entities. Although Russian leadership has officially rejected state capitalism as a model for Russia, the Kremlin is massively consolidating its share in the Russian energy sector. The Russian push for control over the energy sector has led to multinational corporations being forced out of business in Russia, with Royal Dutch Shell and BP as two recent examples. Domestic consolidation of the oil and gas sector increases Moscow's leverage of its energy as a foreign policy and security tool, as well as opening the door for further corruption and statist economic policies. The Kremlin effectively operates a series of opaque energy monopolies, the largest and most critical of which are Gazprom, which manages Russian natural gas production and gas pipelines, and Transneft, which operates oil transit pipelines, in a domestic energy market that almost completely restricts international investment or access. Furthermore, the Russian government has continued to consolidate its domestic energy industry through attempts to monopolize the oil production sector. In mid-2005, Gazprom purchased the Sibneft oil company for thirteen billion dollars, and in 2007, after a year of attacks on the company and its executives by the federal government, the Russian government was able to purchase the Rosneft oil company as well.

This type of officially sanctioned coercion, marginalization, and persecution received international attention during the trial and imprisonment of Mikhail Khodorkovsky. The owner of the Russian oil firm YUKOS and at one time the richest man in Russia, Khodorkovsky was tried and imprisoned in 2003 on trumped up (and likely absurd) charges of tax evasion and fraud. In the aftermath of his arrest and conviction, the Russian government froze YUKOS' assets, bankrupting the company, and subsequently induced a fire sale of YUKOS' holdings, the majority of which were sold at a discount to firms owned by the Russian government including Gazprom, which received YUKOS' most valuable assets in the sale. Furthermore, Khodorkovsky, who had been outspoken in his opposition to President Putin's government, was in 2009 tried and again convicted on likely fraudulent charges of

---

<sup>6</sup> Lúcio Vinhas de Souza, "A Different Country: Russia's Economic Resurgence," Vox, June 13, 2008, <http://www.voxeu.org/index.php?q=node/1224>.

money laundering and embezzlement, keeping him behind bars until 2019.<sup>7</sup> The persecution of Khodorkovsky by the Kremlin in an effort to destroy him and expropriate his company demonstrated the extent to which the Russian government is willing to act extra-legally to ensure its monopoly within the energy sector. Furthermore, it showed that within the realm of energy, the true arbiter of economic policy decision-making is not free enterprise, the consumer, or market forces, but rather the decision makers inside the Russian government.

A similar case, that of Sergei Magnitsky, dovetails with the Khodorkovsky case as it demonstrates the extent to which the central government and the bureaucracy is willing to violate the rules of law and justice in order to silence a critic in the private sphere. Magnitsky was a lawyer employed by Hermitage Capital Management, an investment firm that traded shares in a large number of Russian firms, including state monopolies such as Gazprom. Hermitage's CEO, William Browder, while generally an advocate of the Putin regime, challenged the central government by questioning management practices at some of the country's largest companies, at times even campaigning against corruption in the highest ranks and also provided information on corruption to the media. Browder's outspoken criticism of the system resulted in his expulsion from the country, raids on the Hermitage offices and the offices of the law firm he employed, of which Magnitsky was an employee, and ultimately fabricated charges of fraud that resulted in the incarceration and enhanced interrogation of Sergei Magnitsky. Magnitsky died in prison due to a lack of proper medical care while Russian authorities attempted to force him to testify against his former employer.<sup>8</sup> Browder, who was just recently charged by the Russian government with tax evasion and is now facing extradition,<sup>9</sup> has stated that Magnitsky had been "held hostage and [the Russian state] killed their hostage."<sup>10</sup>

Abuses of the rule of law in the private sphere at the behest of the central government such as those typified by the Khordorkovsky and Magnitsky cases undermine potential Western involvement, engagement, and investment in Russia. This effect has been particularly pronounced in the energy sector as it is the most centrally controlled segments of the economy and, as was the case with the appropriation of YUKOS, has seen wholesale legal abuses that directly undermine the pursuit of free enterprise. Western companies and investors have been largely bearish on investing in the Russian market due to the unpredictability of decision makers in the Kremlin, the harassment and coercion that characterize doing business in the energy sector, and the threat of catastrophic losses through forced centralization or consolidation. While these problems are deeply embedded in the system itself and it will most definitely be difficult to reform the culture of the business-culture-central government nexus

---

<sup>7</sup> Catherine Belton and Isabel Gorst, "Russian Oil Tycoon Khodorkovsky Convicted of Embezzlement," *Washington Post*, December 27, 2010, <http://www.washingtonpost.com/wp-dyn/content/article/2010/12/27/AR2010122700361.html>.

<sup>8</sup> "Sergei Magnitsky One Year On," *The Economist*, November 16, 2010, <http://www.economist.com/node/21013016>.

<sup>9</sup> Henry Meyer, "Russia to Charge Browder With Tax Evasion, May Seek Extradition," *Bloomberg*, May 16, 2011, <http://www.bloomberg.com/news/2011-05-16/russia-to-charge-william-browder-with-tax-evasion-might-seek-extradition.html>.

<sup>10</sup> "Russia is Now a 'Criminal State', says Bill Browder," *BBC*, November 23, 2009, <http://news.bbc.co.uk/2/hi/8372894.stm>.

in Russia, change is possible; indeed, measures are being taken domestically and internationally to eliminate the deficiencies within the system and encourage investment.

In recent years, Medvedev has lobbied for reform of the legal and judicial system in an effort to create an open, fair investment climate that will protect the rights of businesses and investors. His Magnitogorsk Initiatives are a series of policy prescriptions designed to eliminate corruption and completely reform the economic climate. These ten policies were named for the arena at which they were proposed, the Magnitogorsk Iron and Steelworks, one of the largest such companies in Russia that grew out of the symbolic Soviet-era manufacturing town of the same name. At the 22nd meeting of the Commission for Modernisation and Technological Development of Russia's Economy on March 30, 2011, in Magnitogorsk, Medvedev proposed the creation of a fully transparent mechanism to investigate allegations of official corruption and make public the results of any inquiry, the allotment of powers to a number of governmental bodies making them capable of overturning state regulations that are detrimental to business and investment, and an increase in dialogue between business leaders and the government. Additionally, and arguably most importantly, he proposed an initiative to "set and make public a timetable for privatising large government shareholdings over the next three years."<sup>11</sup> In the months following Medvedev's policy presentation, progress on the implementation of these new policies has been marred by missed deadlines, incomplete measures, and, in a number of cases, intentional internal derailment of the proposed reforms. Furthermore, it appears that while the changes that have been made have been received positively in international markets, the removal of obstacles to reform and much more substantial change will be necessary to attract significant amounts of foreign investment.<sup>12</sup>

Similar to its attempts to dominate its domestic energy production and energy transit sectors, Russia has sought control over the European and Eurasian energy markets through consolidation of energy supply corridors and production sources. This trend continues to worry European policymakers that desire to divest themselves from a dependency on Russian energy supplies that is only reinforced by the Kremlin's control over the European market. Russia has undertaken this consolidation through a three-pronged strategy. First, its state-owned enterprises, including Gazprom and Transneft, have slowly but surely acquired much of the strategic energy infrastructure in the natural gas sector throughout Europe. Secondly, it has invested billions of dollars in the expansion of its own pipeline system, allowing it to supply natural gas directly to the majority of the European Union. As much of this supply occurs bilaterally, Russia is able to practice price discrimination, charging each state as much as it can afford to pay. Finally, while the existing Soviet-era pipeline infrastructure gives Russia almost complete control over energy supplies to the Former Soviet Union, it has sought to acquire large shares of the natural gas production and transit infrastructure throughout Eurasia in order to preserve its market share in Europe and protect the viability of its own strategic resources.

---

<sup>11</sup> Dmitry Medvedev, "Ten Measures to Improve Investment Climate," Kremlin Web Site March 30, 2011, <http://eng.kremlin.ru/misc/1985>.

<sup>12</sup> "Russia: Progress on Magnitogorsk Initiatives—Positive at the Margin for Markets, But not Enough to Attract FDI," Eurasia Group, July 11, 2011, <http://www.eurasiagroup.net/research-highlights/2>.

In Europe, Russia has openly challenged the status quo in the realm of energy security, stating that the current system is unfairly biased in that it represents the interests of powerful, largely Western European net importing countries more than net exporters. Through a skillful integration of politics and energy economics, Russia has systematically acquired an immense amount of influence over the countries of Eurasia and the European Union through their dependence on Russian natural gas. Europe's ability to engage in bilateral diplomacy with countries within the Russian energy orbit as well as its ability to challenge Kremlin policy in the future will be slowly but surely eroded as European dependence on Russian oil and natural gas grows. Even so, Russia has repeatedly pledged to remain a stable, cooperative energy supplier to Europe for the foreseeable future, despite the opacity regarding energy supplies, natural resource development, and plans for the Russian energy future that has characterized the regime. Energy security topped the agenda of the 2006 G8 Summit hosted by then Russian President Putin in St. Petersburg, at which he presented an action plan to his G8 counterparts that called for, amongst a host of other prescriptions, "open, transparent, efficient and competitive markets for energy production, supply, use, transmission and transit services," and "transparent, equitable, stable and effective legal and regulatory frameworks." President Putin went on to state that Russia would remain a reliable energy supplier to all of Europe, asserting that Russia's record "rivals that of any energy provider in the world."<sup>13</sup>

While Putin preached cooperation, transparency, and fairness at the summit, the actions of the Russian government in the energy sector over the past decade have not always matched the official rhetoric. At the very same G8 Summit, Putin insisted on a series of reforms that stand as an attempt to shift the energy balance of power in Europe towards exporting countries, including demand guarantees for suppliers and risk-sharing between suppliers, transit states, and consumers. Additionally, the Putin and Medvedev governments have demonstrated a penchant for ruthlessly pursuing the Kremlin's energy security strategy through consolidation and control in the domestic sphere, the creation of a legislative regime antagonistic to Western investment, and the use of energy supply as a political tool on the international stage. The aggressive nature of the Russian stance on its energy security, coupled with likely expansion of its resource base and production capabilities, are likely to negatively impact not only the states already within the Russian energy sphere, such as the majority of the Commonwealth of Independent States (CIS), but the European Union and United States as well. As such, Brussels and Washington will seek to promote transparency within the Russian legal and economic spheres as regards natural resource development and a more cooperative relationship with the Russian Federation as an energy supplier and international partner.

Russia's strategy of integrating its geopolitical and geo-economic policies is causing growing concern in both Brussels and Washington. In Europe's case, its dependence on Russian gas and oil diminishes its ability to deal bilaterally with other energy exporting nations, such as Azerbaijan and Turkmenistan. Russia's increasing desire to export oil and gas to energy hungry Asian markets may also be cause for concern for Europe. By 2030, Russia expects to sell 30% of its oil and 15% of its natural gas to Asia. If this occurs, Russia will likely invest more heavily in eastward oil pipelines than westward, with Europe suffering as a result from higher demand. Despite being the world's largest energy consumer, the United States only has

---

<sup>13</sup> "Global Energy Security Fact Sheet," G8 Summit, 2006, [http://www.en.g8russia.ru/press/facts/global\\_energy/..](http://www.en.g8russia.ru/press/facts/global_energy/)

limited dealings with Russia's oil and gas sector. Moscow has also derailed attempts by U.S. oil majors to buy a significant non-controlling stake in a large private Russian company such as YUKOS. On the other hand, Gazprom considered and abandoned plans to export LNG to U.S. West Coast. Washington's main concern is that the Kremlin will exploit its energy leverage in Europe at the U.S. expense. The United States should encourage Europe to diversify its energy sources and develop a common energy policy toward Russia

The United States and the European Union have, in efforts to reduce European dependency on Russian energy, have systematically financed a series of pipeline projects designed to diversify energy supply to Europe through the creation of alternative supply routes. In the 1990s, they facilitated the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Erzurum (BK) pipeline, which together bring Caspian oil and gas from Azerbaijan through Georgia to Turkish ports for export to the European market. Russia was unable to challenge the construction of these pipelines at the time, due to its weakened geopolitical stance in the aftermath of the fall of the Soviet Union. However, the detrimental effect on its control of the European market caused by the BTC and BK pipelines has hardened the Kremlin's resolve to challenge such endeavors in the future.

The most recent attempt to diversify energy supply to Europe comes in the form of the Nabucco project and the Trans-Caspian gas pipeline (TCG). The Nabucco project, announced in 2002 and slated to become operational in 2015, will bring Caspian gas to the heart of the European Union via Turkey and a host of European partners. Additionally, the Trans-Caspian gas pipeline, a project now in limbo as a result of competing Russian projects, would have likely transported gas from Turkmenistan and Kazakhstan across the Caspian Sea to the Nabucco pipeline and other U.S.- and EU-backed project. In response to these competing Western pipeline projects, Gazprom and Transneft have begun negotiations with a number of European governments to construct three separate competing gas pipelines: Nord Stream, South Stream, and Blue Stream II. In 2003, only a year after the Nabucco project was announced, then-President Putin signed an agreement with the German government to construct the Nord Stream pipeline. The proposed pipeline, which is slated to come online some time in 2013, will provide Russian natural gas to Germany; furthermore, it will cross along the seabed of the Baltic Sea, travelling directly from the Russian port at Vyborg to the German port at Greifswald. While the construction of a pipeline along the seabed is over three times as expensive as the construction of a similar overland pipeline, Russia will benefit immensely from its investment, as Nord Stream will bypass Ukraine, Belarus, and Poland, reducing transport costs and consolidating Russian control over the energy supply to Germany and the center of Europe. The Nord Stream project has been the subject of protest from all sides. Specifically, the bypassed governments have been outspoken regarding what they believe to be the political motivations underlying the construction of Nord Stream.

While Nord Stream will consolidate Russian control over the European energy market, the real foil to the Nabucco project comes in the form of the South Stream pipeline. In 2007, the Kremlin and the Italian government signed a memorandum of understanding regarding the construction of a Russian pipeline to supply natural gas to Italy. South Stream, scheduled to begin transport of gas in 2015, will travel from Russia across the Black Sea, through Bulgaria, and finally to Italy. Scheduled to be completed the same year as the U.S.-backed and E.U.-



backed Nabucco pipeline project, the two will be in direct competition on two levels. First, each will be competing for sources of supply in the Caspian region. Second, the two pipelines will compete for the Central and Southern European energy supply market. The Russian project appears to have a competitive advantage in both arenas, as Russia will likely try to cut the Nabucco project off from its Central Asian suppliers and, as a result, provide natural gas in such quantities and at such prices to Europe so as to outstrip the Nabucco project in terms of profitability. Furthermore, the Blue Stream II pipeline, which will carry gas from Russia's North Caucasus to Turkish ports, and the expansion of the Prikaspiisky gas pipeline, which will transport Turkmen gas to Russia, both negatively impact the Nabucco and TCG projects, likely rendering them unprofitable or impotent.

The Russian Federation has sought, in addition to its campaign to control the European energy supply market, to negotiate whole or partial stakes in the energy supplies of Eurasia. While Russia does boast the largest gas reserves worldwide, the consolidation of control over Eurasian energy supplies remains central to the Kremlin's energy security strategy, as control over these strategic energy supplies will allow it to maintain and even expand its share of the European energy market all while maintaining the future viability of its own natural resource wealth. Since the early 2000s, Moscow has negotiated a series of long-term exploration and supply agreements with Kazakhstan and Uzbekistan that have precluded any attempts by Western, or to a lesser extent, Far Eastern governments or companies to gain a foothold in this energy rich region. These agreements, which will allow Russian state-owned companies such as Gazprom to develop much of the Kazakh and Uzbek gas sector, have consolidated Russian control over much of the region's energy relations with the rest of the world. Specifically, strong ties between Russia and the governments of Eurasia will lessen the role of Western companies in the development of the Caspian gas sector, likely defeating the European goal of diversifying its gas supply through joint development in the region.

However, Russian dominance of Eurasian energy is far from complete. The lynchpin of the Russian natural gas strategy in this region is Turkmenistan, as it is one of Russia's largest gas suppliers and is thus central to Russia's ability to meet demand in Europe. While energy relations between Russia and Turkmenistan remain close, it is by no means certain that Turkmenistan remain in the Russian energy orbit for the foreseeable future. Construction of a trans-Caspian gas pipeline that would travel from Turkmenistan to Azerbaijan overland, bypassing Russian influence, is currently underway despite strong opposition from the Kremlin. Currently on schedule to come online in 2015, this trans-Caspian pipeline would be able to access the European market through Caspian ports, undercutting Russia control of the European market. However, the possibility remains that this pipeline could connect to the expanded Prikaspiisky gas pipeline, bringing much of Turkmenistan's gas exports back into the Russian orbit.

While Russia has made advances into the Eurasian gas sector, many experts now believe that falling gas prices in Europe as a result of the financial crisis have undermined the Russian gas strategy in Eurasia. Currently, gas prices in Europe remain below the prices promised by Russia to its Eurasian suppliers, a fact that has damaged Russian influence in the region. While a European recovery would revive the Russian position in Eurasia, such a strong recovery appears unlikely, at least in the short term, due to the crisis in the Eurozone. Even so,

Russia will likely continue to expand its influence over Eurasian gas supply in the coming decades, though it may take much longer than many policymakers in the Russian government had initially anticipated.

Europe is at a serious disadvantage due to its lack of a unified energy policy. This grants Russia considerable leverage in the energy trade as it can play its West European clients against one another. Indeed, the Kremlin clearly intends to continue its game of realpolitik in Central and Eastern Europe, actively seeking to consolidate control over all levels of energy transport on the continent while exploiting the division of its wealthy Western clients. The decline of domestic EU oil and gas production only stands to increase near-term European dependence on Russia. Nonetheless, it should be noted that the revenue stream from gas exports to Europe is vital to the Russian economy, so presenting an Achilles Heel for the Kremlin. At present, 90% of Russian gas and 60% of its crude oil goes to European clients. In his 2010 paper on the subject, Christophe Paillard (head of the French Defense Ministry's Industrial Trends department) found that as much as 40% of Russian public funds are drawn from the European energy trade alone, constituting some 75% of total export revenues. Given the degree to which Moscow's legitimacy depends upon public largesse from state funds, it would be suicidal for the Russian government to contemplate seriously disrupting the European revenue stream. The European market's value to Russia is even disproportionate to its size: in 2008, European markets accounted for only 30% of Gazprom's total sales, while representing 60% of its revenue. Evidently, the developed economies of the West European market can bear significantly higher prices than Russia's other, developing, customers can, making it even more irreplaceable. Therefore, the Euro-Russian energy trade is a double-edged sword. Even without a coherent European energy policy, Russia cannot risk too much brinkmanship on energy prices because it depends too heavily on the revenue generated by European exports. With limited prospects for meaningful diversification within the next decade, it is unlikely that Russia will be any less dependent on energy exports by the 2020s, and the continued growth of European demand suggests that the European market will still make up the lion's share of those exports.

Obviously, Moscow has sought to correct this strategic liability by expanding into Far Eastern markets. However, given the state of East Siberian transport infrastructure, it is not conceivable that China, Korea and other Asian economies could match European energy revenues in the near future. In order to supply Asian demand, Russia would have to significantly expand its Siberian infrastructure. Such construction projects in the remote Far East are a daunting prospect in general, made even more complicated by Moscow's protectionism. For example, the Kovytko Pipeline project – intended to link the Irkutsk gas field to East Asia – could potentially supply as much as 33% of South Korea's gas demands in the next three decades. This would be a huge breakthrough for Russia in the East Asian energy market. Kovytko's construction, however, has been stalled for more than a decade by Russian economic nationalism. Rebuffing Sino-Korean offers of a joint venture, the Kremlin instead undertook to bring Kovytko under Gazprom's control, succeeding in March 2011, with the stated intention of diverting the field's production for domestic use. This is illustrative of the degree to which Russian protectionism hamstringing the development of infrastructure essential for the realization of its East Asian ambitions. Russia's infrastructure is in dire need of renovations. The cost of those repairs, coupled with hostility towards foreign

investment, make it even more unlikely that Russia will successfully expand its East Asian export capacity in a timely and efficient fashion. If Russia is to expand its Asian exports to 30% of its oil and 15% of its natural gas, it will almost certainly have to revise its policies concerning foreign investors.

Apart from the expansion of the existing Russian energy infrastructure that will allow it to maintain control over a much larger portion of the energy trade to its West, Moscow is currently pursuing expansion to the East, towards the burgeoning markets of Asia and the Pacific. Construction on the East-Siberia-Pacific Ocean Pipeline (ESPO) began in 2006 under the supervision of the centrally controlled company Transneft. The pipeline is to have two primary stages. The first, which runs from Taishet in Eastern Siberia to Skovorodino, was completed in late 2009 and is currently up and running with a capacity of approximately 600,000 barrels of oil per day. The second stage, which will run from Skovorodino the port city of Kozmino on the Pacific Ocean, is currently under construction and will likely be complete by 2014, allowing Russia to more easily export oil directly in the Asian markets. During the construction of the second stage, Russia will continue to transport close to half that capacity, 300,000 barrels per day through 2014, from Skovorodino to Kozmino by rail in order to supply the Asian markets. Additionally, another branch pipeline, which diverges at Skovorodino, travels to the Chinese city of Daqing, supplying the Chinese market with 300,000 barrels per day as well, though supply levels through the Daqing pipeline could increase in the future.<sup>14</sup> In the realm of natural gas, Russia is nearing the completion of the Sakhalin-Khabarovsk-Vladivostok gas pipeline, which will run from the Sakhalin offshore gas fields in the Russian east to the major pacific port city of Vladivostok. The project was planned and undertaken under the auspices of Gazprom's Eastern Gas Program, which was assumed taking into account the potential for gas exports to the Far Eastern markets. The Sakhalin-Khabarovsk-Vladivostok pipeline, while primarily tasked with supplying the Eastern Russian domestic market, will "create additional potential for gas exports to Asia-Pacific countries," according to Gazprom.<sup>15</sup>

The construction of the ESPO and the Sakhalin-Khabarovsk-Vladivostok gas pipeline represent a significant reorientation of the Russian energy export markets away from the stagnating states of continental Europe and towards the rapidly developing states of Asia and the Pacific Rim. Demand for energy in East Asia alone is projected to grow at an annual rate of 2.5% through 2035, amounting to an 83% increase in demand over that period.<sup>16</sup> Additionally, within the entire Asia and the Pacific region, energy demand is expecting to increase by 2.4% annually through 2035, almost a full percentage point faster than the rest of the world.<sup>17</sup> A large share of this rapidly developing market would bolster an already stalwart Russian energy regime for at minimum the next three or four decades, providing Moscow with funds and political clout derived from its importance as the world's largest energy exporter to both East and West.

---

<sup>14</sup> "Russian Crude Oil Exports to the Far East – ESPO Starts Flowing," Platts, December 2009, p. 2, <http://www.platts.com/IM.Platts.Content/InsightAnalysis/IndustrySolutionPapers/espo1209.pdf>.

<sup>15</sup> "Eastern Gas Program," Gazprom, 2011, <http://www.gazprom.com/production/projects/east-program/>.

<sup>16</sup> "Energy Outlook for Asia and the Pacific," Asian Development Bank, October 2009, p. xii, <http://www.adb.org/Documents/Books/Energy-Outlook/Energy-Outlook.pdf>.

<sup>17</sup> *Ibid.*, p. ix.

This strategic energy export reorientation towards the Far East has its foundation in the projected growth of Asian, particularly Chinese, energy demand over the course of the first half of the century, coupled with Russia's vast endowment of natural resources in the East. It is likely that ties between the Chinese and Russian governments will grow stronger as a result of Russia's role as a proximal energy supplier to China. It is important to consider the Russia provides China with energy transported overland over a short distance, as compared to the majority of its supplies, which arrive by sea from the Middle East and Africa and are thus much more exposed. As such, it is likely that the Chinese and Russian economies will become increasingly intertwined as energy supply to the East increases. Furthermore, it is likely that this strategic, energy-based relationship will develop into a strategic foreign policy relationship as well, in which each government supports the other on the international stage.

Russia has been the primary champion of the Gas Exporting Countries Forum (GECF), an intergovernmental organization founded in 2001 in Tehran, Iran made up of representatives of many of the world's leading producers of natural gas, including Russia, Iran, Venezuela, and Qatar. For some time it appeared as if the GECF was developing into a gas version of the OPEC bloc; however, ambitions for the creation of a gas cartel have been tempered in light of the recent global economic climate and increased competition in global gas markets. That is not to say, however, that the GECF, whose membership controls 70% of natural gas reserves worldwide, 38% of the gas pipeline trade, and 85% of all liquefied natural gas production,<sup>18</sup> will not soon develop into a powerful cartel. At a GECF meeting in Doha, Qatar, the GECF membership came to a number of understandings that appear to signal the beginning of a cartel. The membership agreed to "discuss dividing the consumer markets between them, particularly in Europe" and consider collective price and export regulation.<sup>19</sup> The GECF recently chose a Russian energy executive, Leonid Bokhanovsky, as its first Secretary General.<sup>20</sup> Bokhanovsky was formerly the vice-president of the Russian oil and gas construction firm Stroytransgaz, a subsidiary of Gazprom.<sup>21</sup> It is therefore probable that Bokhanovsky is deeply connected with the Russian central government, providing Russia with an inordinate amount of influence over the operations and policies of the nascent gas cartel. Such control would severely undermine international energy security, as the Kremlin would be in a position to dictate gas prices and policy without competition from any other group of suppliers with a similar market share.

Given the importance that Russian policy makers assign to maintaining their access and use of energy resources, it is unsurprising that they have ambitious goals to develop Arctic

---

<sup>18</sup> Marcel Dietsch, "The Next Global Energy Cartel," *Forbes*, December 10, 2009, <http://www.forbes.com/2009/12/10/natural-gas-exporting-trade-opinions-contributors-marcel-dietsch.html?sp=true>.

<sup>19</sup> Ariel Cohen, "Gas Exporting Countries Forum: The Russian-Iranian Gas Cartel," *Journal of Energy Security*, December 14, 2008, [http://www.ensec.org/index.php?option=com\\_content&view=article&id=171:gas-exporting-countries-forum-the-russian-iranian-gas-cartel&catid=90:energysecuritydecember08&Itemid=334](http://www.ensec.org/index.php?option=com_content&view=article&id=171:gas-exporting-countries-forum-the-russian-iranian-gas-cartel&catid=90:energysecuritydecember08&Itemid=334).

<sup>20</sup> "GECF Choose Lenoid Bokhanvosky as Secretary General," MENAFN, December 10, 2009, [http://www.menafn.com/qn\\_news\\_story\\_s.asp?StoryId=1093287592](http://www.menafn.com/qn_news_story_s.asp?StoryId=1093287592).

<sup>21</sup> Paul Starobin and Catherine Belton, "Gazprom on the Grill," *Bloomberg*, [http://www.businessweek.com/2000/00\\_47/b3708212.htm](http://www.businessweek.com/2000/00_47/b3708212.htm).

hydrocarbon resources in coming years. Geological experts believe that the Arctic holds more than 22% of the world's undiscovered natural gas and oil resources, making it the next frontier in the global search for energy.<sup>22</sup> In addition, if Arctic ice continues to melt and shrink, resources will become more readily accessible, and new transit routes will become navigable that provide cheaper transportation for resources.

However, the path to the development of the Arctic region is fraught with difficulty and conflict. The primary impediment to the peaceful development of Arctic energy resources is the competing sovereignty claims to the Arctic among bordering states. While under current international law, the claims of states bordering the Arctic are limited to the exclusive economic zones (EEZ) comprising the territory 200 nautical miles outward from their respective borders, Russia, the United States, Canada, Norway, and Denmark have all made territorial claims to portions of the Arctic outside of these zones. Each has done so through a mechanism introduced in the United Nations Convention on the Laws of the Sea, which allows states to claim portions of the continental shelf outside their exclusive economic zones in the first ten years after ratification. Moscow has claimed both the Mendeleev Ridge and the Lomonosov Ridge, stating they constitute extensions of Russia's continental shelf. Other experts contend that the ridges do not extend far enough to justify the Russian claim in international law.

Not only are there political challenges to gaining access to Arctic fuel reserves, but the geography of the region must also be taken into account. These reserves lack functioning gas fields and pipelines, and require hundreds of billions of dollars in investments in high-technology equipment. Even then, many of these areas may not be accessible until the ice cap shrinks further. Russia has responded to these challenges by announcing a number of costly programs to explore and develop East Siberian oil and gas fields and to build a network of oil and gas pipelines towards the 2020-2030 timeframe, despite their costing many tens of billions of dollars.

The Kremlin appears to see the Arctic as a necessary part of Russia's future security in the realms of energy and geopolitics. Putin has advocated the aggressive expansion of the Arctic, citing the "urgent" need to secure Russian "strategic, economic, scientific and defense interests" there.<sup>23</sup> To discourage other Russian as well as foreign companies from operating there, the Russian government has granted Gazprom and Rosneft a duopoly in the Arctic region.<sup>24</sup> In a 2007 statement, the Director of Gazprom's export business, Alexander Medvedev, dismissed proposals by both BP and Royal Dutch Shell for joint ventures there, say that "development in the extreme conditions of the Arctic was within Gazprom's

---

<sup>22</sup> "Arctic Oil and Natural Gas Potential," Energy Information Administration, October 19, 2009, <http://www.eia.gov/oiaf/analysispaper/arctic/index.html#conclusions>.

<sup>23</sup> "Russia Plants Flag under N Pole," BBC, August 2, 2007, <http://news.bbc.co.uk/2/hi/europe/6927395.stm>.

<sup>24</sup> "Gazprom Platform Heading North," *Moscow Times*, August 19, 2011, <http://www.themoscowtimes.com/news/article/gazprom-platform-heading-north/442314.html>.

capabilities.”<sup>25</sup> On August 19, 2011, Gazprom launched its first Arctic oil platform, with plans to begin production in early 2012.<sup>26</sup>

The development of the Arctic is fraught with a number of large obstacles, not the least of which are the severe conditions in the region and the difficulties they pose to the extraction of oil and gas reserves. The environment necessitates the construction of expensive custom equipment capable of withstanding the frigid temperatures and the constant supervision of soil conditions and the icepack for fear of damage to the facilities. Furthermore, the energy infrastructure in the Russian Arctic remains largely undeveloped. Pipelines have yet to be constructed to connect the Arctic’s oil and gas fields to international energy markets, necessitating expensive overland or oversea transportation on top of enormous initial development costs and the high cost of labor.<sup>27</sup> As such, the development of the Russian Arctic will likely cost tens, if not hundreds, of billions of dollars over the course of the next decade, costs that may prove to be prohibitive to Moscow’s solo development of the Arctic.

Although Russia has sought to avoid triggering a strategic race for Arctic riches, Moscow’s ambitions to develop the Arctic have worried the United States, Canada, Norway, and Denmark, the other states that have claims to Arctic territory. In 2009, Denmark began the process of setting up an Arctic Command within its armed forces, citing the region’s heightened “geostrategic significance” in light of the contention over it. This force will include an Arctic Response Force, a specialized military unit adapted to Arctic conditions capable of quick response throughout the region.<sup>28</sup> Canada has begun to flex its military muscle in the Arctic, recently conducting the country’s largest Arctic military exercise ever in the Canadian High North. The exercise involved over one thousand troops, military aircraft, naval vessels, and unmanned drones. The display of force appears to have been at least in part a response to a March 2009 announcement by the Russian government, which stated that Moscow “expects the Arctic to become its main resource base by 2020.”<sup>29</sup> In an effort to further that goal, that it will deploy military forces “capable of ensuring military security” to the region.<sup>30</sup> In July 2011, Moscow began planning for the deployment of two military brigades, consisting of roughly four to six thousand soldiers, to a permanent position in the Arctic.

Yet, the Arctic is not fated to become an arena of international conflict. Cooperation and joint development of the region could develop that would satisfy all parties. The forum for such an agreement would likely be the Arctic Council, an intergovernmental forum made up of the

---

<sup>25</sup> Carl Mortished, “Gazprom Cool over Foreign Investment in Arctic Gas,” *The Times*, November 28, 2007,

[http://business.timesonline.co.uk/tol/business/industry\\_sectors/natural\\_resources/article2957337.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article2957337.ece).

<sup>26</sup> “Gazprom Platform Heading North,” *Moscow Times*, August 19, 2011,

<http://www.themoscowtimes.com/news/article/gazprom-platform-heading-north/442314.html>.

<sup>27</sup> “Arctic Oil and Natural Gas Potential,” Energy Information Administration, October 19, 2009,

<http://www.eia.gov/oiaf/analysispaper/arctic/index.html#conclusions>.

<sup>28</sup> “Denmark Plans Forces for Arctic,” Energy Information Administration, July 16, 2009,

<http://news.bbc.co.uk/2/hi/8154181.stm>.

<sup>29</sup> Chip Cummins, “Canada Escalates its Arctic Presence,” *Wall Street Journal*, August 22, 2011,

<http://online.wsj.com/article/SB10001424053111903327904576522720456663588.html>.

<sup>30</sup> “Russia Outlines Arctic Force Plan,” BBC, March 27, 2009, <http://news.bbc.co.uk/2/hi/7967973.stm>.

eight Arctic states (Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden, and the United States) that seeks to cooperatively address the issues facing the Arctic region. The status of the Arctic Council has expanded in recent years as climate change and strategic concerns in the Arctic have heightened its geopolitical significance. While the Arctic Council did not address the issue of a strategic race for the resources of the Arctic in its most recent declaration, the common objectives of the Norwegian, Danish, and Swedish chairmanships, which have lasted from 2006 through 2012, call for “international cooperation” as “a prerequisite to sustainable development” in the region.<sup>31</sup>

One reason why Russian policy makers currently proclaim a cooperative approach toward the Arctic is their desire to limit NATO’s role in the Arctic. Another more positive dimension is Russia’s need for foreign technologies and other resources to access their Arctic riches. Putin said that the Russian oil industry would need more than 8.6 trillion rubles (\$280bn) of additional capital during the next decade to sustain current production levels. The International Energy Agency estimates that by 2035, Russia’s maturing Siberian oil fields could produce almost one million fewer barrels of oil each year.<sup>32</sup> Attracting almost \$300 billion would probably require at least some foreign capital as well as foreign technology to exploit Russia’s offshore energy resources. Although Gazprom and Rosneft are the only Russian companies legally permitted to undertake energy production activities on the Arctic continental shelf, they have yet to take full advantage of this privilege due to inadequate money and technology. Exploiting Russia’s offshore oil and gas deposits in the Arctic waters present major geophysical challenges from the polar ice, cold temperatures, and severe storms. Through joint ventures and other arrangements, Russian energy firms are seeking foreign partners who can bring their experience, technology, managerial skills, and other assets to the challenging task of exploiting the Arctic.

The immense costs, risks, and difficulty associated with the extraction of Arctic hydrocarbon resources provides a strong incentive for the Russian government to cooperate with Western governments and companies. The recent moves by both Gazprom and Rosneft to invite cooperative development with a host of Western oil majors may prove to be the first step in a process whereby development setbacks and roadblocks, financial or otherwise, will induce Moscow to support a much larger influx of Western capital and expertise through agreements with Western oil and gas companies. However, even in light of the Exxon Mobil-Rosneft strategic cooperation agreement, numerous impediments still exist to such cooperation, not the least of which is the assertion by Putin that while Russia remains open to dialogue on cooperation in the Arctic, it will defend its interests in the region, likely by force if necessary, regardless of any prevailing cooperation.<sup>33</sup> Thus, it appears as if any cooperative agreement between the Arctic states would need to respect Russian interests for it to have any chance of creating sustainable and peaceful collaboration. Furthermore, numerous legal impediments to

---

<sup>31</sup> “Norwegian, Danish and Swedish common objectives for their Arctic Council chairmanships, 2006-2012,” Arctic Council, November 27, 2007, [http://arctic-council.org/article/2007/11/common\\_priorities](http://arctic-council.org/article/2007/11/common_priorities).

<sup>32</sup> Andrew E. Kramer and Clifford Krauss, “Russia Embraces Offshore Arctic Drilling,” *New York Times*, February 15, 2011, <http://www.nytimes.com/2011/02/16/business/global/16arctic.html?nl=todaysheadlines&emc=globasas> a24.

<sup>33</sup> “Russia to Deploy 2 Army Brigades to the Arctic,” *Military.com*, July 1, 2011, <http://www.military.com/news/article/russia-to-deploy-2-army-brigades-in-arctic.html>.

Western investment may ultimately deter many Western firms from entering the Russian energy market altogether for fear of future reprisals from Moscow.

The international community should take advantage of Russia's currently cooperative stance and work to address some important issues that could impede the safe and secure development of the Arctic's resources. These include establishing a mechanism to monitor and respond to environmental problems, promote peaceful scientific research and related activities, resolve conflicting claims and ideally promote collaborative projects to exploit the region's natural resources, prevent the depletion of rich fish stocks and protect fisheries from the adverse impact of climate change, reinforce confidence-building measures among the parties, construct the capacity to manage the growing human activity in the Arctic, and ensure representation of all interested stakeholders (including extra-regional states with a major presence in the region and non-state actors) in Arctic-related decisions. Some of these issues can be addressed through multilateral institutions, but there is also room for unilateral restraint as well as bilateral arrangements. For example, U.S. Northern Command, which has recently assumed responsibility for the Arctic under the new Unified Command Plan, should make it a priority to engage with their counterpart military commands in Russia and China as well as the other NATO states. The militaries can profitably follow the precedent already established by the countries' scientific establishments, which have long collaborated on multilateral research projects in the Arctic.

## **DEATH BY DEMOGRAPHICS**

The paper by Nicholas Eberstadt and Apoorva Shah of the American Enterprise Institute, like other studies of Russian demography, demonstrate that the Russian Federation has been experiencing an unrelenting demographic crisis throughout its two-decade history. Russia's population has been shrinking more, and for a longer time, than almost any other country today. On average, 840,000 more Russians have died than were born each year since 1992. Since then, the country's total population has reportedly fallen by close to 7 million people (almost 5%), with almost continuous year-on-year population declines. Russia's depopulation crisis consists of a sharp decline in birth rates, accompanied by a sharp upsurge in deaths. According to official Russian figures, between 1992 and 2008, Russia officially registered 13 million more deaths than births. Not only has Russia lost population for 17 years in a row, but it is also projected by both Russian and international agencies that Russia will continue along that negative population growth path for decades to come, creating severe economic and security challenges for the Russian people and other countries which must help manage the consequences of Russia's decline.

Russia's depopulation, while more or less a nation-wide phenomenon, is not uniform across all Russian territories; there is considerable regional variation within this overall national average. Not all oblasts even experience negative natural increase; in 2006, 20 of Russia's 89 oblasts reported more births than deaths. These areas tend to be where ethnic and religious minorities are overrepresented. The areas in which there are the sharpest negative natural increases tend to be in the historical "heartland" of European Russia. The oblasts in which population increases are occurring, however, tend to be autonomous districts or republics, and only account for a small percentage of the overall Russian population. In 2006, the areas



where depopulation was least severe were Dagestan, Ingushetia and Chechnya (where in 2006 there were five times more births than deaths). Unfortunately, these autonomous districts do not have the same economic significance of Russia's affluent, metropolitan centers, St. Petersburg and Moscow. In both of these cities, deaths far outnumbered births in 2006, with St. Petersburg in particular ranking well above the national Russian death rate. In 2007, 90% of Russians lived in areas where the overall population was declining.

The data show there is relatively less regional variation of fertility rates among Russia's oblasts than in their mortality rates. As of 2007, just 5 of the 84 provinces for which data were available recorded total fertility rates of 2.0 or more, while 60 of the regions reported total fertility rates (TFRs) below 1.5. Moscow's reported rate was only 1.24, and St. Petersburg's was just 1.19. The lowest level for the country, at 1.08, was set by the area immediately surrounding St. Petersburg; Leningradskaya oblast. These rates, while consistent, are comparable with countries with the lowest TFRs in the world. Although the variation among oblasts is relatively consistent, Chechnya again proves to be the exception. In 2007, Chechnya's reported TFR rate was 3.18, well above the figure often cited as being needed of 2.1 as the notional demarcation for replacement. While this figure is certainly well above other Russian oblasts, it is not unique when compared to other Muslim regions, such as Pakistan (3.7 TFR) or Iraq (4.1 TFR).

Although Moscow and St. Petersburg enjoy better-than-average mortality levels, the areas surrounding them have some of the worst in Russia. It appears that proximity to affluence and amenities does not confer any advantages to suburban residents. For instance, Leningrad oblast, of which St. Petersburg is a significant part, had a 2006 death rate higher than the national average of 19% for males and 15% for females. This figure is surprising, but fits within a general trend. The country's most "western" or "European" areas generally have mortality levels above the national average, while oblasts that are overwhelmingly populated by non-Russian ethnicities such as Ingushetia, Chechnya and Dagestan do not.

Russia's demographic crisis is unique in global and historical context. Russia is defined as an "Upper Middle Income Economy" in the World Bank's framework for ranking countries wealth based on per capita income, and after Purchasing Power Parity (PPP) adjustments, it ranks as one of the wealthiest states within this grouping. Yet Russia's estimated life expectancy for individuals at 15 years of age is far lower than expected for a country with such a ranking. Combined male and female life expectancy at age 15 is lower than for some "lower middle income economies", such as India. Male-only life expectancy at age 15 is one of the lowest in the world, lower than many of the World Bank's "low income economies", such as Haiti and Benin. Russian male life expectancy at this age even ranks below the "failed state" of Somalia. Although Russia has experienced depopulation four times in the last century, the most recent occurrence is unique as it is occurring in peacetime rather than as a result of war or state-directed violence. The causes and solutions of the problem are therefore more complex than in the past.

A driving force behind Russia's depopulation is a significant drop in the number of ethnic Russians. Between the 1989 and 2002 censuses, the present-day Russian Federation's population fell from 147 million to about 145.2 million, a drop of about 1.8 million. Over that

same period, the reported share of ethnic Russians within the country declined as well: from 81.5% to 79.8%. These numbers indicate a drop of nearly 4 million ethnic Russians within that time period. However, during the same period, the Russian Federation absorbed a net influx of approximately 5 million immigrants, and a large proportion of these immigrants appear to have been ethnic Russians from former Soviet republics.

Although Russia experienced a dramatic drop in births during the “transition” period after Soviet Communism, low levels of fertility today cannot still be attributed to “systemic shock.” Indeed, low fertility rates have been a consistent trend in modern Russia, both during (although the Gorbachev era was an aberration), and after Soviet rule. Russia’s fertility rates have consistently ranked among the lowest in Europe, and are far below the necessary levels required for long-term native population replacement. Ethnic variation is also evident in fertility trends, as today ethnic Russian women record the lowest number of births apart from Russian Jews.

The Russian Federation’s changing trends on the family and fertility are also affected by trends in marriage and divorce rates. Marriage in modern Russia is both less common and less stable than in recent history. In 2005, the total number of marriages was down one fourth from marriages in 1980 and the divorce rates have been steadily rising since the end of the Soviet era. The divorce-to-marriage ratio has also increased greatly in this period, with fewer than 400 divorces per 1000 marriages in 1980 rising to over 800 divorces per 1000 marriages in 2002. Areas of non-Russian ethnic dominance are again the exception to these nation-wide trends. Dagestan, Ingushetia, and Chechnya and other areas with large concentrations of Muslims have the lowest divorce-to-marriage ratios.

In 1990, the end of the communist era, divorce was not uncommon. Yet a Russian woman could enter her first marriage and stand a 60.5 chance of remaining in wedlock by age 50. By contrast, due to a plunge in nuptiality and a rise in divorce rates, in 1996 less than a third of women would remain in their first marriage until age 50. In addition to divorce rates, out-of-wedlock childbearing has also seen a sharp increase. In 1980, fewer than one newborn in nine were born out of wedlock. Yet by 2005, the country’s illegitimacy ratio was approaching 30% - a near tripling of the figure in 25 years. Perhaps predictably, there is a greater ratio of illegitimate births in rural regions than in metropolitan centers, with out of wedlock births representing 25% and 34%, respectively. In the country’s most remote regions, Siberia and the Russian Far East, nearly half of all births are out-of-wedlock.

Increasingly easy migration into, out of, and within the Russian Federation has been one of the few positive demographic trends following the demise of the Soviet Union. The ease of personal movement is partly due to changes in Russian law and partly to the globalization of transport and communication, a global change that Russians could not fully experience under communism. A fraction of the Russian populace is currently caught in a poverty trap that hinders or prevents domestic relocation in search of a better life. However, the portion of the population that does move is supporting the “New Russian Heartland” hypothesis, which argues that market forces will move the population of Russia westward and to the south. This has helped bolster the population of Moscow; even though it only constituted 6% of the

population of Russia in 1989, its population boost accounted for 25% of the country's internal migration. It now accounts for 7.5% of the nation's population.

Immigration into Russia has helped cushion the country's demographic decline. Russia's population would have fallen even more had it not been for a net increase in in-migration in recent years. According to Eberstadt and Shah, immigration compensated for slightly over half of the population decline Russia that would otherwise have been occurred during the 1989-2006 period.

Olga Chudinovskikh, of the Laboratory of Population Economics and Demography at Moscow State University, identifies 11 separate sources of statistical information currently being compiled by the Russian government that relate to migration into and out of Russia. A variety of institutions provide data on cross-border migration and population trends; only a few of these sources have methodologies or transparencies that allow for an accurate analysis of migration trends. This is true of visa statistics, border control statistics, residence permit statistics, migration card statistics, and tax data. However, these methodological issues do not immediately pose problems, since the information collected for those purposes are not available in any case to the general public.

There are three sources of data that are both publicly available, and judged to be of sound methodological reliability: data on refugees and asylum-seekers, statistics on foreign students, and census-based migration data. Despite these sources of reliable information, data on immigration and emigration for the Russian Federation is highly problematic: incomplete, irregular, and riddled with contradictions and inconsistencies. As a result, Russian migration statistics cannot be taken at face value and likely lead to an underestimation of net immigration into the Russian Federation due to unauthorized and undocumented immigration. In 2005, a total of just 177,000 immigrants moving into Russia were recorded, yet there were over 22 million entries into the country by international travelers. When over one hundred times as many entrants as immigrants are being tabulated in by official authorities each year, the scope and scale for the potential under-reporting of both immigration and net migration should be immediately apparent.

According to common perception, since the beginning of the 2000s, Russia has become the country with the second highest immigration rate in the world, after the United States. Russia is estimated to have close to 10 million migrant seasonal workers, most of whom come (illegally) from the former Soviet republics of the Caucasus (Azerbaijan in particular) and from Central Asia (especially from Tajikistan, Uzbekistan, Kyrgyzstan). The implications for this increased immigration are significant for Russian economy. Using the "net surviving migrant" research method, the overwhelming majority of migrants are working age (70% are between the working ages of 15 and 56). This fact reflects the economic factors that lead to migration into Russia, with workers searching for work. The immigration jump has been large, accounting for 4% of the officially estimated population as of 2007, and accounts for almost 5% of the working age group and 5.6% of Russia's population of 20- and 30-year olds.

While migration has significantly helped develop Russia economically, this increase in migration brings up questions of ethnicity and assimilation in Russia. Despite the Russian

constitutional mandate of equality regardless of ethnicity, language and origin, the Russian Federation is distinctly a Russian state, consisting of: a Russian political tradition, a profoundly Russian culture, and a Russian lingua franca (with over 92% of the non-Russian population reporting a command of the Russian language). This has become a growing concern for those who prefer a “Russian” Russia, as the share of self-identified Russians migrated into Russia has begun to decline, falling from 61% in 1993-1999 to 45% in 2006 (this is a result of several factors, notably the fall of the population of the Russian diaspora, and the growing acceptance of the home countries in which ethnic Russians live).

A specific ethnic situation in Russia has been the “Muslim” population of Russia (the word Muslim is placed in quotations because many areas of supposedly Muslim extraction are more a reflection of ethnicity, not religious practice). The Muslim states surrounding Russia (Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan) all have much lower per capita incomes than Russia, leading to increased economic incentives to immigrate. In addition, once they enter the country, Muslim communities tend to have much higher fertility rates and lower divorce and higher marriage rates, leading to stronger and larger families. As Muslims increasingly immigrate to the Russian homeland (now constituting roughly 14.7 million people, or around 10% of the overall population), many Russians have emigrated to countries that have higher incomes than Russia (America, Germany, and Israel specifically).

Based on the current situation and trends affecting the Russian Federation, it is possible to offer bounded forecasts of its future size and composition. The United Nations Population Division (UNPD) project that Russia’s population in 2025 could range from a high of about 137 million to a low of about 127 million people. For the year 2030, UNPD forecasts range from 135 million to 122 million. The U.S. Bureau of the Census projects that the Russian Federation’s population will be 128 million in 2025 and 124 million in 2030. Russian experts also predict that Russia’s population would amount to less than 136 million in 2025.

The Russian Federation working age population has suffered from a severe health crisis. Over the four decades between 1965 and 2005, age-specific mortality rates for men in their 30s and 40s typically rose by around 100%, with women’s mortality rates rising by around 50%. This deterioration has seen a major divergence in health trends between Russia and the rest of Europe. According to the World Health Organization, by 2006 age-standardized mortality in the Russian Federation was over twice as high as in “pre-accession” states of the European Union (i.e., Western Europe). At the end of the Soviet era, the aggregated “new” EU states’ and Russian age standardized mortality rates were similar. Fifteen years later, Russian mortality rates had risen by 40% while the “new” EU states had recorded substantial health improvements following the demise of Soviet-style rule.

There is no historical example of a society that has demonstrated overall economic growth while contending with a population decline of that magnitude. The economic implications of this health deterioration are dramatic. Excess mortality rates, caused by negative natural increase and a deterioration of public health, adversely affect labor productivity now and for the future. Young, working-age Russians must contend with the health issues such as heart disease that Dutch adults, for example, do not experience until they are well into middle age.

In effect, Russians who should be in their physical prime look to be effectively between 15 and nearly 30 years more elderly according to medical indicators than their counterparts in Western Europe. Russian working-age cohorts are, as a result, more frail and restricted in their capacity to undertake work, reducing labor productivity.

Obtaining the right and ability to move within Russia and beyond represents a generally positive development for Russians since the demise of the Soviet Union. Immigration into the Russian Federation raises the complex issues of integration and assimilation into a multi-ethnic but Russian-dominated state. According to data compiled in the 2002 census, more than 98% of the Federation's population report that they "freely command" the Russian language, with over 92% of the countries non-Russian population confirming the same. In addition, the same census reported that 80% of the Russian people self-identify as "Russian" in nationality.

Although these statistics indicate a relatively homogenous society, continuing migration – especially the undocumented entry of non-ethnic Russians – may change the Russian Federation's ethnic composition. One negative dimension of the migration trend affecting the modern Russian Federation is that its citizens tend to emigrate to countries with higher income levels (Germany, Israel, America), while Russia tends to attract citizens from poorer countries, especially from Central Asia. Per capita income levels in that region range from a high of about 68% of Russia's per capita GDP in Kazakhstan, to 21% in Kyrgyzstan and Uzbekistan, to a mere 12% of the Russian figure in Tajikistan. These are areas that have historically been predominantly Muslim. The Russian Federation is the most likely destination for aspiring workers, and therefore, the migration dilemma is inextricably linked to the Muslim question.

Continuing immigration of ethnic Russians would appear to be a prerequisite for Russia to maintain its current proportion of ethnic Russians within its borders. The 1989 Russian census reported that there were about 25 million ethnic Russians living within the borders of the USSR, but beyond the Russian Federation. Following the turn of the new century, that number has shrunk to fewer than 18 million. This shrinking of the Russian diaspora by nearly 30% has several possible explanations. First, roughly three million ethnic Russians may have migrated into the Russian Federation. Second, a proportion of these Russians may have changed their ethnic self-identities to conform to post-USSR realities in their new homelands. Third, this Russian population abroad may be affected by the same demographic issues that Russians face within the Federation, such as early mortality, meaning that millions of these ethnic Russians could have died during the 1990s. If this is the case, the "reserves" of ethnic Russians living abroad will continue decrease in the future.

The number of ethnic Russians moving to Russia appears to have declined during the last decade in any case. Despite the booming Russian economy in the 2000-2006 period, the inflow of ethnic Russian migrants fell sharply to less than 100,000 each year, compared with an average of 433,000 for each of the previous seven years. Many of those ethnic Russians living outside Russia who wanted to return to their motherland have already done so, while those who have remained in the "near abroad" seem content in their new countries, where many of them were in fact born and have lived all their lives. Meanwhile, a Russian

government program to encourage descendants of Russian ancestors to return back to Russia has had minimal impact. The program provides eligible participants with help making the move and with employment assistance once in Russia. Despite spending about \$300 million on the program, of the estimated 25 million eligible persons, only 10,300 had moved back as of 2009.<sup>34</sup> Even if the entire Russian diaspora were to resettle within the Russian Federation, the influx would be insufficient to keep either Russia's total population or its working age population groups from sinking below their 1995 levels by the year 2050.

These trends suggest that the proportion of Muslims in the Russian Federation will increase over time. There is no universally accepted number for the exact population of Muslims living in Russia. The Russian census does not collect information on religious affiliation. Thus, any data-based estimation of Russia's Muslim population must be limited to examination of population totals of ethnic groups with a Muslim historical or cultural background. The University of Maryland's Timothy Heleniak provides just such an analysis of the Russian Federation's censuses for 2002 and 1989. Heleniak identified 56 historically Muslim ethnic groups in the official Russian census tabulations and tracked their population totals. He concluded that Russia's nationalities of Muslim heritage accounted for 14.7 million people in Russia in 2002 – just over 10% of the country's total population that year. Given the negative natural increase, mortality and fertility rates of ethnic Russians today, an increase in the fraction of Muslims living in the Russian Federation is likely. On the basis of the 2002 Russian census, Judyth Twigg of Virginia Commonwealth University determined that “Muslim” ethnic groups accounted for just 9.5% of the country's total male population – but for 13.2% of the boys 5 to 9 years of age.

The Russian Far East has experienced net out migration every year since the end of the Soviet Union and its system of subsidies. Since 1989, the region has experienced depopulation rates of 14% to nearly 60% in some places. This is most likely because formerly state-controlled cities and production areas in the east fell apart following the fall of communism, giving little forced incentive for citizens to remain in these fairly barren lands. In addition, despite its massive resources, the actual demand for labor in the Russian Far East is at best in the hundreds of thousands, not millions. This makes outmigration economically rational and desirable. This trend, combined with the fact that the Russian Far East borders North Korea and China, raises unwelcome security questions. Over the short term, instability in North Korea could lead to a mass exodus of refugees into Russia. Over the longer term, those boundaries beg the question of Chinese aims and interests in the neighboring Russian territories.

Since 1988, the Sino-Russian border has been open to controlled trade and travel. Over the decades, immigration into the Russian Far East by Chinese laborers has increased, yet estimates of Chinese immigrant population vary wildly. Russian fears of a “yellow peril” have been exaggerated. As can best be determined, the reality is that only a few hundred thousand Chinese migrants live and work in the Russian Far East. Additional Chinese migration into the depopulated and economically depressed Russian Far East could actually prove beneficial to the regional and Russian economy, but it would perhaps weaken the region's Russian-

---

<sup>34</sup> Clifford Levy, “Its Population Falling, Russia Beckons Its Children Home,” *New York Times*, March 21, 2009, <http://www.nytimes.com/2009/03/22/world/europe/22believers.html>.

based national identity and threaten the country's long-term territorial integrity. Putin warned in 2000 that "If we do not take practical steps to advance the Far East soon, in several decades the local population – originally Russian – will be speaking mainly Japanese, Chinese, and Korean."

Although Western economists can argue that the quality of human capital matters more than its quantity, Russian leaders see all these current trends and future projections as a grave threat to their country's security. Economists note that recent history shows a negative correlation between a country's population growth and its economic performance. The data for the 1970-2008 period, for example, shows that the slower a country's population growth, the faster its per capita GDP increases. But in the view of Russia's leaders, population decline calls into question the country's "great power" status. The Soviet Union was the third most populous country in the world at the time of its death in 1991, ahead of the United States. Russia's current population places it in eighth place in terms of national population size, and Russia appears to be falling further over time. It might be possible to increase Russians' individual wealth and welfare even with aggregate population decline, but substituting quality for quantity in military forces requires Russia's defense industry to do better at producing more effective weapons – a topic addressed in a latter section of this report.

## **AN ECONOMIC HOUSE OF CARDS?**

The country's economic recovery during the last decade, which has provided the underlying basis for Russia's diplomatic and military resurgence, has fragile foundations. The Russian economy suffers from serious problems, including underinvestment in critical infrastructures, deteriorating public education and health sectors, and pervasive corruption. Russia's de facto state capitalist model of development—in which the government either controls or owns outright the commanding heights of the national economy, including the country's strategic energy and defense industries—risks discouraging foreign investors fearful of losing control to newly empowered Russian bureaucrats. Russia has made only modest progress in diversifying its economy away from its dependence on fossil fuel exports.

During Putin's presidency, high prices for Russian oil and gas exports reduced an important incentive for political and economic reforms. Despite the recent price uptick due to the chaos in the Arab world, the era of rising hydrocarbon prices may be ending. Competing alternative sources of gas are reducing Russia's revenues from its natural gas exports, while Russian oil production is stagnating and requires foreign investment and technology to grow further. Capital and highly skilled workers often "exit" Russia to seek better returns elsewhere. The economy needs to diversify its production and exports soon before its energy resources are exhausted and an increasingly aging workforce consumes more than it produces due to rising health and pension costs. The Skolkovo project aims to establish something like a "Silicon Valley" which would serve as a hothouse of innovation and entrepreneurship that would stimulate growth and modernization in the rest of Russia. But it is unclear whether innovations could take effect outside the highly favorable conditions created within the Skolkovo enclave, which is protected from all the problems that stymie research and development across Russia.

The 2011 World Economic Forum Russia Competitiveness Report provides a comprehensive overview of the strengths of the Russian economy as well as the numerous challenges that it faces.

#### *Strengths of the Russian Economy*

- resource boom. strongest industries: oil and gas, fabricated metals, rubber, and plastic.
- significant heavy industrial capacity, logistics networks designed for self-reliance.
- highly educated population, large pool of science and engineering graduates.
- the defense industry.

#### *Weaknesses of the Russian Economy*

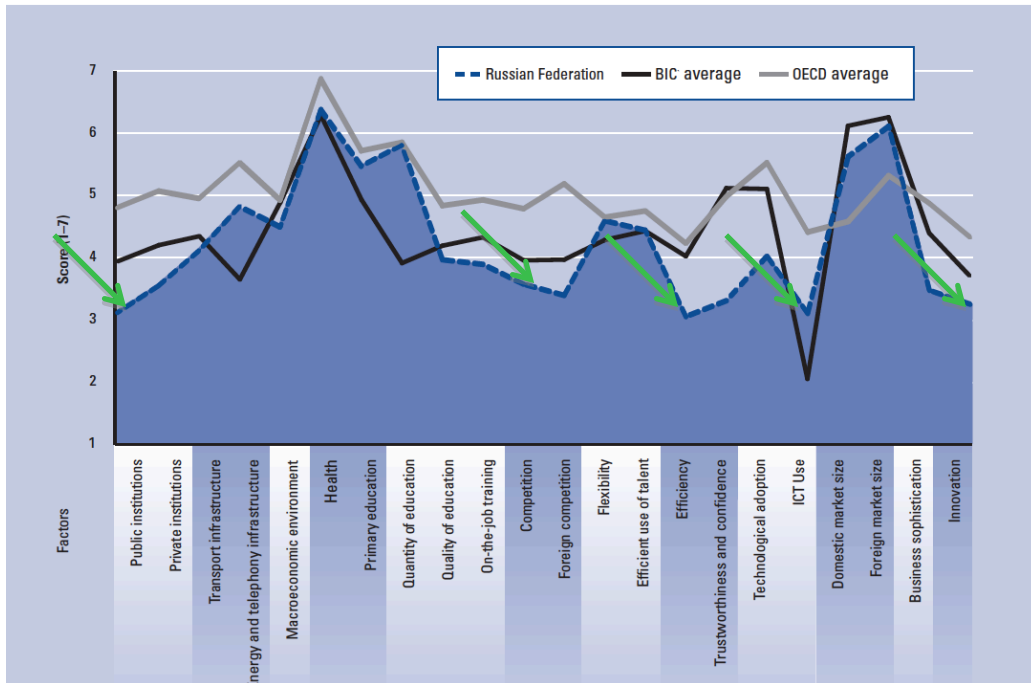
- strangling institutional and political framework, corruption, biased and inefficient judicial system.
- dependence upon oil and gas, other resource exports. the natural resources curse (paradox of plenty).
- lack of WTO membership. poor financial system, declining manufacturing capacity, trade barriers.
- the Dutch disease (currency appreciation compared to productivity).
- declining education quality, poorly educated youth, demographic decline.
- poor financial system, declining manufacturing capacity.
- calcified and inefficient businesses, especially infrastructure.

#### *Highly Important Competitiveness Indicators That Russia is Performing Poorly In*

- offshoring
- cluster development
- new business formation
- innovation performance



## Overview



The chart above indicates that Russia is performing well below the OECD average for country competitiveness, and in some areas well below its BRIC (Brazil, Russia India, China) peers. The green arrows highlight that Russia is falling behind in the particularly important areas of public/private institutional governance, competition, efficiency, ICT use, and innovation. Unless Russia improves in all of these areas, modernization and revitalization of the Russian economy will be extremely difficult.

## Strengths of the Russian Economy

- *resource boom. strongest industries: oil and gas, fabricated metals, rubber, and plastic.*

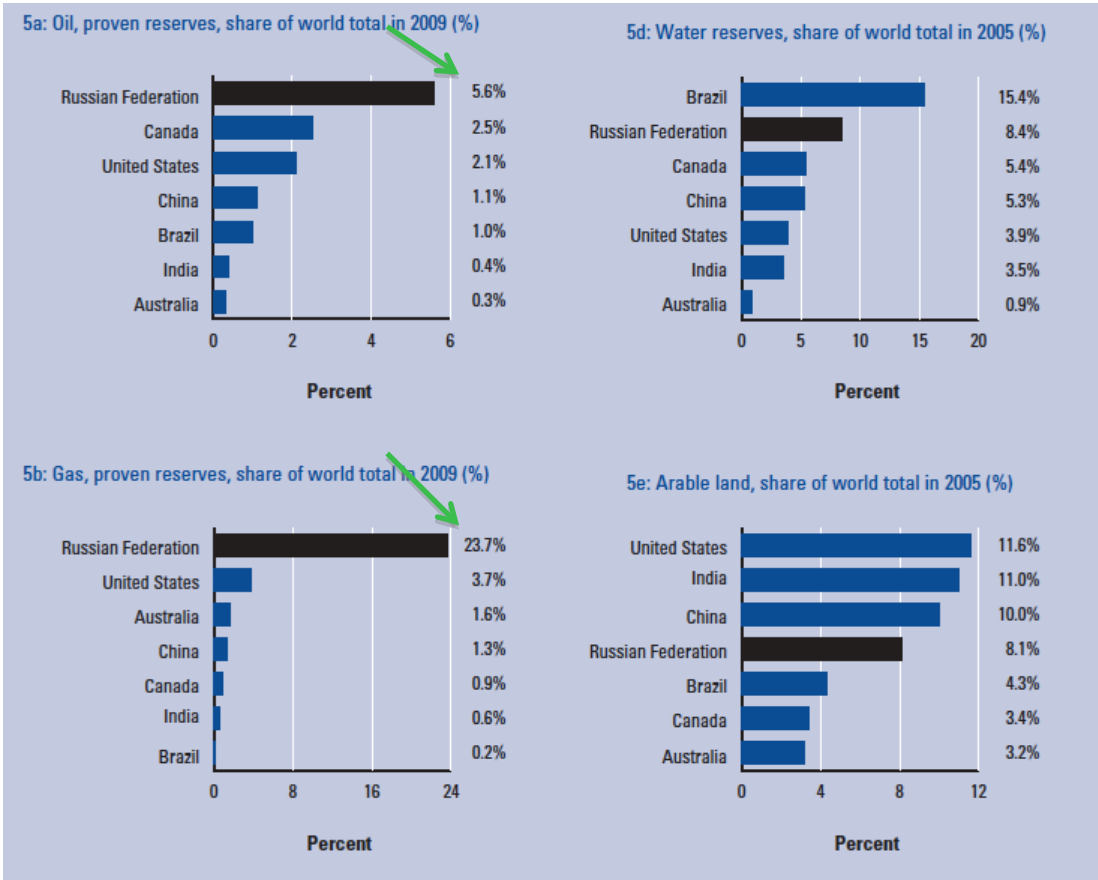
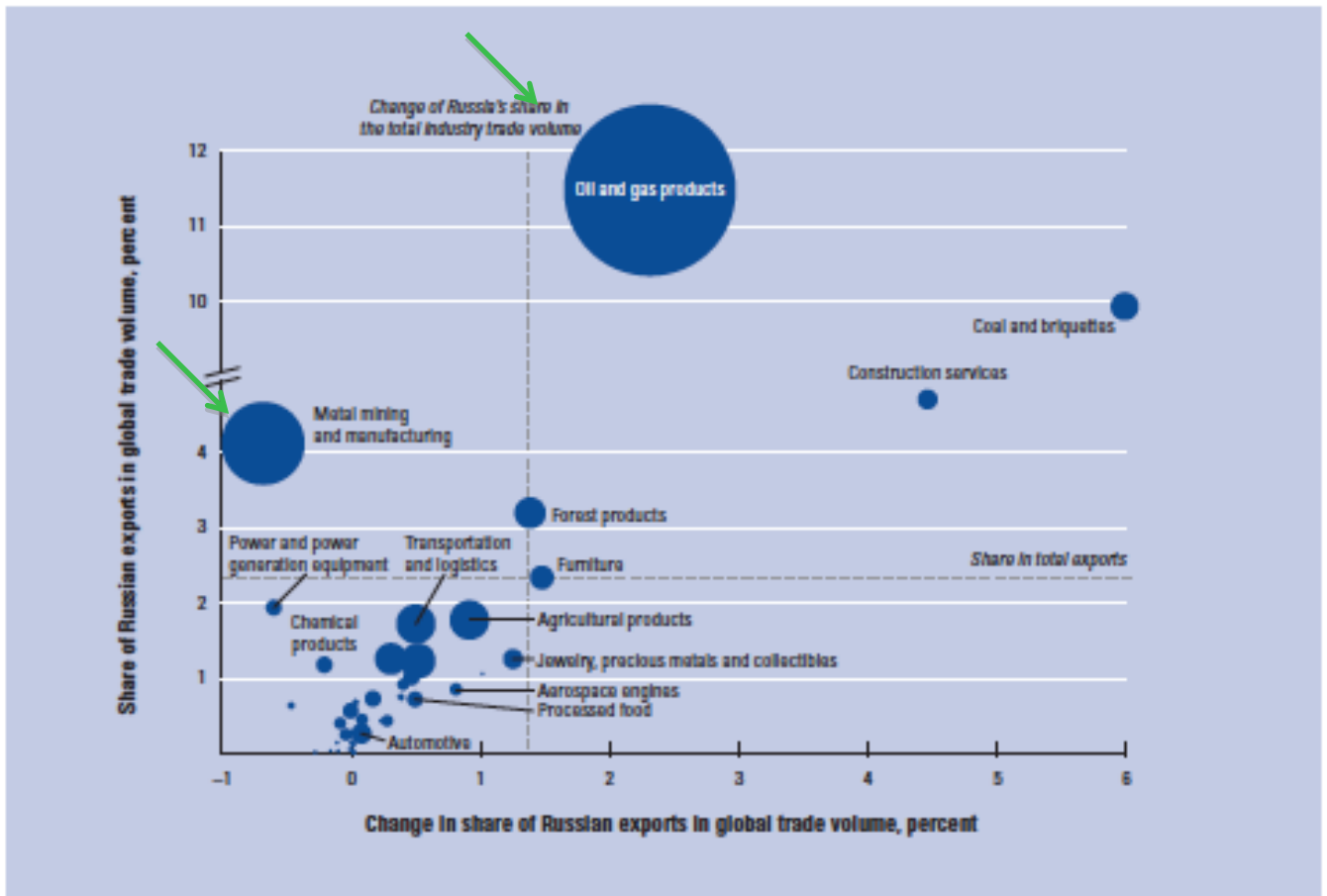


Figure 30: Russia's export portfolio, 2007



Source: Institute for Strategy and Competitiveness, Harvard Business School, 2011.

Russia's economy has recently enjoyed the benefits of a resource boom, in particular high oil prices. More than 70% of Russia's exports are natural resources. Both high commodity prices and a sustained oil price have resulted in cash flooding into Russia. Russia is currently in the midst of a resource boom and will likely continue to enjoy this since Russia contains 5.6% of proven oil reserves and 23.6% of gas reserves. However, it has not taken significant steps to diversify its exports from an exceptionally volatile (price-wise) industry. Russia is currently enjoying the benefit that being an oil-rich nation bring, but dependence on these resource rents is unhealthy for the long-term future of the Russian economy.

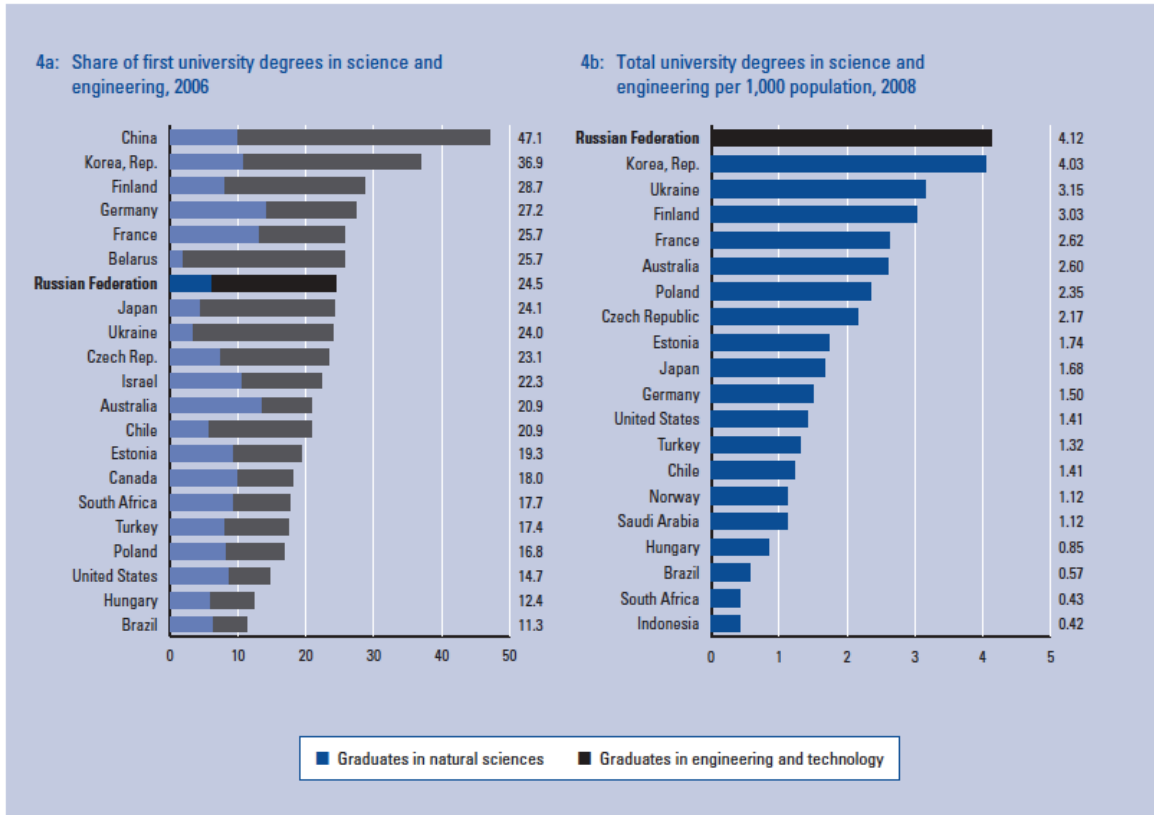
Furthermore, the figure immediately above demonstrates that the majority of Russian exports are barely gaining market share in the global economy. Though positive, this increase is far less than needed for the revitalization of the Russian economy. Tellingly the oil and gas industry, which is currently in the midst of a boom, has only resulted in a 2% market share increase for Russia.

- *significant heavy industrial capacity, logistics networks designed for self-reliance.*

The former Soviet Union has endowed Russia with significant heavy industrial capacity and self-contained logistical ability. This industrial capacity is a huge advantage for Russia in the global economy, and allows Russia to begin with an advantage in terms of manufacturing capacity and raw material export production. Though not mentioned in the World Economic Forum Report, Russia’s industrial capacity will continue to be a strong asset for Russia’s economy for years to come. However, Russia’s industrial infrastructure is aging, and the companies that control much of this industry have calcified and are uncompetitive. Russia must continue to retain its advantage in industrial capacity if it wishes to remain competitive in a rapidly changing global economy.

- *highly educated population, large pool of science and engineering graduates*

**Figure 4: Tertiary education in Russia**

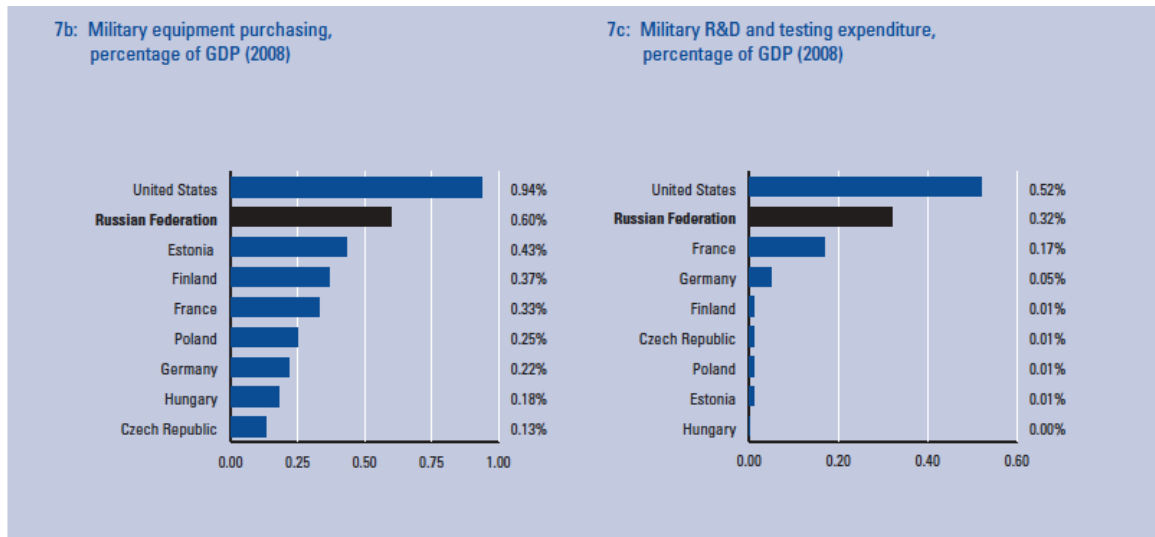


Source: UNESCO Institute for Statistics, 2011; World Bank, 2011.

The figure above demonstrates that Russia graduates sufficient numbers of students in natural science and engineering and technology fields, and has the highest concentration of science and university degrees per person of any country in the world. This is a large scientific advantage for Russia, and the legacy of universal education in the former Soviet Union has served science and engineering in Russia

well. Russia has an education advantage in these fields compared to other countries in the global economy, and this talent is attracting significant business services outsourcing to Russia in order to access Russian talent. However, as will be described later, Russia has not taken the steps to maintain its scientific prowess and the quality of its educational system is declining.

- *The Defense Industry.*



Sources: Cooper, 2009; European Defence Agency, 2010; US Department of Defense, 2008; World Economic Forum, 2010.  
 Note: Market size is GDP + imports – exports.

Another huge advantage for Russia in the global economy is its defense industry. With nearly three quarters the military procurement of the US armed services, the Russian military has fostered a powerful defense industry. Moreover, the Russian military funds significant military R&D expenditure, which results in new product development as well as increases the human capital of the Russian workforce. The Russian defense industry is a large advantage for Russia, and sales of military equipment will contribute keeping Russia's economy afloat.

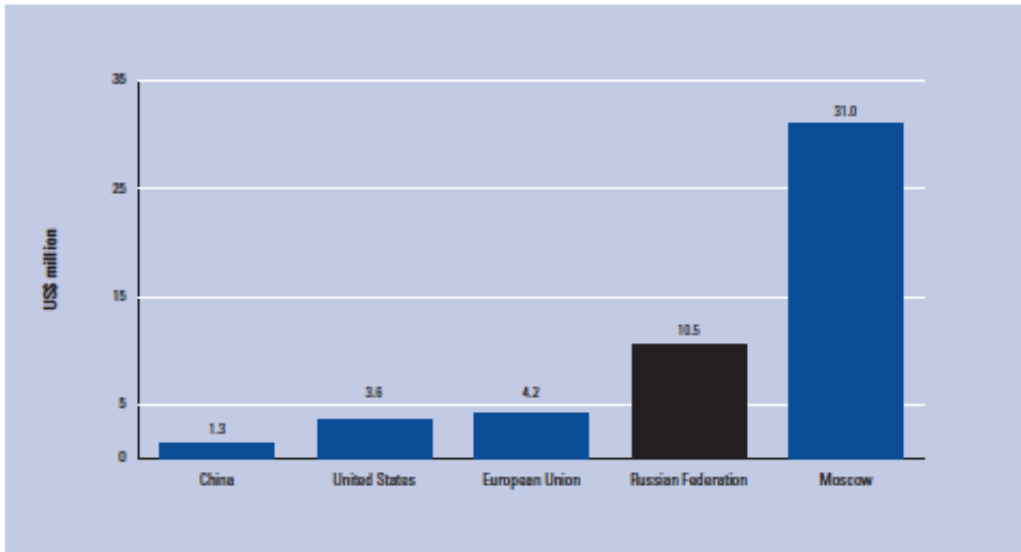
### **Weaknesses of the Russian Economy**

- *strangling institutional and political framework, corruption, biased and inefficient judicial system.*

Russia's institutional and political framework is preventing the change and creative destruction necessary for Russia to continue to maintain its relative economic position. Russia's businesses and workforce have many underlying strengths, but the framework they operate in is strangling entrepreneurship; without change, this factor alone might consign Russia to relative global decline. The political system, corruption levels, judicial

system, and poor regulatory standards prevent Russia's economy from operating at full potential.

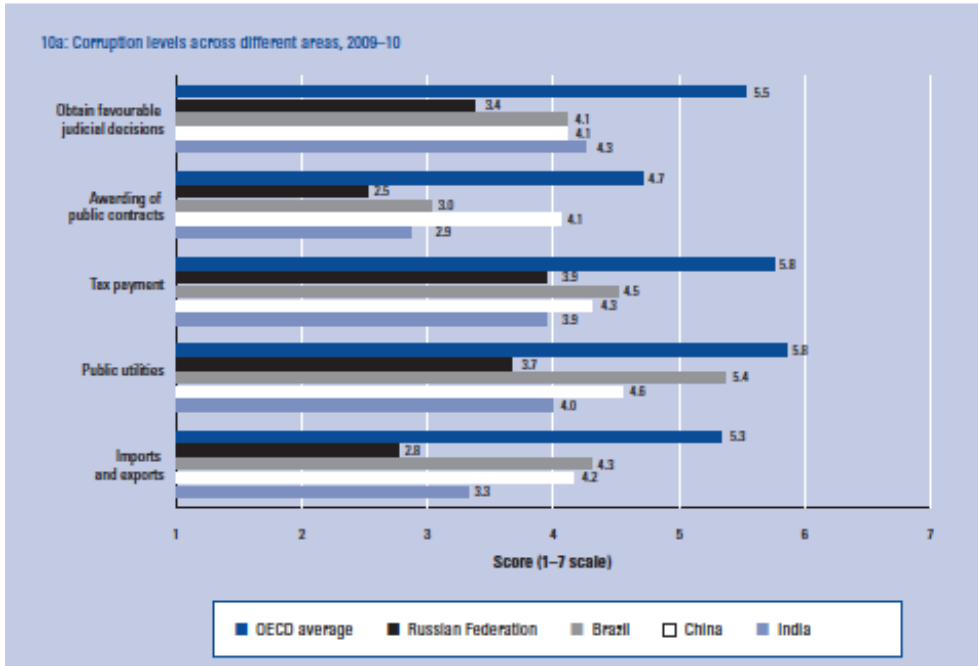
**Figure 11: The cost of building a road**



Source: RIA Novosti (based on Nuttall, 2010).

The chart above demonstrates one of the most obvious effects of Russia's poor political and institutional framework: The high cost of building a road. In Russia, the cost of producing a commodity with technology that has been available for hundreds of years is over three times the cost of building a road in the United States, at 10.5 million dollars. In Moscow, the cost is even worse, amounting to 31 million dollars. The cost of building a road is a perfect test case for institutional and political ineffectiveness, as road technology and inputs are universal and this cost is almost entirely due to unions, regulatory inefficiencies, and government expenses.

Figure 10: Corruption levels in Russia



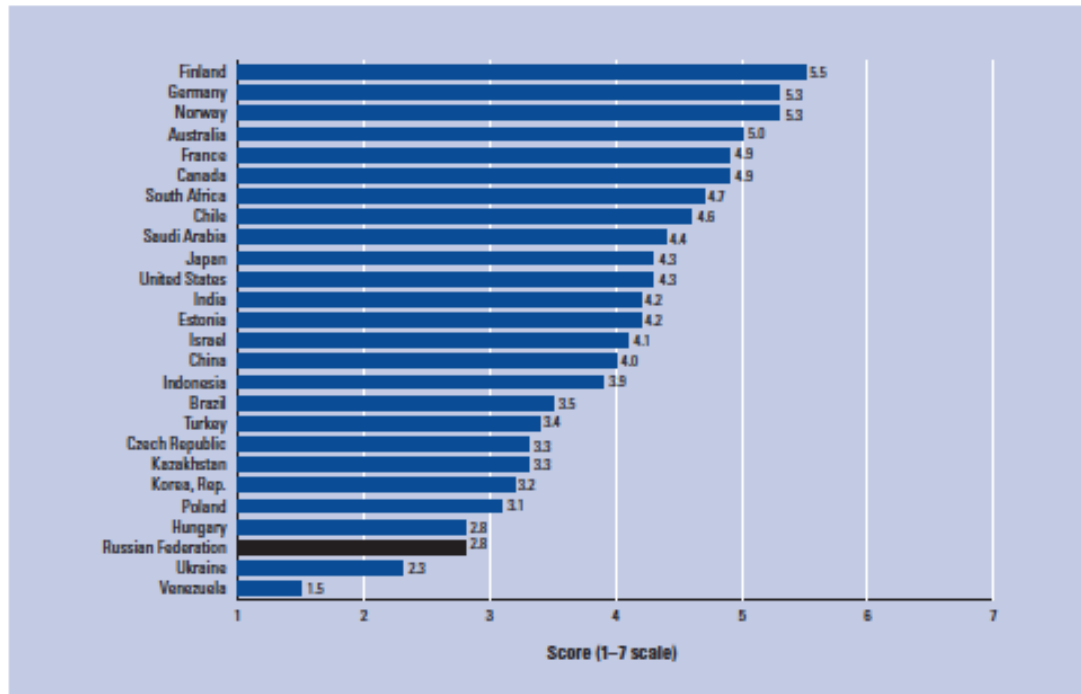
Furthermore, corruption levels across Russia are at unacceptably high levels and actively prevent Russia from maintaining its global economic competitiveness. On average, each person in a business spends 44.8 days dealing with government per year, which effectively reduces the productivity of Russian business by that amount. Moreover, Russia scores far below the OECD and BRIC average in terms of judicial decisions, public contracts, utilities, and imports and exports. This bias against foreign and upstart firms in the Russian system discourages investment and the creative destruction necessary for business innovation.

Figure 8: Regulatory standards and voluntary certification



Sources: ISO 2009; World Economic Forum, 2010.

Figure 13: Efficiency of legal framework in challenging regulations, 2009–10



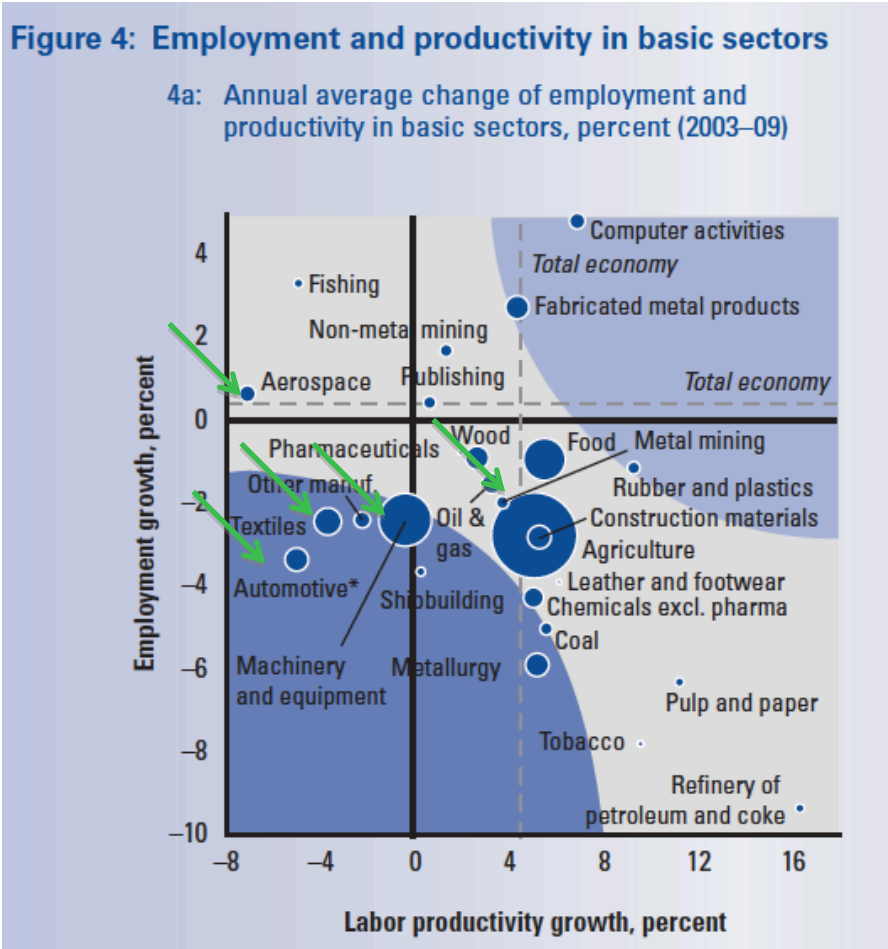
Source: World Economic Forum, 2010a.



The charts above provide further proof of Russia’s dismal record in tackling institutional calcification and corruption levels. In judicial bias, Russia only scored better than Venezuela and Ukraine, and this bias is one of the major factors preventing an influx of much needed FDI into Russia.

From the charts above and an analysis of Russia’s political system, it is evident that corruption has reached the highest level of the Russian state at a magnitude that without change in this factor alone will consign Russia to relative decline. This factor desperately needs to be reformed for Russia to remain competitive, yet business as usual is unlikely to change.

- *dependence upon oil and gas, other resource exports. the natural resources curse (paradox of plenty).*



One of Russia’s greatest strengths is also one of its major weaknesses. More than 70% percent of Russia’s exports are raw materials, and these poorly diversified exports could prove to be great trouble for the Russian economy. Natural resources face some of the greatest price volatilities of any industry. Dependence on these materials for

exports provides only tenuous growth prospects. Russia needs to diversify its exports to hedge against a potential crash in the price of natural resources and increase value added exports.

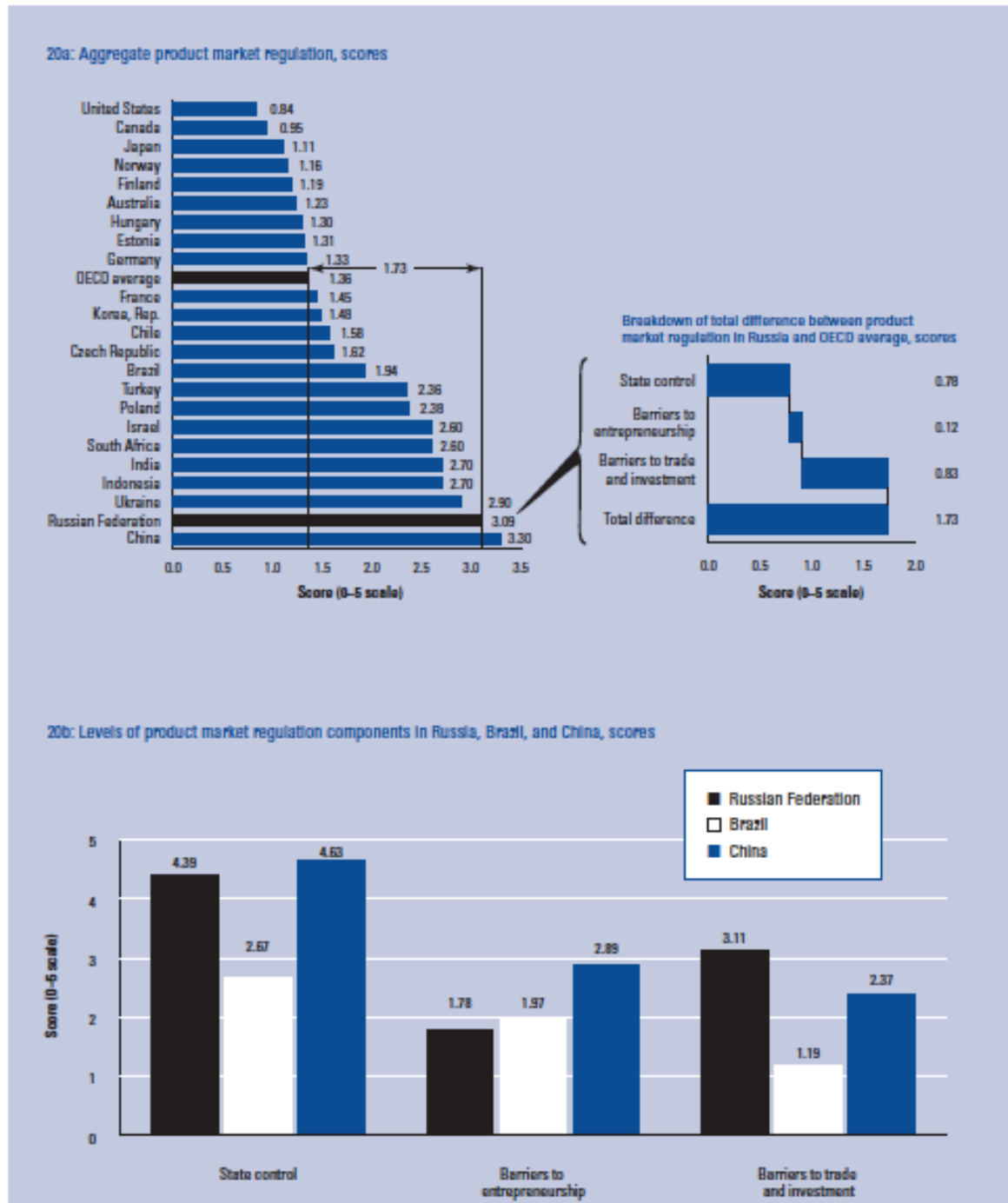
Russia is also suffering from a natural resources curse. Usually only ascribed to African nations in an attempt to describe their unusually high corruption levels, Russia seems to be suffering from this disease. The natural resources curse describes a situation in which an endowment of natural resources allows the political class to buy the people and prevent meaningful reform, which in the end is very harmful to the economy of a country. Russia is suffering from a natural resources curse, and the continued business and political abuses under Medvedev and Putin is evidence for this conclusion.

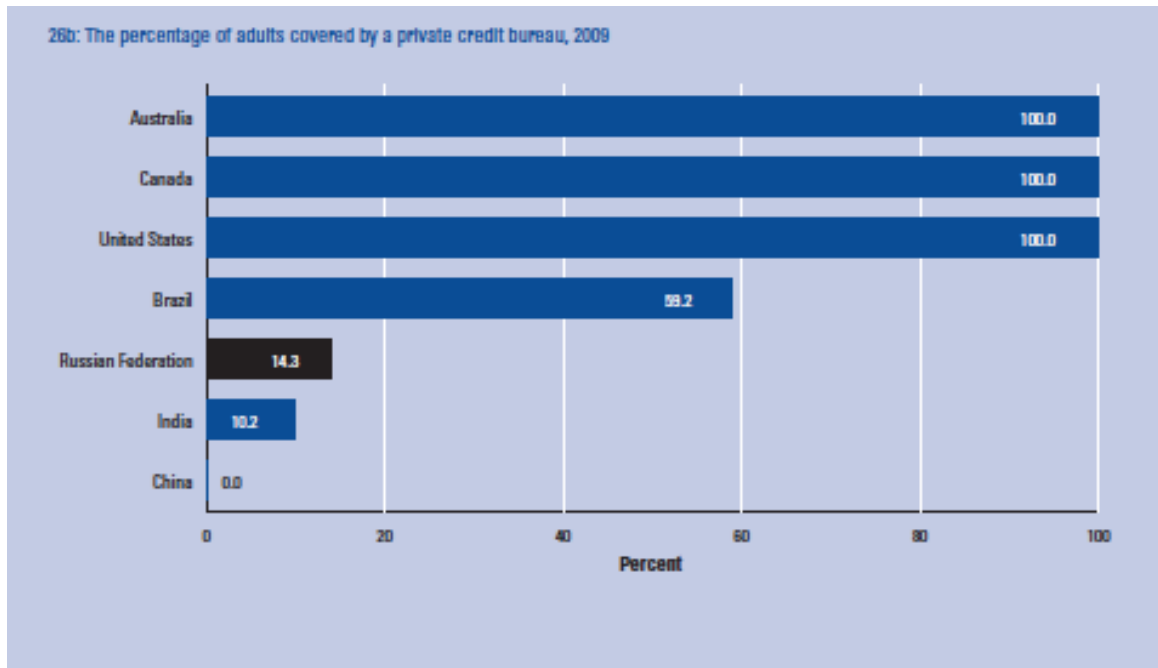
- *lack of WTO membership. poor financial system, declining manufacturing capacity, trade barriers.*

Though not covered by the World Economic Forum report, Russia is the last major economy to operate outside of the WTO framework and Russia will be punished for coming late to this trading network. The WTO is effectively the international trading regime whose explicit purpose is to remove tariffs and non-tariff barriers (ntb's) in order to promote global economic integration. Countries are allowed to select a list of strategic industries that can be accepted from the extremely liberal requirements of the WTO, and both the U.S, and many EU governments have used this clause to create an economic advantage for their countries. For each nation entering the WTO framework, the tolerance for these exceptions has been reduced.

Since Russia is currently attempting to join the WTO, they will face the full force of economic liberalization head on without reprieve as they will be unable to claim many WTO exceptions that other nations have used before. Furthermore, countries such as Georgia and Ukraine are actively blocking Russia's accession in an attempt to extract more trade concessions from Russia. Russia needs to join the WTO in order to gain the benefits of joining the global trading regime, however they will face the immediate economic liberalization of many excessively protected industries and this will initially harm the Russian economy. For this reason, if Russia does not join the WTO within 1-5 years, it will not be able to recover from the initial havoc that accession will wreak upon their economy in time to maintain relative economic status.

Figure 20: Product market regulation in Russia in international comparison, 2008



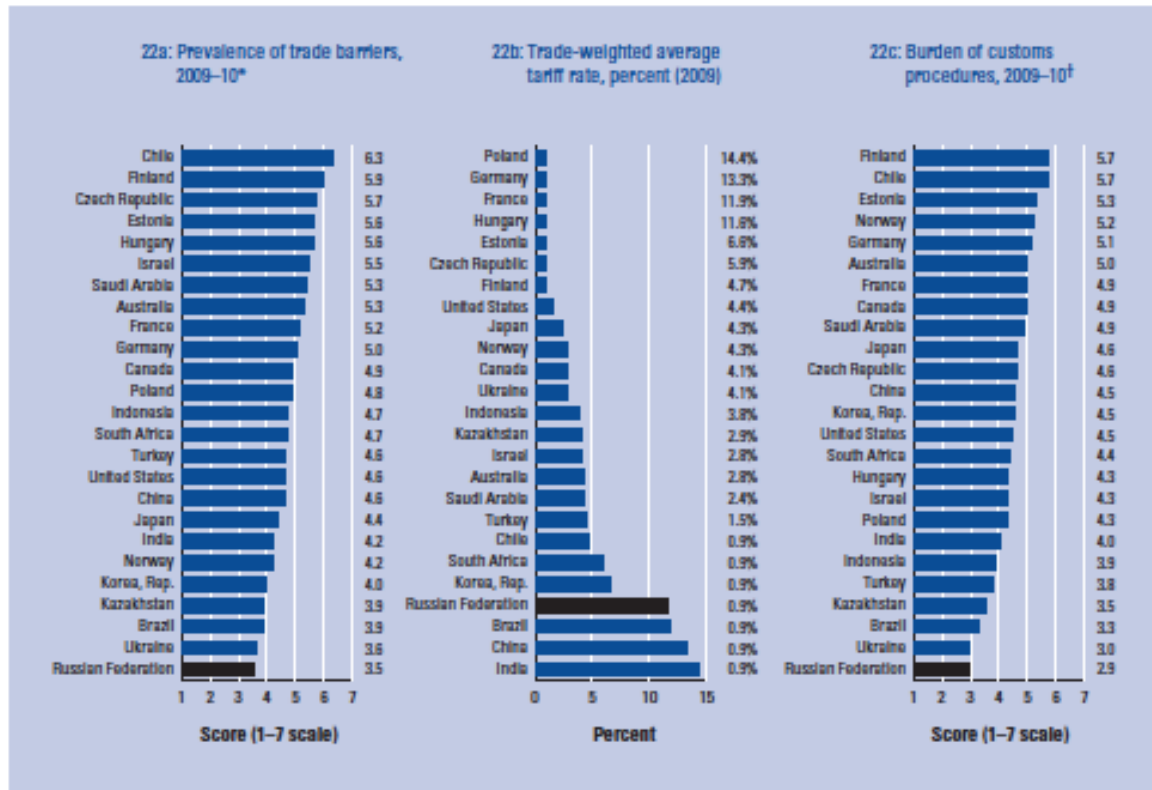


Source: World Economic Forum, 2010c.

\* This is the weighted average Tier 1 regulatory capital ratio at the 10 largest banks.

An amazingly telling statistic is that only 14.3 percent of citizens in the Russia Federation have deposits in credit bureaus. This inability to have access to finance is crippling for the entrepreneurs and small businesses the Russia desperately needs to reform the economy. Furthermore, this lack of access to finance means that Russia's financial system will undergo wrenching change when it becomes part of the WTO.

Figure 22: Barriers to imports in the Russian Federation in international comparison



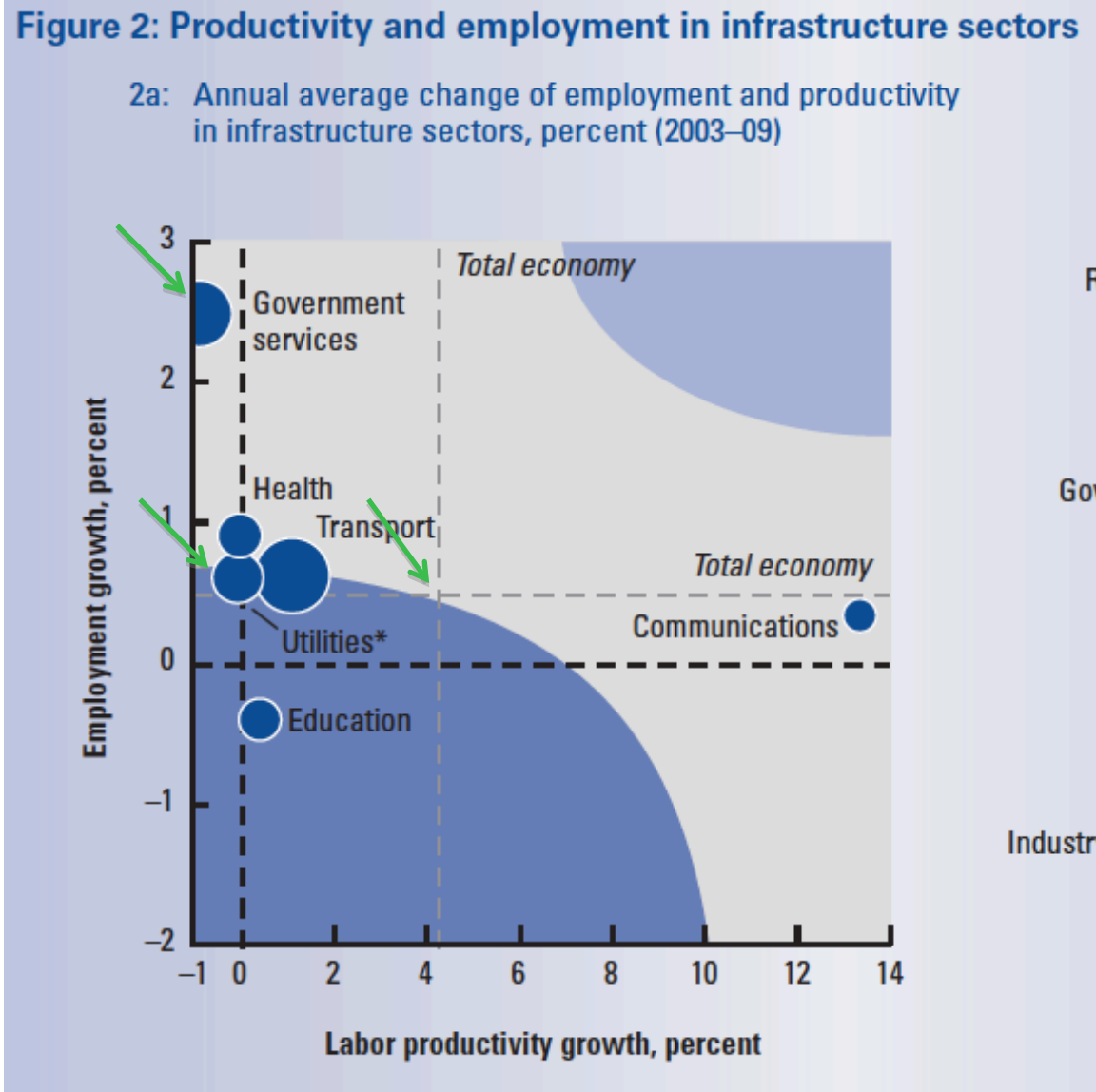
Source: World Economic Forum, 2010a.

\* The responses are to the question "In your country, to what extent do tariff and non-tariff barriers limit the ability of imported goods to compete in the domestic market? [1 - strongly limit; 7 - do not limit]"

† The responses are to the question "How would you rate the level of efficiency of customs procedures (related to the entry and exit of merchandise) in your country? [1 - extremely inefficient; 7 - extremely efficient]"

The Russian Federation has some of the lowest OECD/BRIC scores for trade and customs barriers, meaning that Russia is among one of the most protected economies in this group. Accession to the WTO will obliterate these trade barriers, which will likely prove disastrous for Russian firms not used to competing in a global marketplace. These barriers also discourage much needed FDI, and paint a gloomy picture for Russia's future.

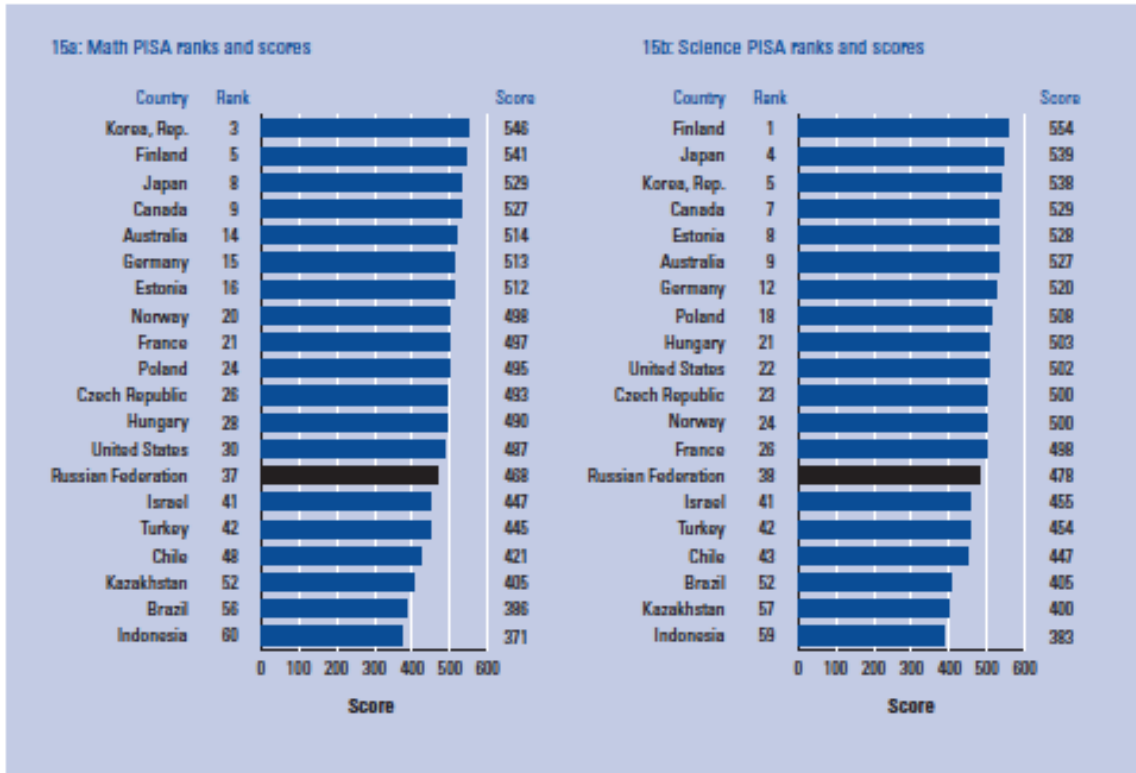
- *The Dutch Disease (Currency Appreciation Compared to Productivity).*



There is evidence that Russia is suffering from the “Dutch Disease,” in which dependence on natural resource exports raises the value of the national currency in international exchange and makes other sectors in the economy uncompetitive. A telling statistic is that for each dollar of wage, a Russian worker has only half the productivity of their Chinese and Indian peers. Russia is in the unenviable situation of having a rich world currency with developing world productivity levels.

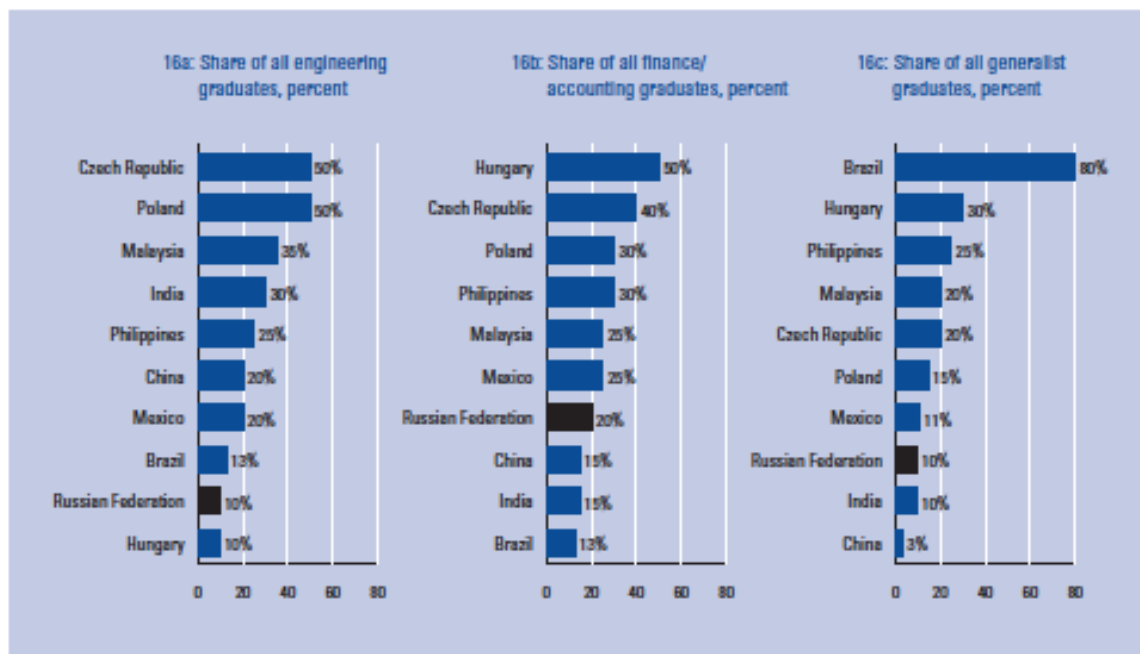
- declining education quality, poorly educated youth, demographic decline.

Figure 15: Results from the OECD's PISA study, 2009



Source: OECD, 2010.

Figure 16: Share of graduates proficient enough to be hired by a multinational company, by main field of study



Source: Farrell et al., 2005.

Although Russia has a significant advantage in its scientific and technical endowment from the former Soviet Union and Russia's current concentration of science and engineering graduates is among the best in the world, trouble is brewing for Russia's educational system. Economists often state that much of a country's future is in its educational system. By this measure Russia is failing rapidly. For a country with a history of scientific and technical prowess, Russia's 15 year-olds only place 37<sup>th</sup> and 38<sup>th</sup> respectively in international math and science PISA scores. In fact, this score is actually declining. Furthermore, the percentage of Russian engineers competent enough to be hired by a multinational corporation, one of the most important industries of the near future, is far below that of both China and India, at 10%. Though the current Russian workforce has adequate science and engineering qualifications, this expertise is rapidly declining.

- *cannot attract FDI, science and technology investment; capital flight.*



Figure 5: Countries' role in world R&D expenditure

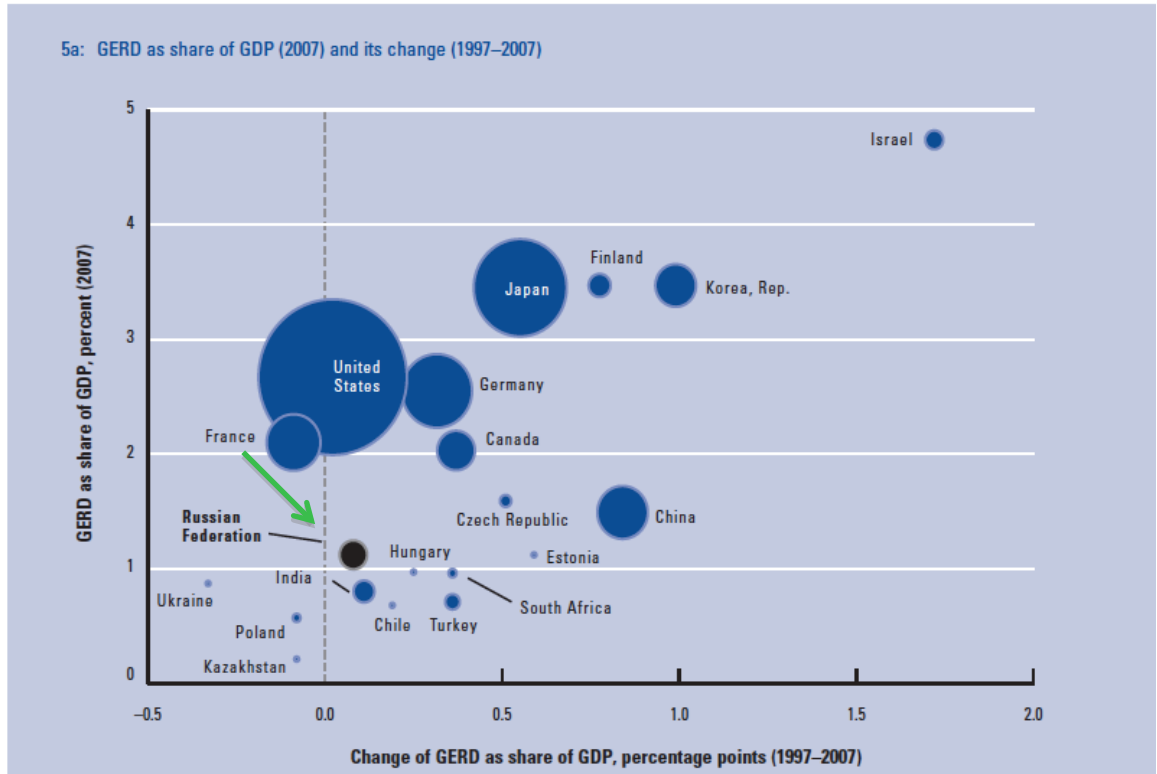
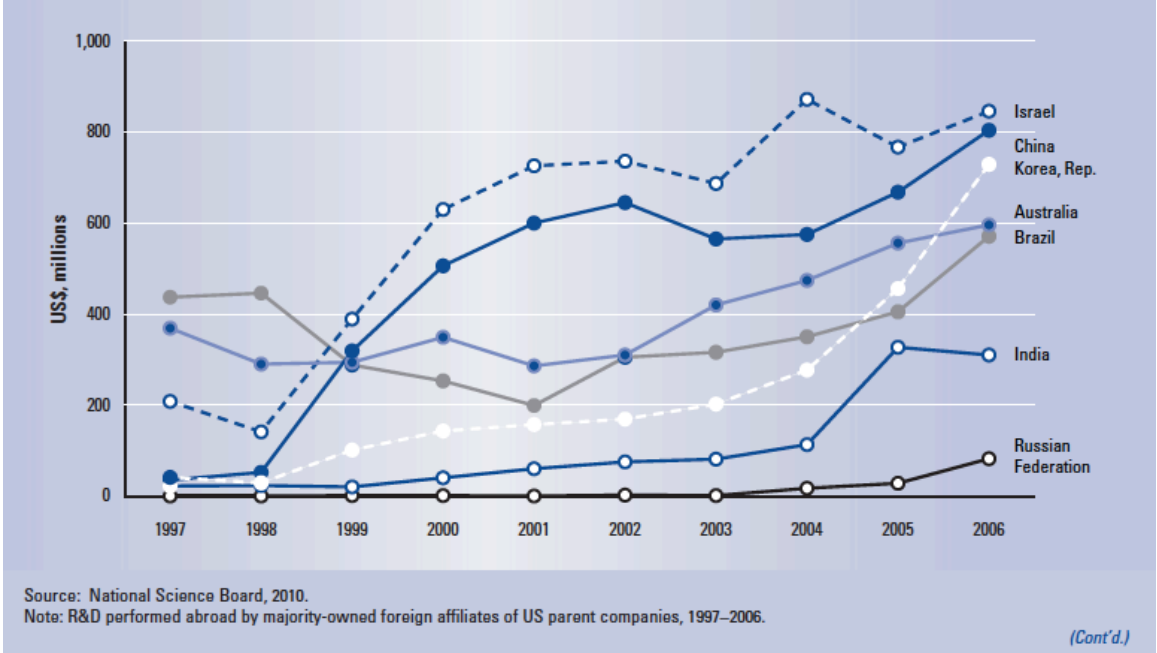


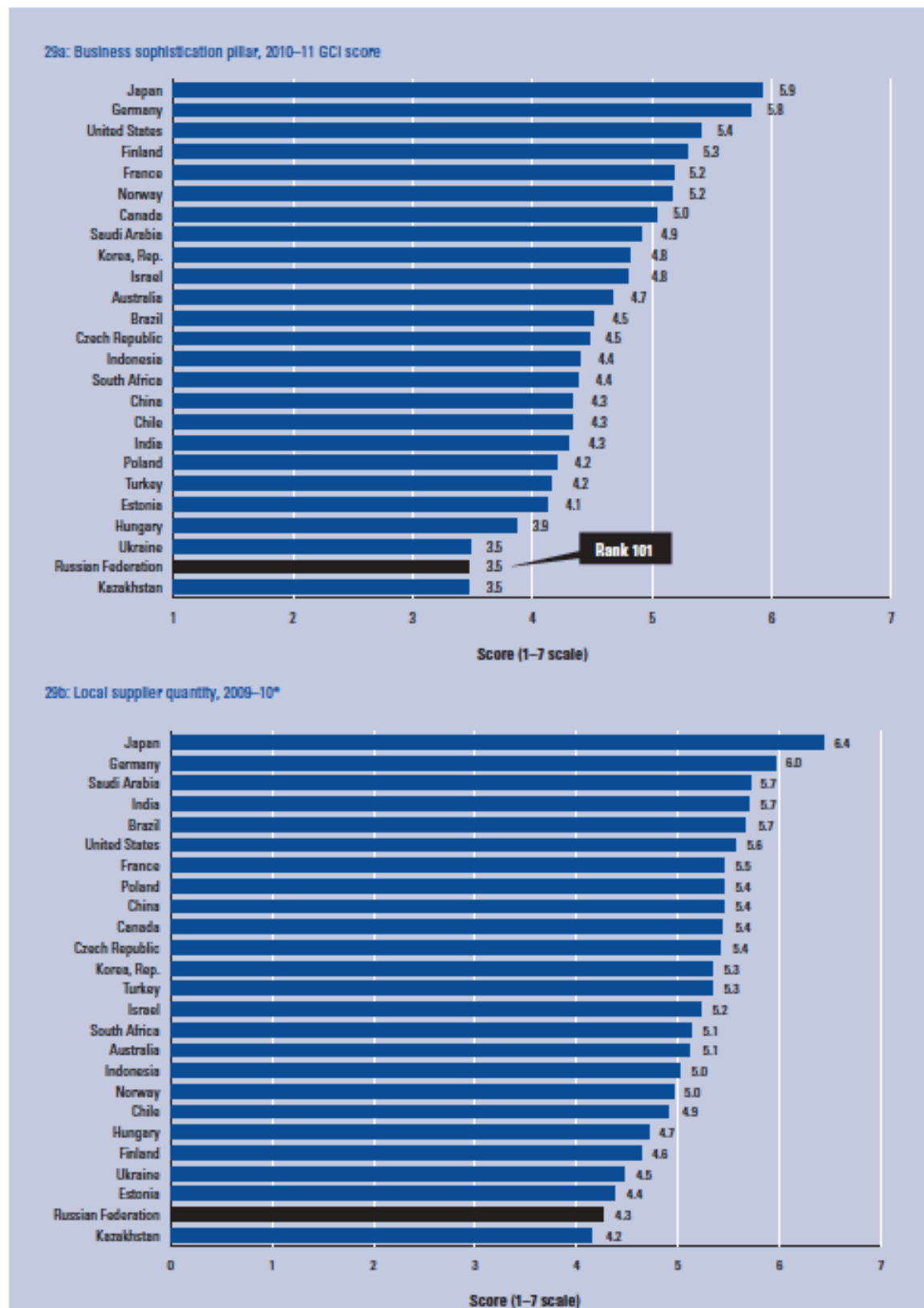
Figure 2: Foreign investment in R&D: Russia and other emerging economies



The charts above demonstrate Russia's difficulty in attracting sufficient FDI flows and science and engineering investment. Russia, like all economies, needs significant foreign capital in order to remain competitive, and by this measure Russia is performing dismally. In 2006, Russia only attracted 90 million dollars in research and development capital, far below the nearly \$300 million India attracted and \$800 million China attracted. Russian trade barriers, onerous customs rules, calcified institutional environment, and biased judicial system all discourage FDI inflows to Russia.

- *calcified and inefficient businesses, especially infrastructure.*

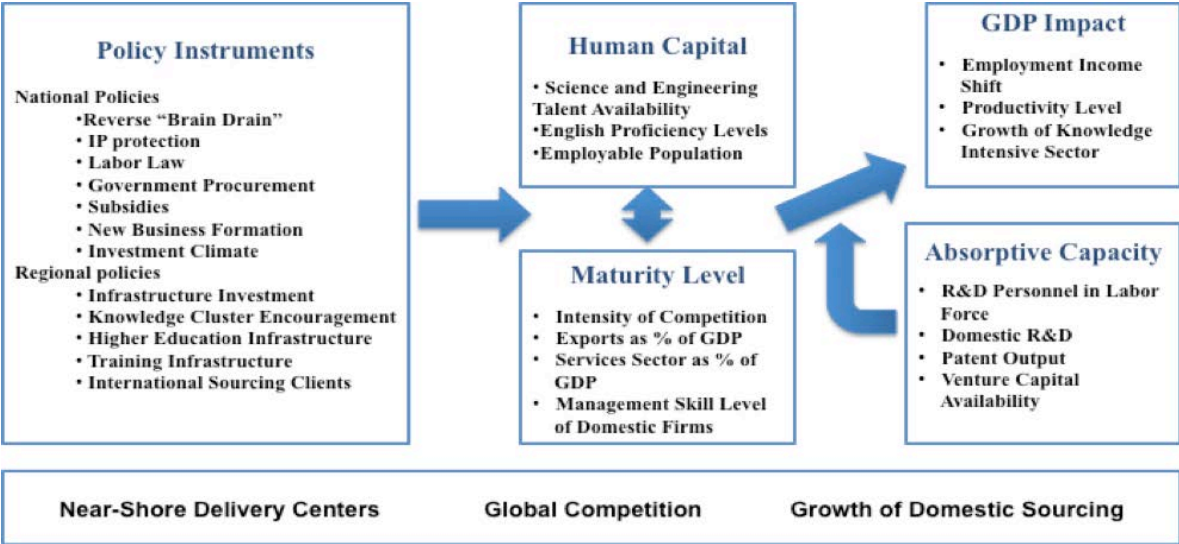
**Figure 29: Business sophistication and local supplier quantity in the Russian Federation in international comparison**



The chart above demonstrates the dismal level of business sophistication in the Russian economy. This low level of sophistication, combined with unusually low business turnover (less than 10%), has contributed to creating an uncompetitive business environment in Russia. The institutional and political environment is strangling businesses and entrepreneurship in Russia. The result has been a low level of business sophistication and unpreparedness for competition in the global economy. Should Russia join the WTO within the next 1-5 years, many of these businesses will be destroyed, as they will be unable to compete with nimble multinational corporations. As shown in the productivity chart on page 17, Russian infrastructure corporations are particularly at risk, and are a weakness for the Russian economy.

**Highly Important Competitiveness Indicators**

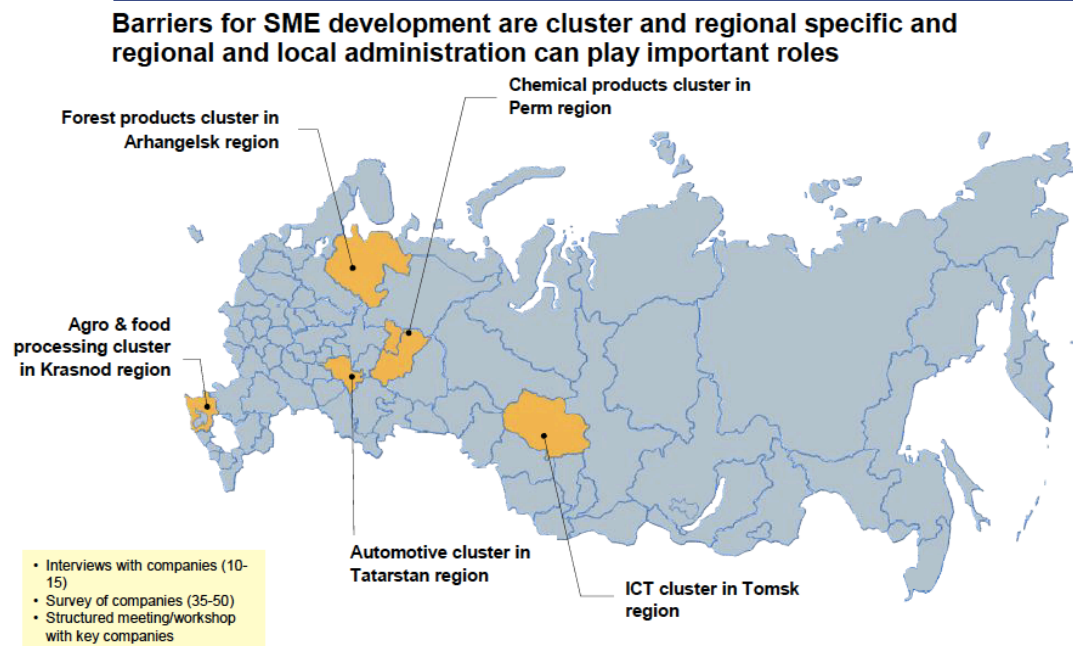
- *Offshoring*



The model shown above has been developed by Duke Business School and is a preliminary description of how business services offshoring can affect country GDP. Through this model, it can be seen that policy instruments, human capital, business maturity level, and absorptive capacity levels are all important inputs for how business services offshoring can affect a country’s GDP. This model is important because business services offshoring is predicted to become the standard business model of the upcoming years and will have significant impact on every nation in the global economy, including Russia. Unfortunately, Russia is performing poorly with all of these indicators. Although Russia has succeeded in attracting significant outsourcing

in the past 10 years, Russia's attractiveness for business services outsourcing is diminishing rapidly.

- *Clusters*



35

Clusters are the essential unit from which the majority of product and process innovation occurs. The academic literature on manufacturing and business services clusters often cites tacit knowledge and a tendency towards openness including knowledge sharing as one of the main reasons explaining the performance improvement clusters provide. Furthermore, firms and academic institutions in clusters contribute the majority of patents throughout the world.

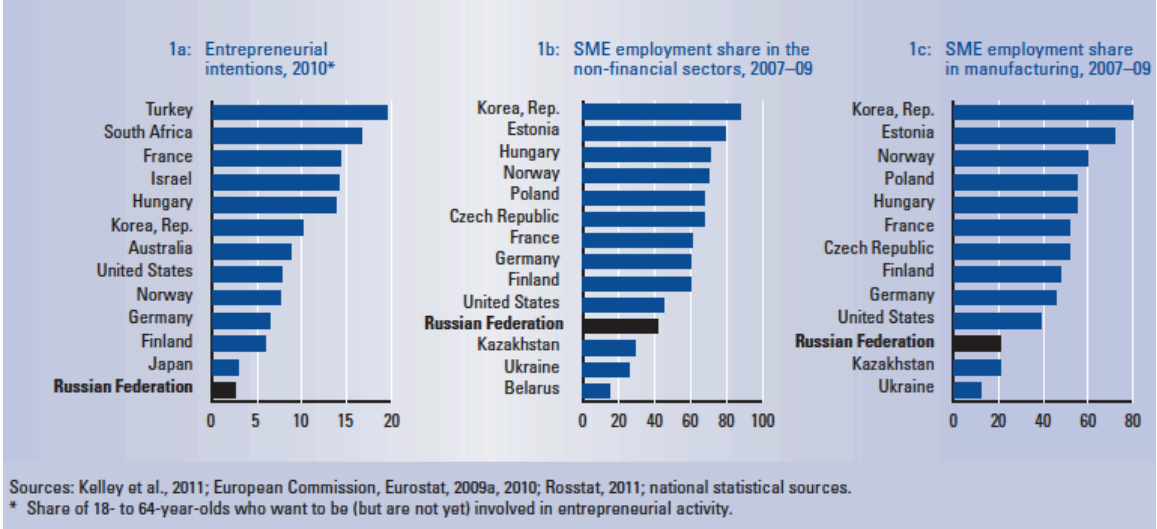
Unfortunately, Russia has no “silicon valley” cluster equivalent, and their best potential cluster is Skolkovo, which is being built near Moscow. From the chart above, Russian clusters are still focused on the production of basic goods, such as forest products, chemicals products, and food products. The clusters that are producing advanced goods and services, such as the automotive clusters in Tatarstan, are performing poorly. Russia needs to dramatically increase investment in clusters in order to remain competitive.

---

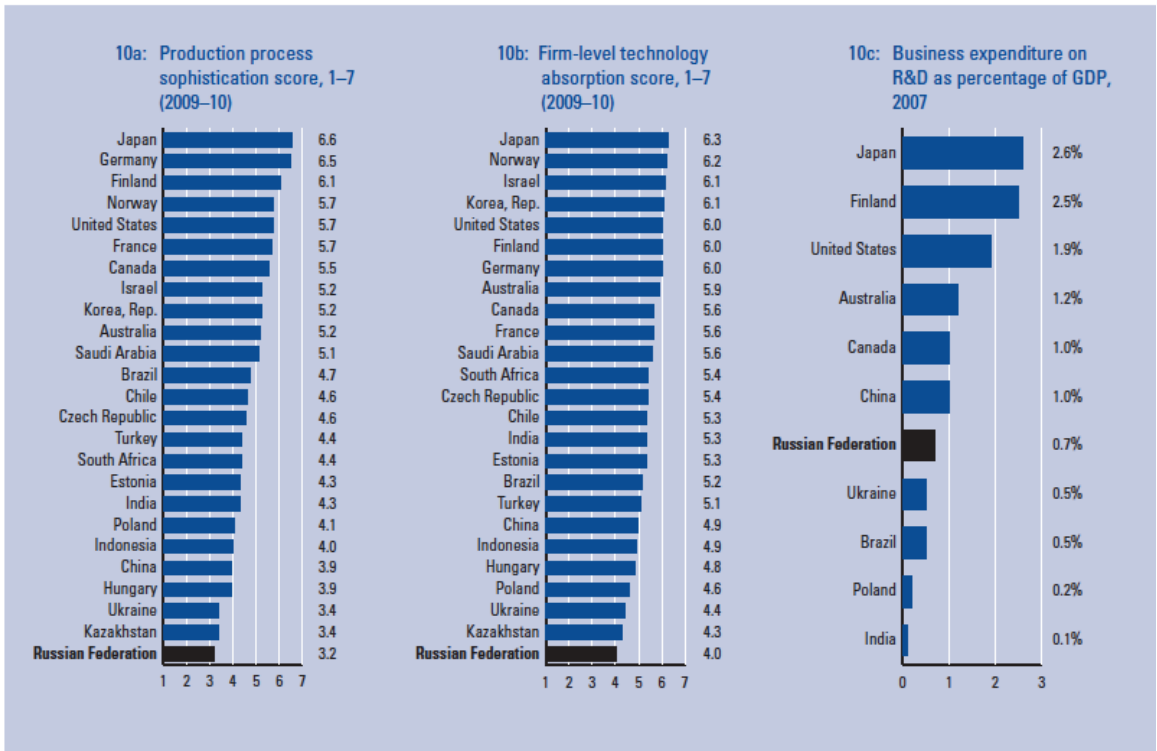
<sup>35</sup>Alexey Prazdnichnykh, “SME and Clusters in Russian Regions > Cases and Lessons for SME Policy”, *Bauman Innovation, Academy of National Economy*

- *New Business Formation*

**Figure 1: New business development in Russia: Entrepreneurship, SME development, and clustering**



**Figure 10: Company innovation capacity and technological level of production**



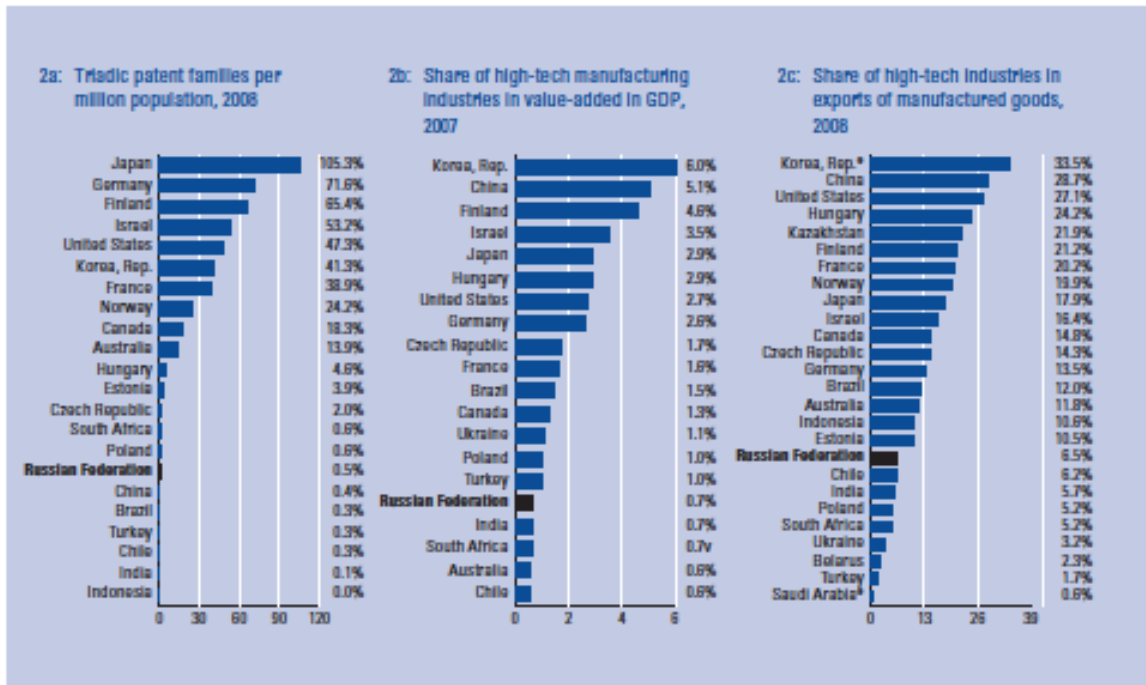
According to the charts above, Russia has performed abysmally in new business formation, which is crucial to unleashing the forces of creative destruction that are needed to reshape the

Russian economy. Russia has both a very small proportion of SME enterprises (usually new businesses that have formed) and low entrepreneurial intentions, which is a poor indicator for competition in a knowledge driven and flexible economy. Russia's low prevalence of new business failure, which at first seems like a positive indicator, conversely demonstrates an unhealthy environment for entrepreneurial activity in Russia.

Another importance indicator of a country's global competitiveness is the absorptive capacity of a nation's businesses, which is the amount of innovation and new knowledge that a business can reasonably be expected to put to use. Statistics such as employee breadth of experience, in-house R&D, and other indicators compose a nation's absorptive capacity and on the Duke chart shown above, is an important moderator on how much innovation can impact GDP within a nation. As shown in the second chart, Russia scores rather low in its innovation capacity, and this means that the innovation that occurs in Russia may not benefit the economy as a whole as much as might be expected.

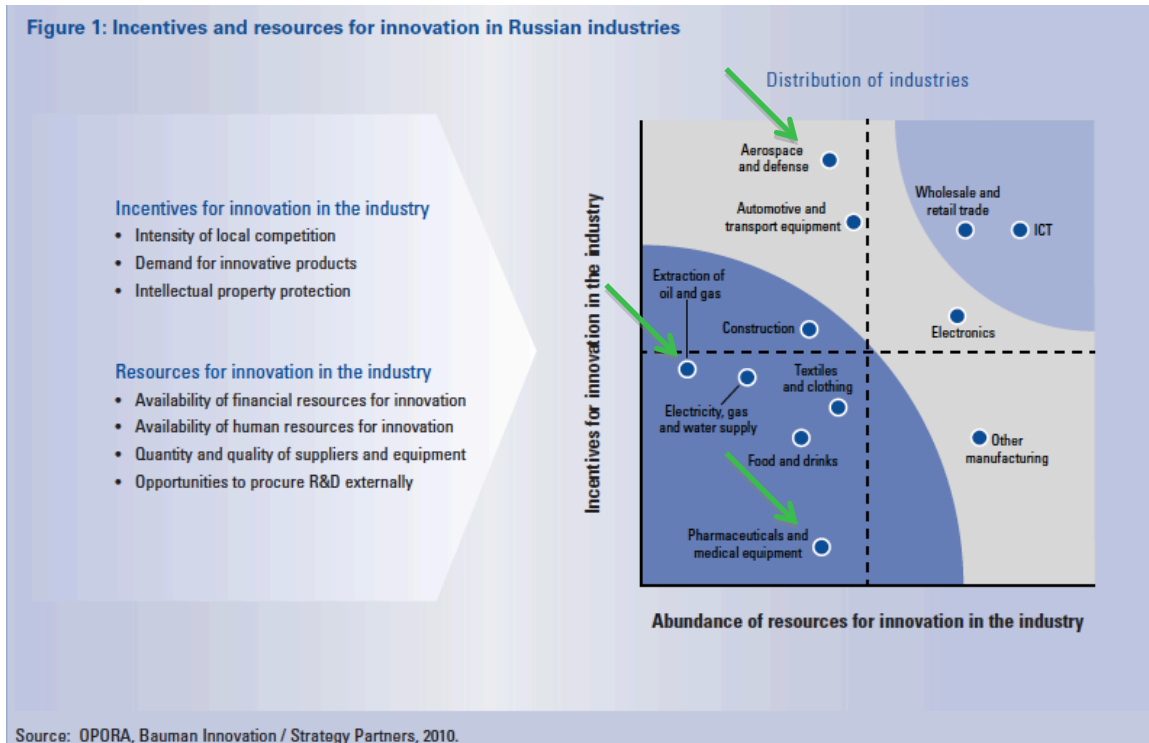
- *Innovation Performance*

**Figure 2: Russian innovation performance**



Sources: National Science Board, 2010; OECD, 2009b; World Bank, 2011.  
 Note: OECD's "triadic" patent families are defined as a set of patents filed for at the European Patent Organisation, the Japan Patent Office, and granted by the United States Patent and Trademark Office that share one or more priority applications.  
 \* 2007.

Figure 1: Incentives and resources for innovation in Russian industries



Quite similar to Russia's performance in facilitating new business formation, Russia's innovation performance has not been adequate to support the forces of creative destruction needed to restructure Russia's economy and hedge against relative economic decline. Russia's innovation performance impacts new business formation. Unfortunately, both indicators show subpar performance in an area that has become astronomically important to competitiveness in a rapidly changing global economy.

Russia's innovation problems are threefold: lack of patents, lack of capacity, and lack of an incentive to innovate. The first chart shows that Russia's share of patent families compared to its population is unusually low, which indicates that the basic process and product redesigns are not occurring in sufficient volume in Russia. Without this basic research and incentive to innovate, meaningful change will not occur. Moreover, Russia lacks sufficient capacity in the high technology industry to capitalize on process and product innovation, which explains Russia's low absorptive capacity rate and means that innovations are less likely to be adopted. Finally, the Russian people seem to have few incentives to innovate, which indicates a lack of entrepreneurial spirit and risk-taking mentality that is vital to innovative performance. From these three measures, Russia can improve every aspect of its innovation performance.

The Russian economy is at a crossroads. Two decades of economic liberalization has brought many positive changes to the Russian economy, however the global economic structure has entered a new area and Russia risks relative economic decline. Russia has a limited number of years, perhaps two six-year presidential terms, to spur innovation and creative destruction, which will maintain Russia's position in the global economic order.



Russia is in the unique position of having many legacy assets that will soon expire. On the whole, the Russian workforce has the potential to facilitate business innovation and creative destruction; however, institutional and societal factors prevent this from occurring. The employability and educational quality of Russian graduates is declining rapidly, and Russian business lack sophistication. Russia, more than most other economies, needs to accelerate the pace of innovation and change, however, this country is moving in the other direction, and without major restructuring will likely slide into relative unimportance on the global stage. It is unlikely that Russia's defense industry will not be degraded by these same negative forces.

## **RUSSIAN MILITARY POWER**

Until a few years ago, Russian defense firms simply struggled to keep Soviet-era weapons platforms operational through upgrades of their computers or ordinance. The Russian military-industrial complex rarely produced any new sophisticated weapons systems. When it did, it would most often manufacture a few prototypes, but then resource constraints would prevent their mass production. Trying to modernize old airplanes, tanks and missiles that were designed in the 1970s and 1980s proved more costly and ineffective than anticipated. The bankrupt Russian government forced the Ministry of Defense (MOD) to live off the massive weapons inventories Russia inherited from the Soviet Union. Many Soviet-era weapons designers and manufactures went bankrupt, while others gave up on the defense sector. Those that remained were able to survive only through aggressive foreign sales campaigns, which resulted in record sales to India and China, which during the last few decades of the Soviet Union was not permitted to buy any Soviet weapons legally.

During the last few years, especially after the unsatisfactory performance of the Russian armed forces in the August 2008 Georgia War, the Russian government has sought to reverse this situation by boosting defense spending. The MOD envisages spending 19 trillion rubles (about \$650 billion) during the 2011-2020 new State Armament Program (SAP, or *Gosudarstvennaya Programma Vooruzheniya* in Russian), which also includes an additional 3 trillion rubles (more than \$100 billion) for the other security services outside the MOD. In line with President Medvedev's goal of raising the share of modern weapons in the Russian military from an estimated 10 percent now to 30 percent by 2015 and 70-80 percent by 2020, approximately 80 percent of these MOD funds are to go to purchasing weapons while 10 percent will support scientific research.

Some of the weapons that Russia plans to acquire during the new SAP could substantially boost Russia's military capabilities. These include several French-made Mistral-class amphibious assault ships for the Navy as well as a dozen multi-purpose, nuclear and conventionally powered attack submarines of the Yasen, Lada, and Kilo class. The Strategic Forces will continue to replace retiring Soviet-era SS-18 and SS-19 heavy ICBMs with Russian-made single-warhead SS-27 (Topol-M) and multi-warhead RS-24 intercontinental-range ballistic missiles. The Defense Ministry would also like to research and develop a new MIRVed liquid-fuel ICBM several times larger than the Topol-M and its RS-24 variant. The warplanes the MOD is ordering include 26 new MiG-29KUB carrier-based fighters for the Navy. The Air Force is supposed to receive dozens of modern fourth-generation Su-34 fighter

bomber, Su-35BM air superiority fighters, Il-476 transport aircraft, and the new fifth-generation T-50, designed with stealth and other accoutrements to counter the F-22 Raptor.

According to the Defense Ministry, the SAP will provide the Ground Forces with additional Iskander-M (SS-26 Stone) tactical ballistic missiles, next-generation multiple-launch rocket systems, self-propelled guns, BTR-82A armored personnel carriers, and anti-tank missile systems. In addition to upgraded S-300V4 air defense systems, the Russian Army will also receive additional Buk-M2 medium-range and Pantsir-S1 short-range surface-to-air missiles during the SAP. Furthermore, the program foresees deploying ten batteries of advanced S-500 air-and-missile defense systems, which the Russian government is offering NATO to cover its sector of any joint European theater missile defense architecture. The Army is also supposed to obtain hundreds of Mi-26 Halo heavy transport helicopters, Mi-28 Night Hunter, and Ka-52 Alligator attack helicopters that will prove useful for operations in Chechnya and other counterinsurgency and counterterrorist operations. But the headline figures are misleading in that most of the ships the Russian Navy will acquire will consist of small surface combatants such as corvettes, frigates, and auxiliary ships. In addition, few analysts expect the Russian Air Force to receive more than a dozen functional T-50 planes over the next decade. And the T-50's engines, which are based on those used in the Su-35, may lack the low-visibility required to make the plane genuinely stealthy.

Russian arms sellers have been breaking all post-Soviet records in the past few years, and the Russian Federation regularly occupies second place in the global arms sales race, after the United States but ahead of other countries. Developing countries contracted to purchase \$10.4 billion of Russian weapons in 2009, a near doubling of the \$5.4 billion Russia sold in 2008. Russia's share of all world arms transfer agreements also grew from 11.1 percent in 2008 to 23.1 percent last year. The value of all Russian arms deliveries in 2009 amounted to \$3.5 billion. Russia's 20.6 percent share of all global arms deliveries placed it second place after the United States for that year. Yet, there are abundant signs of trouble ahead for Russia's defense exports. The global financial crisis threatens to curtail future sales since foreign governments lack funds to buy Russian arms. The declining value of Russia's oil and gas exports, which provides much state revenue, has called into question the government's ability to sustain its own military procurement, modernization, and reform plans as well as its non-defense goals.

Russian designers can still develop first-class weapons, but Russian defense companies, which have yet to recover from the Soviet military-industrial complex's traumatic disintegration, remain unable to manufacture large numbers of the most advanced systems. The Russian government has made the unprecedented decision to purchase expensive Western military equipment. In addition to the Mistral-class ships, the MOD intends to buy armored vehicles from Italy and personal infantry combat systems from France. Conversely, the MOD must itself compete with foreign customers for those warplanes, tanks, and other sophisticated weapons that Russian defense firms produce. India and China are now in a position to demand that Russia allow them purchase their best weapons systems—precisely those sought by Russia's own armed forces. For example, the Russian Air Force would like to acquire the MiG-35 fighter, which is being developed primarily for export to India. And any cutback in

foreign orders could deprive Russia's defense industries of the revenue they need to modernize their production to manufacture the most advanced Russian weapons.

Russia's military-industrial complex has yet to recover from the collapse of the Soviet command economy, whose planners gave the defense sector priority in their allocations. Estimates are that perhaps one-third of Russia's defense companies are bankrupt while another third desperately need an infusion of financial and human capital to modernize their aging production lines and work force. Quality control receives inadequate attention, especially at the sub-contractor level. Many of the weapons intended for purchase in the current SAP were still designed during the Soviet period. Pending their modernization, many defense firms will prove unable to design and produce sophisticated weapons without frequent cost overruns and production delays. Meanwhile, according to some observers, corruption absorbs as much as half of all Russian defense procurement spending due to the irresistible opportunities for graft made possible by the veil of military secrecy. In fact, one reason the government has sought to purchase Western defense products is to use the threat of foreign competition to induce Russia's military industrial complex to modernize its means of production. Unfortunately, some bad practices have become so ingrained in Russia's defense sector that they could take more than a decade to extirpate. The record of recent SAPs is not encouraging. They all envisaged providing the Russian armed forces with hundreds of new weapons, but their execution was undermined by insufficient financing, inefficient Russian defense manufacturers, and pervasive corruption.

No matter how good the new weapons, moreover, they still require a newly reformed Russian officer class and other military professionals to wield them effectively. The fate of Defense Minister Anatoly Serdyukov's controversial reforms, designed to transform a traditional mass mobilization military created to fight another global war with the West into a force optimized to win local conflicts and counterinsurgencies, remains in doubt.

The initial goals of the reform were improving the organization and structure of the forces by converting all divisions and brigades to permanent readiness brigades, abolishing the mass mobilization principle and abandoning the division-based system. Another objective was enhancing the overall efficiency of command and control (C<sup>2</sup>) (later interpreted as opting for a three tiered structure: operational command-military district-brigade). Furthermore, improving the personnel training system, including military education and military science was seen as essential for raising the quality of the military human resources. Improving the social status of military personnel, including pay and allowances, housing, and every day living conditions as well as a broad range of support packages was considered useful to achieve this goal.

Serdyukov is seeking to reduce the large size of the senior officer corps, whose numbers have not fallen as steeply as the overall decline in Russian military personnel, partly because many Russian reserve units keep only some of their officers on active duty when not mobilized. Whereas the government aims to reduce the number of aggregate military personnel from 1.2 to about 1.0 million, the number of officers is supposed to fall from 350,000 to 150,000. The MOD will transition from a "mass mobilization" model to a more usable brigade-based structure, which will also redistribute the airborne forces in each of Russia's six military

districts. Serdyukov is also attempting to increase the proportion of volunteers in the force, though even after the implementation of his military reforms, three-fourths of military personnel would remain conscripts. It also remains uncertain whether such long-term transformation plans will survive the current economic crisis or the protests of disgruntled officers who fear being discharged without adequate compensation or post-service assistance in retraining and finding new employment.

The reforms have succeeded in destroying the old structure, which looked like a smaller version of the Soviet armed forces, by depriving as many as 200,000 officers of their jobs and disbanding nine of every ten Army units. But it is unclear whether they have created a more effective structure in its place—claims that almost all the remaining ground units are high-readiness brigades capable of deploying in a few hours are hard to believe. Plans to shorten conscription tours and increase the use of contract soldiers have yet to be realized. Nevertheless, since less comprehensive measures have proven insufficient to overcome recruitment and retention problems, demographic, financial, and other incentives for further military reform will persist.

In his essay “The Russian Military Faces the Future,” Stephen Blank analyzes the declaratory statements, doctrine, and defense procurement priorities of the Russian government and military, with a focus on the capabilities and missions of Russia’s nuclear weapons. According to Blank, Russia’s defense policy, strategy, and military development are currently in a state of flux. The success of the defense reform that started in 2008 depends on the capacity of Russia’s defense industrial sector making good on multiple large-scale procurements of high-tech military platforms and weapons systems. Russia’s latest State Armaments Program for 2011-20 (valued at \$646 billion) represents a tripling of previous funding and will supposedly provide for development and delivery of 1,300 new models of equipment, 220 of which require modernization or the creation of new capacities in Russia’s defense industry. As a result of Russia’s renewed modernization efforts, by 2013 defense expenditures will have risen by 64.4 percent from 2010.

The future trajectory of Russian defense policy and military reform depends on a variety of subjective internal and external factors. On the domestic front, it can be expected that the personal characteristics of Russian leaders, including their respective personalities, outlooks, and thinking, will structure the trajectory of Russian defense policy more than one might expect in more structured, transparent, and democratic political systems. Furthermore, the tendency of Russian elites to magnify threats, in no small part for domestic political purposes, while promoting the securitization or outright militarization of Russia’s politics, economics, and society, will likely exhibit strong influence over policy outcomes. Finally, perceptions of internal threat, stemming from the ostensibly growing probability of civil wars and ethnic conflict within territorial Russia, warrant examination as an increasingly significant variable in Russian defense strategy.

Looking outwards, Russia perceives itself as a “besieged fortress.” This mentality is embodied both in the 2010 defense doctrine and the 2009 national security concept, which postulated threats not only from NATO expansion but also from local conventional and nuclear conflicts along Russia’s periphery and the potential for foreign seizure of natural

resources, including oil and gas. As a result, it is clear that Russian security policy is based on an assumption of extremely hostile intent on the part of its international competitors. For example, Russia's recent exercises along its Pacific Coast (the largest in the country's history) carried out under the umbrella of Operation Vostok 2010, assumed potential U.S., Japanese, South Korean, and/or Chinese military threats. In light of this expansive perception of threats, Russia has found itself relying increasingly on its military as a core foreign policy instruments. Given its conventional inferiority, this military metric will result in a high dependence on Russian nuclear weaponry.

The cornerstone of Russia's defense has been, and continues to be, nuclear weapons. Russia's ongoing difficulties in modernization and reconfiguration of its conventional forces have led the country to rely increasingly on its nuclear weapons for even limited conflict scenarios along Russia's periphery. The Russian attitude towards nuclear weapons should be taken in context: Russia expects a rise in the number of nuclear states by 2020, leading to calls for increased, rather than decreased, nuclear arms production. Given Russia's limited conventional military forces, its reliance on nuclear defense will continue, despite their limited effectiveness. Russia's thinking about nuclear weapons will be strongly affected by whoever is its chief decision maker and the coalition supporting him (or her). Given the lack of democracy in defense policy, there is a strong temptation to use military force to solve political problems at home and abroad. In addition, Russian leaders' rhetoric constantly support the perception of war and conflict against domestic and foreign enemies, mostly due to the structure of Russian politics creating a tendency to militarize elements of everyday life.

Along with perceived internal pressures, Russia sees itself as essentially isolated in the world. Its consistent paranoia is that outside rivals and countries desire to seize Russia's natural resources or deny it its rightful place in world affairs. This perception of enemies on all sides supports the Russian militaristic attitudes, and its attachment to nuclear weapons.

The emphasis on nuclear use also reflects Russia's weaknesses in other, more conventional areas. The fact that Russia views the use of nuclear devices in regional conflicts (rather than the worldwide conflicts that many Western analysts perceive as the only time such weapons should be used) shows the huge divergence between Russian perceptions of the usefulness of nuclear weapons and that of the West. Russia also rationalizes its use of nuclear weapons by assuming local internal conflicts could lead to larger conflicts (falling more into the Western model of conventional nuclear weapons use). To Russian leaders, NATO's recent behavior in Libya reflects an international decision to act on behalf of one side in a civil war only because of its values (Libya being a significant Russian client), with similar fears that Syria will become another element in NATO's moralistic foreign policy.

There has also been a growth of "pre-nuclear" rungs to the escalation ladder and specifically conventional deterrents to full-scale war, to deter local and purely conventional wars. These are being designed with a few assumptions: 1) the United States still regards Russia as a significant threat, and that its nuclear weapons and missile defenses are aimed at Russia and not Iran; 2) Russia's nuclear weapons have deterred the West from intervening in Georgia, rationalizing its nuclear foreign policy; and 3) China's military is growing and modernizing, leading to a perceived threat against Russia. Since Russia lacks the conventional strength to

counter these threats, it must rely in nuclear deterrence. The common view of nuclear weapons can best be summed up by the “Foundations of State Policy in the Area of Nuclear Deterrence to 2020. It points to two types of threats that could lead to the use of nuclear weapons: attacks on vital economic and political structures (the most likely scenario being US/NATO forces); or an enemy invasion by ground forces on Russian soil that cannot be repulsed by the army by conventional means. The most important factor channeling the direction of this debate will be the coalition that prevails during the policymaking period, not on the number or type of nuclear weapons.

While nuclear weapons in Russia do serve some strategic purposes, it appears that the most important reasons for their maintenance are at once psychological and political, serving as a compensation for Russia’s inferiority in other fields and reinforcing Russia’s idea that it rightfully deserves a place as one of the world’s great global powers. Nuclear weapons helps to preserve the concept of an independence of Russian foreign policy, and that without its nuclear weapons Russia would be militarily inferior to the United States and perhaps China.

Aside from the United States and NATO, Russia is also deeply concerned about the Asia-Pacific Region and the Russian Far East. Growing concerns about conflict in Taiwan or the Koreas spilling over into Russian territory has led to a call for increased defense in the nearly barren Russian Far East. The Russian government feels particularly anxious about its military ability in the east, as it is a relatively remote area, difficult to protect, and surrounded by incredibly powerful neighbors (China, Japan, and Korea).

China’s growing military capabilities could become a major source of concern among Russian policymakers. Russia relies on its nuclear superiority to counter the large and modernizing Chinese army. Russian strategists do not anticipate that the PRC will match Russia’s nuclear potential for at least another decade. But if Russia continues to experience difficulty in meeting its conventional manpower and equipment requirements, as has been the case for several years now, the Moscow will have no choice but to rely on a robust nuclear deterrent to secure itself against China’s rapidly expanding military capacity. Russia’s relationship with China is complex: while it provides a significant partner in its attempts to buffer the advances of the United States, NATO, and Japan, its increased strength in nuclear (specifically second-strike) capabilities as Russia has been compelled to reduce its nuclear forces (which goes against its central idea that nuclear arms are vital to its protection). However, the importance of Russia’s non-strategic nuclear weapons in this area will likely rise.

Looking at North Korea specifically, and the Asian political order in general, one can see several potential problems for the future of Russian security. If North Korea’s government falls, or if war breaks out with South Korea, or if the 6-party talks collapse abruptly, the Russian government will have little influence over a very dangerous, unstable country. Russia would have little influence if one or more major powers (i.e., China or the United States) occupies North Korea.

The initial goals of Russia’s military reform movements were: improving the efficiency of forces by converting forces into brigades and abandoning the idea of mass mobilization;

improving personnel training; providing the most up-to-date weapons system and high technology; and improving the livelihood of soldiers (pay, housing, living conditions, etc.). Reformers attempted to make (and were successful in making a few) drastic changes, including: cutting the officer corps from 355,000 to 150,000 (to make it less top-heavy); abolishing the traditional division based system and replacing it with a more maneuverable brigade structure; paring many naval and airborne forces (including the Strategic Rocket Forces); cutting military education institutions; cutting support staff (military hospitals and lawyers); and streamlining military districts, going from 6 to 4 (North, East, South, West). These North, South, East, West districts are designed to keep the command and distribution of forces streamlined. It will also be effective in serving joint operations with general purpose forces that have permanent readiness capability to move quickly. The hope is that this will open the door for network-centric operations.

Despite this change, success does not come entirely from reorganizing the structure of the military, a new mindset is necessary, and in this sense recent reforms have failed. Top military commanders and government officials have opposed most of these new measures, and these are the people most likely to actually (not) carry out these reforms. In an unsettling sign, some of the key elements of reform have already failed, leading to failure in other elements of the overall design (like not reducing the officer levels to 150,000). Perhaps the biggest failure of recent Russian reform efforts has been its inability to reduce corruption, which diverts funds needed for military reform and modernization to private purposes. The crime rate in the military is highest among all security related agencies in Russia. Hazing, enserfment of soldiers, theft, and violence against them by higher officers has been pervasive and prevents the development of a professional army. Due to a poor demographic pool, the Russian army has begun drafting people with criminal records, and these people account for more than half of those drafted since 2008.

In coming decades, Russian military power will most likely have the following characteristics:

- A successful, highly trained, professional army with experience in advanced technology is unlikely in the foreseeable future.
- Russian policy makers see their nuclear weapons as a Swiss army knife that can perform multiple political and strategic missions in many different contexts and cannot be dispensed with until and unless adequate alternatives (e.g. modern precision-guided) weapons are available.
- Although Moscow will eventually develop high-tech conventional forces of its own given the nature of its economy and political system; it is quite unlikely to reach its desired targets by 2015 or 2020 absent major reform (and possibly even then). Therefore it will have to continue to rely more than does the United States on nuclear weapons for a broader range of missions than we do. It is unlikely that Moscow will come to see the wisdom of a global zero nuclear weapons-free environment.

- The rising threat of China due to its advancing economic and military power as it becomes apparent that Russia cannot keep up strongly suggests a growing and more overt reliance on nuclear weapons, especially tactical nuclear weapons, in the Russian Far East.
- There is as yet little sign of a readiness to consider let alone negotiate reductions on TNW in view of its continuing conventional inferiority, although possibly the scope of these weapons' missions is being reduced.
- Russian opposition to U.S., NATO, and other Western missile defense programs will remain strong.
- A professional army is unlikely unless significant reforms are enacted and enforced (removal of hazing, higher wages, better living conditions, removal of conscription, providing soldiers legal rights, etc.).
- The overall military burden on the economy will remain excessive, as a result of inefficiency, corruption (between 30-50% of the budget is stolen), and waste.

But there are several variables that have the potential to significantly alter the trajectory of Russian defense policy. Since the following alternative scenarios rely almost exclusively on latent potentialities or embryonic processes within the Russian defense economy, they are almost certainly at a probabilistic disadvantage vis-à-vis the nuclear reliant scenario outlined above. These potentialities include: unexpected success in the current modernization program, diminished threat perception of either the United States or China, or changes in thinking of current Russian leadership figures.

Numerous factors feed into the success (or lack thereof) of Russia's military modernization efforts. Significant changes in any one of these could reinvigorate Russian confidence in its conventional military prospects thereby diminishing its perceived utility of tactical nuclear weapons or at the least contributing to a less one-sided elite debate on the question of Russian defense strategy. While there is considerable inertia behind the current configuration of Russian defense-industrial relations, military doctrine, and personnel policy, measurable improvement in any one of these areas may be sufficient to influence Moscow towards adopting a more balanced stance towards use of its nuclear arsenal (particularly in the long-term). Recent comments by President Medvedev suggest the possibility of Russia increasing importation of high-tech weapons systems to compensate for domestic inefficiencies, a move which could jumpstart Russia's modernization efforts.

While Russia's historical U.S. and Chinese threat perceptions are deeply entrenched, they have exhibited historical variation in their respective intensities. A sustained warming in either Sino-Russian or U.S./NATO-Russian security relations might afford Moscow the sort of strategic breathing room it needs to refocus on modernization of its conventional forces and military-industrial capacity. Of course, significant improvement in either security relationship would require a marked increase in confidence that China poses no immediate threat to the Russian Far East or a winding down of U.S./NATO missile defense assets in the European theater. Bearing in mind that neither of these eventualities are likely to be realized in the near-



term, both Chinese and U.S. defense, foreign, and economic policy will face significant Russian challenges in coming years some of which could entail unforeseen strategic effects. As the time horizon expands from years into decades, it is reasonable to anticipate greater fluidity in the general shape of both bilateral relationships and their respective influences on Russian defense strategy.

Finally, it is worth stressing that in authoritarian societies the beliefs, preferences, and personal outlooks of individual leadership figures are likely to have magnified influence on strategic outcomes. This fact introduces a degree of systemic fluidity into Russian defense politics the influence of which is both impossible to quantify and difficult to predict. Unforeseen changes in the psychological formation or policy positions of major Russian political figures (such as Medvedev or Putin), or the unforeseen rise of new influential personalities with their own particularities, have the potential to divert Moscow from continued reliance on nuclear weapons to compensate for Russia's conventional weakness.

## **REGIONAL FOREIGN POLICY PRIORITIES**

Although Putin and Medvedev have reestablished Russia's strategic presence throughout much of the world, Russia's clear priorities lies in Europe, Asia, and the Eurasian region in between. Russia has made much progress in recent years in reducing tensions with NATO, maintaining good relations with China, and strengthening its influence in the former Soviet republics. Nonetheless, while the 2008 Georgia War ended prospects for further NATO expansion in the former Soviet republics for the near future, the reset with Washington and the revised U.S.-NATO missile defense plans have yet to result in an enduring solution to Russia's two main priorities in Europe—reestablishing Russia's leading role in European security issues and constraining the growth of U.S. missile defenses. When they look southward, Russians see a cantankerous Iranian regime and political chaos in the Middle East that threatens to spill over into Central Asia. Russia's strategic priority of integrating deeper into the prosperous East Asia is stymied by the failure to reach a natural gas agreement with China, the tensions with Japan over their disputed island territories, and the stubborn refusal of North Korea to renounce its nuclear weapons and allow Russia to construct the desired transpacific railway and energy pipelines. Putin has proposed a new Eurasian Union that would help reestablish Moscow's dominance in the former Soviet territories, but this project faces many obstacles to its realization.

### *Afghanistan*

NATO-Russian cooperation regarding Afghanistan has advanced substantially in recent years. Still, underlying tensions exist between NATO and Russia regarding Afghanistan. The fundamental problem is that, while Russian leaders want to prevent a resurgence of the Taliban, they do not want NATO to establish an enduring military presence in Central Asia. In addition, Russian government representatives cite the most immediate problem regarding Afghanistan as emanating from the flow of Afghan narcotics into Central Asia and Russia. Russian authorities claim that they lose around 30,000 people each year to drugs overdoses, HIV transmitted by dirty needles, and other casualties related to Afghan opium. NATO is also paying Russia to provide helicopters and helicopter training to Afghan pilots. NATO troops

have limited their counter-narcotics operations to avoid further increasing popular support for the Taliban insurgents. The Russian government has also sought to promote a greater role for the Collective Security Treaty Organization (CSTO), an alliance of the most pro-Moscow bloc of former Soviet republics, by inducing NATO to address Afghan security issues directly with the CSTO rather than by dealing bilaterally with individual Central Asian countries.

Perhaps Russians' greatest fear is that NATO governments will simply repeat the Soviet experience of the 1980s, declaring victory and then abandoning the country. Although even Russians acknowledge that many of them enjoy watching the United States and NATO suffer in Afghanistan in their moments of schadenfreude, they recognize that a Western defeat could prove a potential disaster for Russia's security interests. Of course, Russia's instrumental support for NATO's Afghanistan mission means that should the alliance succeed in stabilizing the security situation there, then Moscow probably would not see a reason to support a continuing Western military presence there.

### Central Asia

Another field of cooperation between NATO and Russia regarding Afghanistan is the transit of Western defense supplies through Russian territory en route to Central Asia and Afghanistan. After lengthy negotiations, the Russian government became sufficiently concerned about NATO's deteriorating military position in Afghanistan that Moscow agreed to allow Western countries to ship non-lethal goods by rail through Russia. More recently, the Russian government has begun permitting some NATO members to fly military items through its airspace en route to ISAF forces in Afghanistan. Yet, there is an admixture of conflict in the NATO-Russian interaction on this issue. Moscow would gain considerable leverage in its relations with Washington if the United States could only bring supplies into Central Asia by using Russian territory. Moscow could readily suspend access through Russia should NATO prove too recalcitrant regarding a CSTO presence in Afghanistan, Russian military bases in Georgia, or other disputed issues. In addition, since Russia considers Central Asia a zone of special interest, it wants to ensure that it exerts some influence over foreign military activities in the region.

Putin and Medvedev have made restoring Moscow's influence in Central Asia a strategic priority. Russian businesses have sought to secure a durable presence in the Central Asian energy market by negotiating preferential long-term sales agreements for Russian energy companies. Thanks to the legacy of the integrated Soviet economy, Central Asia's landlocked states continue to rely heavily on transportation, communications, supply-chains, and other networks that either traverse Russia or fall under Russian control. Russian officials have also waged a low-keyed but somewhat effective campaign to limit American, Chinese, Korean, and other foreign economic competition in Central Asian countries.

### Ukraine

The linguistic, cultural, ethnic, and historical ties between Russia and Ukraine have played a major role in Ukrainian foreign policy. For most of its post-1991 history, Ukraine has pursued a policy of maintaining tight ties with Russia while at the same time pursuing closer relations

with the West, particularly the European Union. Yushchenko's brief foray into trying to move Ukraine considerably closer to the West while antagonizing Moscow proved a failure that is unlikely to be soon repeated. Current President Yanukovich has reverted to past posture and sought to deepen ties with the West without taking measures—such as seeking near-term membership in NATO—that could alarm Russia.

One of Yanukovich's first and most controversial moves was his grant to Russia of a 25-year extension on its lease of a naval base for the Black Sea Fleet on the Crimean Peninsula. According to its provisions, the Russian Navy could remain at its Sevastopol base in the Crimea for another 25 years after the current lease expires in 2017. The tradeoff was that Ukraine receives a 30 percent discount on natural gas over the next decade. Parliament was split over this agreement; opponents claimed that the government was “selling out the country's sovereignty.” Still, relations between Russia and Ukraine are much better and Kyiv is no longer a major point of contention between Moscow and Europe.

### Georgia

It is Georgia that is most likely to suffer from Putin's return. Putin and Georgian President Mikhail Saakashvili loathe one another, with Putin reportedly telling French President Nikolai Sarkozy that he wanted to see the Georgian hung by his testicles. Even if another Georgian replaced Saakashvili as Georgia's dominant political leader, Putin is unlikely to reverse Moscow's de facto annexation of the Georgian separatist regions of Abkhazia and South Ossetia, which Russian troops fully occupied in 2008. Although Moscow's has formally recognized them as independent states, the Russian military is building large long-term bases in both regions. The best that might ensue when Saakashvili retires as president in 2013, if he refrains from following Putin's earlier lead and then becoming prime minister, is that Russia might allow more visa-free travel between the separatist regions and the rest of Georgia and relax its economic blockade of Georgia, though Putin might demand that Tbilisi in turn join his proposed Eurasian Union.

Georgia is but one issue that could derail the Russia-U.S. reset. Many Americans naturally sympathize with Georgians as an embattled underdog seeking to promote democracy and a vibrant free economy at home while pursuing an independent but pro-Washington foreign policy abroad, which has included sending combat troops to Iraq and now Afghanistan. The Obama administration has eliminated a previous source of tension between Moscow and Washington by effectively abandoning the George W. Bush administration's efforts to extend near-term membership in NATO to Georgia and Ukraine. Putin railed against NATO's expansion in his last years as president and will likely do so again if, as is possible, a future U.S. administration resumes efforts to enlarge NATO eastward. Russian-Georgian tensions caused the partial failure of last December's OSCE summit in Astana and looks set to be an enduring source of Russian-U.S. tension.

### China

The Russia-China partnership since the Cold War still largely focuses on managing the vital Central Asian region. The two countries have achieved a benign geopolitical equipoise there

since the USSR's demise. Whereas in the past one country tended to have clear power superiority over the other, now a multi-level balance has arisen. China's superior economic performance has allowed it to catch up with Russia's previous lead. Russia still has more advanced military weapons, but China is located at a distance from the core of Russian military power, which remains in Europe. Both governments have been careful to avoid taking provocative actions against the other. It is hard to contest the regular assertions of Russian and Chinese leaders that relations between Beijing and Moscow are the best they have ever been.

Although their arms sales relationship has declined, Russian and Chinese military officers now meet regularly at multiple levels. In addition, the two armed forces engage in many small and several large joint exercises, sometimes along with their Central Asian partners. Even more frequently, the two governments coordinate their foreign policies in the United Nations, where they regularly block Western-backed efforts to impose sanctions on anti-Western regimes, and in East Asian hot spots, such as regarding their independent territorial disputes with Japan.

Russia and China share interests in maintain stability along their lengthy border and in the volatile region of Central Asia. Central Asian energy supplies are vital for both countries' economic development—China consumes them directly whereas Russian companies earn valuable revenue by reselling Central Asian hydrocarbons in third-party markets, especially in Europe. Adverse regional events such as further political revolutions or civil wars could adversely affect core Chinese and Russian security interests. Nonetheless, the two countries have managed to transform Central Asia from what could have been a potential source of rivalry into a region of joint management, often within the framework of the Shanghai Cooperation Organization, which they co-lead.

Russians generally admire the PRC's ability to develop its economy so rapidly within the constraints of a single-party political system. Many regret that Russia did not pursue such a path back in the 1990s. Instead, Russians sought to align with the West, which they (rightly) believe failed to offer Russia assistance during its difficult post-communist transition and (wrongly) accuse of betrayal for exploiting Russia's weaknesses to expand NATO at Moscow's expense.

Providing the levels of illegal Chinese migration and black market commerce between Chinese and Russians remain manageable, Russian officials would welcome greater Chinese assistance in developing the Russian economy, especially in eastern Russia. The average Russian is less hostile to Chinese culture than ignorant about it. The two governments have sought to correct this gap by sponsoring various cultural exchange and language promoting initiatives.

There are a few potential developments that could worsen the relationship. Russian resentment could build as China continues to ascend to superpower status, which Moscow once held but has lost. A Chinese major military buildup could also alarm Russians, among other countries. Alternately, Russian plans to create an EU-like arrangement among the former Soviet republics could provoke Beijing's resistance since such a development could

impede China's economic access to Central Asia. But these and other potential divisive developments are unlikely to occur soon if skillful Chinese and Russian diplomats continue to manage possible pitfalls in their bilateral relationship, as they have with existing sources of tension

### Japan

The impact of Putin's return on Russia's relations with Japan is uncertain. During the years Putin was president, the Japanese found him a very tough negotiator on the four disputed islands the Russians call the Southern Kuriles and the Japanese refer to as the Northern Territories. Japanese officials decided to bide their time until Putin retired in 2008, when he moved to the prime minister office. But Medvedev, Putin's hand-picked successor, has pursued an even harder line and even became the first Russian president to physically visit the islands in November 2010, provoking a mini-crisis with Tokyo. Medvedev and his entourage apparently sought to burnish Medvedev's nationalist credentials at Tokyo's expense. Putin is probably inclined to continue the hard line, but he also has the authority to pursue the "Nixon to China" option of negotiating a compromise solution and then forcing Russians, who polls show do not want to make any more territorial concessions, to accept it. Putin's incentive to seek such a deal would be to secure Japanese capital and technical assistance in order to modernize the Russian economy, a goal he has espoused in his inaugural campaign speech.

The confrontation underscores the anomaly of the persistent tension between these two countries. Excluding their territorial dispute, Russia and Japan share several overlapping geopolitical and economic interests that should make them natural partners, if not allies. In East Asia, they confront overlapping challenges in the cases of China's growing economic and military power as well as North Korea's nuclear testing and missile launching. They also both seek to cultivate strategic and economic ties with the ASEAN states. In the economic realm, the Japanese would like to expand their access to Russia's natural resources, especially oil and natural gas, while the Russians would like to secure more Japanese investment to modernize their industries and to develop the Russian Far East. This region's lagging development and alienation from Moscow represents a long-term security challenge in the face of the rising strength of the People's Republic of China (PRC). In practice, though, the Russian-Japan territorial dispute has made it difficult for these countries to pursue these shared interests.

An enduring territorial settlement between Russia and Japan would require the advent of either of two conditions. One possibility would be for a Russian government to resume pursuing the now discredited policy Moscow adopted during the early 1990s, when the new Russian government was willing to accept the gambit of making territorial and other major concessions to resolve sources of tension between Russia and its neighbors. This strategy, which failed, aimed to eliminate those disputes that alienated Russia from the West and thereby facilitate the Russian Federation's entry into the Western bloc of countries which included Japan. A second scenario would be for a strong Japanese government to arise that would be willing and capable of selling domestically the kind of compromise settlement that Russians now demand—accepting the return of at most two of the four contested islands in

exchange for a peace treaty and substantial Japanese investment and other economic contributions to Russia's socioeconomic development.

### Koreas

During most of the 1990s, Yeltsin shunned the Democratic People's Republic of Korea (DPRK) while pursuing better ties with the Republic of Korea (ROK). Russia-ROK ties did improve during the 1990s, especially in the economic realm, but Moscow's limited leverage in Pyongyang and weak national economy eventually limited South Korean interest in deepening ties with Russia. Putin sought to reestablish Russia's influence in East Asia as part of his broader ambitions to reestablish Russia as a great power. Whereas Yeltsin's government shunned Pyongyang to court Seoul, the Putin and Medvedev have successfully balanced relations with both Korean states.

Russia-ROK economic relations have improved considerably since the end of the Cold War. Trade between Russia and South Korea amounted to \$9.3 billion in 2006, up from \$2.8 billion in 2001, and reached \$18.4 billion in 2008 before declining because of the global financial crisis. Russia-ROK economic ties would surge if they realized their ambitious plans for massive transportation and energy projects, including a trans-peninsular gas pipeline and railway that could include China. Implementing these projects awaits a resolution of the Korean nuclear dispute. Both Moscow and Seoul seek the same immediate outcome in the Six-Party Talks of constraining North Korea's nuclear weapons program, though they tend to cooperate more directly with other parties, with the ROK trying to keep its policies in harmony mostly with Washington.

Like South Koreans, Russians favor a "soft landing" for the North Korean regime—a gradual mellowing of its domestic and especially foreign policies, including the renunciation of nuclear weapons. Such a benign outcome would avoid the feared consequences of precipitous regime change—humanitarian emergencies, economic reconstruction, arms races, and military conflicts. Yet, it is unclear whether Russian policy makers would really like to see Korean unification, which could result in the substantial South Korean investment flowing into Russia being redirected toward North Korea's rehabilitation. If reunification were ever to occur, a potential source of conflict could be the deployment of U.S. military forces in the newly unified Korean state. Many Koreans would want them to remain to balance the country's militarily more powerful neighbors—China, Japan, and Russia. Although many of these countries' leaders might prefer that American forces remain to discourage the new Korean government to pursue nuclear weapons—an otherwise logical move in such circumstances—other Russians might object to having U.S. forces deployed in a country that borders the Russian Federation.

### Europe

The demise of the Cold War confrontation between Moscow and the West simultaneously created both an environment favorable for improved Russian-Western relations and established conditions that made conflict likely. On the one hand, the July 1991 dissolution of the integrated Warsaw Pact, based on the power of the Soviet military machine that formally

vanished later that year, removed the threat from the east that for decades had generated distrust and hostility toward Russia in NATO countries. The end of Soviet communism also eliminated the sources of the ideological conflict between the Russian government and Western democracies. Americans and Europeans saw a once-in-a-generation opportunity to transform a former adversary into a stable, liberal democracy that would help maintain international security and stability in alignment with NATO countries.

On the other hand, Russia has always appeared too unstable, too big, and too different from the existing alliance members to warrant NATO membership on its own. Russia's lack of influence on alliance decision making and the resulting imbalance of power in the West's favor was bound to unnerve Russian leaders, especially as the alliance took advantage of its political-military preeminence in central Europe to incorporate new members and employ military force to address perceived threats to European stability, such as Russia's Serb nationalist allies in the former Yugoslavia. Russians still perceive the 1990s as an era when the West took advantage of Russia's weakness to create a NATO-dominated European security architecture that constrains Russia's geopolitical influence.

Russian policy makers continue to see their country as an important European power that should have a say in all major European security questions. For geopolitical, historical, and (in the case of the Russian minorities in the Baltic republics) ethnic reasons, Moscow policy makers tend to consider the former Soviet bloc countries of Eastern Europe as falling under a special sphere of influence (though not control) of Russia. Perhaps for this reason, Russian leaders have reacted extremely negatively to NATO efforts to incorporate these countries into the alliance or to deploy NATO military assets there.

For Russians, the entity "Europe" has multiple meanings. Moscow has relatively good relations with many individual European countries, and especially Germany, Italy, France, Norway, and Finland, but relatively bad relations with EU institutions. This dissociation is explained by the pragmatism of state-to-state relations, whereas the EU presents itself as a normative power, bearing prescriptive moral values. The EU is thus criticized by Moscow for its Eastward enlargement procedure, and European Neighborhood Policy (ENP), in particular concerning the Ukraine, Georgia, and Moldova, since this encroaches upon Russia's Near Abroad. It is also criticized for its statements about democratic development.<sup>36</sup> The lack of unity in foreign policy, as well as in the domain of energy supplies, not to mention the difficult negotiations concerning visa-liberalization have made Moscow mistrustful. Recently, the EU's domestic political and economic crises subsequent to the world downturn have worked to further discredit the EU within Russia. Still, close to two-thirds of Russians see Europe as Russia's main partner.<sup>37</sup> This viewpoint is shared by the Russian regime, which unequivocally supports the thesis of Russia's Europeanness. The current Russian regime does think Russia is a European state, and wants to be involved in Europe (such is obvious, for instance, in Medvedev's suggestion about developing a new European security treaty), but it

---

<sup>36</sup> For more on EU-Russia relations, see [www.eu-russiacentre.org](http://www.eu-russiacentre.org).

<sup>37</sup> Sergey Tumanov, Alexander Gasparishvili, Ekaterina Romanova, "Russia–EU Relations, or How the Russians Really View the EU," *Journal of Communist Studies and Transition Politics*, vol. 27, no. 1, 2011, pp. 120 – 141.

does not recognize Europe's normative agenda, such as its calls for democratization and good governance.

In December 2007, Russia "suspended" its participation in the Conventional Forces in Europe (CFE) Treaty, a complex instrument adopted at the end of the Cold War that established equal ceilings of major conventional weapons (tanks, armored personnel carriers, artillery pieces, combat aircraft, and attack helicopters) for both NATO and the Warsaw Pact. An adapted agreement was subsequently signed in November 1999 to take into account the Warsaw Pact's dissolution and NATO's ensuing expansion, replacing the obsolete bloc ceilings and zones with a system of national limits for each treaty party. Most NATO members refused to ratify the updated CFE treaty, however, until Russia completely removed its troops, military equipment, and ammunition stockpiles from the territory of Moldova and Georgia.

At the November 2010 NATO-Russia Council Summit in Lisbon, NATO and Russia agreed to expand their cooperation on tactical missile defense and take measures to overcome their differences on territorial ballistic missile defense (BMD). For example, they have agreed to resume their theater missile defense exercises, which had been suspended since the 2008 Georgia War—and discuss how they could potentially cooperate on territorial missile defense in the future. NATO and Russian experts are now addressing such questions as what a common architecture could look like, what costs and technologies might be shared between NATO and Russia, how the knowledge gained from the joint exercises might be applied to a standing joint BMD system, and how NATO and Russia might cooperate to defend European territory as well as NATO and Russian military forces on deployment.

At and since the summit, Medvedev and other Russian officials have indicated that Russia would consider very deep BMD collaboration provided Moscow was treated as a genuinely equal partner. He has proposed that NATO and Russia establish a joint sectoral missile defense architecture for Europe in which each party would be in charge of defending the other from missiles that fly through its territory. Medvedev and other Russian officials warn of a new Cold War style arms race if Russia and NATO cannot agree on a cooperative European missile defense program. They have presented the choice as between full Russian participation in any NATO missile defense system (which is politically and technically impossible) or renewed confrontation (which is undesirable, unnecessary, and unwarranted).

### Iran

Russian officials have had to balance a complex set of objectives in their relations with Tehran. They desire Iranian help in curbing international terrorism, especially in the former Soviet republics neighboring Russia, and in limiting American influence in Central Asia and the Middle East. Russian nuclear and defense firms also profit from Iran's dependence on Russian-made nuclear technology and weapons.

Nevertheless, Russian leaders oppose Iran's development of nuclear weapons. Their opposition appears due less to a concern about a near-term Iranian attack against Russia and more worrying about how Israel, the United States, and European governments might respond to an Iranian atomic bomb program. A major conflict in the Persian Gulf War could lead to a



further spike in world prices for Russian oil and gas, generating windfall profits for Moscow, but Russian territory lies uncomfortably close to the site of any military operation. Another war could also encourage Islamist extremism or lead to unpredictable regime change in Iran. Russian officials have therefore always ruled out employing military force against Iran to disrupt its nuclear program. They have regularly argued that threats and pressure only reinforce Iranian leaders' determination to acquire nuclear weapons to bolster their security.

The Russian position differs from that of many Western governments. Whereas U.S., Israeli, and many European officials would like to see regime change in Tehran, Russian leaders want changes in Iranian policies but not a change in the regime itself. Russians have an incentive to favor Iran's permanent alienation from the West. In particular, if Tehran's relations with the West were to improve, than Russia could easily lose its privileged place in Iranian political and economic circles.

### Arctic

The Russian government appears to see the Arctic as a necessary part of Russia's future security in the realms of energy and geopolitics writ large. Geography alone dictates that Moscow will have a major role in Arctic decision making. Russians estimate that about one-fifth of their country's GDP already derives from the Arctic region. For example, Russia has begun exploiting the resources of the Barents Sea, while the government aims to soon develop the energy deposits in both the Barents and the Kara Seas. It is widely anticipated that future offshore oil, gas, and other resources will be discovered and developed as regional warming reduces more Arctic ice. The U.S. Geological Survey estimates that hundreds of billions of barrels of oil may be in Russian-claimed territory. In recent years, the Russian government has set forth ambitious territorial claims in the Arctic, which have been reinforced by scientific research expeditions and military measures.

The development of the Arctic is fraught with a number of large obstacles, not the least of which are the severe conditions in the region and the difficulties they pose to the extraction of oil and gas reserves. The Arctic environment necessitates the construction of expensive, custom equipment capable of withstanding the frigid temperatures. Additionally, hydrocarbon extraction in such conditions requires the constant supervision of variable soil conditions and the icepack for fear of damage to the facilities. Despite its necessity, the energy infrastructure in the Russian Arctic remains largely undeveloped. Pipelines have yet to connect many of the oil and gas fields of the Arctic to domestic or international energy markets, necessitating expensive overland or overseas transportation, on top of in addition to enormous initial development costs and the high price cost of labor. As such, the development of the Russian Arctic will likely cost at a minimum hundreds of billions of dollars over the course of the next decade, making the cost of infrastructure development in the name of hydrocarbon extraction potentially prohibitive to unilateral Russian development of its Arctic resources.

Although Russia is a rival claimant and potential security threat to the other Arctic countries, it is also a potential partner for energy-consuming countries eager to send Arctic oil, gas, and other natural resources to world markets. Russia needs foreign technologies and other resources to access their Arctic riches. After 40 years of negotiations, Russia and Norway

finally signed a treaty on September 15, 2010, delimitating their maritime border in the Barents Sea and the Arctic Ocean into two roughly equal parts. Environmentalists and others hope that Russia and the other Arctic claimants will jointly manage this vital but vulnerable treasure of humanity.

### A Bounded Future

Russia's future has yet to be written. The papers that follow below make clear that some future developments are unlikely in the next two decades. Russia is unlikely to become a liberal democracy, a failed state, a disintegrating empire, an autarkic economy, a dying race, etc. But even excluding these extreme outcomes, there is much uncertainty over how the Russian Federation will evolve. The policies of the Russian government and other actors, such as the United States, can still have a major impact on the outcome.

### **Whither the Russia-U.S. Reset?**

There are several key points that one should keep in mind when pondering the “return” of Russian Prime Minister Vladimir Putin to the Russian presidency. First, even after he left the presidency in 2008 after serving as president since 2000, he has remained Russia's most powerful figure, able to determine policy in any area and any direction—though he is naturally constrained by objective factors related to Russian state capacity (more on these below). Thus we are unlikely to see major changes in foreign and defense policy when he returns.

Second, for the last four years, Putin and President Dmitri Medvedev have seemingly deliberately played a good cop/bad cop routine when it comes to Russian national security policy. Medvedev has often taken a softer approach, stressing his determination to modernize Russia, refraining for the most part from making inflammatory rhetoric, and calling for respect for the rule of law and opposition to corruption even among the Russian internal security forces. Meanwhile, Putin has continued to badmouth his perceived domestic and foreign opponents, including the United States, and generally adopts a hard line on security policies. There is no reason why the two leaders cannot continue these roles even when they exchange posts, with little impact on Russian policy given Putin's preeminent role. If anything, the Russian interagency process, which is as disruptive on bilateral relations as the U.S. one, could become smoother and more predictable now that the national security bureaucracy knows to ignore Medvedev's entourage when developing and executing policy.

The Task Force on Russia and U.S. National Interests recently released their report on “Russia and U.S. National Interests: Why Should Americans Care?” The report's purpose is to affirm and document the importance of Russia, for good and bad reasons, for realizing U.S. national interests. Chaired by Graham Allison of Harvard University's Belfer Center for Science and International Affairs and Robert D. Blackwill of the Center for the National Interest, it lists several core U.S. national interests, assesses how Russia can affect them, and offers recommendations on how to improve U.S.-Russian cooperation regarding the issue. The task force members includes many people who have held senior positions relating to Russia in previous U.S. administrations. They represent the mainstream views regarding the

former Soviet Union that have dominated U.S. policy making during the past two decades. They and their views will likely remain influential no matter who is elected the U.S. (or Russian) president next year.

The report's basic premises are that "a better-managed bilateral relationship is critical for the advancement of America's vital national interests" and that, while "Russia is not our enemy, neither has it become a friend." These propositions are unobjectionable, as is their argument that "Russia is a pivotal country in promoting" such vital U.S. national interests as:

- Nuclear weapons
- Non-proliferation
- Counter-terrorism
- Geopolitics, including managing China's emergence as a global power
- Afghanistan
- Energy
- International finance, in the G8 and the G20
- Strategic geography

As Allison noted during the report's DC rollout, Russia is the sole country that can destroy the United States in under an hour. But it is also the one state besides the United States that has done more than any other country to prevent the further proliferation of nuclear weapons to other states or the loss of dangerous nuclear weapons to terrorists.<sup>38</sup> As is well-known, Russia is also the world's largest producer of hydrocarbons such as oil and gas, which underpin the global economy.

Russian-U.S. relations have already improved considerably during the two years of the "reset." First, Russian officials have in particular used much softer rhetoric in the bilateral exchanges after the Obama administration restructured the planned U.S. missile defense systems for Europe away from Russia and closer to Iran. The decision of NATO to cease adding new members, at least for a while, also has helped reduce the acrimonious remarks emanating from Moscow. Putin railed against NATO's expansion in his last years as president and will likely do so again if, as is possible, a future U.S. administration resumes efforts to enlarge NATO eastward.

Second, Russia and the United States were able to negotiate and ratify another strategic arms control treaty, which entered into force in 2011. The New START agreement, though not especially ambitious, does help stabilize the relationship and enhance their mutual strategic confidence. It also allows them to make more credible claims to leadership of global nonproliferation efforts. It also has helped deepen their cooperation on nuclear energy safety and security issues. For example, the U.S. Congress adopted a Russia-U.S. nuclear energy cooperation "123" agreement that could help strengthen the currently weak economic relations between the two countries as well as increase the number of commercial stakeholders in both countries supporting good relations.

---

<sup>38</sup> "Russia and U.S. National Interests," Center for the National Interest, October 31, 2011, C-SPAN Video Library, <http://www.c-spanvideo.org/program/302409-1>.

Third, Russian-U.S. cooperation regarding Afghanistan has increased significantly during the last two years. The United States and other NATO countries now send about one-half of all their supplies to their forces in Afghanistan through Russian territory. Russia has also provided additional military assistance to the Kabul government, such as helicopters and counternarcotics training, some of which is paid for by NATO countries.

Fourth, the Russian government has provided greater support regarding Iran than in earlier years. Not only did Russia agree to the fourth and most severe round of UN sanctions on Iran, but the Russian government took the extra step of cancelling an existing contract to sell Iran advanced surface-to-air missiles to Iran, and even returned Tehran's deposit. Many analysts feared that the impending arrival of these S-300s would trigger preemptive Israeli military action. The United States in turn stopped trying to block Russia's construction of Iran's first nuclear reactor at Bushehr after Moscow successfully demanded that it would supply the reactor's fresh fuel and then remove the spent fuel for safekeeping in Russia.

Finally, the two governments have established a new U.S.-Russia Bilateral Presidential Commission that includes many cabinet-level working groups. These bodies involve many senior agency officials in both governments and help ensure that the department bureaucracies consider the other country's perspectives when making policy. These working group sessions also help sustain a high-level Russian-U.S. dialogue in time periods beyond the infrequent presidential summits.

Unfortunately, none of these achievements are irreversible. The report's authors rightly worry that sustaining the improvements in Russian-U.S. relations that have occurred during the past two years will be difficult since "what remains to be done is likely to be much more difficult than what has been accomplished so far." In fact, even a failure to move forward in these areas could lead to a deterioration in Russian-U.S. ties since both sides had been making concessions in the expectations that they would be rewarded by the other in the future. One of Putin's constant refrains is to complain that previous American administrations failed to fulfill their earlier commitments to Russia.

The report offers some good ideas about where the two sides can cooperate further. It correctly notes the necessity of strengthening Russian-American economic ties, which remains a weak area in their bilateral relationship. In principle, Russians may understand that U.S. officials, unlike their Russian counterparts, cannot determine where wealthy Americans invest their capital. But Russians note that, while the size of the EU and U.S. economies are similar, European investment in Russia is about ten times greater. From Moscow's perspective, it is easy to see the problem for the disparity as lying in Washington rather than Moscow.

Still, some of their recommendations seem hard to implement. Working with Russia to manage China's rising military power will be difficult since Moscow will do everything possible to avoid antagonizing Beijing. Russia has pursued a bandwagoning strategy regarding China, seeking to embrace China so closely that it will not threaten core Russian interests in Central Asia and elsewhere. Russian officials are content to let the United States bear the onus of containing China's rising military potential. Although one does read anti-Chinese sentiments expressed in some military journals, Russian government tries to suppress

any public debate on the issue. It would probably take some overtly anti-Russian move by the Chinese leadership to induce Moscow to provide greater backing to Washington's low-key China balancing.

Furthermore, Russia may be the world's largest producer of oil and second largest producer of natural gas, and may have added more oil and gas to world energy exports than any other country, but the United States does not import large quantities of either product from Russia. U.S. officials are also seeking to encourage Europeans and others to reduce their dependence on Russian oil and gas exports. Collaboration regarding nuclear energy would seem to offer better prospects since the two countries have a clear common interest in making nuclear energy safer against accidents after the Japanese disaster and securer against illicit military uses. Both governments want to continue to expand the use of nuclear power at home and internationally while averting further nuclear proliferation. Further nuclear mishaps will upend any progress they hope to see in this area. They also have a mechanism for bilateral civil nuclear cooperation already in place—their recently implemented 123 agreement.

The report's call for more bilateral cooperation against terrorism will also be difficult to pursue. The two countries are already collaborating in the easy-to-agree areas of countering WMD terrorism, which has threatened both countries, as well as in Afghanistan and regarding security at the upcoming Sochi Olympics and other sites of important international events. Extending this cooperation to other areas has proven difficult since Russians and Americans tend to have different definitions of terrorism and, as the report's authors note, they tend to believe that the other country's policies actually contribute to some terrorism (i.e., Americans think Russia's human rights violations spur terrorism in the Caucasus, while Russians believe that the U.S. invasion of Iraq has spawned more terrorists than it has eliminated).

The Russian-U.S. relationship will invariably entail major sources of tension. Russians will never welcome NATO's domination of Europe's security architecture, U.S. missile defense efforts, and U.S. criticism of Russia's human rights policies. Iran looks to be a persistent source of disharmony because Russians genuinely perceive Tehran as less threatening than do most Americans, and have more to lose from a cessation of economic ties with Iran (or an Iranian-Western reconciliation). Although many Americans consider Russia's Iran policies a fundamental test of the reset, Russian officials would not like to see any major change in relations between Washington and Tehran since Russians believe that any major departure from the status quo, from successful engagement to regime change to war, could harm Russian interests.

Georgia is another issue that could derail the Russia-U.S. reset. Putin and Georgian President Mikhail Saakashvili loathe one another. Even if another Georgian replaced Saakashvili as Georgia's dominant political leader, Putin is unlikely to reverse Moscow's de facto annexation of the Georgian separatist regions of Abkhazia and South Ossetia, which Russian troops fully occupied in 2008. Although Moscow has formally recognized them as independent states, the Russian military is building large long-term bases in both regions. The best that might ensue when Saakashvili retires as president is that Russia might allow more visa-free travel and more trade between the separatist regions and the rest of Georgia. In any case, many Americans naturally sympathize with Georgians as an embattled underdog

seeking to promote democracy and a vibrant free market economy at home while pursuing an independent but pro-Washington foreign policy abroad, which has included sending combat troops to Iraq and now Afghanistan. Russian-Georgian tensions caused the partial failure of last December's OSCE summit in Astana and look to be an enduring source of Russian-U.S. tension.

Domestic politics can also easily disrupt the relationship since there is an incentive for the political opponents of those in power to block progress in the relationship or to attack the government for making too many concessions to the other side. Putin's almost inevitable return to the Russian presidency next year will amplify this problem. The U.S. Congress may not be anti-Russian, but it is anti-Putin. This sentiment could make it harder to ratify treaties, confirm U.S. officials, and otherwise pursue a sustained positive relationship with the Russian government. For example, the Obama administration will find it harder to secure congressional repeal of the Jackson-Vanik Amendment or ratification of the next major arms deal. Despite its modest nature, New START secured much less Senate support than previous strategic arms control treaties. Had Putin been president last year, two-thirds of the Senators might not have supported it. It will also prove difficult to secure congressional repeal of the outdated but still embarrassing Jackson-Vanik Amendment since Congress uses it as a mechanism to hold regular hearings in which the Russian government's human rights and other policies are denounced by a slew of witnesses arguing against the amendment's repeal.

Nonetheless, Putin's return to the presidency will not be all doom and gloom. The reset achievements above were partly due to changes in Russian policies that Putin must have accepted since he remained the most powerful person in Russia even after he retired from that office in 2008. Putin may well continue these policies when he exchanges offices with Medvedev. During his previous two terms as Russian president (2000 to 2008), Putin demonstrated a strong pragmatic streak that enabled him to accept without much fuss the U.S. occupation of Afghanistan, the establishment of NATO military bases in Central Asia, and the U.S. withdrawal of the Anti-Ballistic Missile Treaty.

It is not even foreordained that Putin's return to the presidency will see Russia pursue harder line domestic or foreign policies. Putin has a strong pragmatic streak. During his first years in office, he introduced major liberal economic reforms before rising oil prices reduced his incentive to continue this line. His foreign policy saw efforts to cooperate with many countries regardless of ideology, only souring on the United States in the 2006-2008 period for reasons that still remain unclear. Putin's policies starting with his return to the presidency next March could see a continued drive to secure Western investment and stabilize relations with other foreign governments if international conditions warrant such an approach.

Even if Putin does tighten up domestically, rolling back Medvedev's modest reform program and resuming the kinds of policies he pursued during his last few years in office, there is no fixed rule that a government that follows a harder line at home will necessarily pursue a more aggressive foreign policy. In the USSR, Stalin was the ultimate hardliner, suppressing all opposition, nationalizing all major sectors of the Soviet economy, and imposing a harsh police state. But his foreign policy was exceedingly cautious. Whenever he encountered resistance from a superior force, be it Nazi Germany or the nuclear-armed United States, he tried to

compromise and repeatedly dismissed those who wanted to pursue a more revolutionary foreign policy. Khrushchev and Gorbachev were both domestic reformers, but the former adopted reckless foreign policies that almost led to a nuclear war with the United States while Gorbachev turned out to be the best ally the free world ever had, destroying the Soviet empire and the Soviet military in his misguided quest to restructure and modernize his beloved Soviet state. (Fortunately, his devotion blinded him to its deep structure flaws, which he inadvertently unleashed by undermining its repressive organs.)

As a strong leader with well-respected nationalist credentials, Putin has the authority to ram through major compromises like accepting the U.S. withdrawal from the ABM Treaty as well as the U.S. invasion of Iraq with equanimity, expressing regret and criticism regarding the wisdom of the decision but not raising major obstacles to its implementation. In addition, the end of the Putin-Medvedev tandem might also bring greater order to the Russian inter-agency system by enshrining both formal and informal powers in the single personality of Putin rather than dividing them between the presidency and the prime ministership.

Putin will also be in a better position to implement the contested military reform program that Russia has pursued during the past few years. The reforms have been carried out primarily under the office of the prime minister, who supervises the work of the Ministry of Defense, so they must have had Putin's backing. Putin reaffirmed his support for the reform program when he declared his candidacy.<sup>39</sup> Furthermore, the resignation of budget hardliner Aleksei Kudrin, who as finance minister fought against Medvedev's proposed \$65 billion defense spending increase as breaking the national budget and undermining efforts to diversify the economy away from military-industrial production, removes one possible barrier to the increased spending.

On the other hand, these Russian-West conflicts can be managed since they will likely remain limited and compartmentalized because Russia and the West do not have fundamentally conflicting vital interests—the kind countries would go to war over. The Cold War showed that nuclear weapons are a great pacifier under such conditions (which would not necessarily hold between countries with more fundamental differences). Russia's new relationship with the world economy is another novel development encouraging further Russian efforts to maintain cooperative relations with the West. Russia is much more integrated into the international economy and society than the USSR, and the popularity of the Putin regime, like many other governments, depends heavily on its economic performance. Other structural constraints on Russian aggressiveness relate to the smaller size of the Russian population and economy as well as the difficulty of controlling modern means of social communication. There are some clear objective criteria that will constrain whoever is in charge of Russia, which is an important but increasingly mid-level great power with superpower aspirations. Another important independent variable affecting Russian-U.S. relations in coming years will be who will be the next American presidents in coming decades.

Conversely, Russian public opinion will not constrain Putin and other Russian leaders from cooperating with the United States. Russian leaders are much more a taker than a shaper of

---

<sup>39</sup> "Putin Releases His Presidential Program," Russia Today, September 24, 2011 <http://rt.com/politics/putin-releases-presidential-program-299/>.

Russian public opinion. Anti-Americanism rises and falls in Russia, but is more a product of the government's policy line rather than a constraint on state behavior. One does see surges of xenophobic nationalism in Russia, but these are directed mostly inward against immigrants and guest workers from the south of Russia rather than outward against foreign countries. Most Russians still identify themselves more with Western societies than Asian ones and seem open in principle to cooperating with Western governments in the pursuit of common interest. Of course, American public opinion *will* constrain that types of policies the United States pursues toward Russia, though Russian-related issues are much less salient in American politics than previously.

And just because Putin chooses a policy course does not guarantee that it will be effective or achievable. For example, realizing Putin's proposal for a new Eurasian Union under Moscow's control will prove difficult. The existing international institutions in the former Soviet bloc—which include the Commonwealth of Independent States, the Collective Security Treaty Organization, and the Customs Union—have proved unable to achieve concrete cooperation and sustain their momentum. Although many of the leaders of Soviet republics were not seeking independence in 1991, they have grown to enjoy their autonomy and have generally resisted sacrificing it. Many of these newly independent states are eager to develop their relations with China or the West to balance their ties with Moscow.

Perhaps a key indicator regarding future Russian-U.S. relations will be the evolution of Moscow's policies regarding Afghanistan. At present, that country is an area of overlapping interest. Russia, the United States, and their allies share the goal of preventing the Taliban's return to power. The United States and NATO are increasingly relying on transiting goods to their troops in Afghanistan through Russian territory to supplement the precarious supply line through Pakistan. Meanwhile, the Russians benefit economically from the revenue they derive from their pivotal participation in this Northern Distribution Network. But Afghanistan could easily shift from being a unifying factor in their relations to a disunifying one due to their persistent tensions over Afghan narcotics trafficking and Russian fears that the United States is preparing to abandon Afghanistan and dump the problem on them. Russians would also be wary of a U.S. effort to keep military bases in Central Asia even after American troops leave Afghanistan. Russian diplomacy has sought to keep Moscow's options open by strengthening ties with the Karzai government, improving relations with Pakistan, and also working with the governments of China and Central Asia to manage the regional security dimensions of the Afghan conflict.

## **KEY RECOMMENDATIONS FOR MANAGING A POTENTIALLY DECLINING BUT STILL POWERFUL RUSSIA**

The United States and Russia have a number of overlapping interests that require some level of cooperation. The long-term strategic interests of the two countries are generally in close alignment. Islamic fundamentalism, the rise of China, nuclear proliferation, even energy (fundamentally sellers need buyers) are all areas where common interests exists. It is mutually beneficial to engage on these issues, which to some extent can and should be isolated from differences in other areas.



Of course, these differences should not be underestimated. They include Russian opposition to U.S. primacy and alliances in Europe and Asia; Russian concerns about U.S. military activities in Central Asia; diverging threat perceptions regarding Iran, North Korea and other problematic states; the Russian governments' shortcomings in the areas of human rights and democracy; popular hostility and *shadenfreude* in both countries regarding the other's foreign policies; and missile defense. Russian and U.S. policy makers often express their goals regarding the other in negative terms—to cease acts that impeding the others' foreign policies. Indeed, both countries have the potential, and have often acted, as spoilers regarding the other's policies, thwarting its national security strategies. In addition, due to their limited economic cooperation and past history of antagonisms, there is not a large group of stakeholders in either country that support better relations.

Yet, there is no inherent conflict between acknowledging mutual differences but still building on mutual interests. The problem in recent years has been with Russia's leaders (and a few of their American counterparts) who allow old thinking to distort their perceptions and priorities, misidentifying areas of potential cooperation as unavoidable areas of conflict, or underestimating opportunities for cooperation.

These background conditions mean that the current “reset” was (as its name implies) a quick, necessary, and largely successful fix to a badly frayed U.S.-Russian relationship that had reached its post-Cold War nadir in the last years of the Bush administration due to the disputes over missile defense, NATO membership enlargement, and the war in Georgia. But the existing reset needs a broader and more enduring foundation to become a more enduring partnership between Russia and the West. And this more fundamental restructuring of Russia-U.S. relations will not materialize until Russian policy makers adopt more common values with the West and see more of their interests aligned with the West rather than against it.

- The United States has mixed interests at stake regarding the issue of Russia's future power. A Russia that had become relatively stronger regarding the United States and the other great powers could more easily threaten U.S. regional security interests and resist Western efforts to transform the country into a liberal democracy. But it could also provide more support for U.S. efforts to counter nuclear terrorism, maritime piracy, and China's growing power in the Asia-Pacific region.
- Conversely, a Russia relatively weaker to the United States would have less capability to challenge the United States but can provide less assistance for realizing common U.S.-Russian goals. A weaker Russia may also find it harder to control its WMD assets and become vulnerable to external predators not friendly to the United States (e.g., China and Iran). But in all probability Russia will still have sufficiently strong nuclear forces to ward off external threats. Most worrisome, a Russian leadership that perceived Russia on a slope toward protracted decline might feel compelled to take drastic measures, internally and externally, to reverse its descent. The German Empire, Imperial Japan, and other great powers in the 20<sup>th</sup> century attempted to reverse their feared decline in ways that helped precipitate disastrous global wars.

- The United States can have little direct impact on the core political, economic, and military policies of a sovereign Russia. The country's leaders are unlikely to make the liberalizing changes sought by Americans since a Russia with a more liberal economy and political system would risk undermining the elite that most benefits from Russia's current political and economic system. Many of Russia's socioeconomic problems (e.g., corruption) may have become institutionalized during the traumatic communist and post-communist periods. But the United States could have an indirect impact by promoting Russia's integration into global and regional institutions that enshrine Western liberal democratic and free market values. Select U.S. intervention on some narrow issues—such as state policies that violate a particular person's human rights, or denunciations of Russian xenophobia—might make a difference on the margin.
- Russian leaders will be most open to U.S. suggestions that aim to help Russia overcome its weaknesses. For example, U.S. advice on how to secure more foreign investment in certain limited sectors (e.g., energy) may be implemented even if not attributed to foreign inspiration. U.S. proposals to help address Russia's demographic and health problems might be accepted and would not necessarily harm U.S. interests since a demographic crisis could lead the Russian leadership to take drastic and destabilizing actions to reverse what could be conceived by those focusing on quantitative rather than qualitative factors as a decaying Russian human resource base. But other Russian weaknesses—such as the vulnerabilities due to the country's absence of an institutionalized, regularized, and legitimate means of transferring power in the Kremlin—are beyond America's power to rectify.
- Nongovernmental contacts through Track II and other dialogues can supplement public exchange programs aimed to cultivate a positive U.S. image in Russia, but the main source of anti-Americanism, which varies considerably from year to year, is the way in which the United States and U.S. policies are depicted in Russia's state-controlled mass media. Popular perceptions of the United States also do not appear to affect Russian government policies due to the constraints on popular impact on Russian government policies.
- Russia is unlikely to support a “global nuclear zero”—or even major reductions—in its nuclear weapons arsenal in coming years unless the United States agrees to constrain its missile defense capabilities substantially and China consents to limit its own military buildup. Since neither of these developments are likely, the United States will need to retain nuclear weapons – or at least considerable nuclear weapons potential -- indefinitely.
- The next strategic arms control negotiations between Russia and the United States need to address those issues that were quickly excluded from the New START negotiations because Russia and the United States were in a rush to reach a “bridging treaty” to restore some arms control verification measures that had lapsed with the expiration of the START Treaty in December 2009. These issues include theater nuclear weapons, non-deployed nuclear warheads, strategic systems armed with conventional warheads, and third-party nuclear forces. Although Russia and the United States may be able to negotiate one more arms control treaty on a purely bilateral basis, at some point they need to achieve some

kind of arrangement with Beijing in which China would commit to constrain its own nuclear potential and make its nuclear activities more transparent, especially given recent claims that China's nuclear warheads arsenal is perhaps ten times less than previously thought by Russian and U.S. analysts.

- NATO may decide to remove the U.S. tactical nuclear weapons currently based in several European members of NATO, and “shared” with them for operational purposes, but such a decision should not be made with much of an expectation that Russia will reciprocate these reductions. The Russians see these non-strategic weapons as a valuable resource that they will not yield without NATO's making major and improbable concessions regarding NATO membership enlargement, its conventional forces, US nuclear weapons in Europe, and of course missile defense.
- The ambitious Russian plans to revitalize the country's conventional forces are unlikely to be realized. Corruption, inefficiency and outdated practices will continue to dissipate Russian defense spending. U.S. force planners would do better to develop capabilities and options to counter China's growing naval and air power in order to deter Chinese adventurism. Russia's nuclear weapons will remain the country's most potent weapon, but the United States will lack the means to negate them other than through mutual assured destruction.
- The Russian government is now more open to purchasing weapons from Western governments in order to fill gaps unmet by Russia's own defense industries as well as spur domestic Russian defense producers to contain their costs and improve their capabilities. The United States should encourage greater allied discussions regarding how to manage this development. France's decision to sell Mistral class amphibious warships to Russia despite some opposition by other NATO governments illustrates the potential problems of allowing unconstrained Western sales.
- The United States cannot acknowledge the legitimacy of Russian claims to have a “sphere of influence” in the former Soviet republics. Russian aspirations to affirm its “privileged interests” in the post-Soviet space have been persistent. Putin's proposal for a Eurasian Union is their latest manifestation. These schemes are unlikely to succeed unless accompanied by Russian economic and military coercion, which the United States should oppose. In their absence, the centrifugal forces in the former Soviet Union are too great, and include the paucity of positive incentives to bind with Moscow and the desire of the local elites for autonomy and options to develop ties with other regions, including Europe, China, and the United States.
- Russia will not relinquish control of the two separatist regions of Georgia, Abkhazia and South Ossetia, but Moscow might be more open to allowing a greater role for Georgian representation in the two regions as well as a more relaxed regime for people and businesses. The recent Russia-Georgia WTO agreement might provide an opening for exploring expanded links, though major improvements are unlikely to improve until the next generation of leaders assume power in both countries.

- Russia's support for the NATO effort in Afghanistan is conditional. Russians naturally prefer that the United States and its allies make the main effort in countering regional terrorist threats. Important Russian groups also earn income by selling fuel and transportation resources to the NATO war effort. If the United States and its allies were ever to stabilize the security situation there, Moscow would likely try to push NATO combat forces out of Afghanistan and Central Asia.
- Given all the problems with sending NATO supplies to Afghanistan through Pakistan, the United States should try to expand the volume of supplies sent through Northern Distribution Network's South Caucasus route. Such a move would boost the U.S. regional presence in the South Caucasus and reaffirm the U.S. commitment to these countries as a key partner in this endeavor by strengthening security ties between the United States and these states, which are unlikely to soon receive NATO membership. But expanding NDN South would probably require more U.S. and NATO resources to address logistical and infrastructure bottlenecks.
- Although fear of China's rising military strength is less among the political and military leaders of Russia than in many other Asian countries, recent years have seen more indications that at least some Russian national security experts are concerned about this trend. The United States may find it useful to encourage this new thinking by, for example, launching a more extensive diplomatic initiative to resolve the dispute between Russia and Japan.
- Russian leaders do not want North Korea, Iran, or other countries to acquire nuclear weapons. Russia-U.S. cooperation on nonproliferation issues is generally strong, and extends to an extensive partnership against WMD terrorism. But Russians are unwilling to incur major costs in averting nuclear proliferation, so they will not risk a confrontation with North Korea over its WMD programs or agree to end economic ties with Iran to pressure Tehran to end its controversial nuclear policies. Russian cooperation with the West regarding Iran is also limited due to Russian recognition that Moscow benefits from Iran's alienation from the West, which expands opportunities for Russian businesses in Iran and constrains Iranian oil sales to international markets. Russian diplomats also do not want Iranian leaders to challenge Moscow's control over the North Caucasus or become more confrontational over other regional security issues. The United States should encourage Russia to refrain from selling Iran destabilizing weapons like the S-300 surface-to-air missile system or from elevating Iran's status to that of a full member of the Shanghai Cooperation Organization.
- Russia will try to sell arms to any country that is not under UN sanctions explicitly limiting such sales, which includes further sales to Iran, Syria, and other countries with odious national security establishments. In some cases, Russia may renounce certain sales opportunities, but over time the fear of losing markets to the improving Chinese arms export industry may weaken this trend. U.S. diplomacy should pressure China to refrain from backfilling for Russian defense and other firms that end their ties with Iran and other states of concern.

- Although Russia often has good relations with individual European countries, Russians feel excluded from Europe as a collective. This alienation, which encompasses resentment over EU visa policies and EU criticism of Russian domestic policies, is felt most strongly in the security realm. The United States needs to make Moscow more comfortable with a NATO-dominated European security order by offering Russians more opportunities to participate in NATO activities.
- The United States should continue to encourage Europeans to reduce their dependence on Russian energy sources due to the risks of short-term politically inspired interruptions and longer-term shortages due to the limited growth of the Russian energy sector. More generally, Washington should encourage the EU governments to adopt a more collective and coherent approach to Russia to reduce Russian “divide-and-conquer” opportunities through bilateral cooperation with key European leaders.
- Russian policy makers would like to avoid a confrontation for Arctic resources, primarily to exclude NATO from the region but also because they could benefit from joint Russian-Western business ventures designed to exploit the opportunities resulting from climate change. U.S. diplomacy should aim to encourage this cooperative orientation. The United States and other countries will have less success changing Russian ambivalence regarding global climate change. Many Russians believe localized warming could reduce Russia’s heating and other domestic energy requirements, boost Russian agriculture production, open up northern sea routes to Russian maritime navigation, and make it easier for Russia to exploit its Arctic riches.
- The United States could benefit from having Russia more engaged in the Asia-Pacific region. Russia’s economic role in East Asia is marginal and often that of a natural resource supplier to the more dynamic economies. Greater foreign investment from other countries in the Russian Far East could help balance China’s economic activities there. Russian diplomacy regarding North Korea has generally been positive, and has included discouraging DPRK adventurism and integrating North Korea into Russian plans to expand its transportation networks with South Korea. U.S. interests in East Asia would be furthered by a reduction in tensions between Japan and Russia; the two countries should be natural economic partners and share a strategic interest in discouraging aggressive Chinese policies in East Asia.
- The United States needs to replenish its experts regarding Russia and the other former Soviet republics. Language training and regional expertise are essential for understanding Russia and its neighborhood. There is an especially urgent need for more American experts on the Russian economy given that its future health will perhaps be the most important driver determining whether Russia will become a declining or rising global power in coming decades.

## **RUSSIA AND THE LIMITS OF AUTHORITARIAN RESILIENCE**

**HARLEY BALZER**<sup>40</sup>

Georgetown University

The first decade of the 21<sup>st</sup> century saw a plethora of studies proclaiming a new era of more sophisticated and more durable authoritarianism. Authoritarian regimes were said to be learning, upgrading and becoming impervious to democracy promotion. In the first month of 2011, Arab rulers discovered that limiting democracy promotion from abroad does not make regimes safe from their own populations. The Middle East and North Africa (MENA), the world region that most analysts regarded as impervious to liberalization and democracy, began to look like Central Europe in 1989. While few of the MENA countries will quickly become liberal democracies, the number and persistence of popular uprisings requires serious re-thinking of the resilience of authoritarian regimes.

In both Russia and China, current leaders have proclaimed, “we are not Arabs.” Russian leaders have even found a positive spin on their demographic disaster: no youth bulge supplying hordes of unemployed demonstrators. China’s rulers regard the threat more seriously, have undertaken serious study of the MENA upheavals, and have instituted repressive measures.

This paper begins with a discussion of recent literature on authoritarianism, with a particular focus on accounts of “authoritarian upgrading.” The second section applies the theoretical material in a paired comparison of authoritarian institutionalization in Russia and China. The third section focuses on the nature of authoritarian upgrading in Russia, assessing the accomplishments under Putin and the limits of upgrading. The conclusion emphasizes the vulnerabilities of Russia’s relatively under-institutionalized authoritarianism and diffuse opposition, and offers some policy prescriptions aimed at helping to promote independent and globally integrated professional communities.

### **1. Comparing Authoritarianism**

As the “third wave” of democratization crested, with many regimes stuck in a “gray zone” between democracy and various varieties of authoritarianism, analytical attention shifted to the varieties of authoritarianism. This summary of how analysts have sought to theorize authoritarian regimes may not appeal to all readers. I always remind my students that theory is necessary to keep us sane: it is not possible to think about everything all the time; theory helps us to focus on the most important things for particular purposes. For those who would prefer to just have the bottom line, the two main points are that well-institutionalized single-party regimes are the most stable and longest-lasting variety of authoritarianism, and that opposition coalitions have a far better chance of defeating electoral authoritarian regimes than

---

<sup>40</sup> Associate Professor of Government and International Affairs, Georgetown University ([balzerh@georgetown.edu](mailto:balzerh@georgetown.edu)). Jennifer Raymond and Leah Gilbert contributed invaluable research assistance.

oppositions that are more diffuse. These conclusions may not sound surprising, but we “know” a lot of things; some of them turn out to be correct.

Surveying what scholars think we have learned about authoritarian regimes in the past few decades is not an argument that Russia is “just like” regimes in Africa, the Middle East, Latin America or even the neighboring Post-Marxist Space. Rather, attention to the evolving theoretical literature simply helps us to identify what might be the most important questions and issues to examine.

Barbara Geddes (1999), and now a host of others (Hadenius and Teorell 2007; Gandhi and Przeworski 2007; Gandhi 2008), have demonstrated that single-party regimes are the most enduring form of authoritarianism.<sup>41</sup> But there are many varieties of single-party regimes. Which ones last? More important, which ones promote development, as opposed to providing opportunities for crony elites to enrich themselves. Russia and China both have one dominant party, but they differ in how it retains its monopoly and the degree of institutionalization. This in some ways parallels the debate about enlightened autocracy in the 18<sup>th</sup> century: enlightened autocrats may be the best variety of government for a period of time, but what guarantees that they, or their successors, will remain “enlightened?”

Gandhi (2008) focuses on parties and parliaments, taking the role of institutions under dictatorships seriously. The sweep of her model inevitably misses nuances: the CCP is coded as institutionally the same under Mao and under Hu, despite obvious differences in the importance of personalist leadership under Mao and the far higher degree of institutionalization after Deng. Brownlee (2007, 2009) directs attention to the institutionalization of the hegemonic party, an emphasis that relates more directly to China and Russia.

Authoritarian regimes that derive their legitimacy from elections (electoral authoritarian regimes or electoral democracies) must engage in a complex game. The elections must be free and fair enough to confer the desired legitimacy, but not so free that the opposition could actually displace the incumbents. This is where the various varieties of authoritarianism differ from democracies: democratic elections require uncertainty of outcomes (Przeworski 1991).<sup>42</sup>

Even well-institutionalized authoritarian regimes face the prospect of unintended consequences. Steffan Lindberg’s (2006) cross-national statistical analysis demonstrated that contested elections in Africa have an independent causal effect on democratization. While elections alone do not make a regime democratic, repeated multiparty elections may make

---

<sup>41</sup> Hadenius and Teorell (2007) find that monarchies and one-party regimes are the most stable. Like Gandhi, Gandhi and Przeworski, and Geddes, their work focuses on the broad patterns of regime type, but does not interrogate differences among single-party regimes. Coding that views the USSR in the Stalin era and the Khrushchev era as the same regime type, or the CCP under Mao and Hu as identical, demonstrate both the power and the pathology of large-N analysis.

<sup>42</sup> Incumbents in any system endeavor to structure electoral competition to their advantage. Karl Rove and Vladislav Surkov both sought to guarantee their parties an electoral monopoly for the future. The difference was that in Rove’s case, a vocal opposition, independent media and strong independent institutions blocked the attempt.

countries more democratic and less repressive. Elections can be not just a *reflection* of democratization, but also an *agent* of deeper democratization.

Others question whether all elections have democratizing influences. Lust-Okar (2006) distinguishes between elections under of “competitive authoritarian” regimes and under “full-blown authoritarian” regimes, where economic issues and rent seeking may be dominant. Examining legislative elections in Jordan, she argues that elections under authoritarian regimes are fundamentally about access to state resources and patronage rather than policy or the rules of participation. Because voters are interested in the benefits of office rather than policy, political parties remain weak and are perceived by both voters and candidates as ineffective. Incumbents employ a range of strategies to ensure favorable electoral outcomes: gerrymandering, revising electoral rules, etc.

“It is important to note that this view of elections contrasts, to some extent, with the conventional wisdom that elections in authoritarian regimes add legitimacy to the regime, thereby promoting stability” (460). When reform is on the agenda, members of the “opposition” may oppose democratic reforms that would threaten the patronage arrangements

Comparative work on other regions in Lindberg’s (2009) edited volume indicates that while elections *can* be important factors in liberalization and democratization, this is not always the case. So we are back to examining *what* makes elections agents of greater political openness. Opposition coalitions emerge repeatedly as the key agents in these studies, as in Gandhi’s (2008). This makes the discussions of mechanisms dominant parties use to bribe and influence opposition crucial. Yeltsin was a genius at offering jobs, apartments, etc. These “individual” inducements may be more effective than the “Menu of Manipulation” described by Schedler (2002a; 2002b): strategies deployed by incumbents so that elections simply legitimize their power rather than risking genuine competition. The techniques include electoral fraud, political repression, manipulating the actor space, manipulating rules of representation, manipulating the issue space, and unfair competition.

It is common for electoral authoritarian regimes to over-reach. Magaloni (2006) asked why hegemonic party autocracies<sup>43</sup> undertake extensive efforts to mobilize support in elections that they know they will win. Examining Mexico under the PRI, she suggests that hegemonic parties try to establish and maintain as broad a base of support as possible to avoid splits in the elite coalition. If a regime appears invincible, would-be defectors are dissuaded from exiting the elite coalition (and its material and status benefits) to join a seemingly futile cause.

When the system is built on patronage and rents, economic factors are crucial to its stability, and they are often double-edged (Magaloni 2006; cf Haber). Economic crises can seriously inhibit the hegemonic party’s ability to maintain the network of benefits on which elite and popular support depend. Conversely, sustained economic growth may create a larger class of wealthy or middle-class individuals who can afford to make an “ideological investment” in democratization even if it means foregoing the hegemonic party’s benefits.

---

<sup>43</sup> Systems in which “one political party remains in office uninterruptedly under semiauthoritarian conditions while holding regular multiparty elections” (Magaloni 2006: 32).



Even an electoral democracy must, by definition, somehow survive elections. These regimes are vulnerable when the extent of fraud and other types of manipulation needed to guarantee victory passes some (admittedly ambiguous) level of credulity. This is generally regarded as the proximate cause of the Orange Revolution in Ukraine. In tough economic times, the dangers are more pronounced.

Howard and Roessler (2006), drawing on cross-national statistical analysis and a case study of Kenya, find that elections in competitive authoritarian regimes produce liberalizing electoral outcomes when opposition forces form a coalition. They suggest that the liberalization of competitive authoritarian regimes thus depends on the actions of the opposition, rather than on structural conditions. Their argument is the opposite end of the telescope from that of Bellin (2004), who focuses on the coercive strength of the regime.

Lust-Okar (2004) compared Morocco and Jordan to explore why economic crisis may produce political unrest in some cases but not in others. She concluded that opposition mobilization depends on whether the political environment is divided or undivided. Where authoritarian elites permit moderate opposition forces (a loyalist opposition) into the formal political system, opposition can emerge in the face of crisis but is likely to be limited, since “loyalist” opposition will seek to prevent gains by extremists who have been excluded from the system.<sup>44</sup> In a political environment where all opposition has been excluded, loyalists are more likely to make common cause with more radical groups generating serious political unrest if economic crises are prolonged.

Levitsky and Way (2002; 2005; 2006 2010) identify competitive authoritarianism as one form of hybrid regime, characterized by formal democratic institutions that are widely accepted as the means of obtaining and exercising political power but in which incumbents violate the rules so often and to such an extent that the regime could hardly be called a democracy. The violations create an uneven playing field, but not so uneven that elections are merely a façade – competition is still meaningful and a number of areas exist in which opposition forces can challenge or even defeat incumbents.

Levitsky and Way (2010) focus on international linkage (the density of economic, political, diplomatic, social and organizational ties to the West and cross-border flows of people, trade, and communications) and leverage (the degree to which governments are vulnerable to external democratizing pressures) as crucial agents of change in competitive authoritarian regimes. High leverage and dense linkage can encourage pressure to democratize. They find that linkage is a more powerful driver of democratization. This is due, in part, to the “boomerang effect” in which high levels of linkage can promote international responses to authoritarian abuses at the same time that it reinforces the ability of domestic pro-democracy forces to pressure the government. Leverage frequently fosters resistance.

The emphasis on leverage and linkage provides important indicators of why Russia’s regime has developed the concept of “sovereign democracy.” One of the top priorities for

---

<sup>44</sup> This is how many Russian commentators view the behavior of *Pravoe delo* (Right Cause), the party led by Anatoly Chubais and Leonid Gozman.

authoritarian rulers is to reap the benefits of economic integration and technological development while shoring up their power internally.

### *Upgrading Authoritarianism*

A major focus of post-third-wave literature (or third wave post-mortems) has consisted of discussions of the various ways authoritarian governments have responded to the “threat” of democracy, both internal and external. This may broadly be viewed as an attempt to “upgrade” authoritarianism. (It bears striking similarities to the “Metternich era” in post-Napoleonic Europe. See Kissinger 1973. Yet that age of conservative restoration was followed by the upheavals of 1848.)

Larry Diamond (2008) devoted an entire chapter of his book on *The Spirit of Democracy* to “Authoritarian Backlash.” Diamond noted that “alongside the erosion of democracy in a number of strategic states, in recent years there has been a consolidation of dictatorship in authoritarian regimes (83),” and that “the logic of preemptive authoritarianism does not allow space for a democratic ‘accident’ that might destabilize even an established, popular (and seemingly impregnable) dictatorship.”

Diamond also noted that authoritarian regimes seek to reduce their international ties in an effort to isolate their populations from democratic infection, citing Ivan Krastev’s view that the Orange Revolution in Ukraine was “Russia’s 9/11.”

Some of the strongest statements proclaiming the new era of more sophisticated and durable authoritarianism came from scholars studying the Arab world. Having been entirely on the sidelines during the “third wave” of democratization, Arab states could take pride of place in upgrading authoritarianism (Heydemann 2007a: 2). Schlumberger’s (2007) edited volume, *Debating Arab Authoritarianism*, not only provides a valuable cautionary note about the prospects for democracy emerging from regime change in the MENA region, but also illustrates experts’ pre-2011 pessimism about the prospects for change in the near future:

The collected essays explore the ongoing political dynamics of the region and show how Arab regimes retain power despite ongoing transformations on regional, national, and international levels and in societal, political, and economic spheres.

The findings of this book strongly suggest that democratization remains off the agenda in any Arab country for the foreseeable future. Domestic political protests, international pressure toward more liberal governance, and “reform-oriented” regimes notwithstanding, *Debating Arab Authoritarianism* indicates that while the impetus for political change is strong, it is in the direction of an adaptation to changed circumstances and may even be a revitalization or consolidation of authoritarian rule rather than a systemic transition to democracy.

Other scholars have devoted particular attention to the active efforts by authoritarian rulers to “upgrade” not only their repressive apparatus, but also especially their media and other proactive techniques to strengthen their hold on power.

One of the most thorough discussions of the authoritarian upgrading phenomenon is by Steve Heydemann (2007a; 2007b). Heydemann focuses on a “new model of authoritarian governance” developed in the Arab world. Heydemann (2007a: 5) identifies five “key features,” which exist to varying degrees in Algeria, Egypt, Jordan, Morocco, Syria, Tunisia, and Yemen:

- these regimes appropriate and contain civil society;<sup>45</sup>
- they manage political contestation;
- they seek to capture benefits of selective economic reforms;
- they find ways to control new communication technologies;
- they diversify their international linkages, with authoritarian powers like China offering significant support.

The treatment of civil society will sound familiar to those who focus on Russia (see below): repress groups deemed threatening while providing a better legal framework for regulating groups that do not challenge the regime. Selective support for non-oppositional NGOs is paralleled by “selective processes of economic liberalization that provide enhanced economic opportunities for regime supporters, reinforce the social base of authoritarian regimes, and mitigate pressures for comprehensive economic and social reforms (14).” The leaders distribute the rents generated by improved economic performance to their relatives, cronies and other supporters, thereby making economic reform a way to strengthen their hold on power. Political “liberalization” is similar: groups that do not aspire to assume power are permitted to “play the game” and reap some of the spoils of representation and even patronage. The assumption is that the benefits they enjoy will co-opt them into continuing to play the role of “loyal opposition.”

Heydemann (2007a: 27) concluded that authoritarianism in the Arab world had been “normalized” to the point where it “reduced the vulnerability of Arab governments to pressures for political and economic reform, and equipped them to capture and exploit the gains from economic openness and technological innovation.” The strategy was “remarkably successful” (2007a: 28) and Heydemann proposed that the West adopt a long-term strategy of supporting moderates until strains appear and fault lines develop. However, the “likelihood of such breakdowns in the Arab world is low ” (2007a: 34). It is always safe to bet on apathy, but as many of us learned in 1989-91, populations are apathetic until they aren’t. O’Donnell and Schmitter’s (1986) comments about rapid mobilization AND de-mobilization provide an important cautionary note.<sup>46</sup>

Some of the most intriguing discussion of upgraded authoritarianism by Heydemann and others (Morozov 2010) focuses on new media and new communication technologies. Arab regimes sought to emulate China in both expanding and controlling Internet access. The focus on China is also a crucial part of their effort to broaden the scope of international linkages,

---

<sup>45</sup> Heydemann (2007b) devoted a separate paper to this realm.

<sup>46</sup> As the passage from Schlumberger’s (2007) edited volume cited above, Heydemann was hardly alone in expressing pessimism about imminent political change in the MENA region. See Bellin, Posusney, Langohr and other contributors to the special issue of *Comparative Politics*, Vol. 36 No. 2, January 2004.

reaping trade and investment benefits without being subjected to the annoying conditionality democratic governments and the major IFIs insist on imposing.

Other analysts go further in proclaiming a new era of global authoritarianism, with China as the keystone. Just about every academic publisher now offers a book on China's involvement in Africa or Latin America. Halper (2010) and Bremmer (2010) have declared victory for the "Beijing consensus as an alternative to the Washington Consensus."<sup>47</sup>

The Russian and Chinese regimes have endeavored to upgrade their versions of authoritarianism. A comparison of these efforts suggests that the Chinese are, for now, doing a more effective job increasing institutionalization, improving governance and providing economic benefits to a growing portion of the population. The main factor preserving the current Russian regime appears to be the weakness and lack of prospects for cooperation among the opposition.

## **2. A Paired Comparison: Russia and China**

As the discussion thus far suggests, we think we know some things about authoritarian regimes compared to democracies. In terms of economic performance, both regime types are capable of fostering growth. The most successful authoritarian regimes have faster growth rates, but democracies grow for longer periods of time and fare better during economic crises. In terms of political stability, authoritarian regimes tend to be more fragile, in part because it is easier for democracies to change the leadership/ government without changing the regime.

We know rather less about differences *among* authoritarian regimes. The major accepted "law" is that single-party regimes tend to be more stable or long lasting than other types of authoritarian governments. But the Soviet Union was an example of a one-party authoritarian regime with slowing economic growth that collapsed when a leader sought to introduce reform and openness. The Chinese one-party regime survived two periods of economic chaos (Great Leap and Cultural Revolution), had a near-death experience in mid-1989, but has for 30 years presided over an impressive economic renaissance.

Much of China's institutional system was based on the Soviet model, and the two countries share a communist past and aspiration to great power status. The similar starting point makes comparing the two cases particularly interesting, especially given significant differences in their economic performance and political institutionalization.<sup>48</sup>

One of the things we "knew" about the Soviet political system was that it was particularly vulnerable in periods of succession (Rush 1965). This was based on accounts of the years after Lenin's death, and the struggles in 1953-57 and 1964. Yet the USSR Communist Party managed to process three changes of top leadership in less than four years during 1982-85 with no major disruption and a remarkable degree of clarity regarding the process, the selectorate, and the institutional position of the heir apparent. The subsequent breakdown under Gorbachev more closely resembles the divisions between hard-liners and reformers in

---

<sup>47</sup> This view is not uncontested. See Seinfeld 2020.

<sup>48</sup> The value of paired comparison has recently been forcefully articulated (Tarrow 2010):

the elite described by O'Donnell and Schmitter (1986), including the ill-advised coup attempt in August 1991.<sup>49</sup>

Russia in the 1990s met the uncertainty criteria for democracy. The electoral democracy imposed since 2000 has curtailed uncertainty and makes both the “selectorate” and the process of selection non-transparent. The leadership appears to enjoy a situation where analysts squander enormous amounts of time debating the “tandem” question.

After the seemingly well-institutionalized Soviet Communist Party decayed and splintered, the CCP invested tremendous resources in examining why (Shambaugh 2008, Rozman 2010), and has thus far managed to at least give the appearance of being more highly institutionalized. The CCP has established term limits for top leadership positions; made rotation of officials the norm; and fostered a fascinating interaction between local autonomy and central authority.

The lessons from China's economic success, though certainly important for politics, are the subject for a separate study (Balzer 2008). The focus of the current enterprise is the stability and staying power of different authoritarian systems. Like China, Russia is basically a one-party regime, but that party is weakly institutionalized. Succession remains nontransparent, and therefore is contested in both formal and informal ways that threaten stability. While the Constitution sets term limits for the President, it establishes no retirement age, highlighting another weakness and potential source of instability. Russia is a “federal” system in name, but the Constitution and Federal laws reserve no specific powers to the federal units, making it “federal in form but unitary in content.” On these key indicators, the Russian authoritarian system appears more fragile. In this situation, Russia's poor performance during the 2008-2010 economic crisis (worst among the G-20 nations) poses a greater threat to political stability than is the case in other middle-income countries.

In the wake of the June 1989 Tiananmen massacre, China's leaders undertook a major evaluation of the strengths and weaknesses of communist and other authoritarian regimes (Shambaugh 2008). The analysis included both ideology and administration, and led to a major rethinking of the basis for CCP rule and the quality of personnel and administrative practices.<sup>50</sup>

In addition to thorough study, China's leaders also introduced specific measures to strengthen their single-party system. Some of the measures impose significant limitations on the power of individual leaders. Chinese officials now must retire at age 65 or when they complete a term of office after reaching that age. The President and Premier are limited to two 5-year

---

<sup>49</sup> Shortly before the coup, I wrote the “Epilogue” to a volume on perestroika (Balzer 1991) in which I noted that the opponents of reform were in a far stronger position when they could threaten a coup and exact policy changes based on the threat. Attempting a coup would put them in a far less favorable situation: if the coup succeeded, they would become responsible for all the economic and social problems in the country, the very difficulties that had undermined Communist authority in the first place; and, of course, there was the genuine possibility that the coup would fail. Kriuchkov and Yazov were never inclined to listen to my advice.

<sup>50</sup> In addition to Shambaugh 2008 and Rozman 2010, see McGregor 2010; Li 2008; Yang 2004

terms. At minimum, this accomplishes a “rotation of rascals,” guaranteeing that corrupt or ineffective leaders must surrender power within a fixed time frame. Evidence indicates that China’s focus on cadres has achieved more, imposing strict qualification criteria that ensure that any personnel decisions based on cronyism must select among cronies with a minimum level of education and performance records. High educational standards for top officials have become the norm. Two Ministers in the Hu/Wen government have foreign doctorates, and the new Central Committee could have as many as 20% of its members with foreign degrees (Li). Chinese know who the selectors are, even if the process of selection itself is opaque. The contrast with Russia’s top elite in this regard is striking.<sup>51</sup>

China’s institutional response is hardly a guarantee of long-term stability. The regime faces enormous problems: regional and sectoral economic imbalances, ecological catastrophe; and a looming demographic crisis resulting from the one-child policy. In the coming decades, China’s population will age more rapidly than that of any country in human history.<sup>52</sup> Yet to the extent that better-institutionalized single-party regimes are more likely to survive, the CCP is doing many things right.

The CCP is either quite clever or quite fortunate in how the Chinese public views the situation. Survey research finds that Chinese are highly critical of the current situation, particularly the level of corruption, but overwhelmingly blame local officials rather than the central government or Communist Party (Whyte 2010; Wright 2010). In Lilly Tsai’s (2007) formulation, they have succeeded in achieving “accountability without democracy.”<sup>53</sup> Here again, the contrast with Russia is quite pronounced. Insisting on the “power vertical,” even when it fails to function, makes it impossible to shift blame for shortcomings.<sup>54</sup> When the “national leader” is a control freak, it is difficult to blame anyone else for outcomes. This difference also is evident in the ideological underpinnings of the two systems.

### **Sovereign democracy**

Russian political thinkers like to emphasize their uniqueness. Hence “sovereign democracy” is described as Russia’s “exceptional” version of a democratic system emphasizing the overriding importance of the nation’s being “free” to shape its own destiny rather than

---

<sup>51</sup> Russian commentators have noted that Russian population know less about who makes key decisions now than they did in the Brezhnev era.

<sup>52</sup> The one-child policy remains one of the most destructive blunders witnessed in modern times. The same population limits could have been achieved by offering financial and other inducements for women to delay childbirth for ten years. While this would have been mildly disruptive, and there would have been a serious question about how to treat violators, success in postponing rather than preventing births would have avoided the massive distortion of the the nation’s population age structure. The lesson of the Chinese error should be a cautionary tale for Russian policymakers, who are committing less drastic but no less damaging mistakes in their pro-natal program.

<sup>53</sup> Kellee Tsai (2007) suggests that China has also managed “capitalism without democracy.” This is, of course, a more common phenomenon, particularly in East Asia.

<sup>54</sup> Brian Taylor’s (2011) study of the power ministries in the Putin era is one of the most recent and most detailed illustrations of how the insistence on central control has failed to produce good governance.

allowing linkage with or especially leverage by other countries to force a different system on the country.

Russia is hardly unusual in its reaction to global competition with more developed nations or the attempt to discern special advantages in the nation's disadvantaged position.<sup>55</sup> The key features of sovereign democracy as articulated by Vladislav Surkov include that freedom has a material dimension, so Russians must become affluent before there is any talk of expanding freedom. Political dominance by one party brings stability, facilitating economic development. The system must eventually be modernized, but with caution and without threatening the stability that permits economic improvement and domestic harmony. Above all, no outsiders should ever be in a position to demand changes that go against Russia's national interest (as defined by those who insist on stability).

Sovereign Democracy is similar to ideas developed during the nationalist phase in Indonesia under Sukarno (Feith 1963). Sukarno's "Guided Democracy" emphasized that the national interest, as defined by the leader, was a higher value than any specific group interests. This validated government direction of the press, publishing and education, and control over voluntary associations. Grievances were addressed by political means rather than through the law. Guided democracy was accompanied by "guided economy," with government expansion into much of the nation's economic activity. It encouraged a "passion for symbols," spurring a host of economic projects chosen for their prestige value rather than their economic rationality. Extensive regulation and corruption became common. The system persisted because it drew in a significant portion of the elite: "includes a large segment of the swollen civil and military bureaucracy, the personnel of government firms, various categories of private businessmen to whom the politician-bureaucrats are indulgent, and certain religious, cultural, and professional groups with access to the powerful" (Feith 1963: 398).

The official Chinese version of democracy rejects separation of powers and the multi-party system as unsuitable to China's history and culture. The "People's Congress" system is preferable, allowing resolution of societies non-antagonistic contradictions (Chinascope 2010):

Democracy in any given country has to be based on the country's specific situation. The situation in China requires the unity of the CCP's long-term leadership, people's collective ownership of the country, and rule by the law. This is a distinctive feature of socialist democracy with Chinese characteristics (Chinascope 2011).

Sovereign Democracy in Russia evolved in response to similar pressures. It is supposed to be a way for Russia to avoid allowing pernicious foreign influence to gain control of key economic assets or to influence Russia's domestic or international behavior. Ironically, the legal nihilism and resource economy are producing a result that is quite different. In the 1990s, Russians retained control of privatized natural resource enterprises, and in the 2000s

---

<sup>55</sup> Narendranath Dttta, AKA Swami Vivekananda: "It is the great ideal before us, and everyone must be ready for it—the conquest of the whole world by India—nothing less than that . . . Up India and conquer the world with or spirituality." de Bary, W. Theodore, ed. 1958. *Sources of Indian Tradition*. New York: Columbia University Press, p. 652.

Putin managed to restore state control over the bits that were edging toward independence. But the cost has been failure to modernize either the resource sector or the rest of the economy, putting Russia in a position where it desperately needs foreign investment and technology (Kudrin 2011). It may be possible to offer enough economic inducements to get foreign investment AND technology, especially if oil prices remain elevated. But the high oil prices encourage Russian energy firms to defer genuine modernization. Compared to China, a country that has been flexing its “sovereign one-party non-democracy” quite blatantly, Russia may well find itself forced to accommodate demands from its own entrepreneurs and foreign investors. Given that Medvedev’s effort to achieve legal reform has met massive obstruction by interested parties within the government, it appears likely that real change will be possible only with a significantly modified political system, a view expressed by growing numbers of Russian analysts and government officials. The debate is putting increasing stress on the ruling tandem.

### *The Sovereign Tandem:*

Much of the attention of both Russian and foreign analysts remains focused on the issue of the “tandem:” the relationship between President Medvedev and Prime Minister Putin. Wikileaks included a cable from the U.S. Embassy in Moscow suggesting that Medvedev plays Robin to Putin’s Batman.

If the Russian special services wanted to devise a way to induce the overwhelming majority of political analysts both in Russia and abroad to waste a large portion of their time discussing a useless topic, this would be the perfect way to achieve the goal. A staggering amount of effort has been expended to analyze a personal relationship that may not be of much long-term significance. In early 2011, the game shifted to focus on the potential for an unnamed “third man” who might be the regime’s candidate in the 2012 Presidential election. Because the lack of one specific name permits all sorts of speculation, the drain on analytical attention is likely to be even greater.

The focus on the study of tandems diverts analysts from examining more significant questions, particularly corruption and weak institutionalization. The tandem itself is a manifestation of weak institutionalization. The roles of the President and Prime Minister have become confused, and the ambiguity about constitutional responsibility for specific policy realms has become even more ambiguous since the proposal that Putin’s status should be that of “national leader.” Any benefits of *neglasnost*’ (lack of transparency that makes it impossible for outsiders to comprehend the workings of the system) are more than outweighed by confusion and system-wide incapacity to assign responsibility. No one is dismissed for incompetence, only for disloyalty. While all political systems have inevitable personal and institutional rivalries, few have this degree of confusion regarding who is “really” in charge.

The “tandem” partners do not differ significantly regarding the importance of sovereign democracy or the imperative for someone to intervene using extra-legal means when the system fails to function adequately. This is reminiscent of the “good” tyrants in the Roman



republic before Sulla, who assumed emergency powers to deal with crises but then surrendered those powers.

Where Putin and Medvedev, and even more their teams, do differ is in their preferred economic development models. Putin remains committed to natural resources (Balzer 2005; 2006), Medvedev's think tanks stress shifting to high technology value-added industry (INSOR 2011). One gets the impression that for Putin, high technology, nanotechnology, R&D, etc. are a matter of prestige, not economics. It is also quite clear that Putin's team, and likely Putin himself, have a significant personal financial interest in the resource-based development model centered on distributing rents.

In a competitive political system, the differing economic policy priorities would logically translate into political differences. Diversification involves a larger portion of the population in leading sectors, requires a much larger number of well-educated personnel, and implies some mechanism for public involvement in policy formulation, both to improve the logic of measures adopted and to give citizens a greater sense of ownership. Here it might be useful to compare the pronouncements by China's Premier and Russia's Finance Minister.<sup>56</sup> In both cases, what they are saying reflects views prevailing among a significant share of the "attentive public" and elites. Whether either country will willingly adopt a more open, much less a democratic, political system as a result is questionable. Elites rarely give up wealth and power simply because it seems like good policy. Either they face constitutional limits, or they must be removed. (This explains the longevity of some, and the crisis generated by succession in dictatorships.)

Evidence of the more highly contested political debates in Russia is visible in surveys of Russian elites, content analysis of leading periodicals, and in the growing willingness of political commentators to criticize and satirize Prime Minister Putin.<sup>57</sup> President Medvedev serves as Chairman of the Board of The Institute for Contemporary Development (Institut Sovremennogo Razvitiia, INSOR). Their report, *Obretenie budushchego*, is a fairly predictable summary of the positions Russia's President and his advisors have enunciated regarding the need for Russia to move from natural resources to a program of "modernization" through an innovation-based economy.<sup>58</sup> The lynchpin of this project is the plan to create a Russian "Silicon Valley" at Skolkovo outside of Moscow. While "Attaining the Future" is a positive spin, the report describes modernization as a matter of "national salvation." Without immediate action, Russia's decline will become irreversible. Their "120 steps" to the Russian future focus on institutional development, beginning with a values shift to replace citizens serving the need of the state with a state that serves its citizens.

---

<sup>56</sup> Kudrin Krasnoyarsk speech; Kudrin and Sergienko 2011.

<sup>57</sup> See the March 15, 2011 RIA Novosti interview with Sergei Aleksashenko, Director of Macroeconomic Research at the Higher School of Economics. Conversations with "official" Russians over the past six months have repeatedly elicited critical comments that differ significantly from what these same individuals said two or three years ago.

<sup>58</sup> The report is available online in both a Summary version (Konspekt) and in a book-length study: [http://www.insor-russia.ru/files/Finding\\_of\\_the\\_Future%20FULL\\_.pdf](http://www.insor-russia.ru/files/Finding_of_the_Future%20FULL_.pdf).

The list of specific policy changes called for in the INSOR report could have been produced by NDI or RNI. They include restoring competitive politics at the national and local levels; guaranteeing an independent judiciary and restoring jury trials; reforming the fiscal system; getting the bureaucracy out of the economy wherever possible, and establishing ways to regulate its role in those instances where it is necessary; policies to foster a secure middle class; migration policies that encourage workers and professionals to come to Russia; genuine federalism based on regional diversity and competition, with a focus on horizontal rather than vertical flows; an all-volunteer army; reforming the police and security services so that their main activity is protection rather than predation. The agenda is ambitious, echoing many of the criticisms voiced by foreign analysts. As with so many pronouncements by Medvedev and his advisors, it “says all the right things.” But after three years of saying the right things, many question the ability of the Medvedev team to achieve substantial progress toward these goals. This is not because they fail to understand the needed changes, but rather because entrenched interests prefer the current system.

Sergei Belanovskii and Mikhail Dmitriev produced a report for the Center for Strategic Development, previously directed by German Gref. It carries the daunting title “The Political Crisis in Russia and Possible Mechanisms for its Development” (*Politicheskii krizis v Rossii i vozmozhnye mekhanizmy ego razvitiia*). That it says “development” rather than mitigation or resolution of the crisis is in itself a major statement. The authors basically confirm the INSOR material, but add that public opinion data indicate a serious political crisis, with the public ratings of President Medvedev, Prime Minister Putin, and the United Russia party all at their lowest levels since 2008 and continuing to fall. Their conclusion is that only a new generation of political leaders, including an unnamed “third man” as the Presidential candidate in 2012, can ameliorate the crisis. Much of the report presents results of surveys that measure the ratings of individuals and parties. The problem with these data is that individual approval ratings tell us little about how the same candidates would fare in a “competitive” election. In the 1990s Boris Yeltsin often got approval ratings in the single digits, but when he was measured against any of the possible opposition candidates, he was ahead of them.

Perhaps reflecting the concern about these ratings, the Center for Conservative Politics, a United Russia think tank, posted on its web site a report delivered at the Center by Irina Starodubrovskaiia and V. L. Glazychev: “Real Federalism, local self-government and inter-budget politics.”<sup>59</sup> This document contends that while the government has succeeded in establishing a power vertical dominating economic and political life in Russia, the result has been not a unified policy but rather a stifling of initiative in all areas due to excessive control. The administrative system strangles all initiatives with impossible demands, making substantive reform impossible. The difficulty of reform is exacerbated by the flight of qualified personnel, while those who remain are less competent and tend to be subject to the influence of particular economic interests. Talented people who do not leave Russia seek careers outside public service.

---

<sup>59</sup> *Real'nyi federalizm, mestnoe samoupravlenie, mezhibudzhethnaia politika*. <http://www.cskp.ru/analytics/10902/10902/10902/>. March 24, 2011. Informal conversations with colleagues indicate that the invitation to these authors came about in an unofficial way, and the report does not represent the official views of the Center. Nevertheless, it was posted on their web site, indicating that someone believed it important to get this material into the conversation.

The Starodubrovskaja and Glazychev report cited “institutional disorganization” as the major obstacle to positive development in Russia: the judiciary has not established clear “rules of the game” for doing business; economic activity is subject to unacceptably high transaction costs; no mechanisms exist to articulate interests; talented people move internally, depriving many regions of talent; and civil society is weak. These problems will not be remedied through one-off measures like budget appropriations. To fix the problems requires institutionalizing genuine federalism, with functioning local self-government. Real federalism will require restoring elections for governors and other local officials—the only way that they will be accountable to local citizens rather than Moscow officials. If the government insists on relying on administrative solutions, this will accelerate the degradation and the departure of creative people from Russia.

Accepting self-government and democracy will require a major adjustment on the part of Moscow authorities. Up to now, stability has been one of the highest priorities. However, a limited degree of social conflict is the necessary price for implementing needed reforms. While this requires a major change in the views of Russia’s current rulers, it conforms with public opinion favoring democratization and decentralization.

Starodubrovskaja and Glazychev are only slightly less critical than Nikolai Petrov’s Carnegie Center report on Russia in 2010.<sup>60</sup> The most critical assessment, with the provocative title “Putin. Corruption” is by Milov et. al.<sup>61</sup> It describes in detail the Russian Prime Minister’s relations with a coterie of former martial arts companions who have become tremendously wealthy during Putin’s decade in power. The authors explicitly link corruption, exemplified by these crony relationships, with a host of quality of life problems in Russia.

This discussion has not, at least thus far, produced significant policy change, much less change in the political system. The government’s response has been to try to impose greater control over the political and social space.

#### *Increasingly Managed Pluralism:*

In an article in 2003 describing the regime Vladimir Putin was creating, I suggested it could be described as “managed pluralism” (Balzer 2003). The term represented an attempt to shift the focus of democratization and hybrid regime analysis from the adjective to the noun: rather than succumbing to “democracy with adjectives” (well over 100 at last count, see Collier and Levitsky 1998.), I proposed avoiding the word “democracy” to reduce the danger of conferring democratic legitimacy on regimes that clearly are not democratic. In evaluating Putin’s policies, I underestimated his proclivity (part of security services training) to employ salami tactics in his efforts to disempower independent social and political forces. I equally

---

<sup>60</sup> Petrov, Nikolai, “Rossiia-2010: men’she stabil’nosti, bol’she publichnoi politiki (Russia 2010: less stability, more public politics),” Briefing, Vol. 13 No. 1, March 2011, Carnegie Moscow Center. [http://carnegieendowment.org/files/Petrov\\_Briefing\\_2011\\_March\\_rus.pdf](http://carnegieendowment.org/files/Petrov_Briefing_2011_March_rus.pdf).

<sup>61</sup> V. Milov, B. Nemtsov, V. Ryzhkov and O. Shorina, eds. 2011. *Putin. Korruptsiia. Nezavisimi ekspertnyi doklad* (Putin. Corruption. Independent Ekspert Report). Moscow: Partiiia narodnoi svodody. <http://www.putin-itogi.ru/f/Putin-i-korruptsiya-doklad.pdf>.

underestimated the attraction of “diminished” forms of democracy AND authoritarianism among political scientists. The most recent contributions to the literature include Levitsky and Way’s (2010) long-awaited book on “Competitive Authoritarianism” and a Carnegie paper by Petrov, Lipman and Hale (2010) describing “Russia’s “Overmanaged Democracy.” They are correct that the Putin-Medvedev system is overmanaged, but a regime cannot be a democracy if it is managed. Przeworski is on the mark when he makes uncertainty of outcomes a keystone of the definition of democracy.<sup>62</sup>

I defined managed pluralism as combining “elites’ self-serving claims that a national mentality requires strong executive authority with the more general political phenomenon of a desire to constrain the diverse cultural influences accompanying globalization while still reaping economic benefits from the international economy” (Balzer 2003: 191). To illustrate the concept, I examined Putin’s project to both constrain and foster societal activity through accounts of policies toward religion, political parties, the media, labor unions, civil society, entrepreneurs and federal relations. The article appeared just before the arrest of Mikhail Khodorkovsky, which signaled (or reflected, the precise sequencing and causality remain open to diverse interpretations) a more ambitious and still ongoing effort by the Putin regime to narrow the space for independent activity in all of these realms. But narrowing is not the same as closing. In each of these policy areas, the Putin regime sought simultaneously to foster loyal agents while crowding out independent actors, resorting to repression mainly when less drastic tactics were not successful, or when local agents feared failure.

Space does not permit reviewing all seven of the policy realms in detail here. The discussion will focus on civil society and the media, with brief updates of the other realms.

Religion: The privileging of four “traditional’ religions provided the initial template for managed pluralism. The Russian Orthodox Church has a far stronger advocate in Medvedev than Putin, in part because his wife is a devout believer and strong supporter of the new Patriarch, Kyrill. Despite Kyrill’s efforts to gain a more privileged position for Russian Orthodoxy, this agenda remains in the realm of aspiration. The four “traditional” religions recognized in the preamble to the 1997 Law on Religion remain privileged, but the leadership of all four has been rendered “tame.” There appears to be little potential for organized religious opposition. [The one partial exception is the North Caucasus. Ironically, while most of the region is in the throes of serious violence perpetrated by Islamic extremists, the one island of relative stability is Chechnya, where Kadyrov has introduced Sharia law. Visitors report that the border between Chechnya and Ingushetia now feels more like an international border than the demarcation of two subjects of the Russian Federation.] Russia had developed a mythical Islamic demography issue: reports consistently talk about population growth in “traditionally Islamic” regions, but not all the people living in these regions are practicing Muslims. It is certainly the case that a growing proportion of military conscripts come from these “Muslim” regions, but it is far from clear what this will mean.

---

<sup>62</sup> Petrov et.al. do state that Russia is not a democracy, yet their repeated use of the word helps sow the very ambiguity and aspiration for evolution to “real” democracy that makes the Putin policy so pernicious. If it is plausible to believe that the system could evolve into something more democratic, it is easier for people to let themselves be co-opted.

Parties: Political parties continue to be subjected to serious manipulation. The “party of power” has gone through multiple incarnations, and now exists in the guise of “United Russia.”<sup>63</sup> Communists and LDPR, the latter a creation of Russia’s security services, still survive. In the 2007 legislative elections, these two avowedly nationalist groups were diminished by a regime-sponsored alternative, Rodina, created to take votes from the nationalist-patriotic LDPR and KPRF. As the election approached, the political technologists overshot, and Rodina’s support appeared to grow too strong, so their access to national media was cut back in the final two weeks of the campaign. Dmitri Rogozin was rewarded with appointment as Russia’s Ambassador to NATO. At the same time, the “rightist” or liberal parties, SPS and Yabloko, failed to reach the 5% barrier required to have representation in the Duma. (The “bar” was subsequently raised to 7%, which President Medvedev considers too high.)

The government has used manipulation and fraud in all recent elections (Fish 2006). Shifting government policies marked several rounds of local elections in 2009 and 2010 (Petrov 2011). There are likely to be 6-7 parties with a chance to be represented in the 2011 Duma elections: UR, SR, KPRF, LDPR, Yabloko, Pravo delo, Russian Patriots, Agrarians.

Federal Relations: Again with the exception of Chechnya, Putin’s policies have succeeded in obliterating overt challenges to central authority. The Federation Council no longer provides a forum or gathering place for regional leaders. Members are selected by regional legislatures, but sitting chief executives may not hold the office (though some former Governors and Presidents do serve). Despite the desperate need for regional economic development, opportunities for major economic projects and investment require approval in Moscow. For most regional governments, gaining funding for a special project based in their region is the highest priority. Leaders of all regions are now appointed rather than elected. Dmitri Medvedev appears to have been assigned the task of replacing a number of long-serving regional leaders before the next electoral cycle, and this has led to the removal of Luzhkov, Shamiev, Rakhimov and others. Moscow thus has unquestioned control, but this has proved to be double-edged in several ways:

- evidence indicates that regional leaders who succeeded in improving the local economy were re-elected, while those who failed to do so lost their re-election bids. Now the priority is responding to Moscow’s agendas (Konitzer).
- when the regional leaders are appointed by Moscow rather than chosen by their constituents, Moscow must bear the ultimate responsibility for their performance and its consequences.
- The project to homogenize what subjects of the federation are called and the titles accorded their leaders appears to be an unnecessary provocation. One of the standard

---

<sup>63</sup> Democratic Russia was Gaidar's vehicle, and Yeltsin was a member of its presidium before being elected president, but DemRossiia always seemed to need him more than he needed them. Nash Dom Rossiia became the major government party in his second term. Replaced by Unity. Morphed into United Russia. Also frequent attempts to establish a two-party system: Putin fostered Spravedlivaia Rossiia as a “left” pole to contrast with the “right” group in United Russia.

practices in any large organization is that if you cannot offer people material rewards, according them fancy titles is a good alternative. To insist that leaders of Russia's ethnic republics be called something other than President has symbolic importance for Moscow, but is likely to do far more symbolic harm in the regions. Efforts to "amalgamate" smaller administrative units have a similar effect: gains in efficiency must be weighed against the long-term emotional/public opinion costs.

In late March 2011 TsSKP posted a report on Federal relations reiterating most of the judgments included here (Starodubskaja 2011). Like Finance Minister Kudrin's speech in Krasnoyarsk in February, the report proposed democratization as the most effective solution to serious problems.

Labor unions: Prior to the 2008 financial crisis, unions representing some key groups of workers had begun to demand higher wages, better labor conditions, and recognition of independent unions. (Foreign-owned auto assembly plants outside St. Petersburg were particular targets.) During the economic crisis, unions and the government focused overwhelmingly on maintaining employment. Labor actions took place to demand payment of withheld wages and prevent layoffs. With economic recovery, and in particular with increasing oil prices as a result of the Libyan conflict and Japanese earthquake in early 2011, demands for higher wages could again be an issue.

One way Russia (and China) has contained labor activism is through maintaining the large umbrella unions that are characteristic of communist systems. These "legacy" unions are headed by government-approved leaders who focus on retaining the property, monopoly status and special privileges inherited from the old regime. Representing workers' interests is a less pressing consideration, though the appearance of independent trade unions may change the equation. In China, the growth of alternative unions has forced some of the official unions to begin to support workers' demands in an effort to stave off competition from the new unions. There are a few examples of similar development in Russia, but for the most part labor remains docile. In part the difference reflects the highly competitive Chinese labor market, compared to persistent unemployment and underemployment in Russia, exacerbated by the 2008 economic crisis.

Entrepreneurs : The 2008 crisis seems to have curtailed the development of business associations. The most serious threat to Russian businesses remains corruption, frequently in the form of "*raiderstvo*" (raiding) by criminal groups that may have connections to local government officials. The most effective response appears to be employing "anti-raider" groups to deal with the raiders. While this may have been initiated as a public service, these "good" raiders increasingly work for a fee. The logical result is the institutionalization of the system, where both raiders and anti-raiders receive rents from the entrepreneurs.

In a study of the relationship among business, the state and society based on fieldwork just before the 2008 crisis, Petrov and Titova (2010) found that the tripartite relationship that undergirds corporatist systems had developed in diverse ways across Russia's regions. But in no regions could they find a genuine "triangle." Rather, there are *unequal* bilateral relations between each pair of vertices, with government playing by far the dominant role, defining the

terms of discussion and determining who is permitted to participate. Business groups, particularly representatives of large businesses, may initiate conversations with the authorities, though there is no guarantee that their requests will be resolved; society has no way to set the agenda for discussion. Four major business associations have been established, primarily by government initiative and with the government for the most part controlling their agendas: the Russian Union of Industrialists and Entrepreneurs, the Russian Chamber of Commerce and Industry, *Opora*, and *Delovaia Rossiia*. But the Putin system is more responsive to representations of individual corporations than collective representation. This fits a broader pattern of the regime accepting individual requests but not allowing broader collective representation. Taking action to solve one's own problems is acceptable; organizing to demand systemic change is viewed as a threat and treated accordingly. The continuing high level of capital flight from Russia indicates that "exit" serves as the alternative to more regularized dispute resolution.

Media: It remains the case that degree of government control of specific types of media is inversely proportional to their reach: that is, the more people who see or hear the content, the more closely it is managed. At the same time, the regime faces new challenges from new media technologies, and has responded in a variety of ways.

While Internet use has expanded to more than 1/3 of the Russian population, about 90% of Russians continue to get their political information from television. The three major national television channels are controlled closely, but not as tightly as in the Soviet era. Government authorities understand that excessively biased or wooden broadcasts can provoke adverse reactions from educated viewers. Hence there is a "sliding scale" of political control: any mention of the "first person" (or now "first people") must be carefully checked. This is also the case for sensitive topics like inter-ethnic relations or international affairs issues involving important interlocutors. Other major national issues, like the economy, require "maturity" on the part of TV networks, with an understanding that reporting considered inappropriate could have adverse consequences for the career prospects of those responsible. Other issues, including reports about lower-level officials, corruption, etc. can be covered with a high degree of freedom, caveats being that if the coverage angers criminal groups or individuals with important patrons there can be serious negative consequences.<sup>64</sup> Control of central television includes weekly meetings and regular consultation between Kremlin staff and the directors of the three central television channels to "shape" coverage of important issues (Lipman 2009: 11).

In the same vein as efforts to make television more attractive while continuing to manage the content on issues regarded as priorities, the Russian government's treatment of other media has increasingly focused on manipulation rather than overt control. Vladimir Putin set the basic parameters at a meeting early in his first term as President. Putin convened a meeting of business, civil society and the security agencies to discuss Internet policy. For three hours, he listened to them argue the security rationale for filtering all Internet communication versus the costs this would impose on the economy, scientific and cultural life, and the image of Russia

---

<sup>64</sup> Interview with representative of one of the major Russian news agencies, April 14, 2008.

in the world. At the end of the session, Putin announced that the filtering technology (SORM) would be installed but not used on a regular basis.<sup>65</sup>

In new media, the government seeks to present its own message rather than restricting opposing views. The authorities have resorted to a host of pro-active measures, including paying bloggers to present favorable comments, manipulating the ratings of web sites, generating comments about blog postings that support the government, and seeking to deny access to critics. This is more pernicious, and may be more effective, though Russian readers usually develop a good sense of who is writing at the behest of the government and whose voice is genuinely independent. The large following that Alexei Navalnyi has attracted demonstrates strong interest in independent analysis on the part of at least some Russian Internet users. At the same time, as elsewhere, the Internet can lead to people selecting to view only information that fits their already-developed view of the world (Fosatto; Berkman Center).

The attention devoted to authoritarian governments' efforts to limit the information space may be both exaggerated and misdirected. The by now ritualized invocation of China's "Great Firewall" does capture both the aspirations of Beijing's leaders and the complicity of major corporations (Gutman 2004: Chapter 6) But the Egyptian story in 2011 reminds us of some important caveats: turning off the Internet may have driven many young people into the streets, both to ascertain what was transpiring and to communicate with friends who previously had relied on on-line communication.

Civil Society:<sup>66</sup> Civil society continues to be over-rated, absolutely crucial, and wonderfully unpredictable. The flood of analysis attributing mystical powers to "the powerless" in 1989-91 has been shown to be overblown (Balzer 1996; Kotkin 2010). Yet events in the Arab world in the first months of 2011 demonstrated that demonstrations still matter. Seemingly impregnable authoritarian regimes that stifle opposition risk generating social protests that demand complete removal of the regime, rather than just a change of policies or leaders.

The Gorbachev years and demise of the USSR followed a typical pattern of civil society mobilization followed by rapid demobilization once regime change was accomplished (O'Donnell and Schmitter 1986: 49-56). Boris Yeltsin's government created the legal space for voluntary associations to play a role in Russian political and social life, but offered little direct support. In the economic crisis of the 1990s, foreign funders were the main source of financing, generating some useful activity and a number of serious problems.

Financial support from foreign sources has produced mixed results in Russia (Sperling, 1999; Richter, 2002; Henry, 2002; Crotty, 2003; Henderson, 2003; Sundstrom, 2006). When administered well, foreign support can enhance an organization's professionalism as well as its resources. But in a resource-scarce environment with few donors, groups often tailor their activity to accord with donor expectations and priorities rather than emphasizing local concerns (Henderson, 2003). Incentive structures may become skewed, with organizations

---

<sup>65</sup> Based on accounts by two individuals who attended the meeting. The SORM technology was activated in the wake of the Beslan and Dubrovka hostage crises.

<sup>66</sup> This section draws on Gilbert and Balzer, forthcoming.



less focused on involving average Russians in their activities than developing programs favored by outside donors. Foreign funding may foster competition rather than coordination among civil society groups. In her study of the fledgling women's movement in the mid-1990s, Sperling (1999: 258) found that Muscovites' greater access to foreign funding reduced cooperation among women's organizations compared to groups in the provinces that relied more on local support. These problems are not unique to Russia. Scholars have described the "paradox" of NGO development (Jones Luong and Weinthal, 1999) and the "scramble" among civil society groups for support (Cooley and Ron, 2002).

The character and strength of civil society vary greatly across Russia's regions (Petrov and Titkova 2010; USAID 2000, Weigle 2000, Sundstrom 2006), reflecting diverse socio-political environments: local officials' willingness to work with social organizations, levels of economic development, and access to foreign funding or training. Sundstrom (2006: 171) identified three patterns of interaction in the 1990s: where local governments supported NGOs and international involvement is significant (Moscow and Novgorod), the NGO sector was large, active, and well-networked. Where local governments supported NGOs but foreign funding was limited (Ekaterinburg and Izhevsk), the NGO sector was small, reflecting the lack of resources, but it could still be lively and independent of the government. Where international aid was significant but local support low (Vladivostok and Khabarovsk), the NGO sector was weak, with a disconnect between aspirations and activity. Sundstrom conducted her fieldwork in the Yeltsin era, before Putin introduced policies of selective support for "loyal" organizations and serious obstacles for groups receiving foreign support.

Organizations established to protect the rights of uniformed servicemen have been among the most active and influential Russian NGOs (Caiazza 2002; Sundstrom 2006b). The most prominent is the Committee of Soldiers' Mothers of Russia, which in the late 1990s divided into the Union of Committees of Soldiers' Mothers of Russia and the Russian Committee of Soldiers' Mothers (Sundstrom 2006b: 193). The groups managed to secure amnesty for recruits who deserted after being abused during the first Chechen war (Sundstrom 2006b, 180), and forced local draft boards to adhere to legal requirements during the semi-annual conscription campaigns. The human rights and research organization Memorial established numerous regional branch organizations across Russia. NGOs with agendas including environmental protection, women's rights, and support for the disabled have achieved some successes (for case studies see Evans et. al, 2006; Henry 2010). In 2010/11, a spontaneous protest over construction of a major highway in the Khimki forest attracted national and international attention.

At the end of Putin's first Presidential term in 2004, the number of registered NGOs was 153,523. When Dmitri Medvedev became president in 2008, the number had declined to 128,997. In 2010, the last year for which statistics are available, the number was 119,247. These statistics tell us the number of *registered* organizations, but provide no indication regarding how many of them are *active*. Western NGO experts estimate that about 20 to 25 percent of the registered organizations are active (USAID Sustainability Index: 2000, 2005). Ironically, foreign funding and support, including opportunities to travel abroad, can encourage proliferation of organizations and formal persistence of groups that have become inactive (Cooley and Rom; Jones Luong and Weinthal).

When Putin became president, he pledged to collaborate with civil society, noting the contribution it made to building democracy in Russia (Weigle 2002, Balzer 2003; Richter 2009). Putin's statements appeared to offer a promising contrast to Yeltsin, whose administration created a legal framework for voluntary associations but provided little support, a policy characterized by some as "benign neglect" (USAID 2004 Sustainability Index: 213; Weigle 2002: 132; Hale 2002: 314).

The 2001 Civic Forum initially shaped Putin's relationship with civil society. Some 3,500 representatives of social organizations convened for two days of meetings, engaging high-level government officials on a variety of topics (Nikitin and Buchanan 2002). Throughout the organization and staging of the event, groups resisted government attempts to centralize the process or to use the Forum as an opportunity to establish a representative chamber of "approved" civil society (Squier 2002, Weigle 2002, Nikitin and Buchanan 2002). Putin attended the opening session, and responded to Ludmila Alexeeva's request that he listen to some non-government presenters (Balzer interview with Alexeeva, May 2003). After the forum, many activists and commentators expressed cautious optimism about the potential for increased dialogue between the state and civil society (Weigle: 136-138).

The optimism was short-lived. In the aftermath of the Civic Forum the government increased pressure on organizations critical of the regime (Mendelson 2002, Evans 2006). Particular targets included the Soldier's Mothers Committee, Memorial, and the Moscow Helsinki Group, which opposed the second war in Chechnya (Nations in Transit 2004). In his annual *poslanie* in 2004, Putin publicly criticized organizations receiving foreign funding.<sup>67</sup> Putin's speech augured increased bureaucratic pressure on some social organizations, complicating the environment for NGOs.

In a classic example of "salami tactics," Putin initiated a second effort to orchestrate civil society "from above" following the tragedy in Beslan. In 2005, the government established a Public Chamber (*obshchestvennaia palata*) "to promote greater interaction between society and government authorities."<sup>68</sup> The system for selecting the Public Chamber's 126 members was designed to maximize government influence: the president appoints One-third of Chamber members. The Presidential appointees then choose an equal number of members from national social organizations. The remaining third of the members are selected from regional social organizations by conferences in each of the seven federal districts. The Chamber's findings do not have the force of law, but some of its recommendations have been taken seriously. The influence of individual committees depends very much on the status and activism of their chairmen. Some have conducted public hearings and discussions; others see their role as supporting the administration. The Chamber's web site provides a wealth of important information about Russian society that could be used to formulate policy.<sup>69</sup> But when it criticizes the government, it functions very much as a "loyal opposition."

---

<sup>67</sup> [http://eng.kremlin.ru/speeches/2004/05/26/1309\\_type70029type82912\\_71650.shtml](http://eng.kremlin.ru/speeches/2004/05/26/1309_type70029type82912_71650.shtml).

<sup>68</sup> (<http://www.oprf.ru/ru/about/>).

<sup>69</sup> Balzer interviews with Chamber President Velikhov and committee chairmen including Tishkov. Richter.

The chamber oversees competitions for grants to civil society groups from the federal budget. During 2006, 2007, and 2008 these Presidential grants for social projects allocated 500 million, 1.25 billion, and 1.5 billion rubles respectively. In 2009 1.2 billion rubles were distributed (Elsukov 2009).

A 2006 law with the innocuous label “Amendments to Certain Legislative Acts of the Russian Federation” requires NGOs to report all funds received from foreign sources and how they are used. The enhanced supervisory powers include the power to demand documents detailing an organization’s governing body and operation; the right to send representatives to an organization’s events; and other supervisory powers over foreign nongovernmental, non-commercial organizations.<sup>70</sup>

Along with over-arching bodies to administer civil society, support for government organized non-governmental organizations, or “GONGOs,” has become a feature of the organizational landscape in Russia. If the Public Chamber’s role is somewhat ambiguous, the paradigmatic GONGO is the pro-Putin youth movement, *Nashi* (“ours”). Many commentators view support for *Nashi* along with greater restrictions on foreign funding as part of an official strategy to inhibit mass mobilization and preclude the sort of electoral turnover that took place in Georgia in 2003 and Ukraine in 2005 (Hale 2006, Ambrosio 2007, Beissinger 2007). *Nashi* mobilized thousands of young people to take part in provocative actions and mass rallies (Heller 2008). *Nashi*’s generous budget and extensive media coverage facilitated mobilization. The organization’s high profile was demonstrated by visits from major politicians to its summer camps and meetings with Putin himself. After the regime managed the 2007 parliamentary and 2008 presidential elections without major protests, *Nashi*’s organizational footprint was reduced from fifty regional branches to five (*Kommersant* January 29, 2008). Some *Nashi* leaders took posts in the government (former leader of *Nashi*, Vasilii Yakemenko, became head of the Federal Agency for Youth Affairs). *Nashi* continues to provide support against regime critics on some occasions.

Putin’s policies have essentially continued under Medvedev. As Prime Minister, Putin introduced a law curtailing the number of international donors eligible for tax-exempt status, reducing the number of organizations permitted to make tax-free grants in Russia from 101 to 12 (Human Rights Watch 2009). A decree on May 13, 2008 disbanded the Federal Registration Service created by the NGO Law, transferring its authority to the Ministry of Justice.

Optimistic observers point to countervailing developments. In April 2009 President Medvedev reinstated the President’s Council on Civil Society and Human Rights, where members openly discussed the state of human rights and civil society in Russia. A working group was established to review the most restrictive aspects of the NGO Law. However, appointing Vladislav Surkov, the ideologist of “Sovereign Democracy and Medvedev’s First Deputy Chief of Staff to head the working group, has raised serious concerns. Surkov is

---

<sup>70</sup> Bourjaily: 5-6. In January 2006, in the midst of the controversy over the pending Law, the media campaign against foreign funded NGOs reached its apex in the “spy rock” scandal. The state security agency alleged that employees of the British Council were using a rock in a Moscow park to transmit espionage messages, and that one of the alleged spies funneled money to twelve NGOs.

widely believed to be the instigator of more restrictive NGO legislation (von Twickel, 28 May 2009). Changes to the NGO law in July 2009 limited the legal grounds for denying registration and reduced the list of documents that government agencies demand from NGOs. The legislation also limited the number of permitted audits from one per year to one every three years (RIA-Novosti, July 21, 2009). These changes, however, do not do not pertain to audits by agencies other than the Ministry of Justice.

In late August 2010, President Medvedev intervened in the conflict over the Khimki Forest route for the new highway between Moscow and St. Petersburg. The project threatened private property and public woodland. A young woman, Yevgenia Chirikova, attracted national and international attention by her efforts to organize opposition to the proposed route. President Medvedev ordered construction halted while the situation was reviewed. In early 2011, following the review, it was announced that the road would be built. Chirikova and other opponents of the project have been subjected to serious harassment. Chirikova has been threatened with her children being sent to an orphanage due to her “neglecting” them while fighting the construction project. It is likely that the harassment comes from those with an economic interest in completing the construction project, but the government’s inability to protect legitimate civic activity raises troubling questions.

While scholars generally agree on the basic contours of the Kremlin’s policies, less consensus exists regarding their impact on Russia’s diverse social organizations. Some maintain that Putin’s policies encourage only groups with a nonpolitical or pro-government orientation while isolating more adversarial organizations. Independent organizations exist, but on a highly unequal basis (Robertson 2009: 531; Rutland 2004, Hashim 2005, Lipman 2005, Evans 2006). Putin’s policies may best be understood as an attempt to manage civil society in ways that are preferred by the Kremlin (Balzer 2003). The Kremlin attempts to neutralize or coopt organizations through the Public Chamber, government funding at the federal or local level, selective application of the NGO Law, or manipulation of state controlled media to the benefit or detriment of specific groups. Organizations receiving foreign funding are singled out for criticism and harassment.

Other observers assert that Putin’s policies have the potential to help NGOs by according them greater attention, resources, and voice (Salmenniemi 2008, Richter 2008; Javeline and Lindemann-Komarova 2010). Some argue that closer regulation of Russia’s NGOs will reduce fraud and corruption (Petro; CSCE Hearing, 2006). Javeline and Lindemann-Komarova (2008; 2010) suggest that critical analyses of Russia’s rollback of democracy and civil society are exaggerated, relying almost exclusively on anecdotal evidence from a limited group of human rights organizations in Moscow. They suggest that these activist groups with political agendas do not reflect the experience of Russian civil society more broadly. Positive developments, including the expanded program of competitive grants offered by regional and federal governments and greater self-government at the local, level are largely ignored.

Recent empirical studies highlight the contradictory nature of Russian government policies towards civil society. Chebankova (2010) finds that the two largest segments of civil society, state sponsored groups and western financed organizations, are subject to state control and selective repression. Yet she notes growth in domestic grassroots movements addressing

motorist's interests, housing and real estate issues, and the environment. Jordan's (2010) interviews with participants in the Civil G-8 Forum during the 2006 G-8 summit in St. Petersburg also convey a variegated picture. While various independent organizations participated and provided critical input, the Civil G8 had no visible or measurable impact on the proceedings of the G-8 meeting or subsequent Russian policy towards social organizations. Gilbert's (2011) interviews with participants in human rights, women's, and youth organizations indicate that apolitical and pro-regime organizations report having an easier time operating than groups perceived to be independent or critical of the regime. Organizations critical of the authorities risk being "crowded out" of the public sphere.

As Sundstrom and Henry (2006: 305) note in their discussion of the tension and trajectories of Russian civil society, many Russians remain reluctant to join social organizations, NGOs struggle to address material and human resource needs, organizations with the state primarily through connections to key individuals, and the state still dominates the political sphere. Petrov and Titkova confirm this picture (2010). The state's prominent role in shaping civil society generates ongoing debate about the government's diverse policies: the Russian central government supports GONGOs and some independent organizations, tolerates many other groups that advance no political claims, and endeavors to circumscribe or suppress activity perceived to encourage political opposition. The pattern is replicated with greater variation across Russia's regions. While diversity is a source of hope for expanding the space in which Russian civil society operates, it is less promising as a basis for democratic evolution. As with the media, political parties and business, the Russian government accepts activity addressing specific/individual problems, but suppresses any efforts at broader collective action.

The 2008 global financial crisis reduced funding from foreign governments, even as domestic support declines. The "reset" in Russian-American relations could also inhibit U.S. programs providing support for groups the regime finds problematic. While aiding the Russian government's efforts to reduce foreign influence, resource stringency will put additional pressure on NGOs at precisely the time they are being called upon to play a greater role in providing public goods that the Russian state cannot guarantee. Yet as the 2011/2012 electoral cycle nears, a growing array of Russian think tanks have produced analyses advocating greater public participation in Russian political life.<sup>71</sup> Whether this will result in more space for independent NGOs, and in particular for groups with political agendas critical of the regime, remains an open question.

The upsurge in public activism in Russia is intriguing, but has involved issues that are not conducive to broader political coalitions. Automobile drivers or purchasers, including motorists who resent the blue lights on "official" cars, are not groups based on issues that could provide a basis for broader, sustained political activity. In the Gorbachev era, broad sentiment regarding the need for change fragmented when it came time to talk about the specific changes. Opponents of the road through Khimki might have a somewhat stronger position as environmental activists, but here, too, it has proved difficult to leverage the specific issue into a broader political agenda. The most significant social protest movements in Russia are motorists, who have strong grievances but whose agenda is not easily

---

<sup>71</sup> INSOR; TsSKP

transformable into a broader political program. If the disgruntled drivers in Russia were asked their opinion about issues like pension reform or citizenship for compatriots, their responses would vary widely.

If the basic point from the literature on authoritarianism is correct, and broad coalitions are needed to overcome incumbents in electoral democracies, the fate of the “31” demonstrations in March 2011 offers a cautionary lesson. These demonstrations, organized on the 31<sup>st</sup> day of “long” months, demand that the government respect the freedom of assembly guaranteed by Article 31 of Russia’s constitution. The March 31 protests in Moscow and St. Petersburg were essentially two separate actions: in Moscow, Limonov was the major figure, while a larger protest in St. Petersburg featured Boris Nemtsov. The National Bolsheviks and Helsinki Group agree on the importance of the demonstrations and the need to replace the current government, but their agreement does not extend to much else.<sup>72</sup>

The weakness of “organized” civil society in the form of effective voluntary associations, as opposed to specific-issue protests, remains a glaring gap in Russia’s political institutionalization. Marc Howard (2003) emphasized the ways people’s experience living under communist rule continued to shape their attitudes and behaviors in the post-communist period. Citizens forced to join communist “voluntary” organizations tended to be less active in voluntary associations after the demise of communism. Dense Soviet-era friendship networks remained an important alternative to civil society organizations. Howard also found that disappointment with developments following the end of communism inhibited participation. In this analysis, the weakness of civil society after communism is largely due to attitudes and behaviors developed while living under communist rule. After two decades, Russians evince somewhat greater willingness to participate in voluntary associations, but Russia remains a stark outlier on measures of interpersonal trust (World Values Survey data).

## **Conclusion**

The dead-end policies of Putinism begin with but extend well beyond embracing an economic model based on exporting hydrocarbons and other natural resources. Putin got a tremendous boost not only from his aggressive action after the apartment bombings in 1999, but also due to Russia’s recovery from the 1998 economic crisis. The good economic performance during Putin’s term as President was due to three main causes: 1) the ruble devaluation in 1998, which made Russian products competitive with imports on the domestic market and spurred a remodeling and construction boom financed by Russians with foreign currency; 2) an era of rising hydrocarbon prices (from \$10-12 per barrel when Putin became Prime Minister to a high of \$147 per barrel in 2008); and 3) institutional reforms, begun under Primakov and continued in the first three years of Putin’s presidency. Only the third of these is a plausible source of improvement for the next decade. Another currency devaluation on the scale of 1998 would cause irreparable harm to Russia’s standing in the world and undermine confidence among the population, spurring even more capital flight and immigration. Increased domestic prices for energy and a rapidly growing pension burden would make

---

<sup>72</sup> ITAR-TASS noted that protests over new fishing licenses drew larger numbers of demonstrators in far more regions than the March 31 meetings.

another spike in oil prices less effective in raising either budget revenue or living standards. In addition, higher oil prices were a major reason why Putin was able to curtail economic reforms after 20003; another price spike would again make it possible to defer essential changes, making the cumulative problems even greater and their resolution more difficult in the future.

In addition to short-term concerns, the worst case scenarios project that the Russian economy could cease to grow between 2030 and 2045. Shale gas and alternative suppliers have driven down the price Russia can demand for its gas exports, leaving oil as the major source of export revenue. Russian oil production likely peaked in 2006, and avoiding further reductions in output requires substantial investment. If foreign firms are excluded from major projects, as they have been in the Putin model, the investment must come from Russian sources, but both energy companies and the government will be financially challenged. If the Russian economy does diversify and grow, it will consume a larger share of the decreasing (or at best stable) oil produced in Russia, limiting the amount available for export. If Russia's economy does not perform well, there will be somewhat more oil available for export, but the revenue will not be enough to both balance the budget and provide needed investment in the domestic economy. Either way, maintaining any economic growth, much less the level of growth needed to improve living conditions for an aging population, will be nearly impossible (Bashmakov 2011).

These concerns explain why so many Russian analysts have come to the conclusion that only political change will make economic change possible. The situation to some extent resembles 1987, when Gorbachev published an economic reform program and soon realized that implementing it would not be possible without political changes, leading to the 1989 and 1990 elections. Inducing complacent government officials and leaders of large state enterprises to make difficult and unpleasant changes is never easy, regardless of how important those changes might be. When revenues from energy production remain high, the sense of urgency for reform is much less, and postponing difficult decisions is the preferable alternative. A series of articles and speeches by members of the government (Kudrin 2011), and several reports from major think tanks, including some considered close to the government (INSOR 2011; CSR 2011; Starodubskaja 2011; Milov et. al. 2011) reach a similar conclusion: the economic and social problems in Russia can be ameliorated only with greater input and participation from a broader section of society, and this will be possible only if the political system is changed to allow greater freedom of expression and more democracy.

Noting the limitations of the resource export model is NOT an argument that Russia should fail to capitalize on the extraordinary wealth of natural resources available on its territory. Norway has managed quite nicely with its hydrocarbon resources. Perhaps more germane, Malaysia has done quite well, becoming a leader in LNG technology and generating a Muslim middle class (Shamsul 1999)). Economists writing about resource endowments advise nations to begin by creating a knowledge economy in the resource sector, gradually expanding its reach to additional branches of the economy (Wright and Celusta). This makes Russia's ongoing conversation about the importance of diversifying the economy particularly salient, and the failure to achieve results compellingly tragic (Balzer 2010; CSR 2011).

The political changes proposed in most of the reports produced in recent months focus predominantly on “change at the top.” The emphasis is on a new leader who will preside over a more open political system. But it is more likely that the system itself requires significant alteration. Without local autonomy and genuine representation, it is doubtful that problems can be addressed in a way that will improve performance.

Diversifying the economy is a common problem in all resource-rich countries: the sense of urgency develops only in a crisis, and then the impulse is to wring more out of the resource sector. Investment resources are always limited, and investing in more resources appears to offer the greatest return (Karl 1997). In Russia, the typical patterns of large-population hydrocarbon exporters are exacerbated by a leadership that adheres to Soviet-era ideas about the need for centralization and state control of key sectors (Balzer 2006). Both ideas and personal economic interests make it unlikely that Russia’s rulers will change the development model without compelling pressures.

The same combination of Soviet “professional” thinking, professional group interests and personal financial incentives is producing badly flawed policies across a range of important issues. Despite a hope that “Soviet thinking” would decline over time, it has persisted due to the ongoing dominance of most professions by specialists from the Soviet era who have a direct personal interest in the knowledge base and practices that evolved under communism; the emigration of many of the talented younger people who might be agents of change; and thus far successful resistance to pressures to become more like their peers in the international community.

- Demography: Nick Eberstadt (2010) provides a sweeping picture of the demographic disaster. The Russian government is hardly unaware of the magnitude of the problem, but its policy response is based on awful advice from amateurs reminiscent of Lysenko. The most egregious is Grebnev, a former Deputy Minister of Education, who asserts that an ethnos (cf Gumilev) responds by increasing births when threatened with demographic demise. Rather than recognize the seriousness of the problems, others have resorted to direct attacks on the messengers, accusing professional demographers of kowtowing to the west. Like any politicians desperate for good sound bites, Russia’s top leaders have endorsed the positive results proclaimed by designers of the “maternity capital” solution to low birth rates, conflating the increase in births resulting from a short-term increase in the number of women aged 20-29 (prime child-bearing years) with a change in the total fertility rate. After 2011, the birth rate will decline for decades unless significant policy interventions are adopted. But the specialists who could help promulgate needed policies are increasingly marginalized as bearers of bad news. Russian demographers are well-acquainted with the pro-natal policies that have been relatively successful in France and Sweden. But these programs are complex, expensive and require time. Throwing money at the problem appears to offer an immediate solution, even if the result is a temporary rather than a long-term increase in the birth rate. (Maternity capital is much easier than providing adequate housing, day care programs, pre-schools and paid maternity leave, much less altering the behavior of physicians, midwives, nurses and maternity hospital



administrators to make the experience of childbirth less unpleasant (Temkina and Zdravomyslova).

- Science: There is no more stunning example of geopolitical change than the reversal in relative power positions of Russia and China in the two decades since 1991. And there is no clearer indicator of this shift than data on science and technology (Balzer 2010). In 1990, Russian and Chinese scientists published about the same number of articles in international peer reviewed journals. In 2010, Russian scientists' output remained at the level in 1990; Chinese scientists published more than four times that number, overtaking Germany and Japan to rank behind only the United States in peer reviewed scientific publications (Balzer 2010; Royal Society 2011). Critiques of Chinese performance abound.<sup>73</sup> Nevertheless, much of the work is of high quality, and the output continues to grow. The Chinese achieved this record by emphasizing internationalization and creating incentives for scholars to publish in leading international journals. Chinese scientists returning from overseas have begun to exert a positive influence, creating a "virtuous circle" in which they insist on international standards of peer review and professional conduct (Jonkers 2010). In Russia, many of the best scientists have emigrated, while those who remain prefer to continue old patterns of research and publishing that do not require competition. Institute directors disburse money without requiring competition; journal editors publish articles without peer review. The President of the Academy of Sciences, an individual reappointed to a third term by Putin, responded to data about Russia's declining position by advising scientists elsewhere to learn Russian and read the outstanding work published in Russian scientific journals. If the work were indeed outstanding, people would be reading it.
- Innovation: American and other companies are lining up to participate in the Skolkovo project, Russia's initiative to establish "their" Silicon Valley in a bunch of (now quite valuable) empty fields outside Moscow's Ring Road. Russian officials' competing descriptions of the project and its role reveal the cross Russian reformers must carry. While Medvedev's economic advisor Arkady Dvorkovich expresses optimism that Skolkovo will stimulate growth of an innovation economy in Russia. Vladislav Surkov's pronouncements include the revelation that large corporations produce most of the world's innovations, and that Skolkovo will provide an enclave protected from all the problems and difficulties that stymie the research-development-innovation cycle across Russia. If customs inspectors delay delivery of reagents and petri dishes until their useful life expires, Skolkovo shipments will receive special handling. If corrupt officials inflate the price of needed equipment, Skolkovo will have special oversight.

The enclave approach does not alleviate the problems themselves; it merely seeks to create a privileged zone where they will be less debilitating. Like Soviet-era economic experiments

---

<sup>73</sup> Quantitative incentives to publish have encouraged scholars to split their articles into small bits, focusing on the number rather than the quality of publications. Some of the work is unoriginal or repetitive. Many publications are co-authored with minimal contributions by some participants. Corner-cutting and outright fraud to achieve publishable research results are increasing.

that “worked” when they received priority attention and resources but could never be extended to the broader economy (priority is always a limited resource), any success achieved in Skolkovo will remain in Skolkovo; it will not generate broader change elsewhere. The Russian approach presents a stunning contrast to China, where an authoritarian regime succeeded in fostering intense competition among regions and firms, resulting in a dramatic burst of economic and innovative activity (Zweig 2002; Zhou 2008).

Near the end of the Brezhnev era, Gertrude Schroeder (1979) wrote an article about the Soviet Union being on a “treadmill” of reform. Her main insight was that incessant attempts to reform the “economic mechanism” failed because everyone had a stake in the existing sub-optimal system: all the major players had learned how to make that system work for them, even if it did not produce the economic results that would have generated greater benefits for the entire country. Everyone at some level understood that global competition was making the system increasingly less capable of maintaining the USSR’s position in the world, and that change was inevitable. Mikhail Gorbachev needed only two years as General Secretary to realize that achieving economic reform required political reform (Balzer 1991). Gorbachev began by introducing elections as a means of culling the most retrograde of reform opponents; the result was a movement for representative government that escaped the control of its architect. In 1989, Gorbachev could have been elected President of the USSR by a landslide, achieving legitimacy and autonomy from the CPSU that would have made his position much stronger, and probably prevented the August 1991 putsch attempt. He chose to avoid making the top leadership position elective, thereby opening the path for other political actors to seize the opportunities presented by electoral politics.

The lessons of perestroika are important now that political reform has re-entered the discourse. Alexei Kudrin, one of Putin’s closest colleagues, called for political reform in a speech at Krasnoyarsk in February 2011 and expanded on the arguments in the lead article in Russia’s main economics journal.<sup>74</sup> The Putin “system” increasingly resembles the Soviet system in the late Brezhnev years. Think tanks generate plans and reports proposing ways to fix the nations’ problems, but change takes place only at the margins if at all. The line between stability and stagnation is often thin.

Yeltsin did a lot of things wrong. But he had enough disgust with the Soviet regime’s corruption and mistreatment of the Russian people to at least make some efforts to change officialdom’s values. Putin is the heir to the Soviet reality described by Simes, Bierman and Popovsky. The *siloviki* are corrupt, and they threaten to undermine the security of Europe and other regions by spreading the infection. The deterioration of values shows up in Putin’s own dubious academic credentials and the tortured defense of his partially plagiarized dissertation by Russian officials. The perversion of standards by the very people charged with overseeing those standards extends throughout the system. (The contrast between treatment of a case of plagiarism by high government officials in Germany and Russia tells us much about the standards in the two political systems and academic communities. German Defense Minister

---

<sup>74</sup> (Kudrin was a Deputy Governor in St. Petersburg in the Sobchak administration when Putin served as First Deputy Governor. Kudrin also played a key role in Putin’s landing a job in Moscow after Sobchak was defeated in his campaign for re-election in 1996. As Putin recounts in “Ot pervogo litsa, .....

Karl-Theodor zu Guttenberg, a rising political star, has seen his career at least interrupted, if not ended, by revelations that parts of his Doctoral thesis were plagiarized. Despite a spirited defense by Chancellor Angela Merkel, Guttenberg resigned amidst a growing chorus of criticism from members of his own party and German academics. Russian President Vladimir Putin received a Kandidat of Sciences Degree from St. Petersburg's Mining Institute in 1996 on the basis of a thesis, 18 pages of which were plagiarized from the Russian translation of an economics book written by two American professors. The Russian press and academic community have either been silent or defended Putin on the basis of his thesis containing one citation to the original source.)

People with power and money do not generally give up their wealth and influence willingly, and those any who consider doing so generally are replaced by a group of nastier cronies, more willing to be ruthless in protecting their power and money (Haber). So the idea that Medvedev is going to reorganize Russia's political system to make it more open and representative is not promising. The two most frequent outcomes from reforming crony regimes are another dictator establishing control, or the oligarchy limiting participation to a small elite group. As David Ransel chronicled for the 18<sup>th</sup> Century, it is more common to use the rhetoric of broader participation as a weapon than to implement it as a policy.

Change occurs when elites decide that their interests are better served by a less personalistic system that permits more access points to influencing decisions, or when broader social groups demand (successfully) systemic change AND find groups in the elite who determine that power might derive from representing popular demands rather than resisting or repressing them (Jones Luong). The need for simultaneous supply and demand to establish lasting representative government explains why consolidated (as opposed to electoral or other adjectival) democracy remains the exception among world political systems.

### **Epilogue: Arab Spring, Japanese Earthquake, and Russia's Prospects, or Will Qadaffi Destroy Russia?**

The 2008 economic crisis provoked an important debate among the Russian policy community about the sustainability of the natural resource model of economic development. While everyone now pays lip service to the need to "modernize" and shift to an "innovation economy," the policy and investment prescriptions from various groups reflect quite significant differences in how seriously they take the need to change. The beneficiaries of Russia's hydrocarbon path appear to be embracing innovation in a bear hug tight enough to suffocate it. Advisors to President Medvedev regularly produce plans to shift the trajectory, but it is never clear if their leader has the clout or the inclination to prevail in this protracted struggle.

Change is always hard, and its impact is always demonic for some if not all. The odds, and rising oil prices, favor the status quo. This represents a long-term dead end, but, as with the subprime bubble in the U.S., easy money makes it impossible to change the trajectory until the costs become unbearable. Even then, long-term solutions are likely to fall victim to the next cycle.

In early 2011, the combination of escalating food prices, a “youth bulge” of increasingly better-educated but unemployed young people, rulers who seemed to have overstayed their time, and security forces that brutalized and extorted their people with little accountability finally came to a head, first in Tunisia, then Egypt and elsewhere.

Not all of these conditions apply to Russia. In particular, the demographic situation hardly is producing a surplus of young people. After a decade in power, Vladimir Putin increasingly is becoming the subject of satire, but is (at least for now) far from being disrespected or reviled in the same way as Mubarak or Qadafi.

Yet the outbreak of regime change in the Middle East does represent a serious threat to Russia. The threat is less that Russians will stage their own version of a popular movement to replace the regime than that the consequences of Middle East upheaval will push Russia even further in the direction of being a natural resource exporter and political autocracy, rather than modernizing and diversifying the Russian economy or polity.

It has become a standard kitchen table riff in Moscow that oil prices determine the prospects of economic reform in Russia: at \$40 per barrel, there is no question about the need for reform; at \$150 per barrel, there is no need for reform; and at \$70-100 per barrel, the proponents and opponents of reform argue endlessly over economic policy. The conflict in Libya, earthquake in Japan, and broader fears about instability have driven oil prices well over \$100.

The changes in the Middle East have also had a serious impact on Russia’s arms exporting industries. Sergei Chemezov estimates that Libya alone has cost Russian exporters some \$4 billion, and losses in the region could reach \$10 billion. Those figures apply to 2011. Depending on the outcome of political developments, Russia could lose more over the longer term. To the extent that Russia’s military industry retains any capacity for technical development and spillover effects on the rest of the economy, it will now be less. This will further reinforce the commodity dominance in the Russian economy.

Reform is always hard, and it is a classic “collective action” problem: the winners are diffuse, while the losers are highly concentrated and see the pain quite clearly. In a political system with few mechanisms for popular input, it is particularly difficult to shift policies to encompass broader needs rather than satisfying the wishes of highly placed and enormously wealthy officials and their cronies.

The rise in oil prices will have a significant impact on the Russian effort to shift domestic pricing to world price levels. The run-up in world oil prices in 2009-10 has already made this less acceptable to Russian consumers. Adding another 30% or more to the cost will make the project even more unpopular.

The irony is profound. By the end of 2010, much of the Russian elite had reached a consensus that the resource-based development model had reached its limits, and important groups, including key government officials, combined this with an assessment that political change permitting more democratic processes was essential to escaping the economic dead end.

Without serious reform, the Russian economy would cease to grow in the second quarter of the 21<sup>st</sup> century (Bashmakov 2011).

Fortunately for the resource cronies, but unfortunately for the Russian people and Russia's future, Mohammed Bouazizi set off a political earthquake in the Arab world, while Japan experienced a real earthquake, driving the price of oil back over \$100 per barrel. The combination of a new spate of popular uprisings against leaders who know better than their peoples how those peoples should be governed with a flood of new rents strengthens the position of Russia's resource authoritarians.

Russian elites can hardly be blamed for hoping that rising oil prices will save them from having to revamp their economic model, even if doing so would put the country on a more solid economic footing, reduce the economic swings resulting from fluctuating hydrocarbon prices, and enhance Russia's ability to project power in the world. It is much easier to enjoy the spike in oil prices and put off the difficult decisions. Few governments respond well to difficult choices. The U.S. leadership, faced with enormous budget deficits and rising entitlement spending, continues to hope that we will somehow muddle through. The experience of the 1990s, when "red ink as far as the eye can see" morphed into Congressional debates about how to spend the surplus generated by the technology bubble and Cold War disarmament dividend, provides a basis to hope that the really tough choices can somehow be avoided. The ostrich-like behavior and dysfunctional politics persists even though many recognize that confronting the structural problems would put the country on a more solid economic footing and increase America's ability to project power in the world. The difference, hardly insignificant, is that America's prospects of muddling through are greater, being based on more factors than commodity prices, and regime change is not needed to achieve major policy change.

Russia's upgrading of authoritarianism appears less effective than China's, where the authoritarian regime has been able to adjust policies in response to some of the imbalances in the country's economic development. This has been possible because China's authoritarian political system has institutionalized some degree of policy input from professional communities with international standing, demanded merit as one of the criteria for political advancement, and agreed that no group of cronies will dominate the system for too long. These adjustments were made in response to 1989/91, and are likely to be reinforced by the events of early 2011.<sup>75</sup> In contrast, Russian politics at this writing are all about the tandem and the unnamed "Third Man."

### **Policy options**

The most pressing needs if Russia is to modernize its economic and political system are 1) to reduce corruption and alter its character; and 2) establish genuine feedback mechanisms without restrictions on who may provide the feedback or its content. Free and fair elections would be the best way to accomplish this, but there are other institutional arrangements that could significantly improve the quality of governance. Freedom of association, assembly and

---

<sup>75</sup> Chinascope, March 2011 "Beijing's Efforts to Maintain Socio-political Stability and Crush a Potential Jasmine Revolution," Chinascope Analysis Series CSA20110307.

information are crucial to any feedback process. The lively blogosphere and Internet should be matched by unrestricted television broadcasting, and the government's efforts to flood the virtual space with paid contributors should cease. Crowding out genuine expressions of criticism deprives the regime of critically important information not just about public opinion, but also about the results of its policies. Given the acute case of post-imperial syndrome among the Russian elite, America cannot do much in these realms. Fortunately, members of the Russian elite have articulated precisely this agenda, as the recent reports discussed above indicate. Change in the direction of more representation and more internationalized professional communities would also help to reduce the outflow of talent by providing opportunities for creative individuals. This, along with curtailing the rampant corruption, would begin to effect the changes in overall climate that are so important to the "creative class."

South Korea in the 1960s and 1970s, and Singapore more recently, are examples of countries that have managed to achieve high levels of economic growth under non-democratic political regimes. In these cases, as in the case of China, embracing economic internationalization has been a major factor. And in each of these cases, despite a solid national cultural tradition, epistemic communities have been open to integrating with their international peers. In the Russian case, a serious case of "great power decline syndrome" combines with the self-interest of elites trained in the Soviet era to inhibit integration and restrict reform and competition. Unless entrenched elites and professional communities face competition that forces them to improve their performance, they are unlikely to change their practices regardless of how ineffective these practices might be or how much damage they might do to the country's long-term development.

The realm where the U. S. and Europe could have the greatest impact is in helping Russian professional/epistemic communities to establish stronger identities and standards of behavior. This does *not* mean trying to make them "just like us." It would entail the legal profession insisting on vetting judges and monitoring their fair administration of the law, as well as excluding corrupt lawyers. It would involve encouraging teachers and researchers to insist on peer review and academic standards while rejecting side payments for admission to or decent grades in universities. It would include helping medical professionals to insist on accepted "best practices" recognized by international (not American) medical organizations like WHO, where Russians are part of the process.

One way to accomplish this is to support far more interaction between Russian and international professional communities. There is a danger that it might encourage even more emigration by members of Russia's creative class. But even this could be of value over an extended period. A post-doc, newly minted lawyer or medical intern who spends a year or two abroad and returns to Russia is likely to remain in a low-level position. Professionals who spend 10 or 20 years abroad and then return home are in a position to assume leadership roles in their professional communities and the broader society. The Chinese have achieved some success in attracting mid-level professionals by offering material and social incentives, and by making it clear that their role is valued. To break down the resistance to genuine internationalization within Russia's epistemic communities will require a combination of peer-to-peer programs and incentives at the local and national levels within Russia.

## **RUSSIA’S DEMOGRAPHIC CONSTRAINTS: DIMENSIONS AND STRATEGIC IMPLICATIONS**

**NICHOLAS EBERSTADT AND APOORVA SHAH<sup>76</sup>**

American Enterprise Institute

Over the decades since the dissolution of the Soviet Union, the Russian Federation has been in the grip of an unrelenting demographic crisis. Admittedly, “demographic crisis” is a term that is thrown around these days with an all-too-promiscuous—and sometimes quite unwarranted—abandon. But the particulars of the Russian Federation’s demographic travails provide empirical demonstration for the proposition that Russian society is beset by severe demographic paroxysms that are directly and adversely affecting both individual wellbeing and economic potential—and will do so for some time to come.

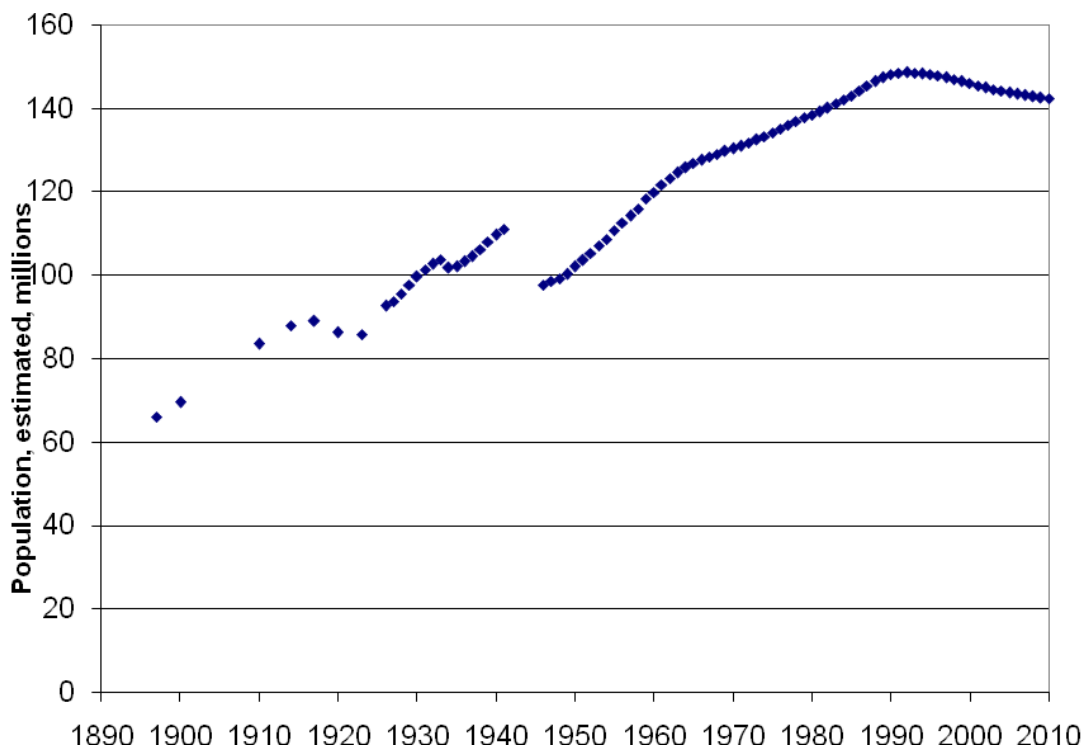
Since the end of the Soviet era, the Russian Federation has witnessed a pronounced and continuing depopulation: from 1992 to the present, the country’s total population has reportedly fallen by almost 7 million (almost 5%), with almost continuous year-on-year population declines. Russia, to be sure, was by no means the only country to experience population decline during those years—but the magnitude of this fall-off was exceptional. In absolute terms, the only drop larger than this one in the postwar era was the bout China suffered in the wake of Mao’s catastrophic “Great Leap Forward” campaign (a decline in relative terms roughly similar to Russia’s post-Communist population decline to date).

The Russian nation, of course, is no stranger to sudden bouts of depopulation: in fact, it has suffered four of these in the past century alone. [SEE FIGURE 1] The first three of these, however, were the consequence of war, political upheaval, and state-directed violence; depopulation ceased when the afflicting cataclysms abated. Today’s depopulation by contrast proceeds in a time of peace—and requirements for reversing it are correspondingly not at all obvious.

---

<sup>76</sup> This paper draws directly from Nicholas Eberstadt, *Russia’s Peacetime Demographic Crisis: Dimensions, Causes, Implications*, (Seattle, WA: National Bureau of Asian Research, 2010). Note that the paper does not take into account results from the Russian Federation 2010 Census, initial summary returns from which were reported at the end of March 2010.

Figure 1: Russia's Estimated Population: 1897-2010



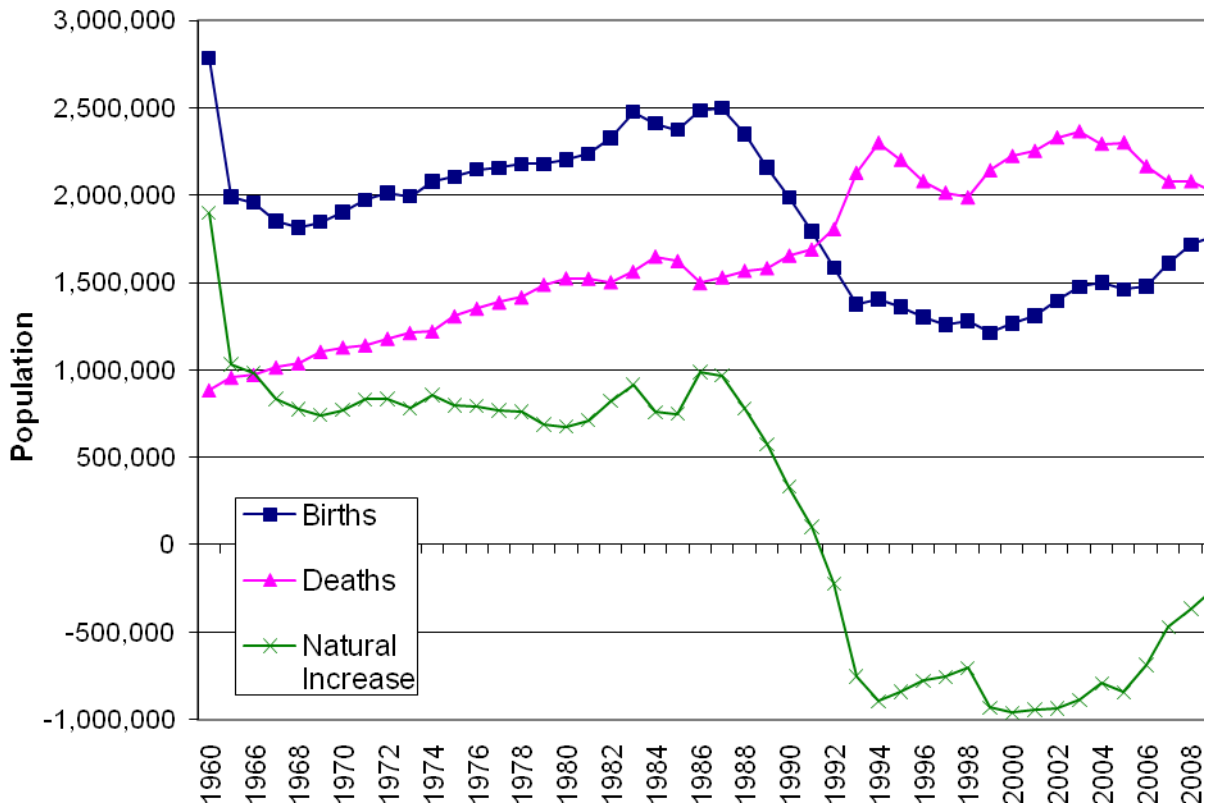
Source: Reproduced from Dalkat Ediev, “Application of the Demographic Potential Concept to Understanding the Russian Population History and Prospects: 1897-2100,” Max Planck Institute for Demographic Research, 2001, Figure 1.

In arithmetic terms, Russia’s present depopulation has been driven by negative natural increase: more specifically, by a sharp falloff in births conjoined with an upsurge in deaths. [SEE FIGURE 2] Between 1992 and 2008, according to official figures, Russia registered almost 13 million more deaths than births (almost 3 funerals for every 2 live deliveries). Russia’s negative natural increase during these years was of a scale equivalent to eliminating the entire contemporary population of the country of Angola.

Net immigration partly mitigated the country’s population decline over these years, but was by no means sufficient to compensate for it entirely. We can calculate Russia’s implicit trends in net migration by subtracting the country’s annual net surfeit of deaths over births from its reported annual changes in total population. [SEE FIGURE 3] Migration statistics for Russia today are problematic—about which more later. Estimates of net implicit migration should also be treated with caution. Nevertheless, the continuing decline in Russian population totals is occurring despite net inflows of immigrants from abroad, not because of it.

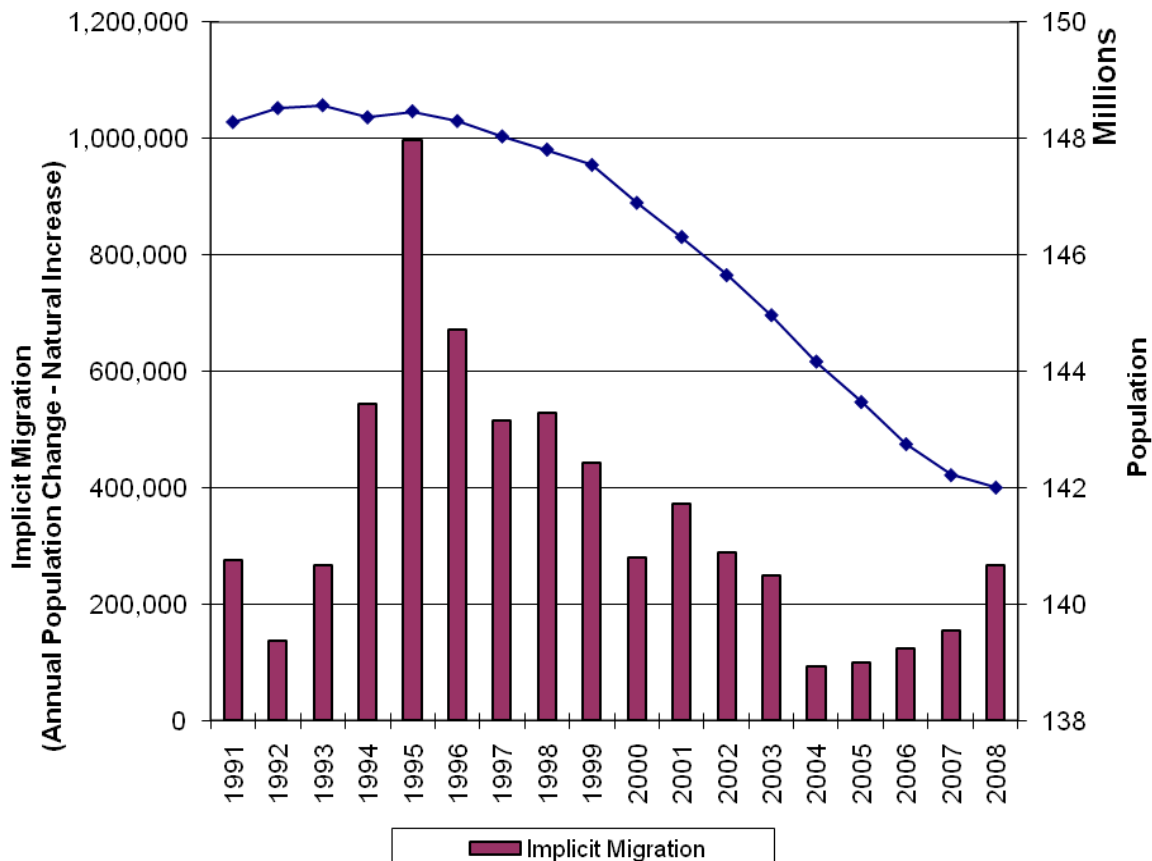


Figure 2: Live Births, Deaths, and Natural Increase in Russia, 1960-2009



Sources: The Russian Federation Ejegodnik: 2004 (State Committee of the Russian Federation on Statistics, Moscow, 2004), Table 2.25, Source for 2004-05 figures: Federal Statistics Service, accessed December 6, 2007, 2:00 PM. Source for 2006-2008 figures: Goskomstat, [http://www.gks.ru/bgd/regl/b09\\_12/IssWWW.exe/stg/d01/05-04.htm](http://www.gks.ru/bgd/regl/b09_12/IssWWW.exe/stg/d01/05-04.htm), accessed February 25, 2010. Preliminary 2009 data from Interfax, "Average Life Expectancy in Russia Approaches 70 Years," February 17, 2010.

Figure 3: Russian Population vs. “Implicit Migration”: Goskomstat Data, 1991-2008

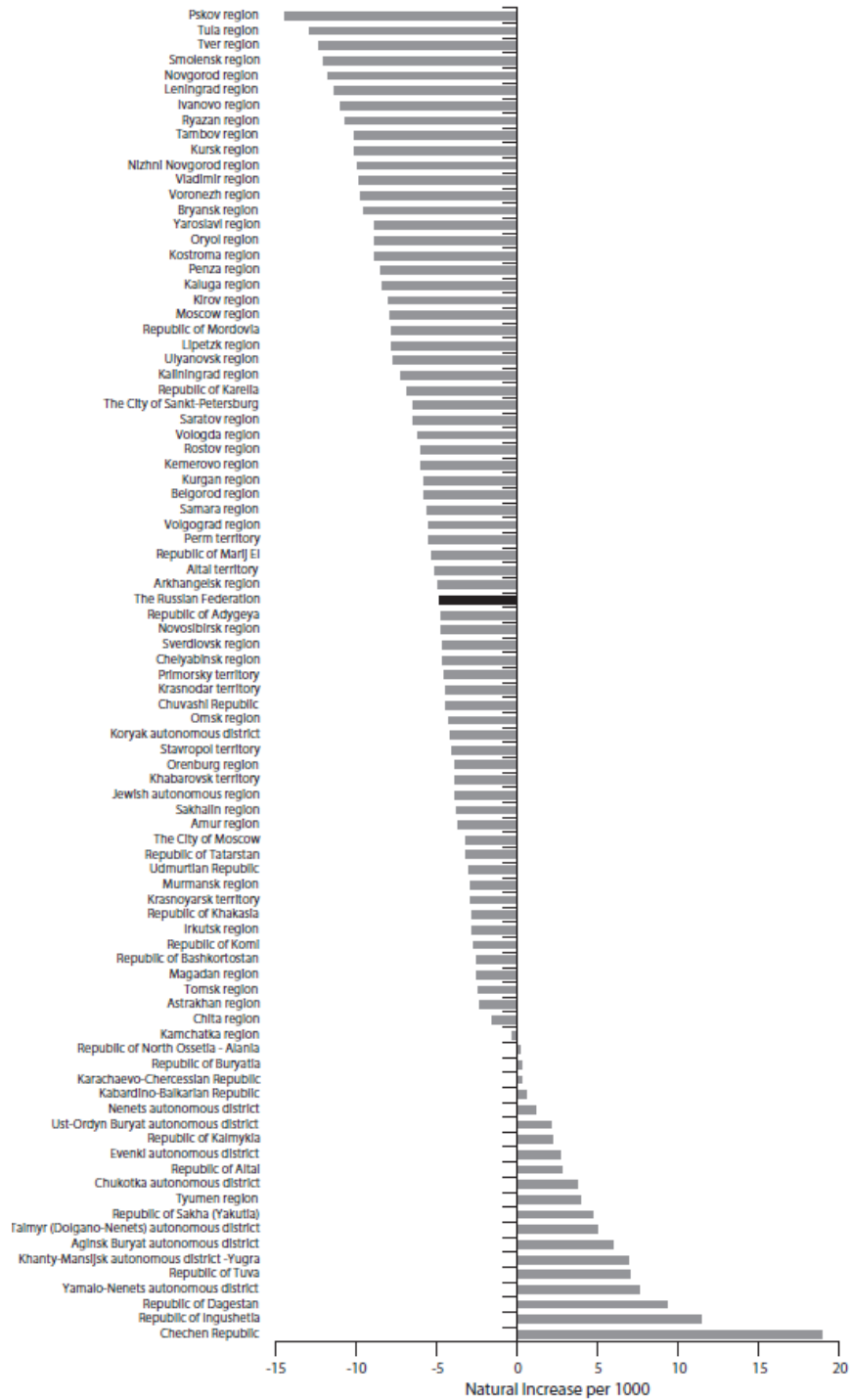


Source: The Russian Federation Ejeodnik: 2004 (State Committee of the Russian Federation on Statistics, Moscow, 2004), Table 2.25, Source for 2004-05 figures: Federal Statistics Service, accessed December 6, 2007, 2:00 PM. Source for 2006-2007 figures: Interfax News Agency, “Russia’s Population Shrinks by 0.24 Million in 2007,” March 27, 2008. Source for 2008 figures: Itar-Tass News Agency, "Russia's population reduces 141 mln in January-November 2008 - statistics," January 28, 2009. Note: 2008 data only to November.

Russia’s depopulation is not, of course, unfolding uniformly over the entire expanse of the Federation’s territories. Several differential subsidiary aspects of the ongoing population decline are worth mentioning here.

First, there is the differential pressure for depopulation now being generated by varying rates of “negative natural increase” among the regions of the Russian Federation. (Migration, to be sure, is also playing a role in regional population change within Russia—but we will deal with that aspect of population redistribution more thoroughly later in this study.) Local variations in “negative natural increase” within the Russian Federation for one recent year (2006) are highlighted in Figure 4. [SEE FIGURE 4]

Figure 4: Natural increase per thousand, by region: Russian Federation, 2006



Source: Goskomstat, "Demographic Yearbook of Russia" (2007), Table 2.3

In the year 2006, Russia's overall rate of "negative natural increase"—its excess of death rate over birth rates—amounted to 4.8 per 1000 population: that is to say, a tempo of just under three-fifth of a percentage point per year. But there was very considerable regional variation within this overall national average<sup>77</sup>

Of Russia's 89 provinces (*oblast*), 68 reported more births than deaths that year—many of these entailing very substantial local surfeits of mortality. In 10 oblasts, the net excess in mortality amounted to 1 percent a year, or more; in the Pskov oblast, net mortality was running at the staggering pace of nearly 1.5 percent a year. The areas where rates of negative natural increase tended to be highest, incidentally, also happen to be concentrated in the original, historical "heartland" of Russia, including its "black earth zone" (*chernozem*).

Interestingly enough, the excess of deaths over births was well above the national average in the country's two most important (and affluent) metropolitan centers: Moscow and St. Petersburg. In St Petersburg, all other things being equal, forces of natural increase would have made for a population decline of roughly two-thirds of a percent in 2006 alone—and for a somewhat less pronounced but nonetheless negative balance in Moscow as well. Given these demographic fundamentals, neither city could grow—or even remain stable in size—without a constant influx of newcomers.

Not all provinces in Russia are subject to negative natural increase these days. In 2006, 20 oblasts reported more births than deaths. As it happens, however, the areas of natural population increase were generally areas in which the country's ethnic and/or religious minorities were represented disproportionately. In 2006, for example, 19 of the 20 oblasts with positive natural increase were officially designated either as "republics" for particular indigenous non-Russian nationalities, or "autonomous districts" for given non-Russian peoples. Just two regions within the Russian Federation reported rates of natural increase in excess of 1 percent that year: Ingushetia (where ethnic Russians accounted for barely 1 percent of the enumerated population in the 2002 Census) and adjoining Chechnya, where net natural increase approached 2 percent.

In 2007, 19 oblasts or regions within the Russian Federation reported positive natural increase. Fifteen of these 19 regions were, "republics" or "autonomous districts." These 19 areas, moreover, still accounted for only a tiny share of the Russian Federation's population: less than 10 percent. About 90 percent of the Russian Federation's residents in 2007 lived in regions where death rates were higher than birth rates.<sup>78</sup>

---

<sup>77</sup> One statistical measure for gauging this variation is the "coefficient of variation." The calculated coefficient of variation for net natural increase by oblast in Russia in 2006, according to Goskomstat data, was -1.22. This speaks to a fairly high degree of regional differentiation by comparison to other regional demographic differences within Russia, as we shall see in coming chapters.

<sup>78</sup> Calculations based on the regions' enumerated populations in the 2002 census, per Timothy Heleniak, "The 2002 Census In Russia: Preliminary Results", *Eurasian Geography and Economics*, vol. 44., no. 6 (September 2003), pp. 430-442.

We may note that three additional regions which reported positive natural increase in 2006 were not included in Goskomstat's regional breakdowns for 2007: Taimyr (Dolgano-Nenets) autonomous district; Chukotka autonomous district; and Evenki autonomous district. Their total population as of the

The Russian Federation's extraordinary peacetime depopulation has already taken us out of the realm of familiar social, economic and demographic relationships widely canvassed on the contemporary world stage, and into terra incognita for the modern student of global affairs. By many indications, Russia is heading still further into these historically unfamiliar reaches—may remain there, indeed, for decades to come.

Russia's demographic explorations in the dominions of depopulation are of course a matter of more than purely academic interest. The circumstances generating population decline in the Russian Federation today, for example, should arouse tremendous humanitarian concern. From an economic standpoint, moreover, there is as yet no obvious historical example of a society that has demonstrated sustained material advance in the face of long-term population decline.

### **Mortality and Morbidity in the Russian Federation: A Crushing Burden**

The Russian Federation's peacetime demographic crisis is characterized not only generalized mortality crisis, but by an especially severe health crisis concentrated in the adult population of working ages (as conventionally defined). This working-age health crisis has important ramifications for Russia's old-age support capacities, both today and in the years to come.

By the World Bank's schema for ranking countries by levels of per capita income, contemporary Russia qualifies as an "Upper Middle Income Economy" (indeed, after PPP adjustments, as one of the more affluent states within this grouping).<sup>79</sup> Yet Russia's estimated life expectancy at age 15 was far lower than would have been expected for a country with such a relatively favorable economic ranking. For females, life expectancy at age 15 was a decade or more below levels prevailing among "high income economies"—but it was also lower than in many "upper middle income economies" (such as Turkey and Brazil), and in fact lower than in a number of "lower middle income economies" (such as China or Morocco). Even more striking, combined male and female life expectancy at age 15 was lower for the Russian Federation than for such "lower middle income economies" as India. As for male life expectancy at 15, Russia's appears to be one of the world's very lowest—markedly lower, indeed, than in many of the World Bank's "low income economies", including such desperate places as Benin, Haiti or even the "failed state" of Somalia.

The deterioration in general health condition for Russia's population of working ages over the past decades has been dramatic, and indeed extraordinary. This deterioration is mirrored by a

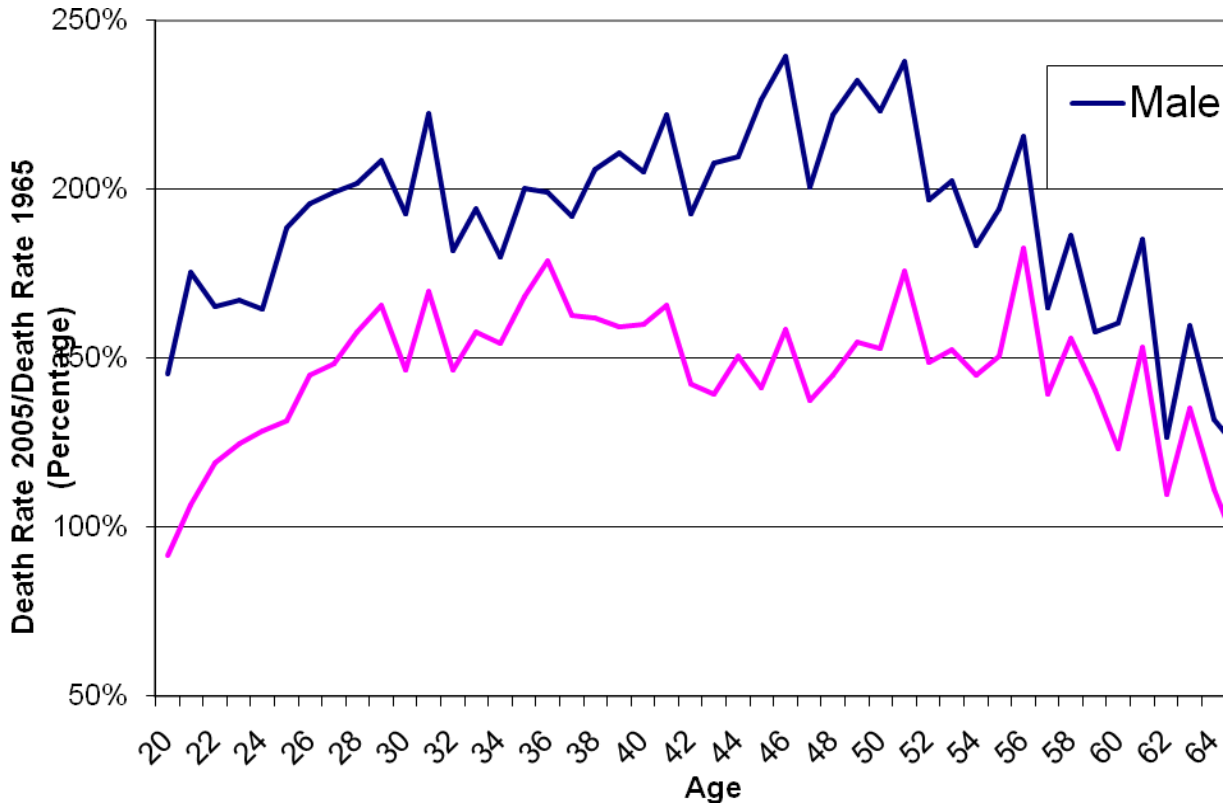
---

2002 Russian census totaled fewer than 115,000. If these regions had indeed reported positive rates of natural increase, this would have raised the total number of such oblasts and regions within Russia to 22 out of 89—but it would still have been the case that some 90 percent of the population of the Russian Federation then lived in negative natural increase oblasts or regions.

<sup>79</sup> For 2007, the cutoff for membership in the "high income economies" grouping was a PPP-adjusted per capita GNI of \$16,830 (for Lithuania). The Russian Federation's estimated level for that year was \$14,430—about 15% below the notional "high income economy" threshold. World Bank, *World Development Indicators 2009*. (CD-ROM).

general upsurge in death rates for working age men and women alike, as Figure 5 demonstrates. [SEE FIGURE 5] Over the four decades between 1965 and 2005, age-specific mortality rates for men in their 30s and 40s typically rose by around 100%. Scarcely less stunning, mortality levels for women in their 30s and 40s shot up by nearly 50% during that same period.

Figure 5: Death Rate Ratio, Ages 20-65: Russia, 2005 vs. 1965

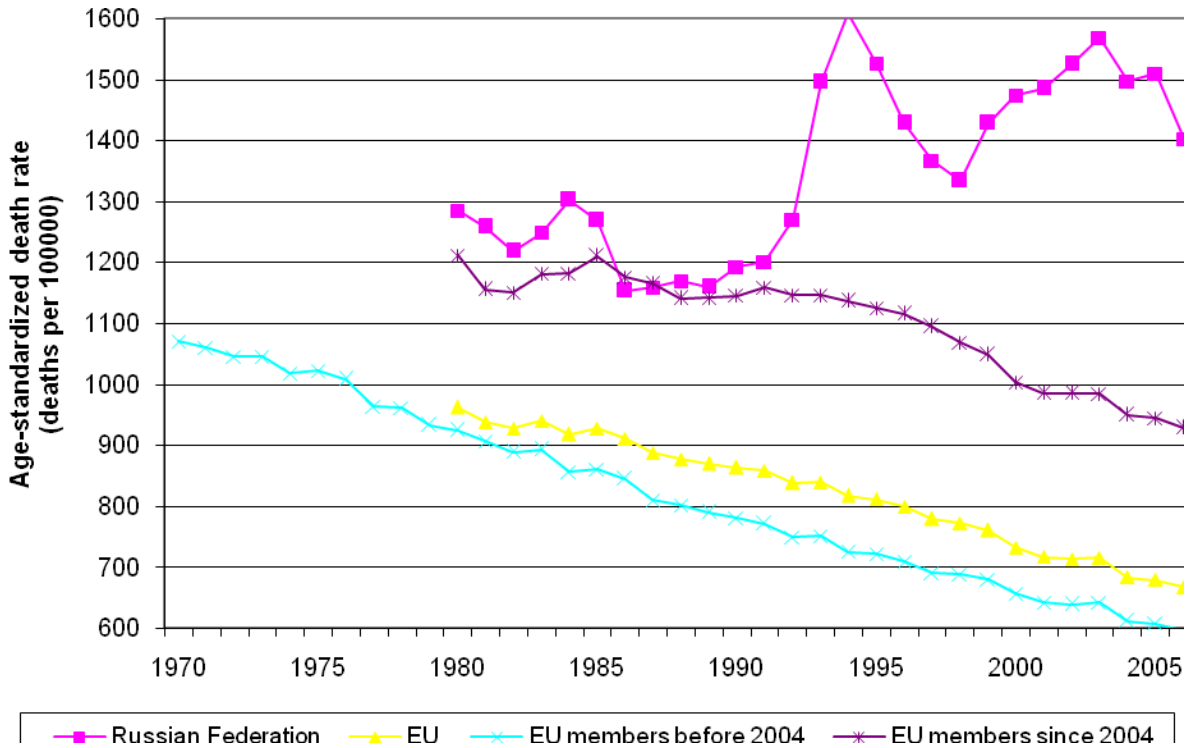


Source: Human Mortality Database. University of California, Berkeley and Max Planck Institute for Demographic Research. Available at [www.mortality.org](http://www.mortality.org), Accessed February 26, 2010.

The deterioration of health conditions for Russia’s working age population has been a primary driver of divergence in overall health trends between Russia and the rest of Europe. By 2006, according to WHO, age-standardized mortality in the Russian Federation was over twice as high as in “pre-accession” states of the European Union (i.e., Western Europe). Hardly less noteworthy is the divergence in mortality patterns that has emerged between Russia and the “new” EU members (in the main, former Soviet bloc states from the Baltic and Central Europe). At the end of the Soviet era, age-standardized mortality rates were similar for the aggregated “new” EU states and the Russian Federation. Just fifteen years later, mortality levels were about 40% higher in Russia: while the new EU states recorded substantial

improvements in overall mortality levels after the demise of Soviet-style rule, Russia's death rates veered erratically upward.<sup>80</sup> [SEE FIGURE 6]

Figure 6: Death rates from all causes, Russia vs. EU, 1970-2006 (males plus females)



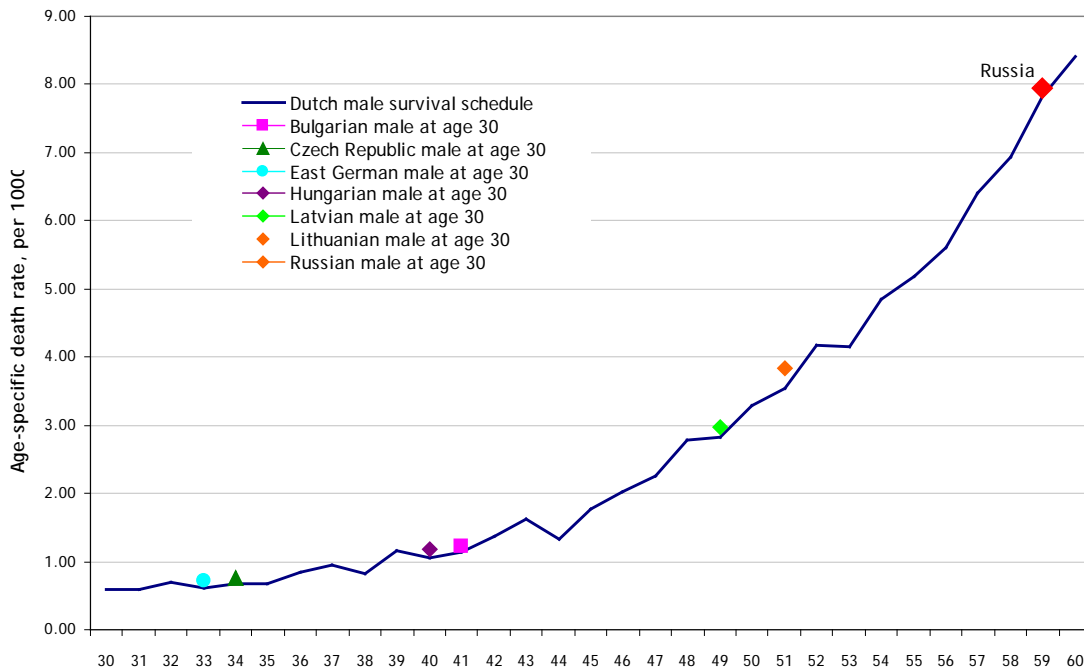
Source: Europe Health For All Database, World Health Organization, July 2008. Accessed February 26, 2010.

Labor productivity in Russia is sharply affected by the problems of severe excess death and premature mortality, altering the productivity outlook not only today, but also tomorrow. Some of the dimensions are illustrated in Figure 7, which place recent (2005) death rates for 30-year old men from post-Communist European societies on the mortality curve traced out by Dutch men between the ages of 30 and 60. (There is nothing especially significant,

<sup>80</sup> One particularly dramatic post-Communist transformation in health and mortality conditions for a former Soviet Bloc state was the case of the former German Democratic Republic (now Eastern Germany within the reunified Federal Republic of Germany). Life expectancy in Eastern Germany has soared since reunification: in the sixteen years from 1990-2006, overall life expectancy in Eastern Germany is estimated to have risen by over 8 years—over three and a half days for every passing calendar week. Despite four decades of Communist-era disadvantage, life expectancy at birth for the population in Eastern Germany has converged with that of Western Germany, standing today just a few months of the Western German level. Overall life expectancy at birth in Eastern Germany is now in fact higher than life expectancy in the United States: at the time of reunification, it was nearly three years lower than in America. For more details on this case, see Nicholas Eberstadt and Hans Groth, *Die Demografiefalle: Gesundheit als Ausweg für Deutschland und Europa*, (Stuttgart: Thieme Verlag, 2008).

incidentally, about our selection of adult mortality schedules from Holland, by the way. We could have used any other developed society to make this same point.) Whereas 30-year-old men from Eastern Germany face the same mortality risks as Dutch men only a few years older, the situation is totally different in Russia. There, young Russians contend with death rates that Dutch adults do not see until they are well into middle age. Russian men aged 30 have higher death rates than Dutch men at age 57. By this most fundamental of biometric measures, young adults in Russia who should be near the peak of fitness and vigor look to be effectively between 15 and nearly 30 years more elderly than their counterparts in a randomly selected developed society. They are for all intents and purposes far more “grayer”, in terms of mortality risk, than their calendar age would indicate—and by extension, we may also suspect they tend to be more frail, more restricted in their capabilities. Education-related health heterogeneity notwithstanding, such high rates of peacetime mortality clearly augur ill for productive potential in Russia’s working ages.

Figure 7, Adult Male Mortality Schedules:  
Netherlands vs. Selected post-Communist Countries, 2006



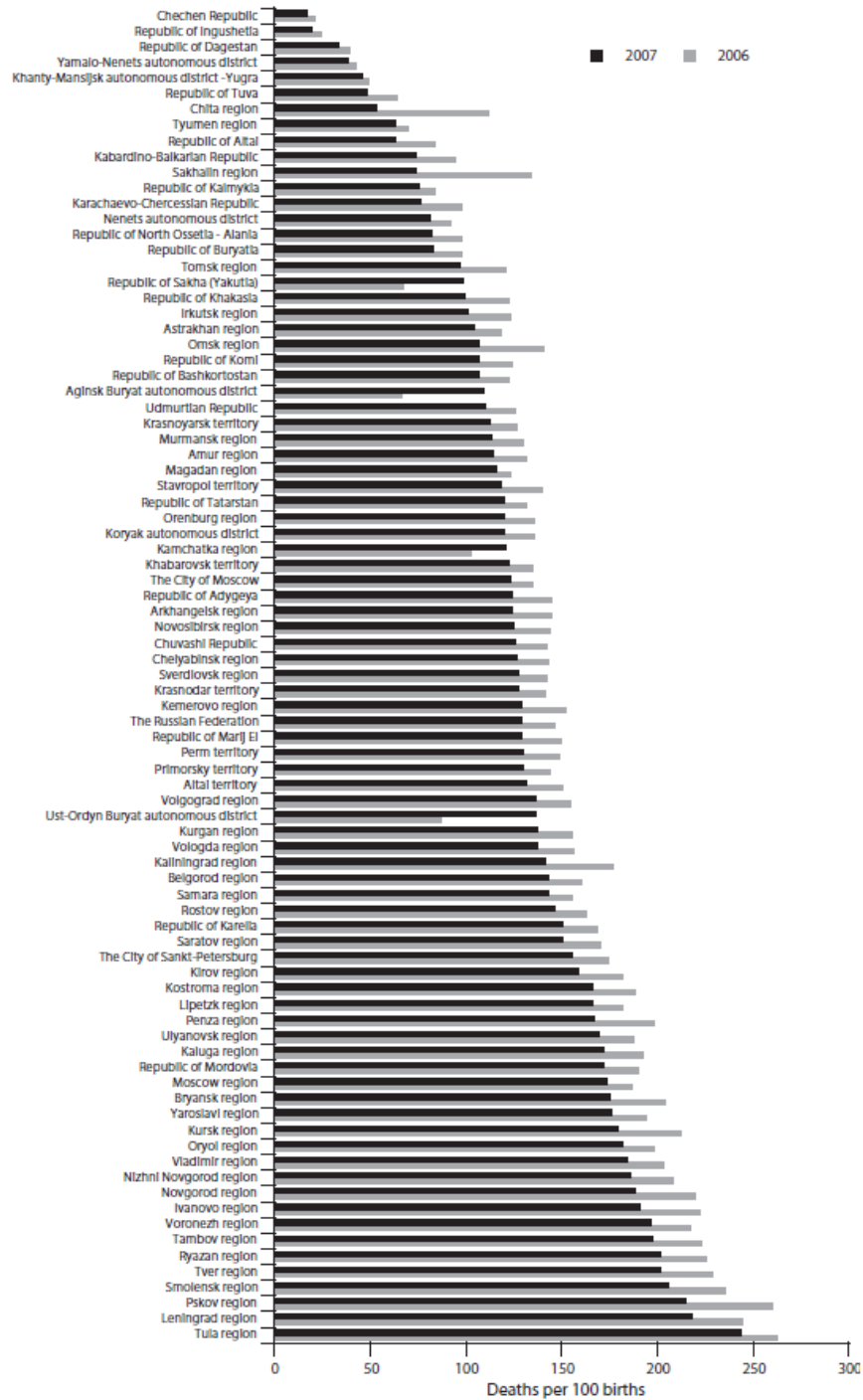
Source: Human Mortality Database. University of California, Berkeley and Max Planck Institute for Demographic Research. <http://www.mortality.org>. Accessed February 26, 2010.

Regional ratios of deaths to births are also a matter on interest for a country undergoing prolonged depopulation. Consider the year 2006. For Russia as a whole, nearly three deaths were recorded for every two births in the year 2006—a ratio roughly in keeping with the country’s long-term average since the end of Communist era. But there were also tremendous regional variations in this death-to-birth ratio every year, as may be seen in Figure 8.



In both 2006, five regions within Russia reported fewer than half as many deaths as births: these included Dagestan, nearby Ingushetia, and of course Chechnya (where in 2006 an average of over five births were registered for every death). At the same time, a fair number of other regions within Russia saw over twice as many deaths as births: 7 of them in 2007, 14 in 2006. The most extreme disproportion between deaths and births, again, tended to be seen in the country's historic, Western-most, heartland. Evidently, prosperity alone was not enough to stave off an imbalance between deaths and births: in both Moscow and St. Petersburg, the country's two most affluent population concentrations, deaths far outnumbered births in both 2006. The imbalance between deaths and births in St. Petersburg, in fact, ranked well above the national average for Russia as a whole in recent years.

Figure 8: Deaths per hundred births by region: Russian Federation, 2006 and 2007



Source: Goskomstat, 2006 data from “Demographic Yearbook of Russia” (2007), Table 2.3 and 2007 data from “Demographic Yearbook of Russia” (2008), Table 2.3

A second sub-national aspect of the Russian Federation’s depopulation concerns its impact on the ethnic composition of the country. Figure 8 strongly suggests that historically Russian regions were especially subject to negative natural increase, while the oblasts registering

natural increase were almost exclusively regions originally established for indigenous or ethnic non-Russian minorities. Nationality data from the two most recent censuses—the 1989 Soviet census and the 2002 Russian Federation census—seem to corroborate this surmise: they would seem to indicate a disproportionate decline in the ethnic Russian population within the RF.

Between the 1989 and the 2002 censuses, the present-day Russian Federation's population fell from 147 million to about 145.2 million, a drop of about 1.8 million. Over that same period, the reported share of ethnic Russians within the country fell as well: from 81.5 percent to 79.8 percent.<sup>81</sup> These numbers implied a drop in the ethnic Russian population of the RF from just under 120 million to just under 116 million—a decline of nearly 4 million persons, over twice the reported countrywide population decline for the period in question. But we should remember that the Russian Federation also absorbed a net influx of perhaps 5 million or more immigrants during those same years—and many millions of the new immigrants appear to have been ethnic Russians from the “near abroad” (former Soviet republics). Without that influx, in other words, the Russian Federation's population of Russians would have dropped much more dramatically during those years. According to Goskomstat data, for example, between 1989 and 2005, net in-migration by ethnic Russians accounted for 3.5 million out of a total net inflow to the Russian Federation of 5.3 million net newcomers.<sup>82</sup>

We will have more to say about the impact of migration on post-Communist Russia's demographic profile in a moment. For now, we may simply note that absent immigration, the Russian Federation's ethnic Russian population might have declined by much more between 1989 and 2002 than the notional 4 million decline suggested by national census data. A driving force behind Russia's depopulation, in other words, looks to be the demographic decline of the Russians themselves. Indeed: in aggregate, official statistics indicate the non-Russian population of the RF actually increased in size somewhat between 1989 and 2002.

To what extent does excess or premature mortality seem to vary over this vast and diverse country? Data from Goskomstat and the WHO Regional Office for Europe's European Health for All Database (HFA-DB) help us to answer this question.<sup>83</sup> These sources offer estimates of age-standardized mortality for the Russian Federation at the *oblast* (or provincial) level, and for the rest of the European region, respectively-- calculating these mortality rates against a common “European standard population”<sup>84</sup> model structure, so that the death rates for Russia's diverse regions will be in principle comparable with corresponding mortality rates from other locales in the WHO-Europe Region. The WHO HFA-DB offers regional

---

<sup>81</sup> Goskomstat, *Statistical Yearbook of Russia* (2007) Moscow: FSUE, 2008.

<sup>82</sup> A. G. Vishnevskii, ed., *Naseleniye Rossii 2005*, (Moscow: MAKS Press, 2007), p. 201.

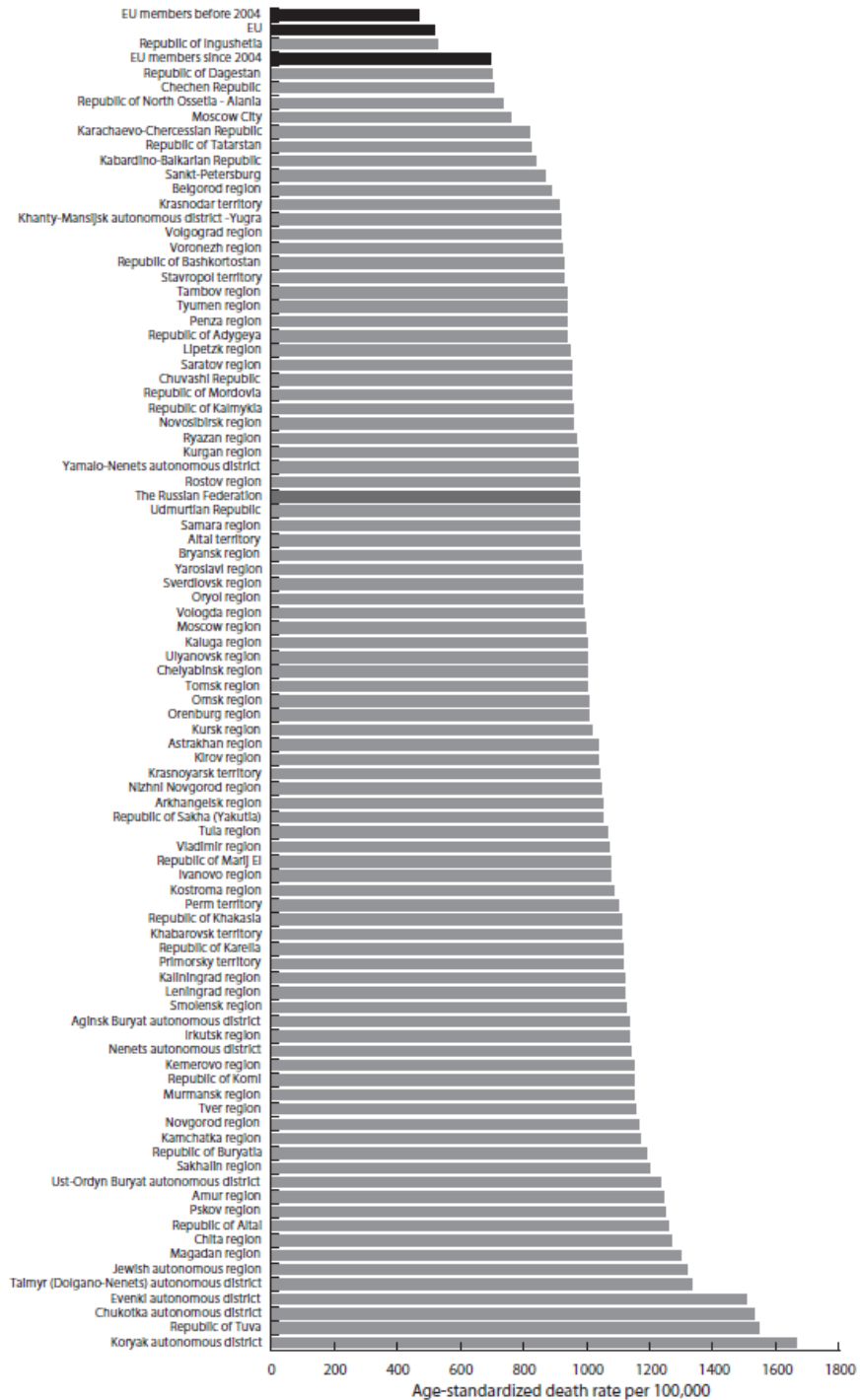
We should flag a perhaps obvious but nonetheless critical point at this juncture: ethnicity is a somewhat malleable construct. That is to say: one's ethnic identity—and self-identification is by no means a fixed and invariant quantity. To the contrary, it can change, according to context and circumstances. “Ethnic re-identification” is a very real feature of modern life, and not only in Russia. But it certainly needs to be born in mind in all our discussions of ethnic trends within Russia today. We will have more to say about this later in the study.

<sup>83</sup> WHO Regional Office for Europe, European Health for All Database, <http://www.euro.who.int/hfadb>

<sup>84</sup> For details, see WHO Regional Office for Europe, “European Health for All database: User manual”, (n.d.), p. 13; available electronically at <ftp://ftp.euro.who.int/hfa/hfa-db.pdf>; accessed Sept 12, 2009.

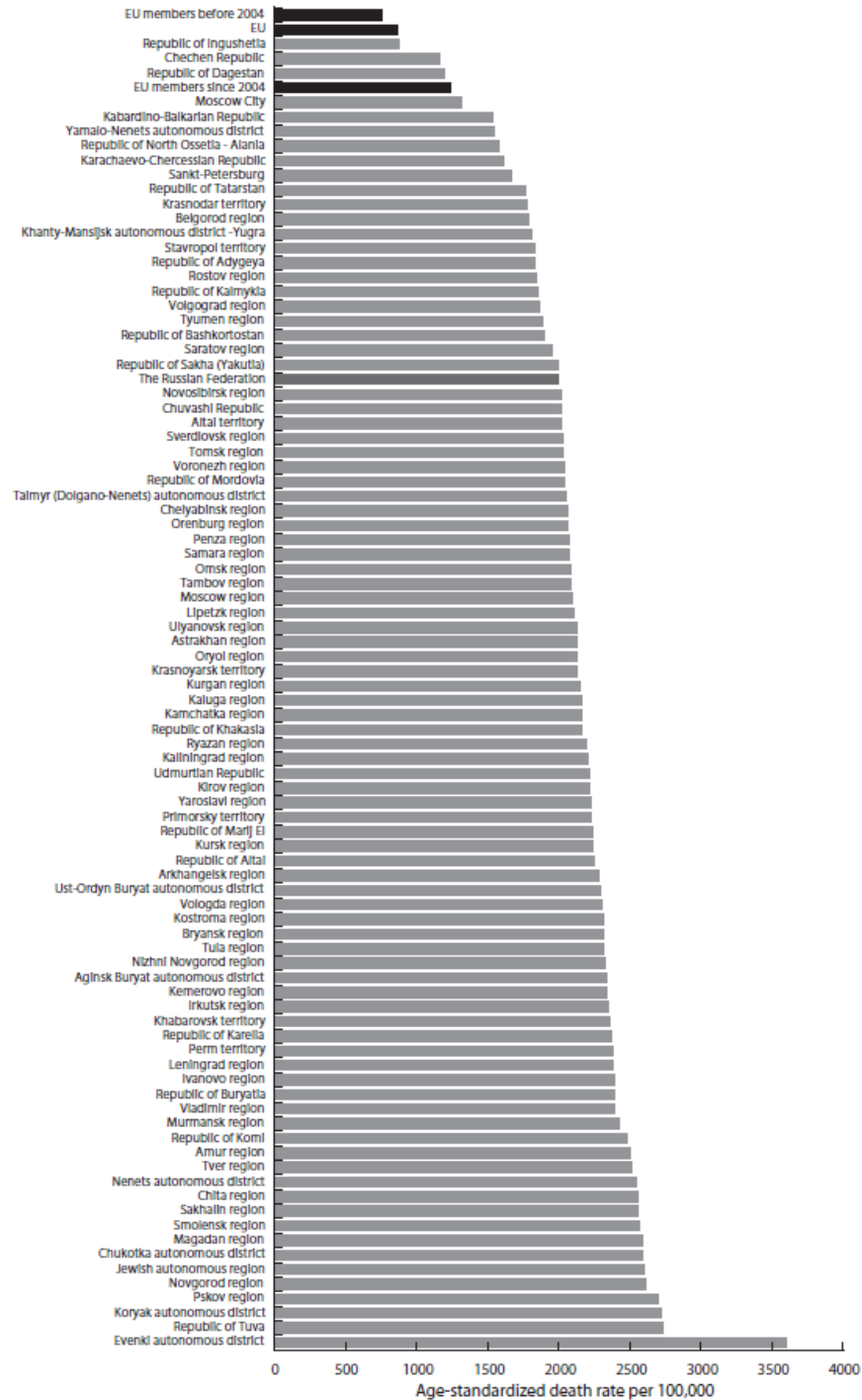
mortality data for both Russia and Western Europe, but as of this writing, that series is updated only through the year 2001. By relying upon Goskomstat data for Russian regional mortality patterns and DFA-DB data for requisite EU comparisons, we can examine the regional dimensions of the Russian mortality crisis (in conjunction with some international benchmarks) for the year 2006 in Figures 9 and 10.

Figure 9: Age Standardized Death Rates for All Causes, Females, 2006:  
Russia by Oblast or region vs. EU



Sources: Russian Demographic Yearbook 2007, Goskomstat & WHO Health for All Database

Figure 10: Age Standardized Death Rates for All Causes, Males, 2006:  
Russia by Oblast or region vs. EU



Sources: Russian Demographic Yearbook 2007, Goskomstat & WHO Health for All Database

As is immediately apparent in these graphics, pronounced regional variations characterize age-standardized levels of aggregate mortality (deaths from all causes) for both males and

females in Russia nowadays (2006). While the particulars for the two stories differ, the general storyline is much the same. In each case, the region with the highest death rates suffers from mortality levels well over twice as high as for Russia's lowest mortality provinces. In both of these stories, further, Moscow and St. Petersburg, the nation's very largest and most prosperous metropolitan areas, enjoy decidedly better than average mortality levels (with Moscow's being consistently lower of the two). And curiously, the regions immediately surrounding Moscow and St. Petersburg turn out to be areas of unusually poor health, even in Russia's awful current context.

In Moscow oblast, age-standardized death rates fall distinctly above the Russian national average—for males and females alike. For its part, age standardized mortality in Leningrad oblast in 2006 was over 27 percent higher for females and nearly 43 percent higher for males than in adjacent St. Petersburg. Clearly, proximity to affluence and amenities did not confer any health advantages on suburban Moscow or St. Petersburg. Controlling for differences in population structure, indeed, the total death rate reported for Leningrad oblast in 2006 was a chilling 19 percent higher for males and 15 percent higher for females than Russia's already dismal national average. To go by the metric of mortality, residents of suburban St. Petersburg would have been better off if they had lived in Siberia.

There appear to be some broader regional patterns in Russia's more local mortality differences. Goskomstat provides age-standardized mortality rates for 88 oblasts and territories within Russia for the year 2006. For males, 7 of the 10 regions with the very highest mortality were to be found in remote Siberia or the harsh Russian Far East. (For females, 9 of the 10 regions with the country's worst mortality tolls were likewise in Siberia and the Russian Far East in 2006.) But it is worth noting that the country's westernmost, "European" areas generally tend to have mortality levels above the national average. These oblasts are representative of what might be called "the Russian heartland": they include some of the earliest territories of the Russian state, places of tremendous cultural and historical significance in their "Russian-ness", and areas that remain today overwhelmingly Russian in terms of ethnicity.

By contrast, the country's "healthiest" (or perhaps more accurately, least unhealthy) regions, to go by these mortality data, look to be Ingushetia, Chechnya and Dagestan—a localities peopled overwhelmingly not simply by non-Russian ethnicities, but by folk of Muslim descent or cultural heritage. This speaks to a broader pattern: for 7 of the 10 country's lowest-mortality provinces for men, and 8 of the 10 lowest for women, are likewise places with sizeable non-Russian ethnic populations including a considerable representation of peoples from Muslim cultural traditions. Exceptionally wealthy Moscow—with a reported capita income roughly three times the national level—is one of only two predominantly "Russian" regions to rank at this better end of the country's health spectrum for both males and females. (The other place is St. Petersburg.)

These regional differences in mortality are meaningful in themselves, and perhaps as well suggestive of some of the underlying factors and tendencies generating mortality differentials within Russian society today. But what is required to place these differentials in perspective is, in fact, some perspective. For when all is said and done, a view possessed of perspective

will corroborate the critical fact that Russia's regional variations in mortality are rather modest in comparison to the differential between Russia and other European countries.

It is not that Russia's regional mortality differentials are insignificant—Figures 9 and 10 attest directly to the contrary. Rather, the point here is that the most dramatic regional mortality differentials involving Russia are not internal, but external: not the ones within the country, but instead the ones that separate the country as a whole from Europe (and for that matter, the rest of the Western world).

Consider, to begin, the health situation in Moscow. Age-standardized mortality rates there in 2006 were about 22 percent below the national average for females, and 34 percent below the national average for males. This made Moscow one of the very healthiest places to live—if, of course, one had to live within the Russian Federation. But Moscow's death rate for women that same year was over 60 percent higher than the comparable rate for the 15 Western European countries that had joined the European Union before the EU's rounds of expansion in 2004 and after. In Moscow, similarly, the mortality level for men in 2006 was over 70 percent higher than in Western Europe's (as represented by these "old" EU members).

Remember: Moscow is one of Russia's very most prosperous and developed regions. In terms of per capita income, it in fact appears to be on par with some Western European populations (after making the appropriate adjustments for purchasing power parity). Yet even more dismaying may be the comparison between Moscow and the new EU members. For males and females alike, age-standardized mortality is higher in Moscow than in the "new" EU on average—even though the average PPP-adjusted, population-weighted income levels in that collection of countries is today far lower than in Moscow itself. We are accustomed to thinking that "health equals wealth" in the modern world, and vice versa. The mortality situation in Moscow today may provide a conspicuous local exception to this global generalization.

Consider, further, St. Petersburg—Russia's second largest city, her second most affluent metropolis, and her second-healthiest urban agglomeration. St. Petersburg's death rates in 2006 were almost 90 percent above the EU-15 level for females, and no less than 110 higher for males. In relation to the "new" EU states, the overwhelming majority of whose populations live in post-Communist societies, St. Petersburg's age standardized mortality is 25 percent higher for females and 40 percent higher for males. These are truly stunning differentials--but perhaps not really surprising ones, given what we have already seen of St. Petersburg's life expectancy in comparison with Third World urban centers.

Dagestan and Chechnya may have reported the very lowest (credible) death rates for any Russian regions in 2006<sup>85</sup>, but these were over 50 percent higher for women and over 60

---

<sup>85</sup> The Republic of Ingushetia consistently reports the lowest age-standardized mortality rates in the Russian Republic—but there are reasons to question the reliability of these figures. For one thing, its reported death rates are consistently lower than the corresponding rates in adjoining Chechnya and North Ossetia—in 2006, over 25 percent lower for males and females alike—despite the similar socioeconomic fundamentals of the three regions. For another, reported age-standardized mortality rates in Ingushetia rose markedly (by 13 percent or more) for between 2001 and 2006 for both men and women, whereas the corresponding male and females death rates in practically all the rest of the



percent higher for men than the corresponding average levels prevailing throughout the EU 15 that same year. Death rates in “healthy” Dagestan, further, were 24 percent higher for females and 45 percent higher for males than the corresponding levels reported for Denmark, the Western European country with the very highest mortality rates as of 2006 (Denmark).

In effect, there was no mortality overlap whatever between Western Europe and Russia, big intra-regional variations in mortality within both of those geographic zones notwithstanding. If we could somehow transport them through space, Western Europe’s very worst health region would immediately qualify as Russia’s very best—and vice versa. Without minimizing the importance of understanding the reasons why some regions in Russia have higher, or lower, mortality levels than others, the key finding in a geographical review of mortality differentials within the Russian Federation today is the overarching dreadful sameness of the tableau---the relative lack of differences in death levels from one part of the country to the next.<sup>86</sup> From one end to the other in world’s largest country, astonishingly high death rates are the unremitting norm.

### **Fertility Trends in the Russian Federation**

Russia experienced a dramatic drop in births during the “transition” period after the end of Soviet Communism, to be sure. But Russia’s low levels of childbearing today cannot be attributed entirely to “systemic shock.” To the contrary: low levels of fertility have been characteristic of modern Russia, both under Communist rule and in the years since Communism ended. In the days of Khrushchev and Brezhnev, Russia’s period (“snapshot”) total fertility rate (or TFR—a synthetic measure of births per woman per lifetime, taking age-specific rates of childbearing in all childbearing ages for a given calendar year) was among Europe’s very lowest. The same is true today. And the same is true if we examine “completed” TFRs (a measure which eliminates potential distorting effects of intervening changes in birth timing and spacing decisions): here once again, Russia’s fertility trends have consistently ranked among Europe’s very lowest. Russia’s long-term fertility patterns, in short, look entirely “normal” in a European content—although they are close to the lower boundary witnessed in Europe, and stand far below the levels required for long-term population replacement absent compensatory net immigration.

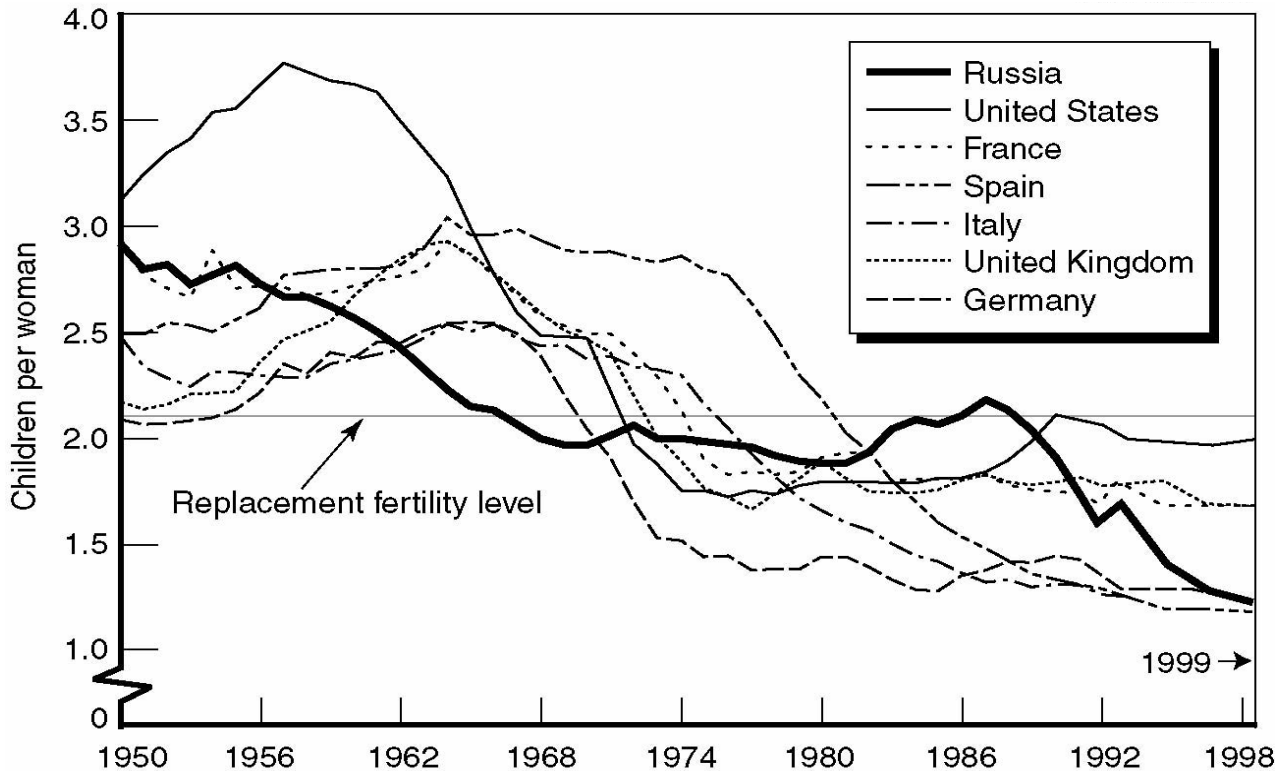
Figure 11 places Russia’s trends in a broader perspective, comparing and contrasting them against total fertility rates of countries from Western Europe for the decades since 1950.

---

Russian Federation were reported to have declined over that same period. The simplest plausible explanation for these seeming anomalies would be under-reporting of mortality in Ingushetia.

<sup>86</sup> We can make this point more precisely to the statistically inclined through calculations on the coefficient of variation by oblast. The coefficient of variation by oblast for TFRs in the Russian Federation as of 2006 was 0.24—but the c.v. for age-standardized mortality rates in 2006, according to Goskomstat data, was just 0.19 for males and 0.18 for females.. Russia’s fertility levels, as we will recall from a previous chapter, are low and fairly even from one region to the next; age-standardized mortality, on the other hand, is very high, but still more uniform across regions.

Figure 11: Total Fertility Rates in Russia vs. Selected Western Nations, 1950-2000



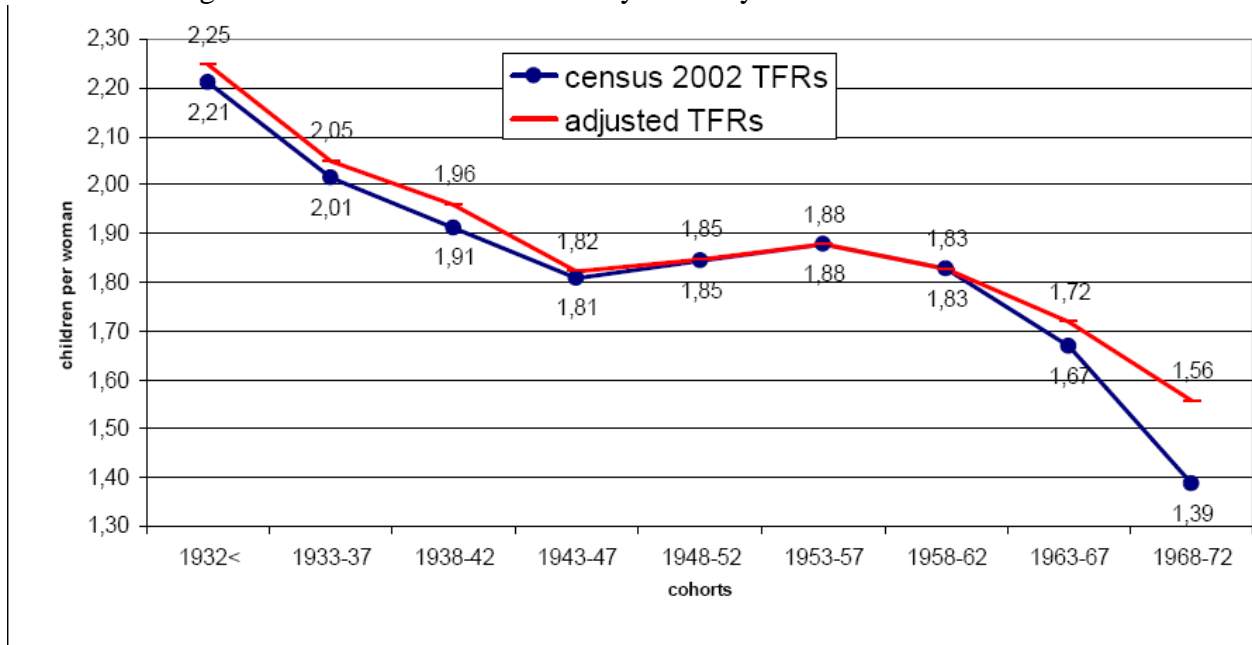
SOURCES: Vishnevsky (1996) for pre-1993 data; U.S. Census Bureau (2000) for post-1992 data.

From Julie DaVanzo and Clifford Grammich, *Dire Demographics: Population Trends in the Russian Federation*. RAND, 2001.

In the late 1980s, near the end of the Communist era, Russia qualified as a high-fertility society within the pan-European space: in 1987, none of the Western European countries listed in this chart or the United States had higher TFRs. By 2000, on the other hand, Russia would look like a low-fertility European society—by then, there were only a few European societies with lower TFRs.

If we looked only at these endpoints, we might conclude that Russia's fertility collapse over the past two decades was a consequence of post-Communism. But a longer record than that is available for inspection—and it presents a rather more qualified and nuanced picture of Russia's long-term fertility changes. As may be seen, back in 1960, Russia also had one of the lower European fertility levels, just as it does today. To judge by this longer perspective, the Gorbachev era may have been the aberration in Russian fertility trends—not the current period. For whatever (complex) reasons, Russia seems to have evinced relatively low fertility levels for a European country over much of the past half century: that is to say, both under Communism, and after it.

Figure 12: RF Cohort Total Fertility Rates by Birth Year Of Woman

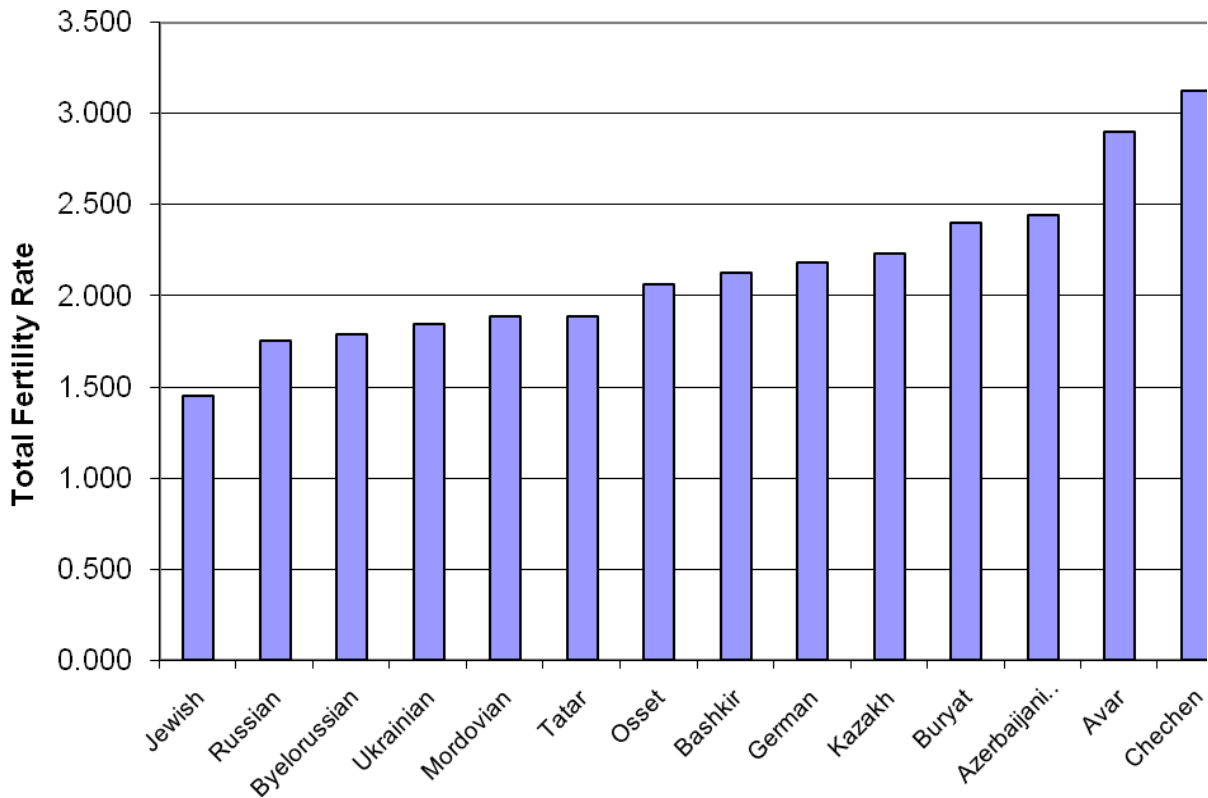


Source: Irina E. Kalabikhina, “Fertility in Russia,” Moscow State University, Picture 3, available at <http://www.infostat.sk/vdc/epc2006/papers/epc2006s60535.pdf>

Further decomposition of the Russian Federation’s completed fertility levels by ethnicity is possible on the basis of the 2002 Census, and is presented in Figure 13. According to these data, Russian Federation women born in 1958-62 averaged 1.82 births—but self-identified Russians averaged just 1.76. Of the 43 ethnic groups or nationalities in Russia for whom completed fertility was calculated, only Russia’s Jews reported a lower level of fertility. At the same time, it should be noted that something like a country-wide convergence over time in fertility trends is also evident from the 2002 data: the statistical dispersion in fertility levels by ethnicity for women born between 1958 and 1962 was just one fourth as great as it had been in their mother’s generation (birth cohorts 1933 to 1937).<sup>87</sup>

<sup>87</sup> Irina E. Kalabikhina, “Fertility in Russia,” Moscow State University, 2006, Table 1, available at <http://www.infostat.sk/vdc/epc2006/papers/epc2006s60535.pdf>

Figure 13: Total Fertility Rate for Women Born 1958-62:  
Russian Federation, by Nationality (2002 Census)



Source: Derived from Irina E. Kalabikhina, “Fertility in Russia,” Moscow State University, Table 1, available at <http://www.infostat.sk/vdc/epc2006/papers/epc2006s60535.pdf>

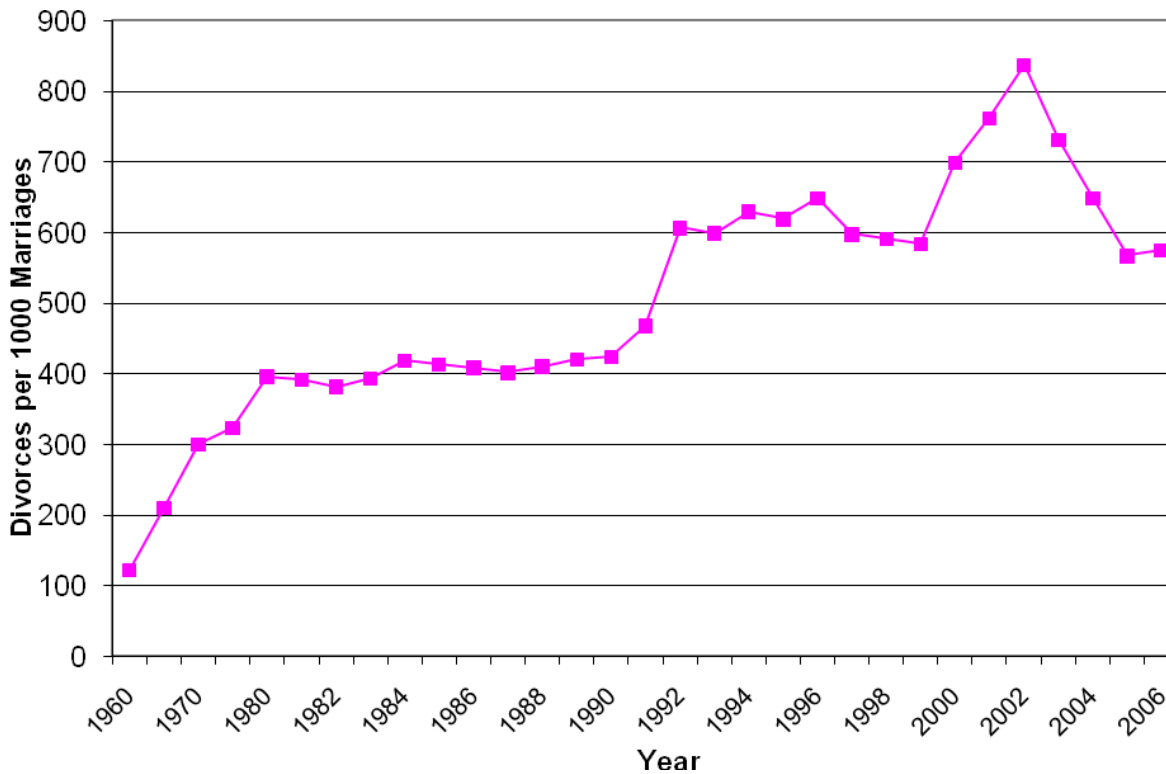
In short: extreme sub-replacement fertility is clearly new to peacetime Russia, but sub-replacement fertility, just as manifestly, is not. This point needs to be kept in mind in any discussion about future fertility prospects for the Russian Federation—not least the Kremlin’s bold new “demographic concept” for reversing the country’s demographic decline.

The Russian Federation’s changing norms on the family are also underscored by trends in marriage and divorce rates. Marriage is not only less common in Russia today than in the recent past: it is also markedly less stable. This much can be divined from aggregate data in marriage and divorce for the country as a whole.

In 2005, the total number of marriages celebrated in Russia was down by nearly one fourth from 1980 (a fairly typical Brezhnev-era year, at least for marriages); the country’s crude marriage rate fell by 27 percent over this period. On the other hand, the total number of divorces recognized in Russia has been on an erratic rise over the past generation, with crude divorces rates trending unsteadily upward since the end of Communism. Consequently, the ratio of divorces to marriages has tilted markedly over the past generation, rising from under 400 divorces per 1000 marriages in 1980 to a peak over 800 in 2002. The reported ratio fell

substantially after 2002—but was nonetheless close to 600 as of 2005 and 2006. A high crude ratio of divorce to marriage prevails across practically all of the Russian Federation today. As of 2007, that ratio was below 500 in just 16 of Russia’s 86 reporting oblasts, republics and okrugs: and the ratio was said to be at its lowest in some of the traditional areas of Muslim heritage—Dagestan, Ingushetia, and Chechnya.

Figure 14: Divorces per 1000 Marriages (1960-2007), Russian Federation



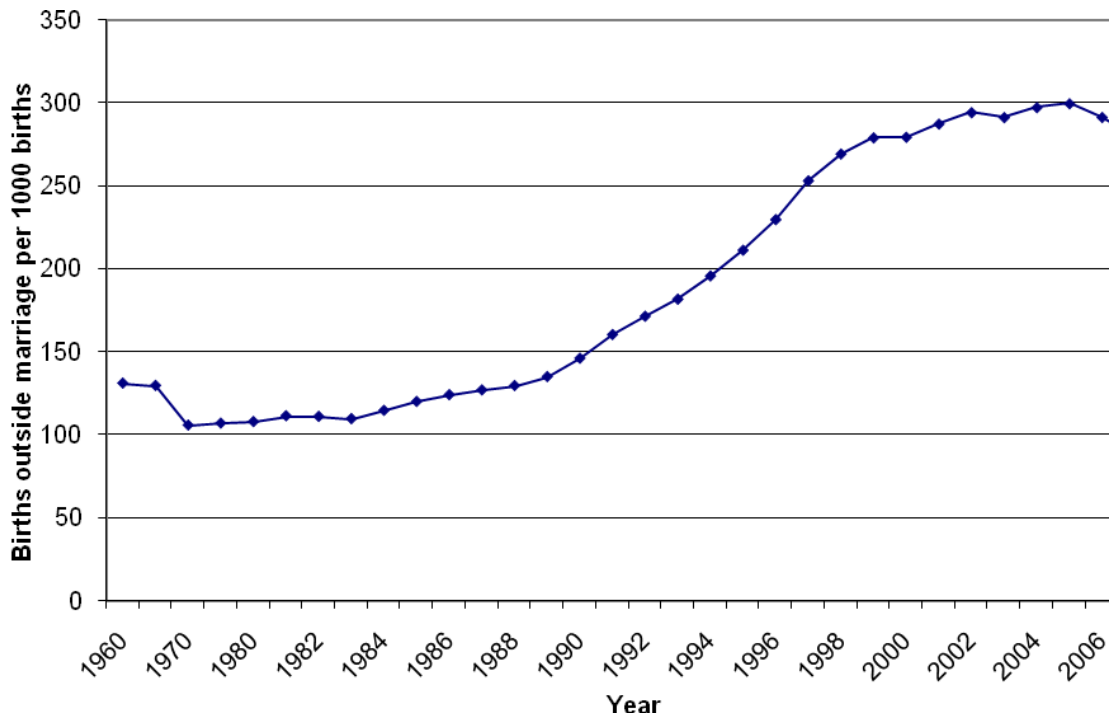
Source: The Demographic Yearbook of Russia: 2008 Statistical Handbook, State Committee of the Russian Federation on Statistics (Goskomstat of Russia), Moscow, 2008, Table 3.1; accessed February 25, 2010.

This crude ratio of divorces to marriages, we should probably caution, does not offer an accurate indication of the true probability that marriages will end in divorce—either in Russia or any other land. The annual number of marriages and divorces constitute a flow, whereas the proper denominator for such calculations would be a stock: namely, the total number of extant marriages in a society. Conceptually, the appropriate measures for gauging the prevalence of marriage and the likelihood of divorce would be what demographers call the “total marriage rate” and the total divorce rate”: the former measuring the likelihood, under prevailing age-specific marriage patterns, that a random women could expect to have been married by the time she reached age 50, the later utilizing age-specific divorce data to calculate the odds that a married woman would find herself divorced by age 50.

Taken together, Russia's total marriage and total divorce rates indicate an extraordinary—and extraordinarily rapid—shift in family formation patterns immediately upon the end of the Soviet era. In 1990—that is to say, in the late Gorbachev era—universal marriage was still the norm, and while divorce was very common, given prevailing nuptiality and divorce patterns, a distinct majority of Russian Federation women (60 percent) could expect to have entered into a first marriage and still remain in that marriage by age 50. By 1996, the picture was radically different: given the sudden plunge in nuptiality and the continuing rise in divorce, the new patterns for the country would have implied that barely a third of Russia's women (34 percent) would get married, and stay in that same marriage until age 50!

The Russian Federation's changing norms on the family are further underscored by trends in out-of-marriage childbearing. In 1980, less than one newborn in nine was reportedly born out of wedlock. By 2005, the country's illegitimacy ratio was approaching 30%—almost a tripling in just 25 years. Interestingly enough, in Moscow and Saint Petersburg, the nation's most affluent and “modern” population centers, out-of wedlock births accounted for a lower proportion of births (around a quarter of the total) than for the nation as a whole. Conversely, and no less surprising, in Russia's rural regions, births to unmarried mothers accounted for a distinctly higher share of childbearing—fully 34 percent as of 2005—than in the cities. Russia's highest illegitimacy ratios nowadays are being registered in some of the country's most remote regions, with a number of territories in Siberia and the Russian Far East reporting half or more newborns registered to unmarried parents.

Figure 15: Non-marital births per 1000 births, Russian Federation 1960-2007



Source: The Demographic Yearbook of Russia: 2008 Statistical Handbook, State Committee of the Russian Federation on Statistics (Goskomstat of Russia), Moscow, 2008, Table 4.6; accessed February 25, 2010.

The increasing likelihood that a Russian baby will be born to parents not themselves married, however, is only one aspect of the profound change in family patterns that can be highlighted in contemporary Russia. Marriage is not only less common in Russia today than in the recent past: it is also markedly less stable.

#### *Regional Trends in Russian Fertility*

The regional contours of Russia's new fertility situation are illustrated in Figure 16. Perhaps the strongest impression this graphic conveys of the pervasive regularity within Russia's diverse regions of the current patterns of steep sub-replacement fertility. By standard statistical measures, there appears, perhaps surprisingly, to be quite fair degree of uniformity in fertility levels among Russia's oblasts—certainly much less variation with respect to fertility regimens than we saw in regional patterns of natural increase.<sup>88</sup> As of 2007, just 5 of the 84 provinces for which data were available recorded total fertility rates of 2.0 or more,

<sup>88</sup> The coefficient of variation for TFR by oblast in 2005, for example, was 0.233—or barely a fifth of the absolute level for variations in rates of natural increase by oblast that same year.

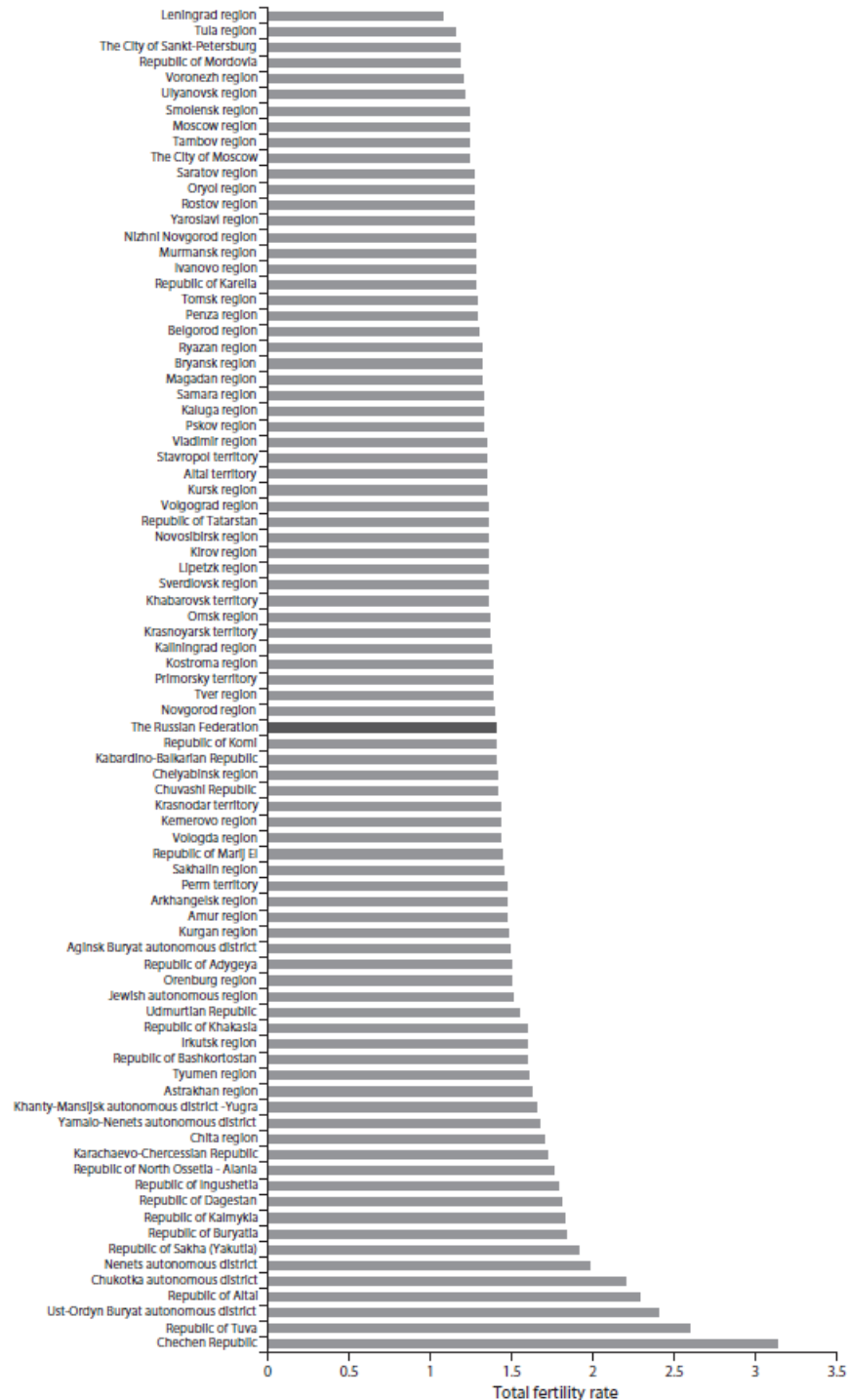
while 60 of the regions reported TFRs below 1.5.<sup>89</sup> Moscow's reported rate was only 1.24, and St. Petersburg's was just 1.19: the very lowest level for the nation, at 1.08, was set by the area immediately surrounding St. Petersburg, Leningradskaya oblast. These are among the very lowest fertility levels being registered around the globe nowadays—not so different from with estimated 2007 TFR of the current world's lowest-fertility countries, Singapore (1.07) and Taiwan (1.12).

---

<sup>89</sup> Goskomstat's 2007 TFR figures excluded one region (the Evenki autonomous district) which had reported a total fertility rate of 2.3 in 2006, and likely would have reported above-replacement fertility in 2007 as well. Also not reporting was the Kamchatka region, which had reported a TFR of 1.38 in 2006, and may well still have had a TFR of under 1.5 in 2007. But these omissions do not appreciably alter the table here.



Figure 16: Total fertility rate by region: Russian Federation, 2007



Source: Goskomstat, *The Demographic Yearbook of Russia 2008* (Moscow: FSUE, 2008), table 2.8

Perhaps not surprisingly, the very highest fertility rate within Russia is registered nowadays in the Chechen Republic. Given Chechnya's reputation within Russia for fearsomely high

fecundity, purportedly supported by Chechen ethnic heritage and Muslim background, what may be somewhat surprising is how the actual level of fertility reported by Russia's very highest TFR region looks when placed in international perspective. The Chechen Republic's total fertility rate in 2006 was 2.77, and 3.18 in 2007. That would be well above the replacement rate: demographers tend to use a TFR of 2.1 as the notional demarcation for replacement (although that is not actually a strict numerical benchmark). But Chechnya's fertility rate is far below the levels prevailing today in such traditionally Muslim countries as Pakistan (where the Census Bureau's estimate of 2007 TFR is 3.7) or Iraq (4.1).<sup>90</sup> In an American context, moreover, such childbearing patterns would not at all look unfamiliar. Chechnya's registered fertility level in 2006, for example, is only a bit higher than that of the state of Utah (2.6). The Chechen region's fertility level in 2007, moreover, is not much higher than the TFR currently registered in the United States for the Mexican-American population (3.0)<sup>91</sup>, who comprise a much larger share of the US population than do Chechens in the Russian Federation. As for Dagestan—the region with the largest population of peoples from culturally and historically Muslim groups—current TFRs in 2007 reportedly averaged just 1.8—a level lower than was recorded in 2006 in such hardly unexceptional American states as Connecticut, Minnesota and Kansas, and indeed lower than America's nationwide average for its “Anglo” (non-Hispanic Whites) population.<sup>92</sup>

If Chechnya's fertility looks amazingly high to Russians today, it may be partly because Russian Federation fertility levels overall are so remarkably low. Indeed: apart from Chechnya, not a single region in the vast Russian expanse reported above-replacement childbearing patterns in 2005.<sup>93</sup> Even historically “Muslim” Dagestan, Russia's region containing the country's single largest concentration of people who trace their ancestry to Islamic cultural roots (and itself comprised almost entirely of such people)<sup>94</sup>, reported a TFR in 2007 of just 1.81—a level well below America's officially estimated TFR that same year of 2.12.<sup>95</sup> Suffice it to say that a country's fertility level must be very low indeed for a sub-replacement region such as Dagestan to be regarded as relatively prolific.

In 2006, in addition to Chechnya, two other regions had crept above net replacement—but their combined population of these two places that year was negligible (less than 200,000 persons—barely a tenth of one percent of the RF national total).<sup>96</sup> In 2007, the total number of regions registering above-replacement fertility rose to five—and the total 2007 population

---

<sup>90</sup> International Data Base, U.S. Census Bureau; available electronically at <http://www.census.gov/ipc/www/idb/informationGateway.php>; accessed August 30, 2009.

<sup>91</sup> National Center for Health Statistics, Centers for Disease Control  
Joyce A. Martin, Brady E. Hamilton, Paul D. Sutton, Stephanie J. Ventura, Fay Menacker, Sharon Kirmeyer, and T.J. Mathews, “Births: Final Data for 2006”, *National Vital Statistics Report*, vol. 57, no. 7 (January 7, 2009), available electronically at [http://www.cdc.gov/nchs/data/nvsr/nvsr57/nvsr57\\_07.pdf](http://www.cdc.gov/nchs/data/nvsr/nvsr57/nvsr57_07.pdf).

<sup>93</sup> Goskomstat, *The Demographic Yearbook of Russia 2007* (Moscow: FSUE, 2007), Table 2.12.

<sup>94</sup> For background and estimates, see Timothy Heleniak, “Regional Distribution of the Muslim Population of Russia”, *Eurasian Geography and Economics*, vol. 47, no. 4 (July-August 2006), pp. 426-448.

<sup>95</sup> Brady E. Hamilton; Joyce A. Martin; and Stephanie J. Ventura, “Births: Preliminary Data for 2007”, *National Vital Statistics Reports*, vol. 57, no. 12 (March 18, 2009), p. 3.

<sup>96</sup> *Ibid.*, Tables 1.6, 2.12.

of these five spots, including Chechnya, was officially placed at under 2 million.<sup>97</sup> Evidently, over 98 percent of Russia's population that year resided in oblasts, republics, or autonomous districts and okrugs where childbearing patterns were not on course for replacement fertility.

The surfeit of births over deaths in most of those regions looks to be, at least for now, unsustainable. On existing fertility schedules and absent immigration, none of regions—apart from Chechnya—have reported consistently the sorts of fertility that would be necessary to avoid an eventual depopulation, all other things being equal.

### **Migration: Russia's and Unfamiliar New Dilemmas of Personal Choice**

Despite the Russian polity's well-chronicled and widely lamented drift away from its initial liberal aspirations in the early years of the post-Communist era, the Russian population today almost certainly enjoys greater freedom to move about as they please—both at home and abroad—than at any previous time in the past several centuries, and perhaps even than at any previous juncture in their country's long and troubled history. This centrally important fact of demographic life should not be overlooked, for it holds true despite the past decade's consolidation of an increasingly unaccountable and closed political apparatus under the Vladimir Putin coterie over the past ten years. Unlike so much of the demographic terrain in contemporary Russia, furthermore, this enhancement of personal choice in the realm of migration is full of positive portent for both individual wellbeing and national economic potential.

The Russian population's unprecedented ease of movement today speaks in part—but only in part—to the broader, global revolution in transport and communications, which has made travel progressively cheaper and more commonplace the world over these past several decades. But the main factor, of course, has been political in character, as erstwhile state shackles that bound Russia's people have been loosen—or broken altogether.

*International migration trends in post-Communist Russia: What we know and how we know it*  
What sorts of information on international migration does the Russian government collect, and how good are these data? Addressing these questions would seem to be of the essence before proceeding to any discussion of what the available statistics seem to say about patterns of international migration for Russia today.

---

<sup>97</sup> *The Demographic Yearbook of Russia 2008*, Tables 1.6 and 2.12.

Table 1: Main Migration Data Systems in Russia

	<i>Authority</i>	<i>Quality of data and methodology</i>	<i>Availability</i>	
<u>Main migration data systems in Russia</u>				
2-11- parts of Central data bank of foreigners (in future)				
1	Current statistics of migrants (based on registration procedure) – both foreign and internal flows	Ministry of home affairs/ Federal statistics service	Unsatisfactory, Considerable underestimation	Available
2	Data on permits on arrival for residence (foreigners) and departure for residence (Russian citizens)	Ministry of home affairs	Moderate. Not processed since 2002.	Was partially available up to 2002
3	Data on refugees and asylum seekers	Ministry of home affairs (Federal migration service- FMS)	Satisfactory	Available
4	Data on work permits for foreign employees and Russian citizens employed abroad via Russian employment agencies	Ministry of home affairs (FMS)	Unsatisfactory, considerable underestimation	Available
5	Data on residence permits and permissions for temporary residence	Ministry of home affairs (FMS)	No information on methodology	Not available
6	Migration cards statistics	Ministry of home affairs (FMS)	No information on methodology	Not available
7	Border statistics	Federal security service (Federal Border Service)	No information on methodology	Partially available
8	Data on foreign students	Ministry of science and education	Satisfactory	Available
9	Visas and invitations statistics	Ministry of foreign affairs	No information on methodology	Not available
10	Ministry of Taxes data	Ministry of Taxes	No information on methodology	Not available
11	Population Census	Federal statistics service	Satisfactory	Available

*Source: Olga Chudinovskikh, Moscow State Lomonosov University, "Migration Statistics in Russian Federation: basic problems and possible solutions," PowerPoint presentation at UNECE/UNFPA/NIDI Workshop on Migration Statistics, January 24-28, 2005, available at [www.unece.org/stats/documents/2005/01/migration/5.e.ppt](http://www.unece.org/stats/documents/2005/01/migration/5.e.ppt). Accessed October 9, 2009.*

Dr. Olga Chudinovskikh of the Laboratory of Population Economics and Demography at Moscow State (M.V. Lomonosov) University identifies 11 separate sources of statistical information currently being compiled by Moscow that relate to migration in and out of Russia, outlined in Table 1. A multiplicity—indeed a far-flung and not entirely coordinated multiplicity—of organs, agencies and ministries are responsible for contributing to the country’s statistical tableau on cross-border population movements. In addition to the Federal Statistical Service (Goskomstat) and the Federal Migration Service (a branch of the “Ministry of Home Affairs”, or Interior Ministry), the generation of official Russian data on international migration involves the Ministry of Science Education, the Ministry of Taxes, the Ministry of Foreign Affairs, and even the FSB (the successor to the KGB).

To make matters worse, the numbers gathered for many of these data-series still lack the most basic degrees of methodological transparency. This is true of visa statistics, border control statistics, residence permit statistics, migration card statistics, and tax data. For better or worse, however, these methodological issues do not immediately pose problems for our research, since the information collected for those purposes are not available in any case to the general public.

Of the remaining sources of data on Russian migration, two of the most important, publicly available series are deemed to be of poor quality and reliability. These include the oft-cited figures on international migration from the Interior Ministry and Goskomstat, and the Interior Ministry’s data on work permits for foreigners in Russia and Russians overseas. (An additional source of once-relatively reliable information—Interior Ministry data on permits for residence—reportedly stopped being processed in 2002.)

This leaves just three data sources that are both publicly available, and, in Chudinovskikh’s judgment, of satisfactory reliability: data on refugees and asylum-seekers; data on foreign students; and census-based migration data (such as the stock of foreign born-born population living in Russia at the time of the national population count). Yet even here, as we will see with the census data on migration, some big questions about accuracy can be raised, without any entirely satisfactory answers.

It seems fair to say that the available data on immigration and emigration for the Russian Federation are highly problematic: incomplete, irregular, and riddled with contradictions and inconsistencies. While this may be disappointing, it should not be surprising. For today’s modern societies with relatively sound vital registration systems, migration data are invariably the weakest link in the overall system of demographic statistics. In their manifest shortcomings and limitations, furthermore, we may note that Russia’s migration data look more or less similar to the current figures on immigration being compiled in the rest of Europe and the non-European OECD countries.

This brief review of the availability and reliability of international migration data for the Russian Federation should underscore two points for us. First, we cannot simply take Russia’s migration data as “given”: they require more careful scrutiny than the birth and death numbers we have mainly used up to this juncture. Second: Shortcomings of Russia’s migration data has likely resulted in underestimate of net immigration into the Russian Federation due to

unauthorized and undocumented immigration—as is the case for the United States and the European Union.

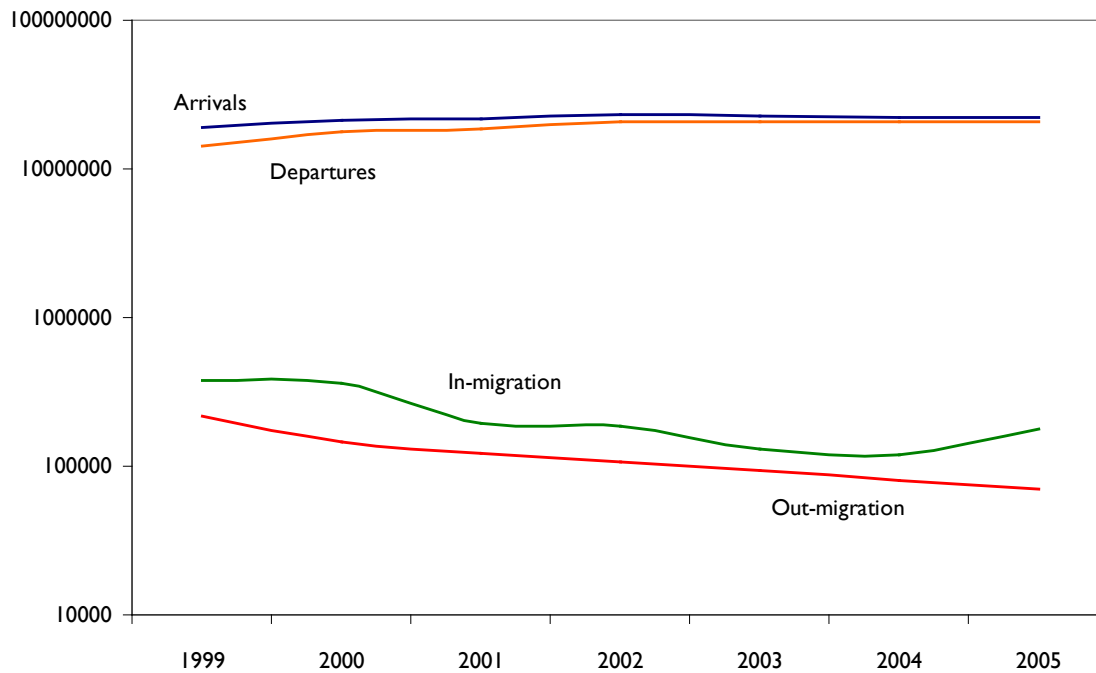
Perhaps paradoxically, even as the official statistics for the post-Communist era were registering an ostensible slump in gross migration for the Russian Federation by comparison to the Soviet era, other official statistics were depicting a boom in international travel across Russia's borders (as Figure 17 indicates). In the year 2005, Goskomstat/Rosstat identified a total of just 177,000 immigrants relocating into Russia—but it recorded over 22 million entries into the country by international travelers.<sup>98</sup> Furthermore, between 1993 and 2005, whereas officially registered immigration flows into Russia plunged by over 80 percent, reported cross-border travel into Russia jumped nearly fourfold. Clearly and incontrovertibly, vastly more people are traveling into—and out of—the Russian Federation nowadays than in Soviet times.<sup>99</sup> When over one hundred times as many entrants as immigrants are being tabulated in by official authorities each year, the scope and scale for the potential under-reporting of both immigration and net migration should be immediately apparent.

---

<sup>98</sup> United Nations, *Statistical Yearbook 2007*, (New York: United Nations, 2008), Table 61, p. 656.

<sup>99</sup> Data from the United Nations *Statistical Yearbook* make the point. In 1976, international tourist entries into the USSR were reported to total under 3.9 million; the number of visitors overseas from the USSR was said just barely to exceed 2 million (and almost all of this to “fraternal” Warsaw Pact countries). These figures, recall, encompassed international travel to and from all of the Soviet Union—not just Russia. (United Nations, *Statistical Yearbook 1977*, (New York: UN, 1978), Table 164) By way of comparison: in 2002, over 20 million arrivals and departures from the Russian Federation were being officially processed each year. (Olga Chudinovskikh, Moscow State Lomonosov University, “Migration Statistics in Russian Federation: basic problems and possible solutions,” PowerPoint presentation at UNECE/UNFPA/NIDI Workshop on Migration Statistics, January 24-28, 2005, available at [www.unece.org/stats/documents/2005/01/migration/5.e.ppt](http://www.unece.org/stats/documents/2005/01/migration/5.e.ppt). Accessed October 9, 2009)

Figure 17: Reported Arrivals and Departures; and Reported In-migration and Out-migration in Russia, 1999-2005

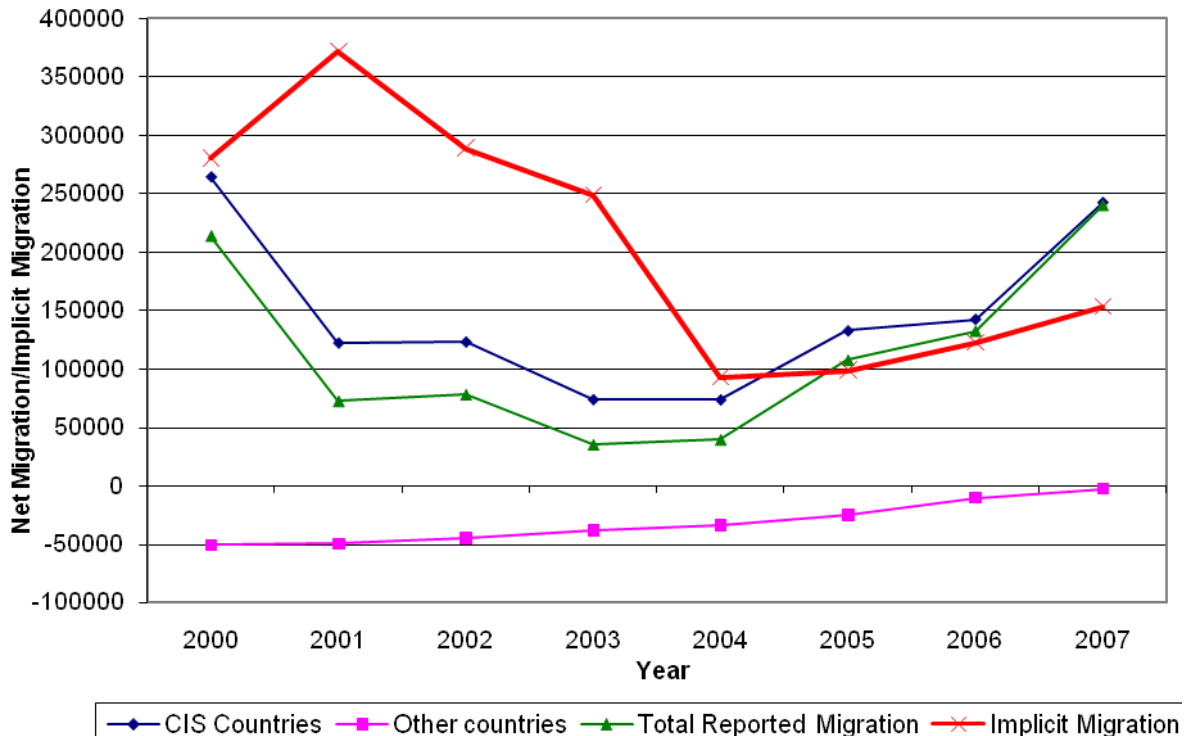


Sour

ces: Olga Chudinovskikh, Moscow State Lomonosov University, “Statistics of International Migration in the CIS Countries.” PowerPoint presentation at United Nations Expert Group Meeting on Measuring International Migration: Concepts and Methods, December 4-7, 2006, New York United Nations Department of Economic and Social Affairs - Statistics Division, DESA, available at <http://unstats.un.org/unsd/Demographic/meetings/egm/migrationegm06/DOC%206%20Moscow%20Univ%20CIS%20STATISTICS%20OF%20INTERNATIONAL%20MIGRATION%2003.ppt>. Accessed October 9, 2009. and Olga Chudinovskikh, Moscow State Lomonosov University, “Migration Statistics in Russian Federation: basic problems and possible solutions,” PowerPoint presentation at UNECE/UNFPA/NIDI Workshop on Migration Statistics, January 24-28, 2005, available at [www.unece.org/stats/documents/2005/01/migration/5.e.ppt](http://www.unece.org/stats/documents/2005/01/migration/5.e.ppt). Accessed October 9, 2009. “Net surviving migrants”: an estimate of international migration flows based on official Russian data

It may be useful to offer one additional estimate of migration flows in the hope of diminishing rather than adding to the uncertainties confronting the reader. This metric we might term “net surviving migrants.”

Figure 18: Net reported migration to Russia vs. “Implicit Migration”, 2000-2007



Source: The Demographic Yearbook of Russia: 2007 Statistical Handbook, State Committee of the Russian Federation on Statistics (Goskomstat of Russia), Moscow, 2007, Tables 1.3, 7.1, and 7.4, 2007 migration data from Goskomstat website, table 5.9, available at [http://www.gks.ru/bgd/regl/b08\\_12/IssWWW.exe/stg/d01/05-09.htm](http://www.gks.ru/bgd/regl/b08_12/IssWWW.exe/stg/d01/05-09.htm)

Since we have detailed estimates of Russian population for key dates (the 1989 and 2002 censuses), additional official estimates of population structure for other useful dates (e.g., January 1, 2007, the most recent date for which an officially estimated age-sex breakdown of the Russian population that concords with available mortality data), fairly accurate birth totals from 1989 onward, and carefully estimated age-specific Russian death rates by year for 1989 through 2006 (available from the Human Mortality Database), we can calculate the expected number of survivors of the 1989 census by age and sex for future years, under the assumption of zero migration. We can then subtract those totals from Russia’s actually enumerated or actually estimated population totals by age and sex in subsequent years. Finally, for those born after the 1989 census, we use official annual birth data from 1989 onward and annual mortality schedules from HMD to complete the overall calculation of the Russian Federation’s “net surviving migrant” population for the 1989-2006 period.

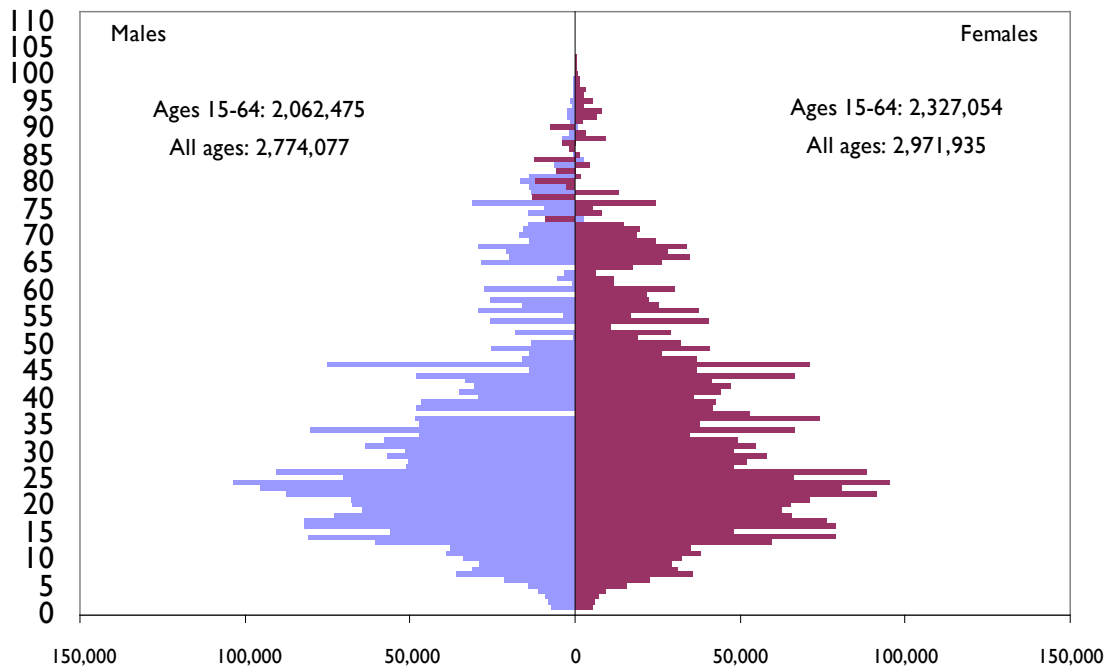
This metric, of course, does not quite provide an estimate for the post-Communist period per se, since we are obliged, by dint of data limitations, to use the 1989 census year as the starting point for our calculations, rather than the actual end of the Soviet era (late December 1991). Our calculations are perforce for the period 1989-2006: and as such, these figures must be used with the understanding that they offer a necessarily imperfect first approximation of the



actual but unobserved trends during the first decade and a half of Russia's post-Communist experience (1992-2006). This metric, furthermore, cannot measure or proxy *total* net migration flows for the period under consideration. Our method can only estimate the number of *survivors* from the post-1989 migration flows as of the beginning of 2007. The period under consideration spans 18 calendar years: inevitably, some (perhaps considerable) proportion of the contingent of migrants over who had arrived in Russia during those years would be expected to die of accidents or natural causes before its end. Our metric will necessarily understate overall net migration flows into Russia in direct proportion to the pertinent survival schedules for these newcomers. What this metric will offer, quite simply, is a reading of the role migration has played since 1989 in compensating for Russia's domestically-generated depopulation trends.

The results of our calculations are presented in Figure 19. As of the start of 2007, the Russian Federation's estimated population was about 5.7 million higher than would have been the case if the country had experienced its selfsame mortality patterns from 1989 through 2006, but in the absence of all international migration.

Figure 19: Indicative Net Immigration, by age and sex, Russia, January 1, 2007  
 (“Estimated Net Surviving Migrants”)

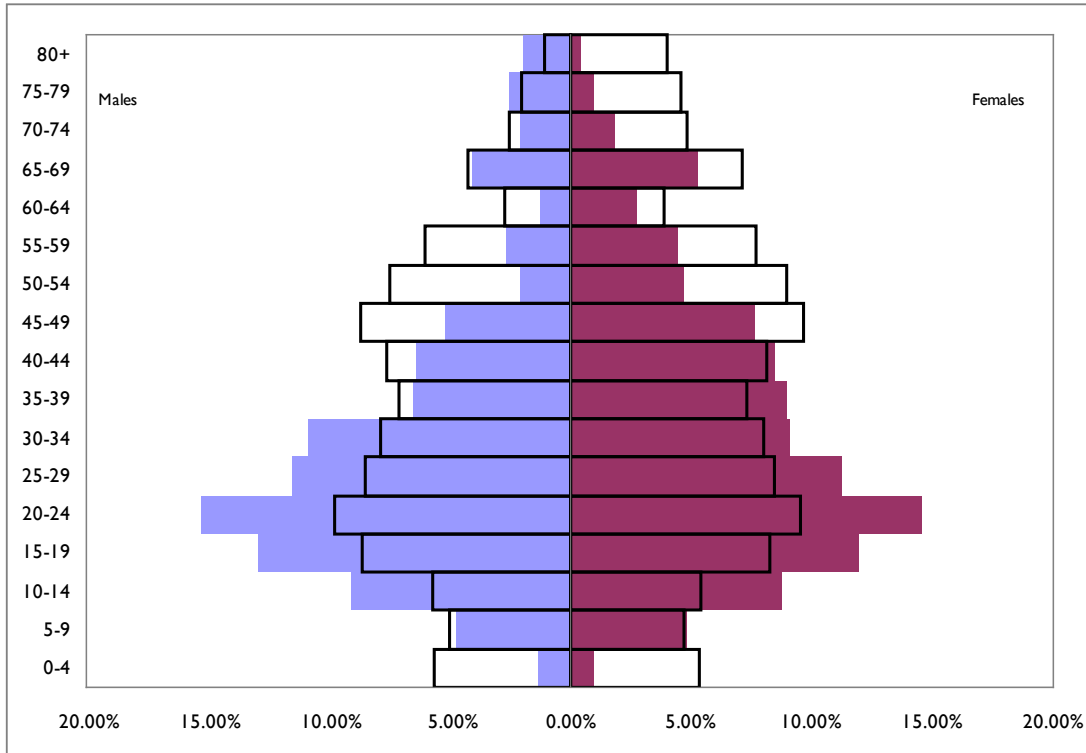


Total ages 15-64: 4,389,529; All Ages: 5,746,413

Source: Human Mortality Database. University of California, Berkeley and Max Planck Institute for Demographic Research. Available at [www.mortality.org](http://www.mortality.org), accessed on April 30, 2009; The Demographic Yearbook of Russia: 2007 Statistical Handbook, State Committee of the Russian Federation on Statistics (Goskomstat of Russia), Moscow.

Our estimated “net surviving migrant” population is mainly (52 percent) female, while Russia overall population was 54 percent female at the beginning of 2007. Thus our estimated net migrant population is slightly more male than is Russia overall. At first glance, that sort of discrepancy might appear mildly consistent with what we would expect to find if economic factors were important in shaping the migration into Russia. Under an “economic paradigm of migration”, furthermore, we would further expect migrants of working age to account for a disproportionate share of our estimated population grouping—and for people of younger working ages to be especially heavily represented. Sure enough: where just 63 percent of Russia’s overall population in 2007 fell within in the country’s official working age cohorts (16 through 59 for men, 15 through 54 for women), over 70 percent of the “net surviving migrants” came from these same age groups. By the same token: where men and women in their Twenties and Thirties accounted for 31 percent of the Russian Federation’s overall population at the beginning of 2007, they made up over 42 percent of our “net surviving migrant population.”

Figure 20: Age Distribution of Estimated “Net Surviving Migrant” Population vs. Total Population (black outline): Russian Federation, January 1 2007



Source: Human Mortality Database. University of California, Berkeley and Max Planck Institute for Demographic Research. Available at [www.mortality.org](http://www.mortality.org), accessed on April 30, 2009; The Demographic Yearbook of Russia: 2007 Statistical Handbook, State Committee of the Russian Federation on Statistics (Goskomstat of Russia), Moscow.

Our estimated population, in sum, generally exhibits an entirely plausible structure and composition for a migrant population in which economic factors had helped affect the decision to move to a new country.<sup>100</sup> To be sure: some of the migration flow into Russia in

<sup>100</sup> We say this while noting that our calculations do betray a few curious quirks and anomalies—especially for the extremely elderly age groups (persons in their Eighties and Nineties, and older). Our method suggests that an entirely disproportionate share of Russia’s elderly population would be due to net migration including over half of Russia’s Centenarians! We discount these results, and attribute them to the technical issues entailed in the accurate count of the extreme-elder population by year of age, and in the accurate estimation of survival schedules for these same groups. In any event, these quirks do not have an appreciable bearing on our overall estimates of net surviving migrant population, insofar as the 80-plus grouping makes up only a little more than 1 percent of this total estimated population.

Our method also suggests that a strikingly high proportion of the Russian Federation’s teens (13-18 years of age) would have been comprised of migrants as of New Year’s Day 2007. We regard this result as curious, and somewhat suspicious. Working age in Russia is officially designated as 16: thus an influx of would-be laborers in their late teens would not seem *prima facie* outlandish. But there is less of an obvious explanation for why the country’s 13-15 age group should seem, in our calculations, to be comprised of youthful immigrants from other countries. It is possible that inconsistencies or inaccuracies in the Goskomstat intercensal estimates of the *residential* population of the Russian Federation may account for some of this seeming overrepresentation of foreign youth in our estimates.

the initial years after the breakup of the Soviet Union has been classified as “forced migration.” Under non-catastrophic circumstances, such migrant flows would be expected to mirror the overall demographic structure of the populations from which they were drawn. Russia’s net surviving migrant population of course includes, and represents those who were subject to such “forced migration”—but the overall contours of the net surviving migrant population suggest that economic influences were the more powerful determinant of migration into Russia during the post-Communist era.<sup>101</sup>

Our indicative estimates of “net surviving migrant population” for the period 1989-2006 suggest that migration has played an important role in cushioning population decline in the Russian Federation, and that it has played an even greater role in slowing the drop of Russia’s working age population. Between the Census of 1989 and the start of 2007, according to Goskomstat figures, Russia’s population declined by about 4.8 million, falling from 147.0 million to 142.2 million. Absent the next influx depicted in Figures 4-4 through 4-6, we would expect Russia’s population to have dropped by well over 10 million by the start of 2007, or by more than twice that much. Put another way: by these calculations, migration looks to have compensated for a bit more than half of the population decline Russia would otherwise have experienced.

The demographic contribution of migration to Russia’s potential workforce is equally apparent. Officially, the Russian government defines its population “of working ages” to comprise men 16-59 and women 16-54. By that definition, between the 1989 census and New Years Day 2007, Russia’s official “working age population” actually increased in size, from 83.7 million to 90.1 million. Nearly two thirds of this increment—4.1 million out of 6.4 million—would have explained by estimated net immigration.

If we consider instead the definition of working age population conventionally used by demographers and others internationally—that is, ages 15 through 64 for men and women alike—an even starker picture would emerge. By that taxonomy, Russia’s population of working ages would have increased by just 2.6 million: from 98.8 million in 1989 to 101.4 at the start of 2007. But our estimated net surviving migrant population made up 4.4 million members of Russia’s conventionally construed population of working ages at the beginning of 2007. For this more broadly defined working-age population, in other words, migration was what made the difference between modest growth and what otherwise would have been absolute decline.

Not least important, migration apparently played a significant role in augmenting the ranks of Russia’s younger labor force. In the event, net migration could not forestall the decline of Russia’s cohorts Twenty-Somethings and Thirty-Somethings, which shrunk between 1989

---

Presumably we will have a better basis for estimating ‘net surviving migrant’ population after the next RF census is completed, and its returns released.

<sup>101</sup> Note in addition that our calculations present an estimated net surviving population by year of age *at the end* of the 18-year period under consideration—a framework that tends to bias the measured age of the indicated population upward, certainly by comparison with the notional *age at immigration*. Despite these inherent methodological biases, median age for our net surviving migrant population as of Jan 1 2007 was under 30 years—as against the U.S. Census Bureau’s estimate of 38.5 years for the Russian Federation population at mid-2007.

and 2007 by over 3 million (from 46.9 million to 43.8 million). Without the net immigration Russia experienced after 1989, however, the country's pool of population between the ages of 20 and 40 would have fallen by almost another 2.4 million (that is, from 46.9 million to 41.4 million).

By our calculations, the net influx of migrants after 1989 accounted for about 4 percent of the officially estimated Russian Federation population as of Jan 1 2007—an addition equivalent to every twenty fifth person in the country. For the population “of working ages” (as Moscow defines it), such net migrant flows would have increased the prospective demographic pool by 4.8 percent—equivalent to every twenty second prospective worker in these age groups. And for Russia's young men and women in the Twenties and Thirties, the net migration after 1989 accounted for about 5.6 percent—an addition equivalent to every eighteenth person in this grouping.

By these estimates, we may glean some sense of the demographic—and by extension, the economic—contribution of net migration flows to post-Communist Russia. And of course, these estimated figures tend to understate those contributions, rather than exaggerating them. For one thing, the computations depend upon official Russian estimates of the country's population in 2007: to the extent that illegal or undocumented entrants and others are underestimated, our estimates of the impact of net migration will correspondingly fall short of reality. Moreover, we are attempting to describe the significance of net flows—not gross flows, much less stocks. We know that many millions of people chose to leave Russia after the end of Soviet rule. Evidently, immigration flows were more than adequate to compensate numerically for the throngs of Russian citizens who seized the opportunity to move abroad once this freedom was generally available.

#### *“Replacement Migration” for the Russian Federation?*

Cross-border population movements have played an appreciable—and appreciably positive—role in Russia's post-Communist development: they may in fact be regarded as one of the brightest spots in the country's generally gloomy overall demographic tableau. But the migration picture for Russia is not without its complications. Possibly the most central of these concerns are the matters of ethnicity and assimilation in this multi-ethnic European state. Russia is by no means the only European state to face such questions, of course: but it is certainly one of the places where these issues are most acute.

The Russian Federation's constitution guarantees its citizens “fundamental rights and freedoms according to the universally recognized norms and principles of international law”, and further specifies that

the equality of rights and freedoms [...shall be guaranteed regardless of...] race, nationality, language, origin,...religion...and also of other circumstances. All forms of limitations of human rights on social, racial, national, linguistic or religious grounds shall be banned.<sup>102</sup>

---

<sup>102</sup> The Constitution of the Russian Federation (1993), Articles 17-1 and 19-2; available electronically at <http://www.constitution.ru/en/10003000-01.htm>; accessed May 21, 2009.

But of course the Russian Federation is also in essence a *Russian* multiethnic state. Its political tradition is decisively Russian. The country's culture is profoundly (albeit not exclusively) Russian. Its *lingua franca* is most assuredly Russian: the Russian Constitution, in fact, establishes it as "the state language of the Russian Federation across its territory" (Article 68). According to respondents to the 2002 census, furthermore, over 98 percent of the RF's population report they "freely command" the Russian language, with over 92 percent of the country's non-Russian population affirming the same.<sup>103</sup> (Compare these proportions to the United States, where, according to the 2000 Census, over 8 percent of the population 5 years of age and older spoke English less than "very well", and over 4 percent spoke English "not well" or "not at all."<sup>104</sup>) And the overwhelming majority of its people—just fewer than 80 percent, as of the 2002 census—identify themselves Russian in nationality. Might continuing immigration change the Russian Federation's ethnic composition—or change Russia's social fabric in other, potentially far-reaching, ways?

For Russian migration to comport with the country's current ethnic proportions on into the future, continuing inflows of Russian population from the other post-Soviet states—"the near abroad"—would look to be a prerequisite. But just how large are these potential reserves of prospective Russians? Figure 21 is indicative. As of the 1989 Soviet census, about 25 million ethnic Russian were enumerated within the USSR but beyond the borders of the Russian Federation. That number has taken on an almost talismanic aura in certain circles within Russia, and the figure is often invoked in domestic political discourse, even at the highest levels.<sup>105</sup> But it is already overtaken by events.

As of roughly the dawn of the new century, the total number of ethnic Russians enumerated in the "near abroad" was not 25 million, but instead fewer than 18 million. The steep decline in the size of the Russian diaspora—roughly 30 percent in more or less a decade—can be explained by a number of factors. Something like three-plus million Russians, for example, may have already moved from the near-abroad to the Russian Federation. Some proportion of these overseas Russians may have changed their own "ethnic self-identification," given new post-Soviet realities in the lands they make their home. In addition, the Russian population in the rest of the NIS states is likely beset by the same sorts of demographic trends that characterize Russians within the RF: that is to say, sub-replacement fertility, serious excess mortality, and population decline due to negative natural increase. We should expect the Russian diaspora to continue to shrink in the years ahead.

---

<sup>103</sup> Cf. Valery V. Syepanov, "The 2002 Census: Approaches to Measuring Identity", Paper presented at "Association for the Study of Nationalities Convention", Columbia University, New York, USA, April 13, 2002, available electronically at [http://www.iea.ras.ru/topic/census/discuss/stepanov\\_paper2002.doc](http://www.iea.ras.ru/topic/census/discuss/stepanov_paper2002.doc);

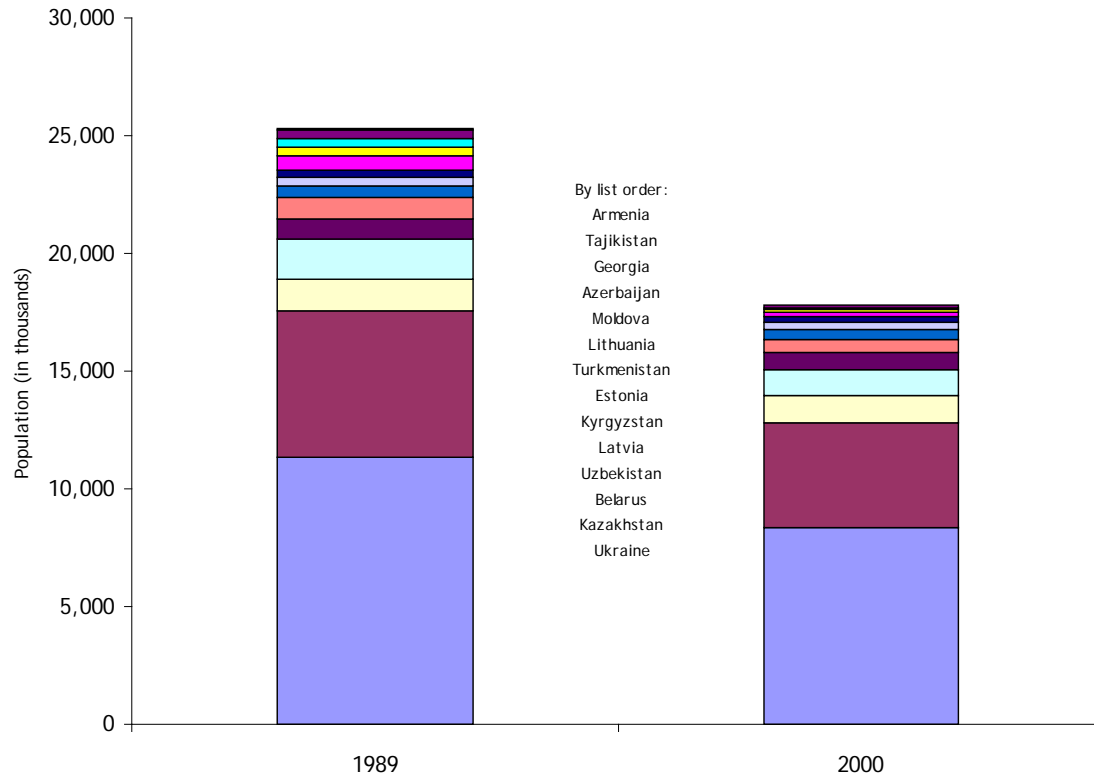
Figures from the RF 2002 Census derived from Tables 4-1 and 4-3 of Goskmostat 2002 Russian Federation Census website, available electronically at <http://www.perepis2002.ru/index.html?id=87>.

<sup>104</sup> Hyon B. Shin and Rosalind Bruno, "Language Use and English-Speaking Ability: 2000", *Census 2000 Brief C2KBR-29*, (Washington, DC: U.S. Bureau of the Census, October 2003), available electronically at

<http://www.census.gov/prod/2003pubs/c2kbr-29.pdf> .

<sup>105</sup> Thus Russian Communist Party chieftain Gennady Zuganov in September 2006: "Russia cannot go on subordinating...the interests of 25 million Russians who...have found themselves outside their Motherland." "Time to Change Course", Communist Party of the Russian Federation, September 4, 2006, available electronically at [http://www.solidnet.org/cgi-bin/lpr?parties/0640=russia,communist\\_party\\_of\\_russian\\_federation/943kkro5sep06.doc](http://www.solidnet.org/cgi-bin/lpr?parties/0640=russia,communist_party_of_russian_federation/943kkro5sep06.doc) .

Figure 21: Self-Identified “Russian” Population in CIS and Baltic States, 1989 and 2000



Source: 1989 data: Timothy Heleniak, “Migration of the Russian Diaspora After the Breakup of the Soviet Union” *Journal of International Affairs*, Spring 2004, vol. 57, no. 2. Page 109, Table 2. 2000 data: Alexandr A. Grebenyuk and Elena E. Pismennaya, “Immigration of Compatriots to Russia: Potential and State Policy,” Paper presented at European Population Conference 2008, July 9-12, 2008, Barcelona, Spain, available at <http://epc2008.princeton.edu/download.aspx?submissionId=80209>.  
 Note: Some data for 2000 is from census closest to year 2000.

Even if that diaspora were today somehow to resettle in the Russian Federation, this influx would not, under the aforementioned UNPD “replacement migration” scenarios, be sufficient to keep either Russia’s total population or her working age population groups from sinking below their 1995 levels by the year 2050. But there is no reason, in any case, to expect renewed Russian in-migration to the Russian Federation (barring truly catastrophic upheavals in the “near abroad”). For the most part, the Russian populations in the “near abroad” appear to be tolerably well situated, generally enjoying, as the University of Maryland’s Timothy Heleniak has observed, “superior social and economic status vis-à-vis the titular groups in the non-Russian [CIS] states.”<sup>106</sup> And most of the Russian diaspora has reason to regard these NIS states as their home: notes Heleniak, “a majority of the Russians in non-Russian states

<sup>106</sup> Timothy Heleniak, “Migration of the Russian Diaspora After the Breakup of the Soviet Union”, *Journal of International Affairs*, vol. 57, no. 2 (Spring 2004), pp. 99-117, cite at 107.

were born in the republic they resided in [with] 43.5 percent...liv[ing] there uninterruptedly since birth, and ...22.8 percent [of the rest living] there 20 years or more.”<sup>107</sup>

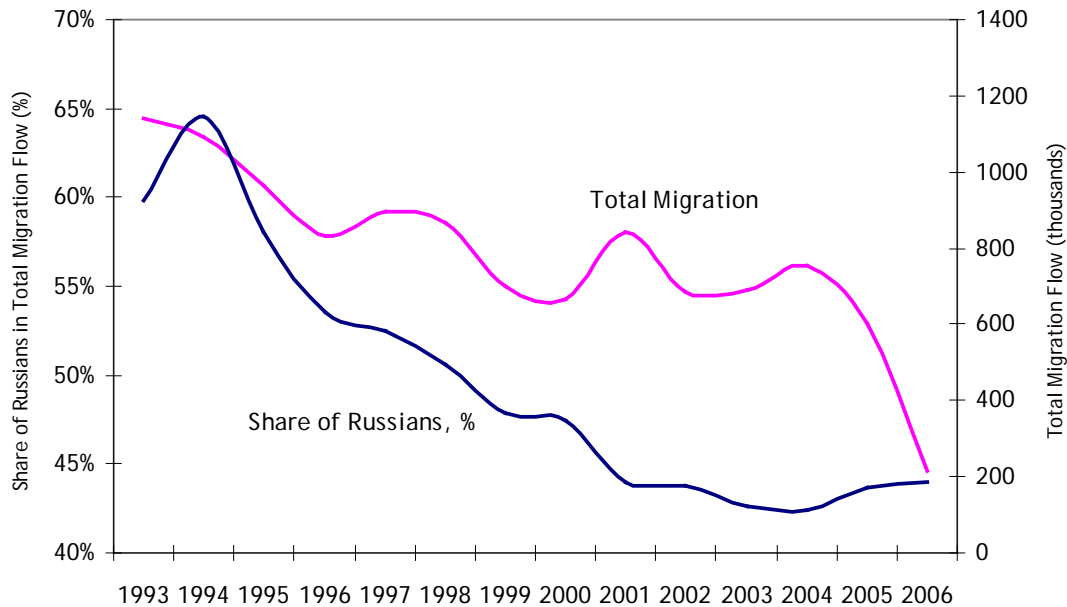
Under the circumstances, it should not surprise that the migration of self-identified Russians into the Russian Federation has reportedly attenuated over the past decade—Russia’s concomitant economic upsurge notwithstanding. According to official migration statistics, by comparison with the 1990s, the absolute inflow of Russian ethnic migrants fell sharply during the boom years of 2000-2006, averaging just under 100,000 a year as against a reported 433,000 per annum for the previous seven years. By the same token, the share of Russians within overall Russian Federation immigration stream has been on the decline, according to the official data Whereas Russian ethnics reportedly comprised 61 percent of the country’s documented immigrant in the 1993-99 period, this was down to 58 percent for 2000-06—and to just 45 percent for the latest year available (2006).

---

<sup>107</sup> Ibid., p. 106.



Figure 22: Reported Volume and Ethnic Composition of Immigration from CIS and Baltic States to Russia, 1993-2006



Source: Alexandr A. Grebenyuk and Elena E. Pismennaya, “Immigration of Compatriots to Russia: Potential and State Policy,” Paper presented at European Population Conference 2008, July 9-12, 2008, Barcelona, Spain, available at <http://epc2008.princeton.edu/download.aspx?submissionId=80209>.

#### *Migration and the “Muslim” population of Russia*

Even by official statistics, Russia’s migration flows look to be altering the country’s ethnic complexion. If we had truly accurate information on cross-border movements of population, the changes in trends for the Russian Federation would surely appear all the more pronounced. By definition, undocumented immigrants to the Russian Federation (whether temporary-stay workers or permanent residents) go uncounted in these official tallies. Obviously, there is reason to expect such newcomers to be overwhelmingly non-Russian—and, further, to emanate from the poorest reaches of the former Soviet Union.

There is nothing mysterious, or sinister, about this observation: to the contrary, it only points to obvious realities affirmed by the broader economic logic of global migration pathways. Simply stated, economic migrant tend to be attracted by the pull of higher wages—*ceteris paribus*, meaning that workers from countries with lower income levels tend to find countries with higher income levels more desirable destinations for employment, and to factor such income gaps into their decisions about whether or not to take the risk of moving to another country in search of work.

Problematic as Russia’s migration data may be, the patterns they reveal are unmistakable. Quite clearly, RF citizens have tended to emigrate to countries with higher income levels than

Russia's own (America, Germany, Israel) while Russia has absorbed influxes from poorer countries on its own periphery. The Baltic States, for instance, are more affluent than Russia<sup>108</sup>—and there has been relatively little migration from them to Russia, even by Russian ethnics. Moreover, within the former Soviet Union remittances account for a steadily decreasing share of national income as per capita income levels rise—or to put it the other way around, the poorer the country, the higher the share of remittances in its gross national income. Most of the poorest people in the former Soviet space live in Central Asia, where estimated per capita income levels range from a high of about 68 percent of Russia's in Kazakhstan down to 21 percent in Kyrgyzstan and Uzbekistan and to a mere 12 percent in Tajikistan.<sup>109</sup> Culturally and historically, these are societies of Muslim heritage. For reasons historic and political as well as economic, the Russian Federation is the most likely destination for would-be guest workers from these places. Thus for Russia, the migration question ineluctably bears on the Muslim question.

How large actually is the Russian Federation's Muslim population? Within Russia and overseas, a wide range of numbers is currently used by seemingly authoritative sources to answer this question. At this writing, for example, the Russian Embassy in Washington reports that the Russian Federation's Muslim population is 19 million.<sup>110</sup> Former President Putin, on the other hand, spoke in 2003 of the "almost 20 million Muslims" living in Russia.<sup>111</sup> In 2005, the chairman of the Council of Muftis in Russia stated the population of the Russian Federation included 23 million Muslims who were "indigenous residents of our country, not migrants or immigrants, ... living here from time immemorial."<sup>112</sup> Henry Kissinger, for his part, wrote in 2008 of "Russia's 25 million Muslims."<sup>113</sup> Taking such numbers even further, an extrapolating on what are said to be the very rapid growth rates of Russia's "Muslim" population, a number of commentators both in Russia and abroad today prophesy that the Russian Federation will be a "Muslim majority" country by 2050.<sup>114</sup>

---

<sup>108</sup> By the World Bank's reckoning, PPP-adjusted GDP per capita in 2007 was 17% higher than in Latvia than in Russia; 22% higher in Lithuania; and 39% higher in Estonia. *WDI Online, loc. Cit.*

<sup>109</sup> Ali Mansoor and Bryce Quillin, eds., *Migration and Remittances: Eastern Europe and The Former Soviet Union*, (Washington, DC: World Bank, 2007), Table 1.1.5, p. 121, available electronically at [http://siteresources.worldbank.org/INTECA/Resources/257896-1167856389505/Migration\\_FullReport.pdf](http://siteresources.worldbank.org/INTECA/Resources/257896-1167856389505/Migration_FullReport.pdf)

Estimates are PPP-adjusted, for the period 2000/02.

<sup>110</sup> "Religion in Russia" (no date), available on the Russian Embassy (USA) website at <http://www.russianembassy.org/RUSSIA/religion.htm>; accessed May 31, 2009.

<sup>111</sup> Russian Federation Ministry of Foreign Affairs, "Speech by Russian President Vladimir Putin at Meeting with Spiritual Leaders of the Chechen Republic, the Kremlin, Moscow, March 17, 2003", March 18, 2003, available electronically at

<http://www.ln.mid.ru/bl.nsf/900b2c3ac91734634325698f002d9dcf/d3ddcba4868ac61d43256ced005b0d50?OpenDocument>.

<sup>112</sup> Comment by Ravil Gaynutdin, quoted in Jeremy Page, "The rise of Russian Muslims worries Orthodox Church", *The Times of London*, August 5, 2005, available electronically at <http://www.timesonline.co.uk/tol/news/world/article551693.ece>.

<sup>113</sup> Henry A. Kissinger, "Finding Common Ground with Russia", *Washington Post*, July 8, 2008; available electronically at <http://www.washingtonpost.com/wp-dyn/content/article/2008/07/07/AR2008070702218.html>

<sup>114</sup> See, for example, Paul Goble, "Window on Eurasia: What Kind of Muslim Country Will Russia Become?" Window On Eurasia Website, March 26, 2007, available electronically at <http://windowoneurasia.blogspot.com/2007/03/window-on-eurasia-what-kind-of-muslim.html>; Daniel Pipes, "Predicting a Majority-Muslim Russia", Daniel Pipes Blog, August 5 2005, updated February 7,

Despite their diversity, there is a striking commonality of to all these assessments: none of them seems to rely upon available empirical evidence. Moscow’s “Muslim” population does indeed number in the millions—but the notion of 20 million, much less 25 million, adherents to Islam in Russia today is by all indications utterly fanciful.

In point of fact, Goskomstat/Rosstat does not actually collect information on the religious affiliation of the country’s population. (There is nothing unusual about this: the US government and many Western European governments do not collect data on religious adherence.) Thus any data-based estimate of Russia’s “Muslim” population must be limited to examination of population totals for Russia’s ethnic groups (“nationalities”) with a Muslim cultural heritage or historical background.

The University of Maryland’s Timothy Heleniak provides just such an analysis of the Russian Federation’s censuses for 2002 and 1989. Heleniak identified 56 historically Muslim ethnic groups in the official Russian census tabulations and tracked their population totals. He concluded that Russia’s nationalities of Muslim heritage accounted for 14.7 million people in Russia in 2002—just over 10 percent of the country’s total population that year.

---

2009; available electronically at <http://www.danielpipes.org/blog/2005/08/predicting-a-majority-muslim-russia.html> . (Note Goble and Pipes are reporting analyses by others, rather than offering such predictions themselves.)

Table 2: Traditionally Muslim Ethnicities in Russia  
as enumerated in 1989 Census and 2002 Census

Ethnic group	Population, 1989	Population, 2002	Change, 1989–2002
Tatars	5,543,371	5,554,601	11,230
Bashkirs	1,345,273	1,673,389	328,116
Chechens	898,999	1,360,253	461,254
Kazakhs	635,865	653,962	18,097
Avars	544,016	814,473	270,457
Kabards	386,055	519,958	133,903
Dargins	353,348	510,156	156,808
Azeri	335,889	621,840	285,951
Kumyks	277,163	422,409	145,246
Lezghins	257,270	411,535	154,265
Ingush	215,068	413,016	197,948
Karachay	150,332	192,182	41,850
Uzbeks	126,899	122,916	-3,983
Adygey	122,908	128,528	5,620
Laks	106,245	156,545	50,300
Balkars	78,341	108,426	30,085
Circassians	50,764	60,517	9,753
Kyrgyz	41,734	31,808	-9,926
Turkmen	39,739	33,053	-6,686
Tajiks	38,208	120,136	81,928
Abaza	32,983	37,942	4,959
Turks	9,890	92,415	82,525
Kurds	4,724	19,607	14,883
Arabs	2,704	10,630	7,926
Afghans <sup>a</sup>	858	n.a. <sup>c</sup>	n.a.
Other known ethnic Muslim groups	0	669,128	669,128
Other <sup>b</sup>	1,926,649	42,980	-1,883,669
<b>Total ethnic Muslim population</b>	<b>11,598,646</b>	<b>14,739,425</b>	<b>3,140,779</b>

<sup>a</sup>Ethnic Afghans were identified under a number of different ethnic groups (Pushtun, Tadjik, Uzbek, etc.) in 2002.

<sup>b</sup>Ethnicity not known or not listed. Population data are available for a much greater number of ethnic groups in the 2002 than in the 1989 census. Due to the limited specificity of published data on ethnicity, the “other” group may include a substantial number of ethnic Muslims.

<sup>c</sup>n.a. = not applicable.

Sources: Compiled from Goskomstat SSSR, 1990 and Goskomstat Rossii, 2004.

Source: Timothy Heleniak, “Regional Distribution of the Muslim Population of Russia,” *Eurasian Geography and Economics*, 2006, 47, No. 4, pp. 426-448, reproduced from Table 3.

Heleniak urged caution in interpreting the data in Table 2. For one thing, he warned, not all of the members of these “historically Muslim” ethnic groups still regard themselves as Muslim nowadays (to say nothing of actually practicing Islam<sup>115</sup>). Thus, these numbers on Russia’s

<sup>115</sup> Thus Mikhail Alexseev of San Diego State University:

According to surveys I conducted in Russia in 2005-2007, most Muslims do not regularly attend mosque, but the level of attendance varies by ethnic group. Almost 66 percent of Tatar Muslims in Tatarstan, 80 percent of Adyghes in Adyghea, 74 percent of Kazakhs in the Volgograd region, and 74 percent of Azerbaijanis in Dagestan said they did not attend mosque at all in the previous six months. Of the remainder, the majority attended a mosque or house of prayer fewer than three times in that same half-year period. Respondents were asked not to count attendance of predominantly ethnic ceremonies such as weddings, funerals, or baptisms.

“Muslim” population probably offer a maximum upward boundary on the absolute and relative size of Russia’s true Muslim population as of the time of the 2002 RF census. Second, the data from the 1989 and 2002 censuses ostensibly suggest a rise in Russia’s “Muslim” population of about 26 percent over just 13 years: an implied rate of growth of about 1.8 percent a year in a country experiencing depopulation. But a considerable portion of this increase may well have been artifactual rather than real. At issue here are differences between the Soviet-era population count of 1989 and the enumeration in 2002. In the post-Soviet environment, the phenomenon of “ethnic re-identification” was likely occurring—and it may have been especially pronounced among some of the historically “Muslim” nationalities in Russia, who had judged it disadvantageous under the old regime to represent their ethnicity accurately. (Unfortunately, though, the actual scale of such changes in reported ethnic affiliation over Russia’s inter-censal period is impossible to determine.)

With these caveats, we can attempt to place Russia’s “Muslim” population situation in a European perspective. For most of the rest of Europe, estimates of local “Muslim” populations are no less problematic than Russia’s own. That being said, available information would seem to suggest that, at the dawn of the Twenty First Century, Russia’s fraction of “Muslim” population was distinctly higher than for any country in Western Europe (rather higher, it would seem, than even in France, the Western European society with the highest concentration of people from “Muslim” cultural backgrounds). Indeed: to go by these numbers, more “Muslims” would be living in Russia than in all of Western Europe together.

116

---

Mikhail Alexseev, “Overcounting Russia’s Muslims: Implications for Security and Society” *PONARS Eurasia Policy Memo No. 27* (Georgetown University, August 2008), available electronically at [https://gushare.georgetown.edu/eurasianstrategy/Memos/2008/pepm\\_027.pdf](https://gushare.georgetown.edu/eurasianstrategy/Memos/2008/pepm_027.pdf).

<sup>116</sup> We should note here that a number of countries of Southeastern Europe do have larger proportional “Muslim” minorities than Russia—or even “Muslim” majorities: characteristics that can be largely understood as a legacy of the region’s long Ottoman interlude. So it is well to remember that the historical genesis of the “Muslim” populations in the different regions of Europe are themselves likewise distinctive, with Western Europe’s patterns emerging in the wake of the Second World War II (with decolonization and a demand for guest workers in “labor scarce” economies) and Russia’s rooted in earlier, in the historical expansion of the Russian state over territories of Muslim cultural heritage.

Table 3: Estimated Muslim Populations of Selected European Countries (Early to Mid-2000s) and Russia (2002), in thousands

<b>Country</b>	<b>Estimated Muslim Population</b>	<b>Total Population</b>	<b>Percent Muslim</b>
Albania	2,200	3,100	71.0%
Kosovo	1,800	2,700	66.7%
Bosnia and Herzegovina	1,500	3,800	39.5%
Macedonia	630	2,100	30.0%
Bulgaria	942	7,719	12.2%
Serbia & Montenegro	405	8,100	5.0%
<i>Subtotal Southeastern Europe</i>	7,477	27,519	27.2%
France	4,000	60,000	6.7%
Netherlands	945	16,407	5.8%
Denmark	270	5,451	5.0%
Germany	3,500	82,500	4.2%
Switzerland	318	7,489	4.2%
Austria	339	8,185	4.1%
Belgium	400	10,364	3.9%
UK	1,600	58,800	2.7%
Sweden	206	9,017	2.3%
Norway	93	4,593	2.0%
Italy	825	58,103	1.4%
Greece	138	10,668	1.3%
Spain	500	40,341	1.2%
Finland	18	5,223	0.3%
<i>Subtotal Western Europe</i>	13,152	377,143	3.5%
<i>Total Europe</i>	20,629	404,661	5.1%
<b>Russia</b>	<b>14,739</b>	<b>145,649</b>	<b>10.1%</b>

Sources: Ceri Peach, "Muslim Population of Europe: A Brief Overview of Demographic Trends and Socioeconomic Integration, with Particular Reference to Britain," in Steffen Angenendt, et al, "Muslim Integration: Challenging Conventional Wisdom in Europe and the United States," CSIS, September 2007, Table 1, pg. 9; Russia from: Timothy Heleniak, "Regional Distribution of the Muslim Population of Russia," Eurasian Geography and Economics, 2006, 47, No. 4, pp. 426-448, reproduced from Table 3 and Russian Demographic Yearbook (2007), Goskomstat (Moscow), Table 1.3.

Even without the exaggerations that sometimes color discussions of the issue, it is apparent that "Muslims" account for a significantly greater fraction of total population for Russia than

for the European countries with which Russian elites would prefer to be compared. Given the low levels of fertility now prevailing among Russians and other “European” nationalities, furthermore, we can expect an increase in the fraction of “Muslims” in the Russian Federation, immigration entirely notwithstanding. On the basis of the 2002 RF census, Judyth Twigg of Virginia Commonwealth University has shown that “Muslim” ethnic groups accounted for just 9.5 percent of the country’s total male population—but for 13.2 percent of the boys 5 to 9 years of age.<sup>117</sup> Embracing and integrating people from Muslim cultural backgrounds have proved to be a challenge for many contemporary Western societies. To go simply by these numbers, the scale of the challenge facing Russia would look to be even more daunting than the one facing Western Europe today.

Indeed, the challenge of integrating Muslims in Russia is further evidence by recent reports that the Russian defense ministry’s public council cut the size of the military draft quota from the North Caucasus republics in order to reduce concentrations of Muslim soldiers in any military unit.<sup>118</sup> With such assimilation challenges, Russia will continue to face the challenge of reconciling its changing ethnic and cultural makeup with its military and political priorities.

*Geographic resettlement in post-Communist Russia: The magnification of Moscow; the emptying of the Russian Far East*

We have devoted most of this section to analyzing Russia’s patterns of international migration. This final passage examines the country’s patterns of internal population movement since the end of the Communist era.

According to official Goskomsat/Rosstat figures, domestic migration has been on a continuous downslide within Russia since the final collapse of the Communist system in 1991. According to these official data, in fact, fewer than half as many Russians moved to a new town or city in the year 2007 as in 1990.

If we were to believe these numbers, we would conclude that the geographic mobility of the Russian population is drastically lower today than it was back in Soviet years. But the modern Russian data on domestic migration are fundamentally flawed. These statistics are based upon the bygone notion that newcomers to a Russian city or town will be universally registering their arrival with local authorities. In the old days, that presumption comported with political reality. Under Communist rule, city dwellers in Russia could not change residence without state approval. Every urban inhabitant over 16 years of age was obliged to carry an internal passport containing their sole state-authorized address (or *propiska*), and “a[n internal] passport without a *propiska* was considered invalid.”<sup>119</sup> Any legal geographic movement

---

<sup>117</sup> Judyth Twigg, *Differential Demographics: Russia’s Muslim and Slavic Populations*, *PONARS Policy Memo No. 388* (December 2005), available electronically at [https://gushare.georgetown.edu/eurasianstrategy/Memos/2005/pm\\_0388.pdf](https://gushare.georgetown.edu/eurasianstrategy/Memos/2005/pm_0388.pdf) .

<sup>118</sup> Paul Goble, “Window on Eurasia: Moscow Seeks to Reduce Concentrations of Muslim Soldiers in Military Units,” April 18, 2011

<sup>119</sup> Irina Ivaknyuk, “The Russian Migration Policy and Its Impact on Human Development: The Historical Perspective”, *UNDP Human Development Reports Research Paper 2009/14* (April 2009), available electronically at [http://hdr.undp.org/en/reports/global/hdr2009/papers/HDRP\\_2009\\_14.pdf](http://hdr.undp.org/en/reports/global/hdr2009/papers/HDRP_2009_14.pdf) ; cite at p. 5.

within the USSR was thus a statistically tabulated event. (For the first half century of the USSR's existence, incidentally, villagers and *kolkhozniks* were not even issued internal passports "and therefore had no right to move even within the borders of the [province] where they lived"<sup>120</sup>—they were effectively bound to the soil they tilled as socialist serfs.)

But with the end of Soviet control, the *propiska* system was delegitimized and overturned. In 1993, Russian Federation law replaced the compulsory *propiska* with a voluntary registration of local residence.<sup>121</sup> As domestic migration became increasingly voluntary, spontaneous and unofficial, the statistical apparatus for tracking domestic migration, a leftover from the Soviet era, became an ever less faithful reporter of true national trends. For at least the past decade, these Russian migration numbers are patently implausible on their face. Note, for example, that reported gross domestic migration in the Russian Federation declined markedly over the 1999-2007 period: boom years when economic growth officially averaged almost 7 percent per annum!<sup>122</sup> Rapid and sustained economic growth can always be expected to elicit more mobility—not less of it.

The weakness of Russia's data on regional population movements perforce obscures the emerging similarities to patterns evident elsewhere in the world—as well as enduring or newly increasing differences. Independent Russia's domestic migration dynamics may well still differ from those characteristic in established market economies, as a growing body of research (drawing upon a variety of available Russian data) is beginning to suggest.<sup>123</sup> Russia's housing and financial markets are underdeveloped; such factors could constrain would-be migrants' responses to existing labor market opportunities away from home. There is some evidence, furthermore, that sheer lack of resources matters as well in domestic migration decisions in Russia today—that some fraction of the Russian populace may currently be caught in a "poverty trap" that hinders or prevents domestic relocation in search of a better life. And there is no doubt that current Russian proclivities for moving from one region to another are very significantly lower than in, say, Canada and the United States, all uncertainties attendant to that comparison notwithstanding.

---

<sup>120</sup> *Ibid.*, p. 6.

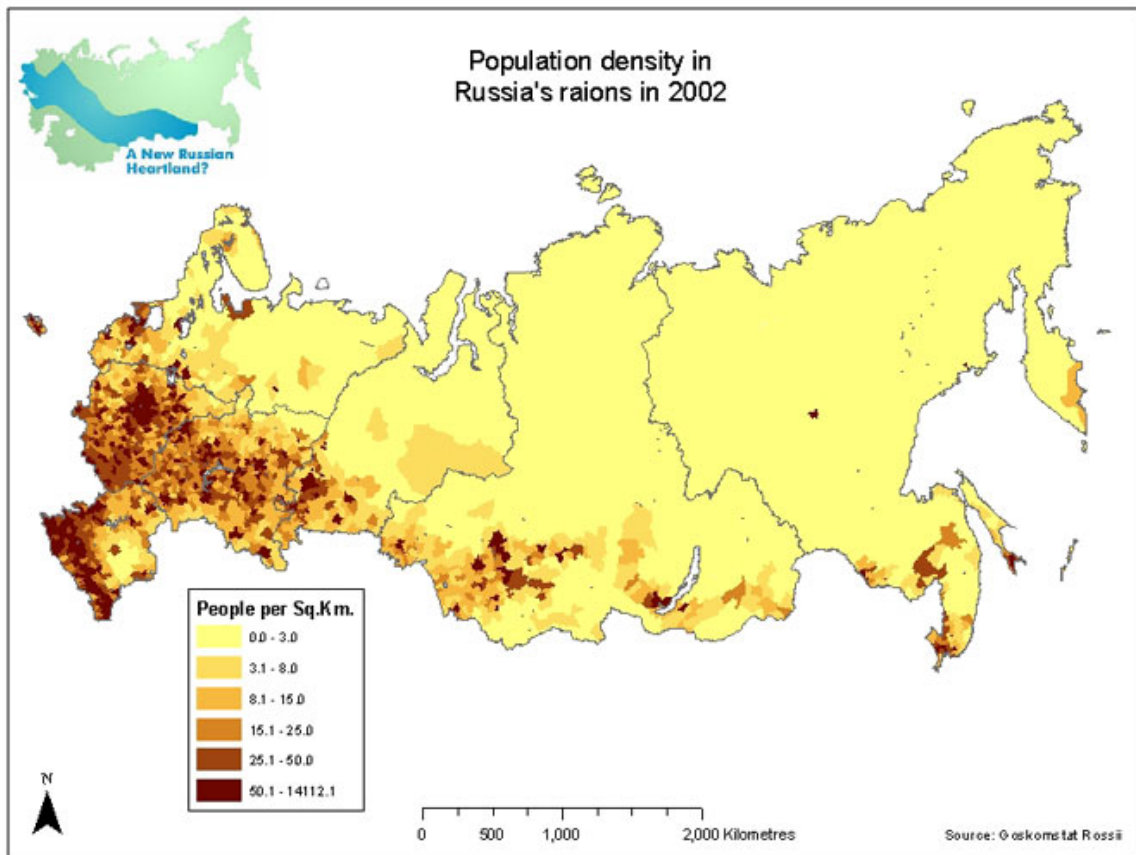
<sup>121</sup> Some localities—including most notably Moscow—still strictly insist upon the authority of their own local officials to approve or deny permission for newcomers to reside within their administrative jurisdiction. But these locally assumed prerogatives appear to be in contravention of Russia's current federal law.

<sup>122</sup> Russian Federation GDP growth as measured in rubles (constant 1990 domestic prices); derived from UN National Accounts Main Aggregates Database, available electronically at <http://unstats.un.org/unsd/snaama/selCountry.asp>; accessed December 13, 2009.

<sup>123</sup> See, for example, Yuri Andrienko and Sergei Guriev, "Determinants of interregional mobility in Russia: Evidence from panel data", *Economics of Transition*, vol. 12, no. 1 (March 2004), pp. 1-27; Ira N. Gang and Robert C. Stuart, "Russian Cities in Transition: The Impact of Market Forces in the 1990s", *William Davidson Institute Working Paper no. 697* (University of Michigan Business School, May 2004); Ted Gerber, "Internal Migration Dynamics in Russia, 1985-2001: Determinants, Motivations and Consequences", (Washington, DC: National Council for Eurasian and East European Research, November 2005), available electronically at [http://www.ucis.pitt.edu/nceeer/2005\\_819\\_07g\\_Gerber.pdf](http://www.ucis.pitt.edu/nceeer/2005_819_07g_Gerber.pdf); and Anne White, "Internal Migration Trends in Soviet and Post-Soviet European Russia", *Europe-Asia Studies*, vol. 59, no. 6 (September 2007), pp. 887-911.



Figure 23: Russian Federation Population Density by Region, 2002



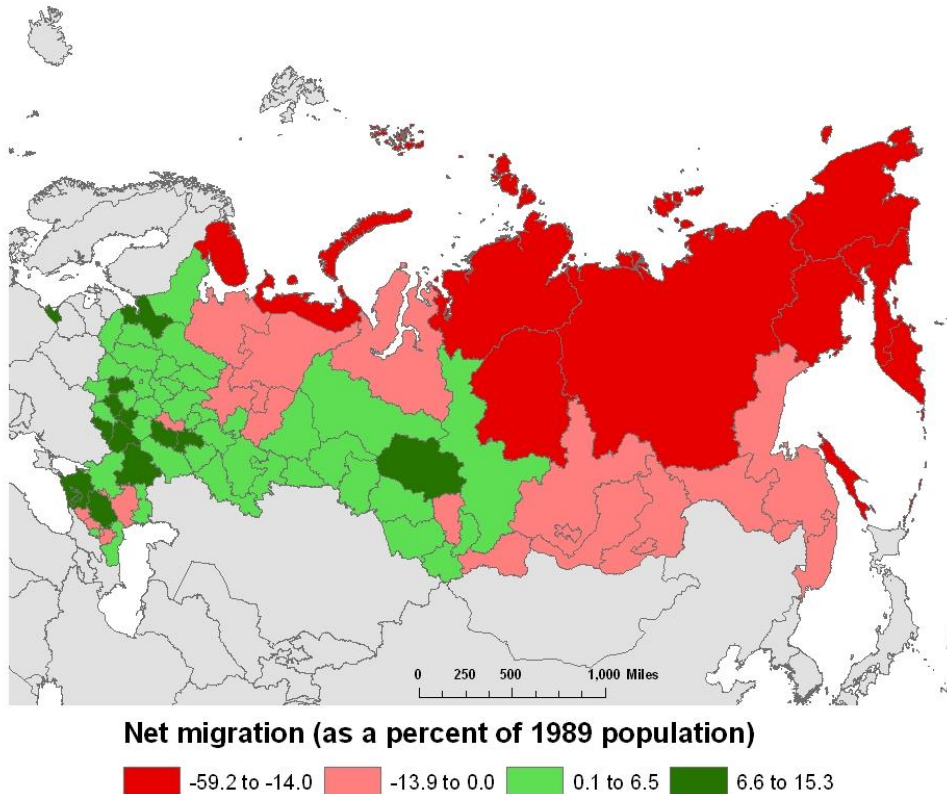
Source: University of Leicester,

<http://www.geog.le.ac.uk/russianheartland/DemographicMaps/Raions.html>

But our understanding of Russia's domestic migration dynamics today is palpably limited by the quality and availability of information on that phenomenon. The plain fact is that Russian official data on domestic migration are so problematic and unreliable that they cannot as yet even be used to reconstructing the country's internal migration trends and levels for the by now many years since the collapse of the Soviet system. The overall level of domestic migration is a gross "flow" measure. While Russia's data on these gross domestic migration flows are of exceedingly poor quality nowadays, official Russian data on net migration (a "stock" measure) is of much greater reliability. This is because episodic census counts provide detailed information on current residence for the country's population. Using these census data in conjunction with vital statistics (birth and death numbers), it is possible to arrive at a reasonably accurate "residual" approximation of net migration within any given region in Russia for the intercensal 1989-2002 period.<sup>124</sup> On the basis of such official Russian data, Dr. Timothy Heliak of the University of Maryland has estimated the aggregate regional net migration in the Russian Federation over the 1989-2002 period, mapping of the proportional impact on local population numbers by *oblast* across the country.

<sup>124</sup> Note, however, that this measure of net migration includes both international and domestic net migration.

Figure 24: Net Migration in Russia, 1989-2002



Source: Timothy Heleniak, "Growth Poles and Ghost Towns in the Russian Far North," Presented paper at "Russia and the North" conference at Centre for Russia Studies Annual Conference, November 28-29, 2007, Norwegian Institute for International Affairs, Oslo, Norway. Figure 1.

It is also possible—in theory—to estimate trends in net regional migration for the Russian Federation for more recent years, since Goskomstat/Rosstat has provided annually updated estimates of the country's regional population distribution as of New Year's Day for each successive year since the 2002 census. Over time, to be sure, these intercensal regional population estimates tend to lose their accuracy.<sup>125</sup> With this proviso, we can examine official Goskomstat/Rosstat data on net migration flows within Russia for the 1989-2008 period, as compiled by Dr. Heleniak. These are presented in Table 4.<sup>126</sup>

<sup>125</sup> An extreme example of this effect was seen in the case of Moscow on the eve of the 2002 population count, roughly 13 years after the final Soviet census. As it happened the Goskomstat/Rosstat intercensal estimate of the capital's population for 2002 proved to be 1.8 million persons too low—an underestimate of almost 18 percent. Cf. Timothy Heleniak, "The 2002 Census in Russia: Preliminary Results", *Eurasian Geography and Economics*, vol. 44, no. 6 (September 2003), pp. 430-442; data taken from Table 2, p. 436.

<sup>126</sup> From the standpoint of accuracy, it would be preferable to use two censuses as the endpoints for updated net domestic migration estimates—but since the results of the next Russian population census will not be available for years to come, the best may be the enemy of the good here.

Table 4: Net migration flows in Russia (thousands), 1989-2008

Region	Total Population, 1989	Total Population, 2008	Absolute Population Change, 1989-2008	Natural Increase, 1989-2008	Net Implicit Migration	Net Implicit Migration as a % of Total 1989 Population
Russian Federation	147,022	142,009	-5,013	-11,323	6,310	4.3%
Central Federal District	37,920	37,151	-769	-5,374	4,605	12.1%
Far East Federal District	7,950	6,486	-1,464	-91	-1,373	-17.3%
Northwest Federal District	15,237	13,501	-1,736	-1,671	-65	-0.4%
Siberian Federal District	21,068	19,553	-1,515	-879	-635	-3.0%
Southern Federal District	20,536	22,835	2,299	-352	2,651	12.9%
Urals Federal District	12,526	12,240	-286	-568	282	2.3%
Volga Federal District	31,785	30,242	-1,543	-2,205	662	2.1%
Moscow City	8,876	10,470	1,594	-946	2,540	28.6%
Moscow Oblast	6,646	6,673	27	-974	1,001	15.1%

SOURCE: Timothy Heleniak, Department of Geography, University of Maryland on the basis of Goskomstat/Rosstat data.

Figure 24 and Table 4 underscore many interesting aspects of the ongoing population movements within post-Communist Russia. In general, these data seem to support the “new Russian heartland” hypothesis proposed by geographer Michael Bradshaw of the University of Leicester, who argued that a Russia gradually shaped by forces of the market economy would see its domestic population moving westward and to the south (to “archipelagos” of vibrant economic activity surrounded by vast “empty spaces”).<sup>127</sup> Perhaps the two most important points revealed by these charts are the dramatic roles of net migration in bolstering the population of Moscow and its environs on the one hand, and in accelerating the depopulation of the Russian Far East on the other.

To go by official Russian figures, the country’s total net interprovincial movement of population amounted to just over 9 million over the period between the 1989 census and the

<sup>127</sup> Cf. Professor Michael Bradshaw, “A New Russian Heartland?” Department of Geography, University of Leicester, October 27, 2006; available electronically at <http://www.geog.le.ac.uk/russianheartland/index.html>.

start of 2008.<sup>128</sup> Of this total, over 2.5 million in net migration accrued to Moscow, the capital. For Moscow *oblast*, the region immediately surrounding the capital, a net inflow of an additional million persons was indicated for this same period. Thus Moscow—with just 6 percent of the Russian Federation’s population in 1989—accounted for over a quarter of the country’s net regional immigration over the following two decades. And taken together, Moscow and Moscow *oblast*, with little more than a tenth of Russia’s total population in 1989, were the venue for nearly two fifths of the entire country’s net provincial immigration in the 1990s and the first decade of the new century.

With the collapse of Communism, Moscow has become a sort of human magnet within Russia. The attractive pull of the capital and its environs, indeed, have been sufficiently powerful to overcome the powerful incipient forces of depopulation at work in the area. Between 1989 and the start of 2008, Moscow’s deaths exceed births by almost one million (946,000, according to Goskomstat/Rosstat)—but the city grew by 1.6 million (nearly 18 percent) over those years nonetheless. In Moscow *oblast*, deaths likewise outnumbered births by almost one million over these years (974,000)—but because net immigration was even greater, the province’s population rose slightly. In contemporary France one often hears talk of “Paris and the French desert.”<sup>129</sup> But the contrast between the capital and the hinterlands may be even more acute in post-Communist Russia, where the population of Moscow has been steadily growing even as the rest of the country experiences continuing depopulation. With Moscow swelling as Russia shrinks, the relative size of the capital has appreciably increased over the past two decades (from 6 percent of the country’s population in 1989 to 7.5 percent at the beginning of 2008). From the standpoint of economic geography, this appears to be accentuating a regional distortion that was already pronounced back in Soviet times—a peculiar mismatch between the actual and the expected size of the country’s urban centers.

*Economic and Political Implications of Far East Depopulation*

As Gaddy and Hill persuasively demonstrate, Soviet-era settlement patterns in the Russian Far East were manifestly irrational from an economic standpoint.<sup>130</sup> Without massive subsidies to keep them in operation, and a police state to keep their populations in place, many of the villages, towns, and cities in the harsh and inhospitable reaches of the then Soviet Far East simply were not viable, and may not yet be. Goskomstat/Rosstat numbers indicate that the exodus from the RFE has not yet stopped. According to these numbers, the Russian Far East has experienced net out-migration every year since the end of Communism.<sup>131</sup>

---

<sup>128</sup> This number, remember, must by definition be far lower than the true total for geographic movement within the country over this period. For one thing, it ignores any and all migration *within* Russia’s provinces or administrative regions; for another, it estimates a region’s net residual of newcomers or emigrants for the period as a whole, rather than the volume of intra-provincial movement over the interim.

<sup>129</sup> A discussion dating back to Jean-François Gravier’s 1947 treatise, *Paris et le désert français; décentralisation, équipement, population*.

<sup>130</sup> Gaddy and Hill, *The Siberian Curse*, 23.

<sup>131</sup> For the years 2003–2008, the pace of net out-migration from the RFE, as reported in official data, appears to be abating. As already noted, these intercensal estimates of net migration from the RFE have understated the territory’s true levels of outmigration in the past.

It is true that the RFE is rich in natural resources, including oil and gas. As the University of Leicester's Michael Bradshaw has noted, the manpower requirements of the Russian Far East's existing and prospective facilities for resource exploitation number in the tens of thousands, or perhaps the hundreds of thousands, but not in the millions.<sup>132</sup> Like Gaddy and Hill, Vladimir Kontorovich of Haverford College argues that a significantly smaller population for the Russian Far East is not only likely but desirable. It is a precondition for a needed restructuring that would conduce to prosperity for the local populace and sustainable development for the territory.<sup>133</sup>

Geography matters, though, and as fate would have it, the RFE shares borders with both China and North Korea (the Democratic People's Republic of Korea, DPRK). These fateful boundaries raise inescapable security questions for an ever more sparsely settled Russian Far East. In the shorter term, potential instability in North Korea could conceivably lead to mass movement of refugees into China and Russia as well. Over the longer term, those boundaries beg the question of Chinese aims and interests in the neighboring Russian territories.

Since 1988 the Sino-Russian border has been open to trade and travel. Over those decades, there has been some immigration into the Russian Far East by Chinese traders and laborers. Because most of this movement is undocumented, estimates of the size of this newcomer population vary wildly. On the one hand, Russia's 2002 population census counts just 30,000 nationwide. On the other, Russian officials at a 2008 CIS conference reportedly offered an unofficial estimate of 2.5 million illegal Chinese immigrants in the Russian Federation. A few years earlier, Academic Alexei Yablokov (a former science adviser to President Yeltsin and a well-known environmentalist) reportedly asserted there were ten times as many Chinese as Russians in the Russian Far East.<sup>134</sup>

For a variety of easily identifiable, if not terribly august, reasons (lack of direct personal contact or familiarity with these newcomers, narrow nationalist sentiment, and Russia's "yellow peril" mythology), Russian audiences often seem to be prepared to believe that there are vastly more Chinese in Russia today than could possibly be the case.<sup>135</sup> The reality, as

---

<sup>132</sup> Michael Bradshaw, oral comments at "Russia in Asia-Asia in Russia: Energy, Economics and Regional Relations," Conference co-sponsored by the Kennan Institute and the Asia Program, Woodrow Wilson International Center for Scholars, Washington, D.C., July 22–23, 2004. For conference proceedings, see Joseph F. Dresen, ed., *Russia in Asia—Asia in Russia: Energy, Economics, and Regional Relations*, Kennan Institute Occasional Paper #292 (2005).

<sup>133</sup> Vladimir Kontorovich, "Can Russia Resettle the Far East?" *Post-Communist Economies and Transformation* 12, no. 3 (September 2000): 365–84; Vladimir Kontorovich, "The Russian Far East and the Social Sciences," paper presented to the 34th National Convention of the AAASS, Pittsburgh, PA, November 24, 2002, <http://www.haverford.edu/economics/oldsiteOct2008/Faculty/Kontorovich/documents/AAASS.pdf>.

<sup>134</sup> Maria Replikova and Harlay Balzer, *Chinese Migration to Russia: Missed Opportunities* (Washington, D.C.: Woodrow Wilson International Center for Scholars; Kennan Institute and Comparative Urban Studies Eurasian Migration Paper #3, 2009): 9–10.

<sup>135</sup> For an analysis of Russian attitudes toward China, see Vladimir Shlapentokh, "China in the Russian Mind Today: Ambivalence and Defeatism," *Europe-Asia Studies* 59, no. 1 (January 2007): 1–21. For public opinion survey data on Russian popular impressions about the size of the Chinese population in the Russian Far East, see Mikhail A. Alexseev and C. Richard Hofstetter, "Russia, China and The Immigration Security Dilemma," *Political Science Quarterly* 121, no. 1 (Spring 2006): 1–32.

best can be determined, is that the actual current number of Chinese working or living in the Russian Far East (mostly on a temporary basis) is probably on the order of a few hundred thousand.<sup>136</sup>

Today's patterns of unauthorized Chinese migration into the Russian Far East, furthermore, most likely reflect labor market conditions in the region itself. As Andrei Zaibanko of Amur State University has argued, "The number of Chinese in any given place within the Russian Federation corresponds to the number that makes economic sense to the Chinese themselves. No more and no less."<sup>137</sup> Restricting that inflow—as Russian public opinion increasingly urges authorities to do—would not only entail costs and losses for the would-be immigrants, but for the economically depressed RFE as well.

Viewed in the context of the globalization underway in the rest of Asia, it is well to bear in mind, the economic and migratory linkages that have developed between northeast China and the RFE over the past two decades look distinctive, but only because they are so modest and tentative. Maria Repnikova of Oxford University and Georgetown University's Harley Balzer are more pointed. They describe the "Chinese-Russian border as Asia's least successful example of trans-border integration;" in their estimate, "the limited scale of Chinese labor migration to Russia has the appearance of a missed opportunity rather than a threat."<sup>138</sup>

From an economic standpoint, Repnikova and Balzer's assessment appears persuasive. That judgment, however, will not necessarily answer the sorts of questions that strategists and security specialists might raise about the future of the Russian Far East. Can this far-flung, fragile and increasingly empty Russian expanse maintain its national identity and territorial integrity in the face of the impending geopolitical changes (including perhaps the great-power rivalries) that may lie in store for Northeast Asia in the century ahead?

Relations between Beijing and Moscow are fairly warm today, and seem to have been growing warmer in recent years. All the same, China is a rapidly rising power. Its polity is authoritarian, not democratic. Its long-term disposition toward Russia in general and the resource-rich Russian Far East in particular cannot be predicted with certainty today.

It is possible to imagine alternative futures for what is now the Russian Far East—some of them quite different from the social and political arrangements of today. Putin himself envisioned one of these alternative futures. In July 2000, then president Putin famously warned "If we do not take practical steps to advance the Far East soon, in several decades the local population—originally Russian—will be speaking mainly Japanese, Chinese, and Korean."<sup>139</sup> From the other side of the border, a strikingly similar vision was conjured in the

---

<sup>136</sup> For an informed discussion of the range of estimates and their provenance, see Repnikova and Balzer, *Chinese Migration to Russia*, 13–15.

<sup>137</sup> Repnikova and Balzer, *Chinese Migration to Russia*, 13–15.

<sup>138</sup> Repnikova and Balzer, *Chinese Migration to Russia*, 34–35. As in the rest of Russia, current events are less than auspicious for immigration. Repnikova and Balzer point out that the current economic crisis, in conjunction with a rise of popular anti-immigrant sentiment and local administrative measures, is inhibiting demand for Chinese manpower and entrepreneurship in the Russian Far East and likely driving down the number of Chinese immigrants in the region.

<sup>139</sup> "Putin speaks for urgent steps to advance Far East," *Interfax News Agency*, July 21, 2000.

2009 Chinese bestseller, *China Gets Angry*. As described by Paul Goble, the book talks about [Russia] as “a living space” for the still growing Chinese people. It pointedly suggests that “sober-thinking Chinese need to get rid of any doubt on this point: sooner or later we will be” in Siberia and the Russian Far East developing the vast areas that Moscow has not.<sup>140</sup>

These parallel visions, of course, depict only one of many possible alternative futures for the Russian Far East—and by no means the most likely one, at least from the current vantage point. Any future scenario that posits a continuing long-term out-migration of Russians from the Russian Far East, however, cannot help but raise questions about exactly how Moscow will maintain its interests in this vast and increasingly vacant territory (Alaska, remember, was once a part of the Russian Far East). The answers to those questions are not entirely self-evident today, especially given the uncertainties attendant to the rise of China. They could become much less clear with a progressive depopulation of the Russian Far East.

### *The challenge of voluntary migration and pro-migration policies*

The phenomenon of voluntary migration—all but alien to Russian soil for centuries—now has suddenly come to characterize most population movement within and across the country’s borders. Voluntary migration has opened new vistas for Russian society, and is already beginning to transform it. Because of voluntary migration, both the population of the Russian Federation and the size of the Russian workforce are millions larger today than they would otherwise have been. International migration has materially mitigated the country’s population decline. Because of voluntary migration, both Russia and neighboring states (and populations) are richer today than they otherwise would have been. National income and living standards are both demonstrably higher, and the incidence of poverty is demonstrably lower than it would have been otherwise. More broadly, the advent of voluntary migration for the Russian Federation has marked a signal extension of personal choice and a correlative improvement in individual well-being, the benefits of which extend well beyond the readily tangible.

From an economic standpoint, the implications of Russia’s new freedoms of movement are overwhelmingly positive. Yet man is not just an economic animal. Population movement also raises political questions, and sometimes security issues, with which societies must also contend.

For all the economic benefits, voluntary immigration from abroad also inescapably raises the critical question of assimilation and social integration for the newcomers. In the Russian case, a question that is most pointed in the case of immigrants from the historically Muslim regions of the near abroad. With respect to international security, the sudden, steep and continuing depopulation of the Russian Far East begs potentially profound questions about future of this distant and formerly contested outpost of Russian sovereignty. To the extent that population matters in the determination of this future, the new political fact of voluntary migration has made for new complexities as well—complexities that did not trouble the masters of the

---

<sup>140</sup> Paul Goble, “Window on Eurasia: Chinese Bestseller Has Russian Far East Falling under Beijing’s Influence” June 20, 2009, <http://windowoneurasia.blogspot.com/2009/06/window-on-eurasia-chinese-bestseller.html>.

erstwhile Soviet system. Voluntary migration has brought tremendous recent gains to Russia and its people. As other modern societies that enjoy this freedom can attest, such migration, however, is not without its accompanying challenges.

It seems clear that Russia will need to explore policy options for coping with a declining workforce, possibly through increased immigration. While one option could be to ease visa restrictions with the EU, the country would still face difficulties in attracting skilled talent from abroad and it would also reduce domestic the workforce. And as described above, the assimilation of Muslims from abroad will continue to be a challenge for Russia.

### **Projections of Russia's Demographic Trajectory over the Coming Decades**

Where is the Russian Federation headed demographically in the years and decades immediately ahead? Obviously, there is no way to answer that question with certainty in advance. We can, however, get a sense of where some of the world's leading demographic institutions *expect* that Russia *could* be heading: their anticipations are laid out in their most recent projections for the Russian Federation. These projections, we must emphasize, are *not* forecasts—rather, they are simulations that generate internally consistent outcomes based upon assumptions about future fertility, mortality, and migrations patterns that are taken by their authors to be plausible today. Current demographic projections for Russia thus reveal what population experts regard as reasonable anticipations in the years ahead, at least from our current, necessarily limited, vantage point.

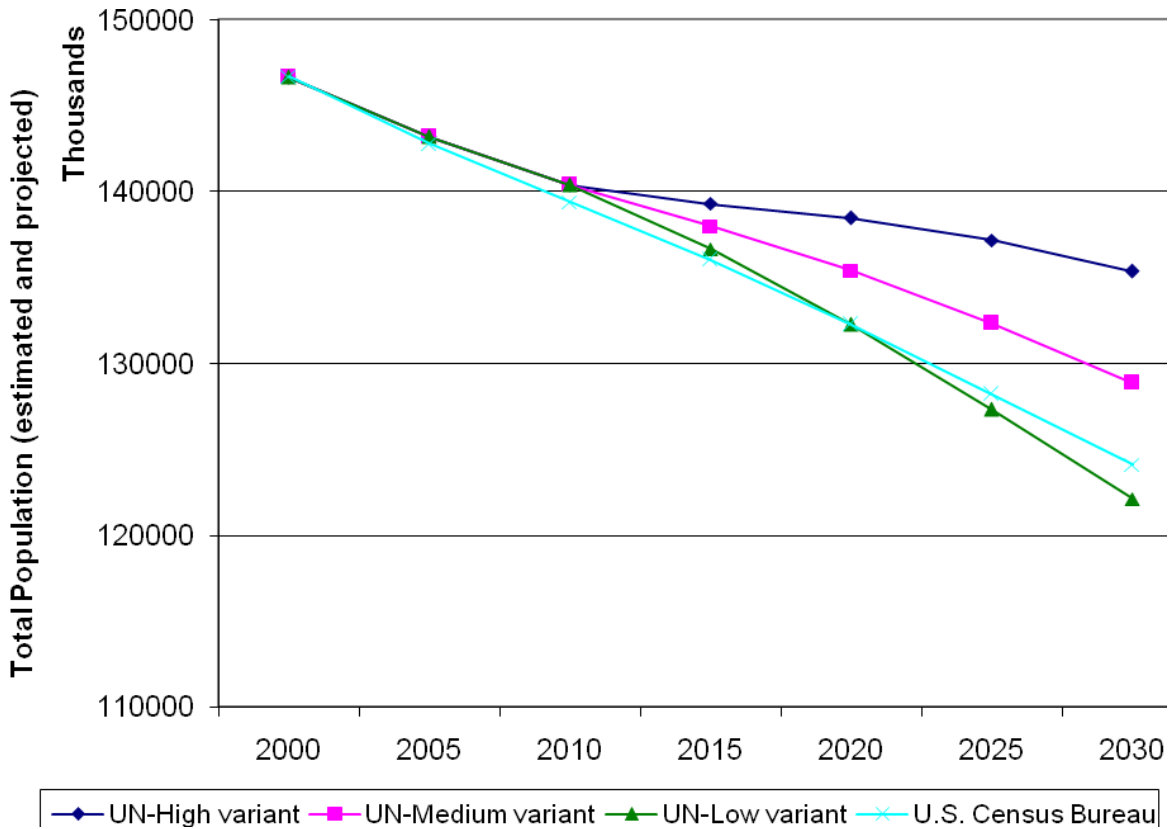
The two leading organizations offering global demographic projections would arguably be the United Nations Population Division (UNPD) and the U.S. Bureau of the Census (also known as the Census Bureau). Their latest projections for the Russian Federation are illustrated in Figure 25. UNPD offers three projections—a “high”, “medium” and “low” variant, based upon what its staff regards as plausible alternative outlooks for future fertility trajectories; the Census Bureau offers just one projection for every country. But as we see, current Census Bureau and UNPD projections all trace a continuing, indeed unstoppable, downward course for the Russian Federation's population over the generation ahead. As of midyear-2005, Russia's estimated population was around 143 million. UNPD projections for the year 2025 range from a high of about 137 million to a low of about 127 million; for the year 2030, they range from 135 million to 122 million. The Census Bureau's single projection for the Russian Federation's population in 2025 and 2030 is 128 million and 124 million, respectively—very close to the “low variant” projections offered for Russia by UNPD (the UNPD and Census Bureau series are prepared independently of one another).

Demographic projections for the Russian Federation are also available from statisticians and population specialists in Russia itself. These latest Goskomstat projections run through the year 2025—and they envision a continuing and uninterrupted depopulation of the Russian Federation. In these projections, Russia's population would fall by another five and a half million between 2008 and 2025—a long-term decline averaging over 300,000 persons per year. By this scenario, Russia's population in 2025 would be less than 136 million. That would be higher than the level currently projected by the US Census Bureau, and higher than the UNPD's “medium variant”—but also somewhat lower than the UNPD's “high variant”



alternative. The current assessment of Russia’s population outlook by the Russian Federation’s official demographic specialists, in other words, is broadly consistent with the evaluation offered by international demographic specialists.

Figure 25: Estimated and Projected Population of Russia, 2000-2030, UN and U.S. Census Bureau



Sources: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision and World Urbanization Prospects: The 2007 Revision, <http://esa.un.org/unpp>, February 26, 2010; US Census Bureau International Database. Available online at <http://www.census.gov/ipc/www/idbnew.html>, Accessed on February 26, 2010.

Russia’s central authorities, we must note, today promote a vision of the Russian demographic future that differs fundamentally from the trajectories suggested in prevailing international projections. This “new demographic concept”—officially unveiled in 2007, and championed at the highest levels of government (by both then-President Vladimir Putin and current-President Dmitry Medvedev)—envisions a Russian demographic resurgence in the years ahead, stimulated by official policy interventions that reduce death rates, increase birth rates, and ultimately reverse the country’s trend of population decline.

Let us leave aside the Kremlin’s “new demographic concept”—and its feasibility—for the moment. For now, let us instead simply consider the available independent demographic projections. If the Census Bureau and UNPD projections turn out to be relatively accurate—admittedly, a big “if” for any long-range demographic projection—the Russian Federation will have experienced over thirty years of continuous demographic decline by 2025, and the better part of four decades of depopulation by 2030. If the Census Bureau’s current projection, or the UNPD’s “medium variant” projection, end up being approximately on target for Russia and other countries, for example, the population of the Russian Federation would have dropped by about 20 million between 1990 and 2025, and Russia would have fallen in international ranking from the world’s sixth to the twelfth most populous country. If, on the other hand, the UNPD’s “high variant” projection ultimately turns out to be closer to the mark, Russia would experience a decline in population of “only” 13 million between the early 1990s and 2030. In relative terms, that would amount to not quite as dramatic a demographic drop as the one Russia suffered during World War II. In absolute terms, it would actually be somewhat comparable in magnitude. And even in the “high variant” version of a Russian demographic future, the depopulation would still be underway in 2030, and beyond.

### *A Dwindling Workforce*

The overall tendency of population aging in the coming decades will be affecting the working age groups in Russian society, too. In 2005, to go by the estimates of the Census Bureau’s International Data Base (IDB), the median age of the Russian Federation’s 15–64 cohort was 40.2 years. In 2030, according to IDB projections, it would be 46.5 years, a sharp increase of over 6 years in a single generation. When we consider Russia’s steep age-specific mortality curves for its population of working age, we can see that the prospective aging of the Russian Federation’s labor force could exert downward pressure on both average levels of health and by extension average levels of productivity in the workplace. We can get a sense of the prospective mortality pressures facing Russia’s working age population over the coming generation from the country’s 2005 age-specific mortality schedules.<sup>141</sup> Holding mortality by age and sex constant but adjusting for projected changes in the composition of the country’s 15–64 population, average mortality levels for Russia’s working age population would rise by over 18% between 2005 and 2030.<sup>142</sup>

In addition to the overall graying of Russia’s population of working ages, other demographic changes are also transforming Russia’s manpower availability in an inauspicious fashion, at least from the standpoint of maintaining economic growth. We can see this by comparing the Census Bureau’s numbers on projected demographic changes for the years 2005–30 in Russia and Western Europe for the 15–64 population. In 2005, Western Europe’s conventionally defined population of working ages was over two and a half times larger than Russia’s (265 million vs. 101 million). Both areas are expected to see their working age populations shrink between 2005 and 2030. Yet the Russian Federation’s working age population is anticipated to decline more than Western Europe’s in absolute terms (18 million for Western Europe vs. 21 million for Russia). While Russia’s 15–64 group is projected to shrivel by over 20% during the course of this quarter century, the fall-off in younger manpower is expected to be

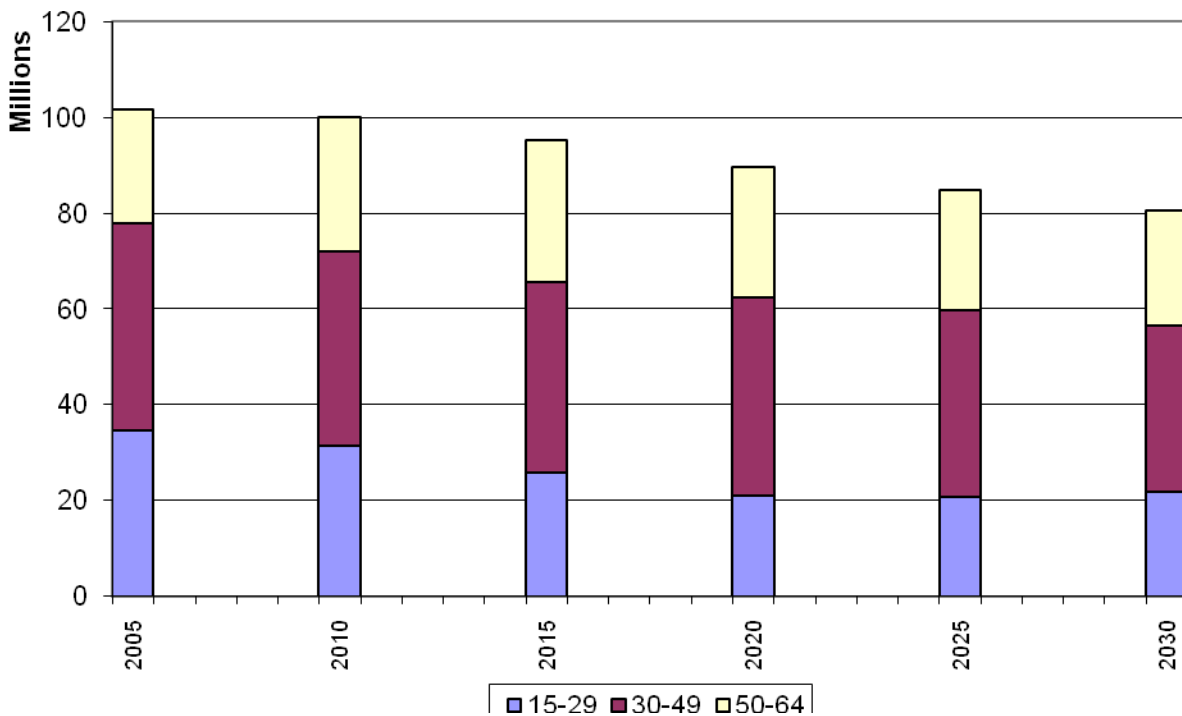
<sup>141</sup> Mortality schedules derived from the Human Mortality Database.

<sup>142</sup> Calculations derived on data from <http://www.census.gov/ipc/www/idb> and <http://www.mortality.org>.

especially drastic. For every five-year age grouping in the 15–34 range, population totals are seen as falling by over 35% between 2005 and 2030. For people in the early thirties, totals are projected to plummet by fully 40%. By contrast, the comparable declines in young manpower in Western Europe are set to range between 12% and 18% in those same age groups. Between now and 2030, Russia may only experience population growth within the conventionally defined working ages of 55–64. For reasons we have already discussed, though, these men and women tend to be far less suited for sustained labor force participation than their counterparts in Western Europe and the West.

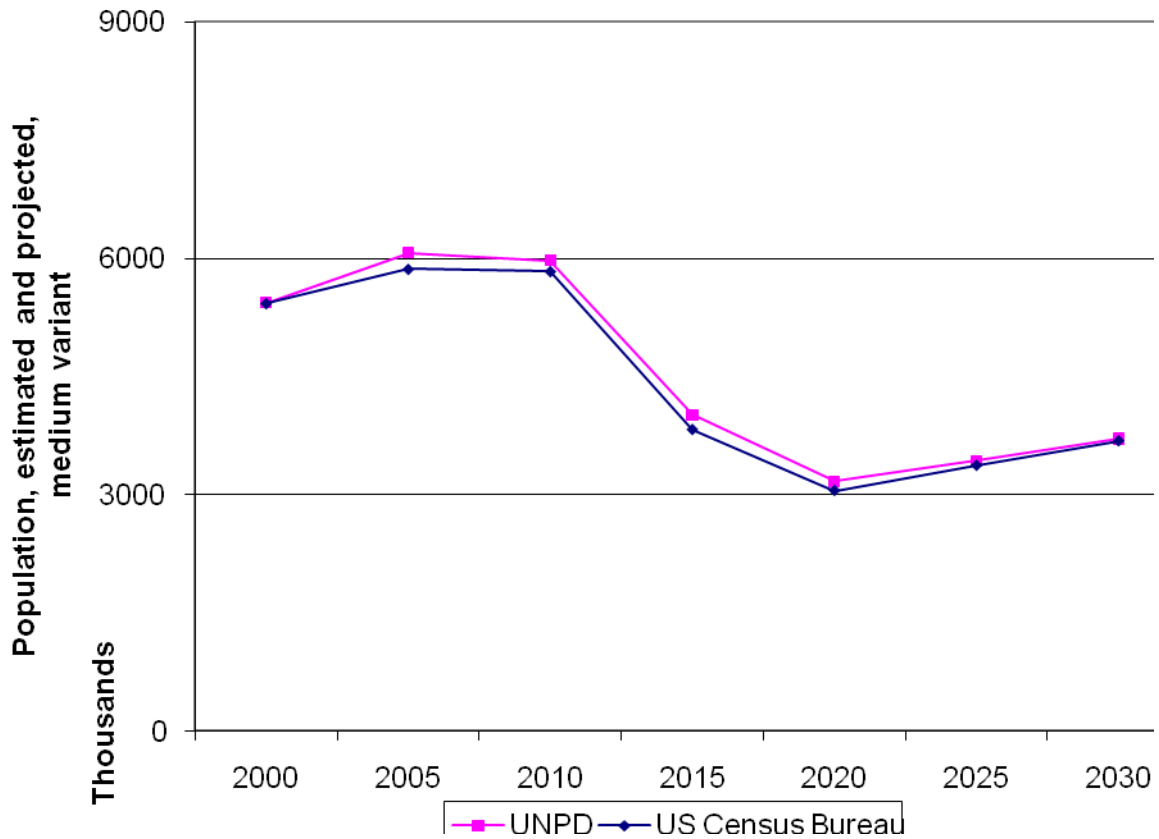
The Kremlin’s own optimistic prognosis for Russia’s population prospects flies in the face of some obvious and irreversible demographic realities. Foremost among these is the brute fact that Russia’s birth slump over the past two decades has left Russia with many fewer potential mothers for the years just ahead than the country has today. Figure 27 includes estimates and projections from the UNPD and the US Census Bureau of the 20-24 female population in the decades between 2000 and 2030. [SEE FIGURES 26-28]

Figure 26: Adult Population 15-64 by Age Group: Russia, 2005-2030 (estimated and projected, millions)



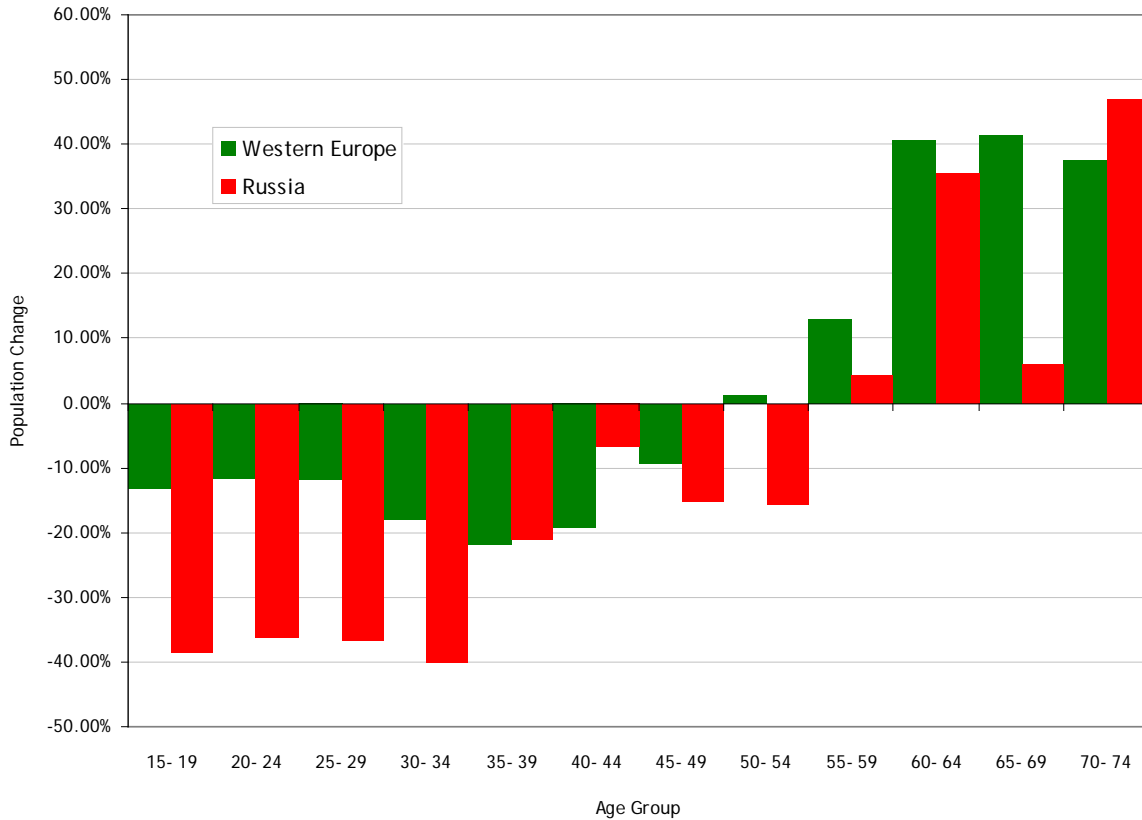
Source: U.S. Bureau of the Census International Database, available online at <http://www.census.gov/ipc/www/idbacc.html>; Accessed February 26, 2010.

Figure 27: Females aged 20-24 in Russia, estimated and projected, 2000-2030, UNPD and U.S. Census Bureau



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision and World Urbanization Prospects: The 2007 Revision, <http://esa.un.org/unpp>, February 26, 2010 and US Census Bureau International Database. Available online at <http://www.census.gov/ipc/www/idbnew.html>, Accessed on February 26, 2010.

Figure 28: Projected Population Change For Adult Age Groups, 2005-2030:  
Western Europe vs. Russia (percentage change)



Note: Definition of “Western Europe” from U.S. Census Bureau

Source: U.S. Census Bureau, International Data Base, <http://www.census.gov/ipc/www/idb/>.

All of these figures do not bode well for Russia’s prospects for future prosperity. Indeed, the widespread impact of Russia’s demographic decline will have acute effects on the portion of the population responsible for economic production. And one corollary of this will be the marked decline in the population of cities, traditionally the centers of commerce and economic activity.

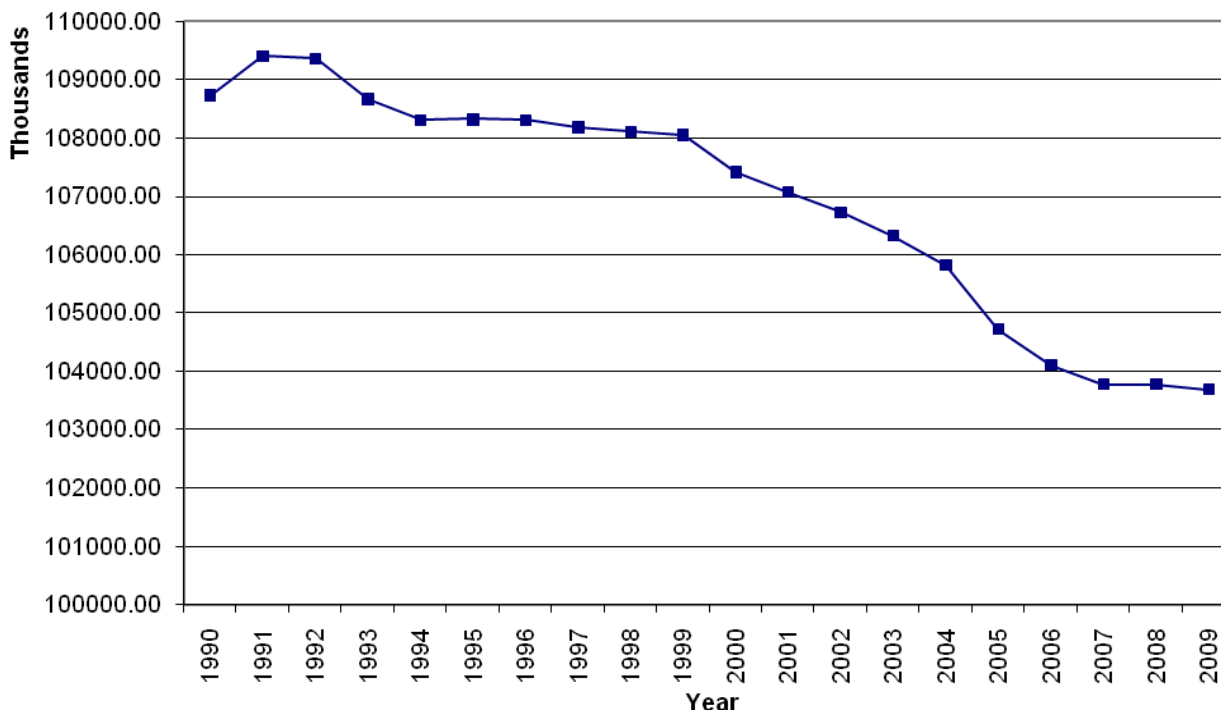
In a 2003 report to the UN Economic Commission for Europe, Goskomstat officials noted, “the urbanization process [in the Russian Federation] has come to a halt.”<sup>143</sup> According to Goskomstat figures, Russia’s urbanization ratio was very slightly lower in 2002 (73.3 percent)

<sup>143</sup> State Committee of the Russian Federation on Statistics (Goskomstat), “Dissemination of the Results of the Population Census”, submitted to the UN Economic Commission for Europe, December 2003, available electronically at <http://www.unece.org/stats/documents/2003/12/commentary/crp.2.e.pdf>, accessed September 14, 2008. (The paper also asserts—quite incorrectly—that a cessation of urbanization is common to “most of the developed countries of the world.”)

than in 1989 (73.4 percent). But since Russia’s population had declined over the intercensal period, this meant that that Russia’s urban population had also declined—and had in fact dropped by more, in relative terms, than the rural population.

Subsequent data reaffirmed this trend: Russia’s depopulation has meant not only shrinkage of Russia’s cities, but a disproportionate decline in the country’s urban population. Between 1991 and 2008, Goskomstat estimates indicate that Russia’s urban population fell by over 5.5 million, and that the country’s urbanization ratio dropped slightly as well, from 73.8 percent to 73.1 percent. With depopulation, Russia is witnessing an emptying of its cities—and even some incipient de-urbanization.

Figure 29: Russian Urban Population, 1990-2009 (estimated)



State Committee of the Russian Federation on Statistics (Goskomstat of Russia) Internet Database, [http://www.gks.ru/scripts/db\\_inet/dbinet.cgi](http://www.gks.ru/scripts/db_inet/dbinet.cgi), accessed on February 25, 2010.

Along with the spread of “ghost villages” and the disappearance of rural hamlets, shriveling cities and even dying cities are now part of the Russian landscape. In 1989, the Russian Federation counted 688 urban settlements with populations of 20 thousand or more; by 2006, it only had 680 of these. In 2002, Russia had 330 cities of 50 thousand or more—but just 324 of them in 2006. Further, in 2002 Russia had 13 cities of one million or more; just four years later, there were only 11.<sup>144</sup>

Of the 36 cities that reported a population of half a million or more at some point in the 1989-2006 period, fully 23 were smaller in 2006 than in they had been 19 years earlier, including

<sup>144</sup>A. G. Vishnevskii, ed., *Naseleniye Rossii 2005*, (Moscow: MAKS Press, 2007), p. 35.

nine of the dozen largest cities in the nation. Between 2002 and 2006, another five of these cities—including St. Petersburg, the county's second largest city—lost population. Virtually alone among Russia's very largest cities, Moscow grew dramatically and more or less steadily over this period, gaining about 1.75 million inhabitants and increasing in size by about 20 percent between 1989 and 2006. If one lived and worked only in Moscow, it would perhaps be possible to gather the impression—or rather, the severe misimpression—that Russia's urban centers are thriving, and that urban life in Russia is burgeoning today. Beyond the confines of the capital city, of course, any such notion would be virtually impossible to maintain.

A demographic crisis of such portent for individual well-being has grave consequences for economic performance. Blessed as the Russian Federation may be with its vast endowments of natural resources, in the final analysis it is human resources, not underground deposits of minerals and organic compounds, that account for national wealth in the modern world.

### *Implications for Russia's Defense Potential*

In 2007 Sergei Stepashin, formerly prime minister and currently comptroller general of the Russian Federation, warned that the “reduction in the size of the population and the reduction of population density...will create the danger of weakening of Russia's political, economic, and military influence in the world.”<sup>145</sup> As he explicitly recognized, Russia's demographic crisis places inescapable limits on the country's defense potential. Those demographic constraints on the country's military power are set to tighten significantly in the years immediately ahead.

The most obvious constraints imposed by the ongoing demographic crisis concern military manpower. Maintaining the country's current (2008) force structure—a military of 1.027 million, mainly comprised of young conscripts obliged to serve twelve-month term of service<sup>146</sup>—will not be feasible in the years immediately ahead.

Mainly young men born 18 years earlier manned the Russian military of 2008. In 1990, just over one million (1.021 million, to be exact) boys were born in Russia. In 1999, however, the corresponding total had slumped to 626,000, a drop of 39%.<sup>147</sup> Very roughly speaking, this means Russia's pool of prospective recruits, under the current staffing formula, is set to fall by almost two-fifths between 2008 and 2017.

---

<sup>145</sup> “Russian chief auditor calls for urgent measures to halt population decline,” *BBC Worldwide Monitoring*, March 10, 2007, cited in Murray Feshbach, “Russian Military: Population and Health Constraints,” in *Russian Power Structures: Present and Future Roles in Russian Politics*, eds. Jan Leijonhielm and Fredrik Westerlund (Stockholm: Swedish Defense Research Agency, 2007), 155, <http://www2.foi.se/rapp/foir2437.pdf>.

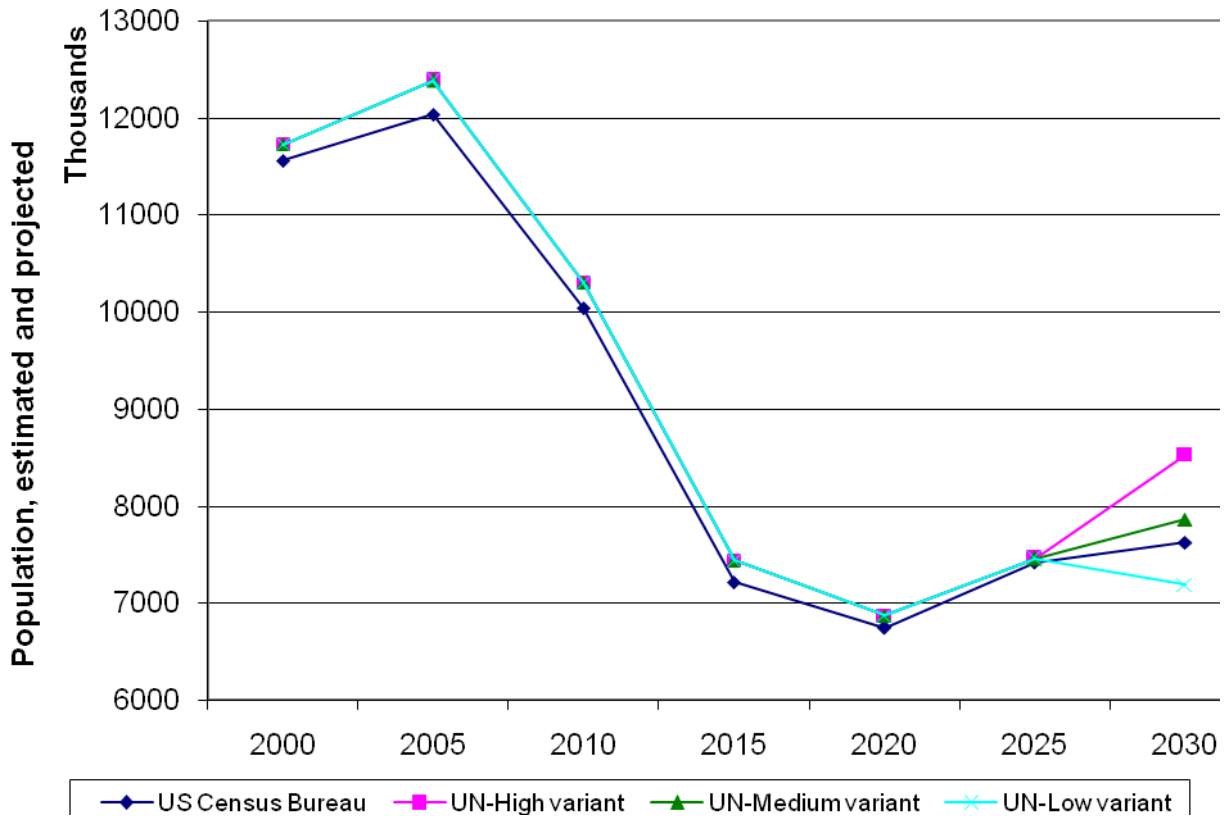
<sup>146</sup> International Institute of Strategic Studies, *The Military Balance 2008* (London, IISS, 2008), 212. This figure does not include an additional 418,000 personnel categorized by IISS as paramilitary, mainly special armed units of the Ministry of Internal Affairs (MVD) and the Federal Security Service (FSB).

<sup>147</sup> Birth totals in Russia have recovered appreciably since 1999. In 2008, about 888,000 baby boys were born. That total, however, is still 14% below the 1990 level, and for reasons already outlined in this study, there is good reason to expect birth totals to decline again in the years ahead.

It may also be important to note here that the decline in young males in Russia is not due to gender imbalances at birth, as is the case in China, but rather due to unfavorable male survival schedules—as described in more detail above—that put pressure on family formation and family stability.

If Moscow is to prevent a drop-off of military manpower of this magnitude in the next few years, it has only two choices: induct less qualified conscripts or extend the term of service under the draft. Neither of these are palatable options.<sup>148</sup>

Figure 30: Males aged 15-24 in Russia, estimated and projected, 2000-2030, UNPD and U.S. Census Bureau



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision and World Urbanization Prospects: The 2007 Revision, <http://esa.un.org/unpp>, February 26, 2010 and US Census Bureau International Database. Available online at <http://www.census.gov/ipc/www/idbnew.html>, Accessed on February 26, 2010.

<sup>148</sup> Extending the duration of service under the draft would likely be unpopular politically and would also force a reduction in the numbers of young Russians in higher education. Reducing the quality of the inductee pool would be problematic for reasons that are self-evident.



## A Continued Demographic Crisis

Russia's demographic crisis, as this study has shown, places unforgiving limits on the country's economic prospects. It is weighing the country heavily toward a prolonged relative decline for the Russian Federation.<sup>149</sup> Yet for now, the Kremlin still evidently believes that its ambitious long-term socio-economic plans will not only remedy the country's demographic woes but also propel the Russian Federation into the select ranks of the world's economic superpowers. If Russia's demographic and relative economic decline does continue over the next few decades, Moscow's leaders will be in the unpleasant position of awakening from an illusion. They will suddenly realize that their long-term strategy is unworkable and that they face a much more unfavorable international situation than they had imagined.

What can we expect of Russia's external behavior when the Kremlin's lofty ambitions are eventually confronted by inescapable demographic facts, with their attendant consequences for Russian power? Will a suddenly disillusioned Russian leadership conclude that urgent new measures are needed to defend the country from foreign threats? Will the national directorate become more risk-averse in its international policies, or less so? Will it be tempted to embrace a more unfriendly, aggressive international posture? Not least of all, will Russian leaders become more prone to making international miscalculations?

None of these questions, of course, can be answered today. All of these questions, however, point toward a single conclusion, namely, that one of the most worrisome consequences of the Russian demographic crisis might turn out to be its impact on the foreign and security policies of the country's own leadership.

### *What Is to Be Done?*

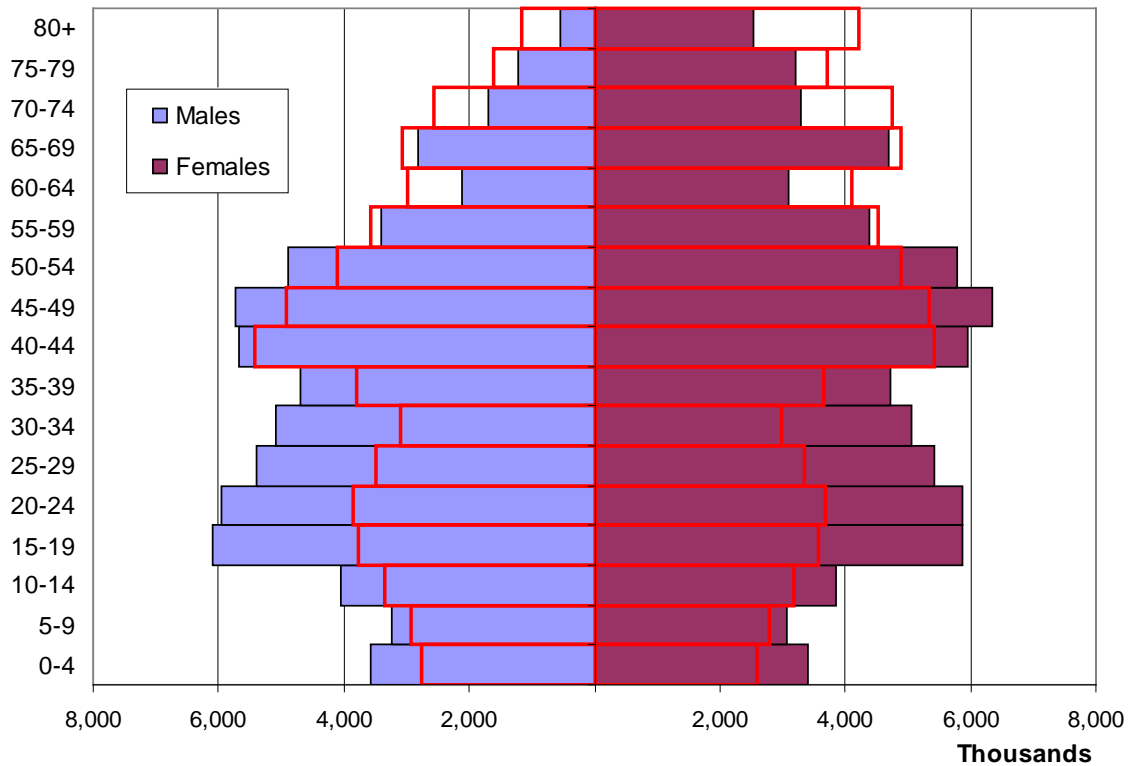
As we have by now seen, the Russian Federation's present peacetime demographic crisis is a problem monumental in scope and truly historic in nature. This is not the place or time to offer an action plan for its redress. Rather, by way of conclusion, we may emphasize that the manifold woes the crisis imposes on the Russian people today will not be remedied without a commensurately monumental and historical national-wide effort by the Russians themselves to move their society toward a different and much better future. In this sense, the task at hand is nothing less than a fundamental change of mentality.

It is difficult to foresee scenarios where the Russian leadership is willing or even could also take corrective measures to address the series of demographic challenges the country faces. Within the next 20 years, it may be possible to mitigate or moderate some of the biggest challenges, but it is almost impossible to see how the trends could be reversed.

---

<sup>149</sup> This is not to say that the demographic crisis precludes economic growth in Russia. The Russian Federation may well enjoy a measure of economic growth in the decades ahead. Rather, it is to suggest that in relative terms Russian GDP may lag ever further behind the world's leading economic powers in the decades ahead, due in large part to the multifaceted crisis of human resources besetting the Russian Federation.

Figure 31: Estimated and Projected Population Structure: Russian Federation, 2005 vs. 2030, U.S. Census Bureau Estimates



Source: US Census Bureau International Database. Available online at <http://www.census.gov/ipc/www/idbnew.html>, Accessed February 26, 2010.

Alexander Solzhenitsyn—modern Russia’s greatest writer and most inspiring champion of the human spirit—once observed:

Patriotism is an integral and persistent feeling of love for one’s homeland, with a willingness to make sacrifices for her, but not to serve her unquestioningly, not to support her unjust claims, rather to frankly assess her faults, her transgressions, and to repent for these....A multinational country must rely in difficult moments of history upon the support of *all* of its citizens. Every one of its peoples must live with the conviction that it, too, desperately needs a singular defense of the interests of the [motherland].<sup>150</sup>

By this definition, the struggle to extricate Russia from its current demographic travails is nothing less than a patriotic task. Indeed, joining in this struggle may be the most pressing of the many challenges facing every Russian patriot today. Just as patriotism has a spiritual as

<sup>150</sup> Alexander Solzhenitsyn, “Russia in Collapse,” in *The Solzhenitsyn Reader: New And Essential Writings, 1947–2008*, eds. Edward E. Ericson, Jr., and Daniel J. Mahoney (Wilmington: ISI Books, 2008): 473–74.

well as a political element, any successful movement for a Russian demographic renaissance will likely be conducted beyond the narrow political sphere alone.

Foreign well-wishers can contribute far less than Russians themselves to the mitigation of this peacetime demographic crisis. That should hardly surprise. Nonetheless, the international community can most assuredly also be of assistance in this hour of need for the Russian people. The humanitarian imperative impels us to try to mitigate modern Russia's suffering, and there are diverse avenues through which international humanitarian assistance (and technical support) could be of help in Russia today.

The outside world's role in restoring Russia to health could and should extend much further than simply changing bandages on wounds. A healthy, robust Russia—one in which human resources are prized and augmented—is not just in the interest of the Russian people. It is in the interest of the world as a whole. Recognition of this critical fact should inform the international community's broader approach to Russia—not only today but in what we may hope will be better times to come.

## RUSSIAN ENERGY OUTLOOK 2020

ARIEL COHEN, Heritage Foundation

As a giant energy producer and a major energy transit country, Russia is an important player in the field of global energy production. With 44.65 trillion cubic in proven reserves, Russia has the largest reserves of natural gas in the world, and possesses some 79.4 billion barrels of oil, around 6.4% of the world's total.<sup>151</sup> In 2009 oil production, Russia accounted for and 9.9 million barrels per day (mad), competing only with Saudi Arabia for the number one oil producer.<sup>152</sup> Total Russian net oil exports reached 7 mbd the same year.<sup>153</sup> In natural gas production, Russia produced 527.5 billion cubic meters of natural gas during the recession in 2009, second only to the United States.<sup>154</sup> In 2007, just before the economic downturn, Russia produced 607.4 billion cubic meters, and was the single greatest natural gas producer in the world.<sup>155</sup> In addition to that, large areas of eastern Siberia and the Arctic are still unexplored and, according to experts, are expected to yield up to a quarter of the world's energy supply.

Despite its vast resource base and its formal assurances of reliable partnership, Moscow has already proved that it is willing to hike up oil and gas prices to match the general trend of higher energy prices, engage in anti-free market practices, especially at home and in Europe, and use energy as a foreign policy tool.

Russia is willing to using its force to achieve geo-economic goals as well. Control of energy corridors from the Caspian Sea to the Black Sea and beyond was a target of the Russian military operation against Georgia in August 2008. This is clearly confirmed by other incidents involving delays in energy supply to Ukraine, Azerbaijan, Belarus, Georgia and the Baltic states. Many argue that Moscow's international energy behavior leaves its partners insecure and makes observers doubt that Russia is rising as a responsible player, especially when not constrained by competition and powerful investment sources.

Moscow is dependent on its massive Soviet era-built pipelines. Russia's energy policy is facilitated by the Soviet-era oil and gas infrastructure that ties Central Asian producers to Russia for their access to external markets. As part of its strategy, Russia pushes to maintain control over energy transportation routes and opposes any projects that could provide Europe

---

<sup>151</sup> BP 2007 Energy Survey, June 2008, p. 6,  
[http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2008/STAGING/local\\_assets/downloads/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_review\\_2008.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf)

<sup>152</sup> EIA, *Russia Gas*, Country Analysis Briefs, Department of Energy, Energy Information Agency, November 2010, [http://www.eia.doe.gov/emeu/cabs/Russia/Oil\\_exports.html](http://www.eia.doe.gov/emeu/cabs/Russia/Oil_exports.html) (Accessed February 28, 2011)

<sup>153</sup> *Ibid.*

<sup>154</sup> BP 2009 Energy Survey, June 2010, p. 22,  
[http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2008/STAGING/local\\_assets/2010\\_downloads/statistical\\_review\\_of\\_world\\_energy\\_full\\_report\\_2010.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/2010_downloads/statistical_review_of_world_energy_full_report_2010.pdf)

<sup>155</sup> BP 2007 Energy Survey, June 2008, p. 24,  
[http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2008/STAGING/local\\_assets/downloads/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_review\\_2008.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf)

with alternative energy supplies. European demand was very high before the recent economic crisis, and is projected to grow further provided the current geopolitical instability does not cause another global recession. In 2006, the EU consumed a total of 608 million tons of oil, or around 12.2 mbd, of which 33% came from the Russian Federation and another 5% from the Russia-dependent Kazakh oil sector.<sup>156</sup> In 2007, the EU27 consumed 505 billion cubic meters, which increased to some 517 billion cubic meters in 2008, of which 25% came from Russia, according to EuroGas<sup>157</sup>. In 2009, 80% of Russia's 7 mbd in exports went to Europe, with Germany alone claiming 700,000 barrels per day.<sup>158</sup> Eastern Europe consumes even higher percentages of Russian energy, with several countries being entirely dependent on Russian gas.

### **Russia's Geopolitical Revisionism**

To Europeans energy dependence on Russia is unsettling. The Kremlin through its two state monopolies, Gazprom (for natural gas production and gas pipelines) and Transneft (for oil pipeline transit), has demonstrated its readiness to use hydrocarbon muscle and newfound wealth as a political tool in its relations with neighboring states, while reaching out to bolster anti-status quo energy exporters, such as Venezuela and Iran, thus endangering international security.<sup>159</sup> These concerns became even stronger with Russia's invasion into Georgia in the summer of 2008. On August 8 that year, as the Beijing Olympics started, Russia decided to rewrite the rules of post-World War II European security. It effectively repudiated the Helsinki Pact of 1975, which recognized sanctity of borders in Europe, and violated the sovereignty and territorial integrity of the NATO aspirant Georgia, whose troops had attacked South Ossetia, an integral part of Georgia, the day before. In the process, Russia also tore up its own peacekeeping mandate in South Ossetia and Abkhazia, and soon thereafter recognized declarations of independence by the secessionist, pro-Moscow regimes of South Ossetia and Abkhazia. The Georgian war brought Russia back to the Southern Caucasus in force, outflanking oil-rich Azerbaijan, and getting closer to the principal energy and rail arteries bringing natural resources from the Caspian Sea and Central Asia to the West, and consumer and industrial goods to the East. The Russian military practically destroyed the Georgian military, which protected the energy pipelines, and the Georgian port of Poti, the important Black Sea terminal of the East-West corridor.

Russia proclaims that it wants to shift the global balance of power away from the United States, "Finlandize" Europe, revise global economic institutions, and return to highly competitive and often confrontational great power politics reminiscent of the 19th century. Such anti-status quo revisionism is the stuff of which world wars are made. Think of the

---

<sup>156</sup> Staff, *An EU Energy Security and Solidarity Action Plan (SEC(2008)2871)*; Commission of the European Communities, Working Document, Brussels, 13.11.2008, p. 9

<sup>157</sup> Eurogas, *Natural Gas Consumption by EU27, Turkey, and Switzerland in 2008*, Eurogas Press Release, Brussels, March 12, 2009 (accessed February 28, 2011)

<sup>158</sup> EIA, *Russia Oil Exports*, Country Analysis Briefs, Department of Energy, Energy Information Agency, November 2010, [http://www.eia.doe.gov/cabs/Russia/Oil\\_exports.html](http://www.eia.doe.gov/cabs/Russia/Oil_exports.html) (Accessed February 28, 2011)

<sup>159</sup> Cohen, Ariel; *Gas Exporting Countries Forum: The Russian-Iranian Gas Cartel*; IAGS Journal of Energy Security, December 2008 Issue, 14 December 2008 (Accessed: March 6, 2011)

Balkan wars, which preceded World War I or Adolf Hitler's invasion of the Sudetenland in Czechoslovakia in 1938—with Europe's acquiescence. These motifs became less pronounced during the Medvedev presidency and the "reset" rhetoric with the US, but hardly disappeared. Western analysts and officials accuse Moscow of hindering security of oil and gas supply through its politically motivated decision-making in the energy sphere and excessive emphasis on control of the energy markets and resources. However, as a major energy producer whose economy is heavily dependent on energy exports and who is vulnerable to fluctuations in global commodity prices, Russia views its energy security in a very different way.

While Russia is continuing its domination of west-directed energy trade, the Kremlin is also developing a trade east to the energy-hungry Asian market.<sup>160</sup> The East-Siberia-Pacific Ocean pipeline (ESPO) goes from Irkutsk oil regions to the town of Skovorodino on the Amur River, where a second leg will continue on to the Russian Pacific port city of Kozmino, for oil to be sold to the Japanese, Korean and Chinese markets. Another leg goes from Skovorodino directly into the north Chinese town of Daqing, pumping some 220,000 tons of crude per day into China.<sup>161</sup> The Skovorodino-Daqing pipeline went online on the first day of 2011, and some 42,000 tons of crude oil had flowed into China in the first 24 hours.<sup>162</sup> These developments are just harbingers of a major reorientation of Russia's energy exports markets, shifting from a slow-growing Europe to fast-developing Pacific Rim.

### **A View from the Kremlin**

Russia has criticized Europe's approach to international energy security as limited to the energy importers' interests. Under Russia's presidency in the Group of Eight (G8), then-President Vladimir Putin made energy relations a central theme at his 2006 summit in St. Petersburg, presenting his own vision for "global energy security."<sup>163</sup> While talking of interdependence and dialogue, Russia insisted on providing demand guarantees for the producers, and sharing responsibilities and risks among energy suppliers, consumers, and transit states. Putin spoke of joint commitments on the energy arena with coordination and distribution of profits and risks to prevent energy conflicts.<sup>164</sup> This would not be a problem if Russia allowed minimally restricted access to its energy resources for international oil companies (IOCs). Unfortunately, since 2003 this hardly has been the case, as the state has not budged from monopolizing gas production or oil and gas pipeline transportation, and has tightened its grip over the quickly growing oil production sector by effectively expropriating YUKOS and buying Sibneft and Russneft oil companies.

---

<sup>160</sup> Eric Watkins, *Russia plans to start extending ESPO crude oil pipeline in 2011*; Oil and Gas Journal, Vol. 108, Iss. 12, Apr. 5, 2010 (Sept. 22, 2010)

<sup>161</sup> Russian section of Russia-China oil pipeline launched; Xinhua Agency, Moscow, August 29, 2010 at [http://www.china.org.cn/business/2010-08/29/content\\_20817719.htm](http://www.china.org.cn/business/2010-08/29/content_20817719.htm) (Sept 22, 2010)

<sup>162</sup> RT Staff, *From Russia with oil ... for China*, RT.com, News section, January 2, 2011, <http://rt.com/news/russia-oil-china-pipeline/> (Accessed on March 1, 2011)

<sup>163</sup> Nina Kulikova, "Voprosy Energeticheskoy bezopasnosti – pozitsiya Rossii [The Issues of Energy Security – Russia's Position]," RIA Novosti, September 1, 2006, <http://www.rian.ru/analytics/20060901/53406077.html>

<sup>164</sup> *Global Energy Security Fact Sheet*, Official Website of G8 Summit in St. Petersburg, 2006, [http://www.en.g8russia.ru/press/facts/global\\_energy/](http://www.en.g8russia.ru/press/facts/global_energy/) (Accessed March 5, 2011)

This trend of marginalizing and even actively persecuting Russian independent energy business has continued, with the controversial re-sentencing of Russian oil magnate Mikhail Khodorkovsky in December of 2010, resulting in six more years of prison for the former businessman.<sup>165</sup> The Khodorkovsky case is a particularly symbolic: the former oil tycoon has gone from being one of Russia's leading energy capitalists, the owner of YUKOS Oil Company and a promoter of economic and political liberalization to a political prisoner since 2003. Of course, YUKOS is now subsumed into Igor Sechin's Rosneft state-owned oil company. His opposition to then-President Vladimir Putin's authoritarian administration resulted in a long list of absurd charges of tax evasion and fraud. This last conviction was handed down on December 29, 2010, after Khodorkovsky was absurdly accused of and of stealing 350 million tons of oil from his own companies, a claim made all the more unbelievable given that the total production figure was higher than YUKOS'.<sup>166</sup> The case's tainted nature became even more evident after Alexei Navalny's exposé of corruption in construction of Transneft's massive Russian-Chinese pipeline, where 4 billion U.S. dollars have been stolen or defrauded with no redress by individuals close to the Kremlin.<sup>167</sup> The non-transparent, unfair nature of the Khodorkovsky cases received a great deal of criticism from Western leadership, including a statement from President Obama as well as European governments.<sup>168</sup> The outcome is highlighted not only the "vendetta" politics of contemporary Russia,<sup>169</sup> but also that the Russian government, not private citizens or international markets, will set policy on the economy, and particularly its energy sector.

Russia's Energy Strategy, adopted in 2003, sets the framework for the country's energy policy. Thus, Russian energy security builds upon "protection of the country, its citizens, and economy from [external and domestic] threats to reliable energy supply," including geopolitical and energy market risk factors.<sup>170</sup> Moscow is set to promote a non-discriminative regime for the Russian companies to access foreign energy markets and advance their participation in large international oil and gas projects. Energy factors are put in the center of Russian diplomacy. As President Putin noted in one of his speeches, "the place Russia takes in global energy cooperation directly impacts its current and future wellbeing."<sup>171</sup> Russia's

---

<sup>165</sup> Vasilyeva, Nataliya, *Russian Tycoon Khodorkovsky gets 6 more years*, Washington Times, World News section, December 30, 2010, <http://www.washingtontimes.com/news/2010/dec/30/russian-tycoon-khodorkovsky-gets-6-more-years/> (Accessed March 1, 2011)

<sup>166</sup> Simon Shuster; *Khodorkovsky Case: Russia's Courtroom of the Absurd*; *Time*, Dec. 27, 2010, <http://www.time.com/time/world/article/0,8599,2039824,00.html>

<sup>167</sup> Volchok, Dmitry; Юрист Алексей Навальный – о коррупции в компании "Транснефть" [Jurist Aleksei Navalny – on corruption in Transneft]; *Радио Свобода [Radio Liberty, Russian language]*, November 20, 2010, <http://www.svobodanews.ru/content/article/2225552.html>

<sup>168</sup> Ariel Cohen; "Free Khodorkovsky"; *Heritage Commentary*, March 10, 2010, <http://www.heritage.org/research/commentary/2010/03/free-khodorkovsky>

<sup>169</sup> Tisdall, Simon. "Mikhail Khodorkovsky: The latest victim of Vladimir Putin's vendetta politics"; *The Guardian*, December 27, 2010, <http://www.guardian.co.uk/world/2010/dec/27/mikhail-khodorkovsky-vladimir-putin>

<sup>170</sup> "Energy Strategy of the Russian Federation for the Period till 2020," <http://www.minprom.gov.ru/docs/strateg/1>.

<sup>171</sup> V. Salgin, "Globalnaya energeticheskaya bezopasnost' I vneshnyaya energeticheskaya politika Rossii [Global Energy Security and Russia's Foreign Energy Policy]," *Neftegaz*, June 28, 2007, <http://www.neftegaz.ru/analit/reviews.php?id=548>

energy strategy through 2030, accepted in 2009, predicted even greater increases in Russia's oil and gas production sector, despite property rights, tax code, the scope of needed investment, and concerns about obsolescent infrastructure – promising Russia a substantial strategic future.<sup>172</sup> With ample energy resources and a dominant position in the European market, Russia's hydrocarbon power will remain impressive into 2020 and beyond. Beyond that, Russian decision makers sense that consumer governments and companies, anxious to get coveted barrels and cubic meters do not want to challenge the supplier's assertive foreign policy.

In the remaining years until 2020, Russian strategy in the energy sector seeks to maximize its economic and geostrategic advantages as a major energy producer with vast hydrocarbon reserves. This becomes even more poignant as the Middle East supplies are suffering from the repercussions of the “Arab spring” and the future of the nuclear power becomes more uncertain as the result of the Japanese calamities and nuclear power station disaster. The Kremlin has advanced Russia's energy strategy through an array of security and economic policies, which aim at a common strategic goal. These policies create customer country dependency by locking in demand with energy importers and consolidating oil and gas supplies by signing long-term contracts with Russian and Central Asian state-owned or state-controlled energy producers and Russian state-owned pipeline monopolists.

Europe's view of energy supply security has mainly to do with concerns about supply disruptions arising from risks associated with government policies affecting gas supply sources and transit. In the recent years, the issue of gas corridor diversification has become increasingly important for Europe as the EU officials try to reduce dependence on Russian gas.

### **Russia-EU Relations**

Moscow prefers to deal with the EU member states separately rather than as a group. This way it can price-discriminate among its customers, charging each country as close to its full paying potential as possible.<sup>173</sup> The second prong of Russia's strategy is to lock in supply by consolidating control over strategic energy infrastructure throughout Europe and Eurasia. Russian state-owned or -dominated companies use outright equity ownership or joint ventures to control supply, sale and distribution of natural gas. Moscow is steadily buying up major national energy infrastructure companies, such as pipelines, refineries, electric grids, and ports. For example, in 2002, Russian state-owned Transneft attempted to gain control of the Mazeikiu Nafta refinery in Lithuania as well as the Ventspils oil export terminal in Latvia. When the two governments refused to sell their stakes to Transneft, Moscow sharply cut oil deliveries, forcing Ventspils to obtain oil by rail at a greater cost. In Lithuania, Russian pursuit of the Mazeikiu refinery was cut short when the Polish company PKN Orlen bought

---

<sup>172</sup> Blagov, Sergei, *Reality Check for Russian Oil*, Asia Times Online, Central Asia section, January 5, 2011, [http://www.atimes.com/atimes/Central\\_Asia/MA05Ag01.html](http://www.atimes.com/atimes/Central_Asia/MA05Ag01.html) (Accessed March 1, 2011)

<sup>173</sup> Ariel Cohen, “The Northern European Gas Pipeline Threatens Europe's Energy Security,” Heritage Foundation *Background* #1980, October 26, 2006, [http://www.heritage.org/research/Europe/upload/bg\\_1980.pdf](http://www.heritage.org/research/Europe/upload/bg_1980.pdf); Judy Dempsey, “Gzprom plans to re-route controversial European pipeline,” *International Herald Tribune*, August 23, 2007.



the asset in 2006.<sup>174</sup> In May 2007, a top executive at Ventspils said, “the company was prepared to take on a strategic Russian investor.”<sup>175</sup>

Gazprom, fully supported by the Kremlin, is pushing to gain greater access to European gas distribution networks. In 1998, Gazprom took over shares of Topenergy, a Bulgarian company dealing with commercial distribution of gas.<sup>176</sup> As of 2004, Gazprom had \$2.6 billion invested in 23 big joint ventures, including Slovrusgaz in Slovakia (50% stake), Europol Gaz in Poland (48%), and Eesti Gaas in Estonia (30.6%).<sup>177</sup> In 2007–2008, Moscow has completed acquisitions of companies, pipelines, and storage facilities in Bulgaria, Serbia, Hungary, and Austria, in preparation for the rollout of its South Stream project, which is aimed at derailing the competing Nabucco EU-backed gas supply project. Rosneft, LUKoil, and other actors followed Gazprom’s acquisitions of strategic infrastructure companies in Georgia, Hungary, Ukraine, and Belarus. However, not everything is going on smoothly. Russia has had difficulties in summer 2010 controlling its transit allies: A squabble with Belarus because of energy-related debt and unpaid transit fees nearly halted exports completely to the West, until concentrated negotiations by both parties resolved the issue in late June.<sup>178</sup> Although the stoppage was in summer, as opposed to the crippling winter stoppage due to a conflict with Ukraine in winter of 2008-2009, the halt of gas supply due to internal debate between Russia and Belarus left Europeans with a negative impressions of their energy provider’s reliability. In April of 2010, Russia used its control over Ukraine’s gas supply to extend its Black Sea Fleet’s lease of the naval base at Sevastopol for an additional 25 years, in exchange for lower gas prices to Kyiv.<sup>179</sup> This decision, a sacrifice of a country’s vital national sovereignty and security interests because of energy dependency, highlights Russia’s energy primacy and impact. These trends are likely to continue into 2020s.

## Pipeline Politics

Russia aggressively tries to consolidate control over major European oil and gas transportation routes through multibillion-dollar transnational pipeline projects from the Baltic to the Black Sea, including North Stream, Blue Stream and South Stream. The existing Soviet era pipeline system gives Russia strategic control over oil and gas flows throughout the former Soviet Union. The Putin era expansion of this system would add redundancy and bypass problematic transit countries, such as Ukraine, Belarus and Georgia, while consolidating Russia’s control over Europe’s supply. In 2010, Ukraine has even begun to consider selling its gas pipeline infrastructure, seeking to reduce gas costs and minimize

---

<sup>174</sup> Judy Dempsey, “Poland supports purchase of refinery,” *International Herald Tribune*, October 31, 2006

<sup>175</sup> “Ventspils Nafta ready to cooperate with Russia,” *The Baltic Times*, May 2, 2007, <http://www.baltictimes.com/news/articles/17809>.

<sup>176</sup> Judy Dempsey, “Russia casts energy web over East Europe,” *International Herald Tribune*, October 1, 2004, [http://www.iht.com/articles/2004/10/01/energy\\_ed3\\_.php](http://www.iht.com/articles/2004/10/01/energy_ed3_.php).

<sup>177</sup> *Ibid.*

<sup>178</sup> Osborn, Andrew; Russia-Belarus 'gas war' ends; *Telegraph.co.uk*, 24 Jun 2010, at <http://www.telegraph.co.uk/news/worldnews/europe/russia/7852161/Russia-Belarus-gas-war-ends.html> (Sept. 22, 2010)

<sup>179</sup> Harding, Luke; *Ukraine extends lease for Russia's Black Sea Fleet*; *Guardian.co.uk*, World News section, April 21, 2010, <http://www.guardian.co.uk/world/2010/apr/21/ukraine-black-sea-fleet-russia> (Accessed March 1, 2011)

energy drama under the leadership of Ukrainian president Victor Yanukovich. Today, 80% of Gazprom's exports to Europe go through the Ukrainian pipeline network, so control of the system would leave a good part of Europe's gas supply in the hands of the Kremlin's leadership.<sup>180</sup>

The EU and the United States have supported several large projects to diversify energy supply routes to Europe. The Kremlin, however, is assertively opposing the Western-controlled pipeline projects directly linking Eurasian energy-producing countries to European markets. Moscow fulminated against the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Erzurum gas pipeline (in the 1990s), but due to its relative geopolitical weakness Russia did not take action on the ground to prevent those projects from materializing.<sup>181</sup> With lessons learned from BTC, Gazprom and Transneft are consistently working to undermine the European Nabucco project, which aims to bring Caspian gas via Turkey, Bulgaria, Romania and Hungary to Austria and the heart of Europe. Moscow is signing multibillion-dollar deals with individual European states to construct the following pipelines, under Russian control: Nord Stream, South Stream, and Blue Stream II.

Despite widespread consensus in Europe about importance of reducing dependence on Russia as singly energy supplier, the EU has not been successful in diversifying its energy suppliers. The EU's failure to formulate a common European energy strategy toward Russian energy dependence allowed the Kremlin and its energy companies to uphold their dominant position as the single largest energy supplier on the European market. Russia's state-controlled Gazprom, the largest gas supplier in Europe, has pursued an energy strategy seeking control over strategic energy distribution infrastructure in Europe and Eurasia.

In March 2011, Gazprom and Wintershall signed an agreement, which would expand gas production of Achimov deposits of the Urengoy field. The EU decision makers should be cautioned if this expansion would further increase their dependency on state-controlled Gazprom as a single largest supplier. As a result of the deal, Gazprom would get a stake in Wintershall's oil and gas projects in the North Sea while the German company would take part in the development of oil and gas fields in western Siberia. Russia's Gazprom, Germany's BASF/Wintershall, E.ON, Ruhrgas and Dutch energy group N.V. Nederlandse Gasunie, are also members of the consortium working on the construction of the Nord Stream pipeline planned through the Baltic Sea and scheduled to be completed in 2013.

Dependence on Russian energy would not pose a serious danger if Russia played by the same rules as other energy players in the European market. For instance, EU investors, under the Russian Natural Resources Law, are prohibited to own more than 25 percent of Russian "strategic" natural resources enterprises. As a matter of reciprocity, experts suggest that Russian companies should not be able to own more than 25 percent of European energy

---

<sup>180</sup> Andrew Kramer; Seeking Lower Fuel Costs, Ukraine May Sell Pipelines; New York Times, Late Edition, March 25, 2010, p. 14 (Sept. 22, 2010)

<sup>181</sup> Yuriy Solozobov, "Energeticheskaya bezopasnost': ponyatie po interesam [Energy Security: Interests-based Concept]," *Promyshlennye Vedomosti*, no. 7-8, August 2006, <http://www.promved.ru/articles/article.phtml?id=882&nomer=32>

distribution companies. This has not been the case, however, as Russian companies are seeking control of European gas utilities and pipelines.

One of the tactics that the Europeans could use in dealing with Gazprom aggressive expansion in the European energy market is apply EU's anti-trust law. For instance, major energy firms that operate in the EU market are subject to the EU law regulating international trade including provisions of Article 82 of the Treaty Establishing the European Community, aimed to prevent corporate practices of antitrust and anticompetitive behavior. In this context, the EU would apply Article 82 to anti-trust and anti-competition practices demonstrated by Gazprom in light of its recent efforts to acquire dominant shareholder ownership rights in the gas infrastructure in Europe. The EU is likely to apply its anti-monopoly and competition laws towards Russian suppliers as we move closer to 2020.

### **Nord Stream Pipeline**

In 2003, German Chancellor Gerhard Schroeder and President Putin agreed to build the North Transgaz (Nord Stream Pipeline) to supply Germany with Russian natural gas. In mid-2010, France's GdF Suez and the Netherlands' gas infrastructure company Neerlandse Gasunie have both bought 9% stakes, each, in the project, putting major European support behind Nord Stream.<sup>182</sup> This \$16 billion pipeline will cross the Baltic Sea from Russian port Vyborg to German Greifswald, bypassing Ukraine, Belarus and Poland. Nord Stream is expected to become operational by 2013 with the initial annual capacity of 27.5 bcm of gas.<sup>183</sup> Russia's Gazprom owns 51 percent of the Nord Stream AG (formerly North European Gas Pipeline Company), created to build the pipeline's submarine section.<sup>184</sup> Constructing a seabed pipeline is, by some estimates, three times as expensive as an overland pipeline of comparable capacity, but the Kremlin and its German partners have rejected the overland options.<sup>185</sup> The Nord Stream Pipeline would further tie European energy security to the Kremlin and Russian gas deliveries, extend Gazprom's reach in Europe, and cultivate nontransparent practices in the EU markets.<sup>186</sup> Opposition to this pipeline among the Northern and Central European states failed, however. First Estonia, and then Finland and Sweden have expressed concerns about the environmental safety of the pipeline and have pressured Gazprom to make a costly re-routing decision.<sup>187</sup> Sweden has opposed the construction of a compressor station near its Gotland Island out of security considerations,<sup>188</sup> although the Nord Stream's "donation" to a college on the island, and their hiring of several government officials, seems to have quieted

---

<sup>182</sup> Engdahl, F. William; The Russia-German Nord Stream strategic pipeline; Alexander's Gas & Oil Connections, July 7, 2010, at [www.gasandoil.com/goc/company/cnr103430.htm](http://www.gasandoil.com/goc/company/cnr103430.htm) (Sept. 22, 2010)

<sup>183</sup> Nord Stream AG, "Nord Stream: the new gas supply route to Europe," Press-Release, July 20, 2007, [http://www.nord-stream.com/uploads/media/Nord-Stream\\_press\\_Release\\_Background\\_info\\_eng.pdf](http://www.nord-stream.com/uploads/media/Nord-Stream_press_Release_Background_info_eng.pdf); "Company Structure," <http://www.nord-stream.com/company.html?&L=0>.

<sup>184</sup> *Ibid.*

<sup>185</sup> "Baltic Pipeline Poses Environmental Threat – Estonian Premier," RIA Novosti, March 11, 2005;

<sup>186</sup> *Ibid.*, and Cohen, "The North European Gas Pipeline"

<sup>187</sup> Dempsey, "Gazprom Plans to Re-Route Controversial European Pipeline," and "Finland Wants Environmental Study of Nord Stream Gas Pipeline," *RIA Novosti*, November 12, 2007.

<sup>188</sup> Bakst, Alex, "Sweden Afraid of Russian Spooks", *Der Spiegel Online*, News Section, November 15, 2006, <http://www.spiegel.de/international/0,1518,448652,00.html>

resistance.<sup>189</sup> Poland and the Baltic states have been outspoken about political motivation for the pipeline.<sup>190</sup> In addition, the German consumer associations have raised concerns about pricing arrangements of the Nord Stream project and their effect on energy prices for the end consumers.<sup>191</sup> Yet the project seems to be proceeding apace.

The Nabucco project, on the other hand, has achieved some success during 2010 as their respective governments ratified the intergovernmental agreement between Turkey, Romania, Bulgaria, Hungary and Austria. At the same time, however, there remains uncertainty about the sources of financing for Nabucco and about viability of possible suppliers, among which are Azerbaijan, Turkmenistan, and possibly Northern Iraq. The US and most European clients would be strongly opposed to Turkey's idea of bringing Iranian gas to the European markets via Nabucco.

Russia has been able to respond to Nabucco challenge in two ways: first, downstream, by launching the competing project – South Stream – which could ship Caspian and Russian gas to the same Central and Western European markets -- and also to other ones in Southern Europe such as Serbia, Slovenia and Italy. Second, upstream, by entering into long-term contracts directly with Turkmenistan to remove all the available gas of the Western Turkmenistan fields. South Stream, the rival project led by Gazprom, seems to have a competitive advantage because the project will have access to proven gas reserves. However, there are doubts about the feasibility of South Stream project, since it may cost twice as much as Nabucco, and because Gazprom has recently suffered financially from the 2008-2010 global economic crisis.

Both Nabucco and South Stream are scheduled for completion in 2015. Competition theory can be used to shed some light on the probable outcomes of the competition between the Nabucco project and the South Stream project. These two pipeline initiatives compete on two levels: a) upstream, for access to Caspian or other sources, and b) downstream for accessing to markets in Central and Southern Europe. Both of these two entities compete to buy gas partially from the same sources and sell it to the same geographic markets. An important aspect of this competition is that these two entities have to attract a large-scale investment. In order for Nabucco project to succeed, it will require a strong commitment and political will from the EU to formulate a comprehensive strategy in developing long-term contracts with potential gas suppliers in the Caspian region as well as ensuring sufficient investment in the pipeline infrastructure.

Analysts of the Petroleum Economist have concluded that with their geopolitical advantage and the offer of European market prices for gas, Russia has outstripped the European

---

<sup>189</sup> "Nord Stream gift prompts bribery probe", *The Local*, Feb 19, 2009, <http://www.thelocal.se/17680/20090219/>; and "Former political employees now on other side in the hot 'pipe-line question'", Stockholm News, Politics Section, February 16, 2009, <http://www.stockholmnews.com/more.aspx?NID=2700>

<sup>190</sup> "Poland Bent North the Gas Pipeline of Russia," *Kommersant*, August 22, 2007.

<sup>191</sup> Vladimir Socor, "Questions Multiply on the Baltic Seabed Pipeline Project's Viability", *Eurasia Daily Monitor* Vol. 4, Issue 79, April 23, 2007, [http://www.jamestown.org/programs/edm/single/?tx\\_ttnews%5Btt\\_news%5D=32696&tx\\_ttnews%5BbackPid%5D=171&no\\_cache=1](http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=32696&tx_ttnews%5BbackPid%5D=171&no_cache=1)

competition in terms of profitability, and may scuttled the Nabucco project by denying the pipeline its necessary suppliers. Instead, Russia will be able to move Central Asian natural gas both east to the Asian market and west into Europe.<sup>192</sup>

Despite widespread consensus about importance of reducing energy dependence on a single supplier, the EU has not been successful in diversifying its energy sources. The EU's failure to formulate a common European energy strategy toward Russian energy dependence allowed the geopolitically motivated Kremlin to strengthen its dominant position as the single largest energy supplier on the European market.

European states such as France, Germany, and Italy have cultivated bilateral energy relations with Russia at the expense of a common energy strategy towards the continent's dependence on Russian gas, thereby undermining one of the EU's fundamental principles, the multilateral decision-making process. Furthermore, the EU has severe limitations over a sufficiently enforceable policy regarding transparency and competition in energy trade, nor does it have a common European strategy toward keeping Russian state-controlled energy companies accountable and transparent. As a result, Kremlin's political leverage and lack of transparency in international energy transactions permeates European energy trade market, which also may have negative effects on Western energy firms operating in the EU energy market. It remains to be seen if the EU Member state will change their policy by 2020.

### **The Caspian Coastal (Prikaspiisky) Pipeline**

At a May 2007 summit in the Turkmen port town of Turkmenbashi, Russia, Turkmenistan and Kazakhstan reached a preliminary agreement to upgrade the Prikaspiisky gas pipeline to carry gas from Turkmenistan, through Kazakhstan, to Russia.<sup>193</sup> According to the Russian estimates, the expansion would allow the pipeline to carry 10 bcm per year by 2009, and up to 30 bcm per year by 2015, up from 0.4bcm of gas in 2006, thus further tying the Caspian gas producers to Russia for their access to the Western markets. In November 2007, Russia agreed to pay a higher price for the Turkmen gas supplies—removing a price disagreement that analysts believed was a major obstacle to the deal.<sup>194</sup> On December 20, 2007, a trilateral agreement was signed in the Kremlin between Russia, Kazakhstan and Turkmenistan on the construction of the Caspian Coastal gas pipeline (from Turkmenistan through Kazakhstan to Russia), which is expected to increase annual exports of Turkmen gas to Russia to 20 billion cubic meters.<sup>195</sup> The Prikaspiisky expansion thwarts the plans for the U.S.-and EU-backed Trans-Caspian gas pipeline (TCP) that would have delivered Turkmen and possibly Kazakhstani gas across the Caspian Sea via Nabucco or other pipeline projects via Turkey,

---

<sup>192</sup> *Russia has trumped Nabucco for Central Asian gas*; Petroleum Economist, Sept. 2010, at <http://www.petroleum-economist.com/default.asp?Page=14&PUB=46&ISS=25678&SID=726833> (Sept. 22, 2010)

<sup>193</sup> "Russia Clinches Gas Pipeline Deal," *BBC News*, May 12, 2007, <http://news.bbc.co.uk/2/hi/asia-pacific/6649169.stm>.

<sup>194</sup> Blagov, Sergei, "Russia Renews Interest in CIS, Agrees to New Price Deal for Turkmen Gas," *Eurasia Insight*, November 27, 2007, <http://www.eurasianet.org/departments/insight/articles/eav112707.shtml>.

<sup>195</sup> Lucian Kim, "Putin Secures New Gas Pipeline, Undermining U.S. Plan," *Bloomberg*, December 20, 2007, <http://www.bloomberg.com/apps/news?pid=20601087&sid=aZAoqISorbFA&refer=home>.

and would have enabled Central Asian exporters to circumvent Russian-controlled routes.<sup>196</sup> The Russian government has also sought to de-rail the pipeline project by voicing environmental concerns: the Kremlin has argued, successfully it seems, that any pipeline installation in the Caspian must have the approval of all five littoral states.<sup>197</sup> While still moribund, the revival of the Prikaspiisky project may affect viability of projects, which plan to transport Caspian gas via Turkey.

### **Blue Stream and South Stream Pipelines**

The Blue Stream gas pipeline from Russia's North Caucasus coast across the Black Sea to Turkey's Durusu terminal, near the port-city of Samsun, also competes with the TCP project. By 2010, Blue Stream was expected to be operating at full capacity, delivering 16 billion cubic meters of Russian gas per year, though it currently provides less than a half of this amount. The total length of the pipeline is 758 miles. Russia's land section is 233 miles long; the offshore section is 247 miles long; Turkey's land section is 277 miles up to Ankara.<sup>198</sup> In an attempt to enter the Italian energy market, in June 2007, Russia's Gazprom and Italy's ENI signed a memorandum of understanding to build the South Stream gas pipeline from Russia to Italy. This pipeline, with planned capacity of 30 bcm a year, would run across the Black Sea from Russia to Bulgaria, bypassing both Ukraine and Turkey. From Bulgaria, the pipeline may either run southwest via Greece and the Adriatic to southern Italy, or northwest via Serbia, Hungary (or Austria), and Slovenia to northern Italy. In 2010, Greece has even agreed to the pipeline, and has activated a joint-stock company with Gazprom to build the part of the pipeline that will traverse Greece.<sup>199</sup> The South Stream pipeline will increase the EU's dependence on Russian energy supplies. It rivals the proposed extension of the EU-backed Baku-Erzurum gas pipeline via Turkey either to connect to Nabucco pipeline or continue to Greece and Italy. Most critically, South Stream competes directly with the EU and U.S.-backed Nabucco project. Nabucco's chances are shrinking as the Russian leadership and Gazprom are building up their influence in Europe and reaching agreements on alternative routes.

### **Controlling Eurasia's Energy**

Another tenet of Russia's energy security strategy is the consolidation of control over oil and gas supplies throughout Eurasia. Though possessing the world's largest gas reserves, Russia seeks to acquire a significant share of natural gas for exports from Central Asia and elsewhere, in order to be able to preserve and expand the market share—especially in Europe. The Kremlin also says that it is interested in the long-term availability of Central Asian energy so that it can “preserve Russia's northern gas fields for next generations, avoid boosting investment in their development, and decrease the pressure on the markets

---

<sup>196</sup> Ibid.

<sup>197</sup> Blagov, Sergei; Russia Tries to Scuttle Proposed Trans-Caspian Pipeline, EurasiaNet.org, March 27, 2006, <http://www.eurasianet.org/departments/insight/articles/eav032806.shtml>

<sup>198</sup> “Blue Stream”, *ENI Innovations and Technology*, [http://www.eni.com/en\\_IT/innovation-technology/eni-projects/blue-stream/blue-stream-project.shtml](http://www.eni.com/en_IT/innovation-technology/eni-projects/blue-stream/blue-stream-project.shtml), and “Blue Stream”, *Gazprom, Pipelines*, 2010, <http://www.gazprom.com/production/projects/pipelines/bs/>

<sup>199</sup> Greek-Russian firm to build South Stream pipeline link; Alexander's Gas & Oil Connection, June 29, 2010, at [www.gasandoil.com/goc/company/cnr103433.htm](http://www.gasandoil.com/goc/company/cnr103433.htm) (Sept. 22, 2010)

presenting strategic interests for Russia itself.”<sup>200</sup> Since 2002, Moscow has reached long-term exploration and supply deals with Kazakhstan and Uzbekistan to preempt them from reaching independent exporting arrangements with the Western companies, and to lesser extent, Chinese ones.

### **Cooperation with Eurasian neighbors**

Personal diplomacy is often at the heart of Russia’s energy strategy and is likely to continue to be so. In July 2006, when Russia was hosting the G8 summit, Vladimir Putin and Kazakh president Nursultan Nazarbayev, his personal guest, created a joint venture to process and export natural gas from the Karachaganak oil field in Kazakhstan. This took cooperation between the two regional heavyweights to a new level. At the August 2007 summit of the Shanghai Cooperation Organization (SCO), the presidents of Kazakhstan and Russia called for establishing an “Asian energy club” to extend energy ties between the member-states, including the creation of unified energy infrastructure to serve as a basis for a common SCO energy market. If successfully launched, such a body would further increase Russia’s geopolitical role as the linchpin of energy supply in Europe and Eurasia.<sup>201</sup>

Uzbekistan remains an important source of gas for Russia, supplying up to 10 bcm of gas a year. In 2004, Lukoil obtained a thirty-five year production sharing agreement over two gas sectors, while in January 2007, a Gazprom subsidiary started exploration and development on several gas deposits in northwestern Uzbekistan. An agreement entails a five-year exploration license for the Russian company and its exclusive right to export the gas.<sup>202</sup> A year earlier, Putin and Uzbek President Islam Karimov signed a deal awarding exploration and development rights to Gazprom for seven gas blocks, with combined reserves of one trillion cubic meters.<sup>203</sup> These developments cement Russian influence over Central Asia’s energy ties with the outside world, overturn Western companies’ leadership in the Caspian energy developments, which characterized the 1990s, and defeat the EU’s major goal to diversify its oil and gas imports. However, China has put a stiff competition with a number of massive deals in Kazakhstan and Turkmenistan.

It is Turkmenistan, however, that is key to Russia’s Eurasian gas strategy. Today, Turkmenistan supplies the bulk of Russia’s Central Asian gas, including most of the gas sold to Ukraine. Russia buys up to 30 bcm of Turkmen gas a year compared to Russia’s total 2006 exports to Europe of some 132 bcm. Access to Turkmen gas is strategically important for Russia to be able to meet its international commitments. Out of similar considerations, in May 2006 Gazprom agreed to pay a higher price (\$140/tcm) for gas supplies from Kazakhstan. A Russian energy analyst commented that “fair distribution” of incomes from Central Asian gas

---

<sup>200</sup> “Energy Strategy of the Russian Federation for the Period till 2020”, 53

<sup>201</sup> Peter Fedynsky, “Shanghai Cooperation Organization Seeks to Expand Energy and Security Influence,” *Voice of America*, August 16, 2007

<sup>202</sup> Vladimir Socor, “Uzbek Gas Output, Export Set to Grow under Russian Monopoly Control,” Jamestown Foundation *Eurasia Daily Monitor*, February 22, 2007.

<sup>203</sup> “Uzbekistan – The Oil/Gas E&P Potentials,” *APS Review Gas Market Trends*, October 6, 2008, <http://www.allbusiness.com/energy-utilities/oil-gas-industry-oil-processing/11604913-1.html>

exports is vital for preserving the post-Soviet gas transportation system, which opens the way to creating a new “gas OPEC.”<sup>204</sup>

If Gazprom were able to close deals with the governments of Turkmenistan and Azerbaijan, this would enable Moscow to obtain gas that could be resold to Europe. However, because of the 2008 financial crisis, the gas prices in Europe dropped further than the prices Moscow had promised Caspian producers.

Turkmenistan may be considering an alternative strategy, however: construction of a trans-Caspian gas pipeline to Azerbaijan, which would eventually connect with the EU-backed Southern Gas Corridor to Europe. Despite Russia’s opposition to the move, Ashgabat has launched construction of the East-West pipeline across its own territory to connect its onshore gas fields with the Caspian coast. It is expected that the Turkmen East-West overland line will be completed by 2015. If the trans-Caspian pipeline comes to completion, Turkmenistan’s would be able to target the European markets. However, if the Trans-Caspian pipeline were launched ahead of Nabucco and is connected to the Russian Prikaspiisky (Caspian Coastal) pipeline, it may compete with volumes of Azerbaijani gas, thus, potentially, delaying or derailing the realization of Nabucco project.<sup>205</sup>

Some experts believe that the economic crisis and decline of gas prices in Europe may have undermined this Russian strategy. Provided the European economy recovers, the Fukushima nuclear disaster puts on hold “nuclear renaissance” in Europe, and competition from LNG and shale gas is not too steep, and also if China does not try to monopolize Turkmenistan, Uzbekistan and Kazakhstan gas production, Russia may revisit and revive the “Central Asian gas strategy” in the current decade. It may take until 2020, however, to put all the ducks in a row to line up Central Asian gas reserves. Yet, Russia has another, an even bigger gas reserve – the Arctic and East Siberia.

### **Arctic Energy Strategy**

There was nothing subtle in Russia’s August 2007 flag-planting on the Arctic seabed under the North Pole – the act was has been overt and audacious. Moscow is claiming a sector of the energy-rich Arctic continental shelf along the Lomonosov Ridge, an underwater structure protruding from the northern coast of Eurasia towards the North Pole and abutting Canadian and Danish sectors. Vladimir Putin weighed in during a speech on a Russian nuclear-powered icebreaker in early 2007, urging greater efforts to secure Russia’s “strategic, economic, scientific and defense interests” in the Arctic.<sup>206</sup> Moscow’s moves are dictated by energy-driven geopolitics and geo-economics. Geologists believe the Arctic Ocean’s seabed may contain nearly 25 percent of the world’s hydrocarbon deposits. It is also rich in diamonds, and

---

<sup>204</sup> Yuriy Solozobov, “Energeticheskaya bezopasnost’: ponyatie po interesam [Energy Security: Interests-based Concept],” *Promyshlennyye Vedomosti*, no. 7-8, August 2006, <http://www.promved.ru/articles/article.phtml?id=882&nomer=32>.

<sup>205</sup> Vladimir Socor, “Turkmenistan promotes trans-Caspian pipeline for gas to Europe,” Jamestown Foundation, Volume 8, Issue 46, March 8, 2011.

<sup>206</sup> Ariel Cohen, “Russia’s Race for the Arctic,” Heritage Foundation *WebMemo* No. 1582, August 6, 2007, [http://www.heritage.org/Research/RussiaandEurasia/upload/wm\\_1582.pdf](http://www.heritage.org/Research/RussiaandEurasia/upload/wm_1582.pdf)



precious ferrous and non-ferrous metals.<sup>207</sup> As the ice cap melts and shrinks, these resources will become more accessible and a new sea passage along the northern coast of Eurasia may provide a cheaper transportation route.

From a geopolitical perspective, the exploration of polar petroleum reserves may be the kind of opportunity that allows Russia to become what then-President Putin termed “an energy superpower.” Russia seeks to expand its continental shelf beyond the 200-mile economic zone through the mechanism provided by the UN Commission on the Limits of the Continental Shelf under the 1982 U.N. Law of the Sea Convention (UNCLOS), to which Russia is a party. Moscow claims that two underwater mountain ridges jutting into the Arctic Ocean from the Russian continental shelf—the Lomonosov Ridge and the Mendeleev Ridge—are extensions of the Eurasian landmass.<sup>208</sup> The size of France, Germany and Italy combined approximates the span of this seabed territory. Russia’s first claim with the UN, submitted in 2001, has failed due to insufficient evidence.

The Russian media has applauded the “Arctic heroes” and talked of “the start of a new distribution of the world.”<sup>209</sup> International experts, however, doubt that the ridges extend far enough to justify Moscow’s claims. Russia’s flag-planting has alarmed other Nordic states with territories inside the Arctic Circle—Canada, Denmark, Norway and the United States—who also have their eye on the vast hydrocarbon deposits under the Arctic seabed and have potential territorial claims in the region.<sup>210</sup> Thus, the Kremlin has triggered a strategic race for the Arctic and one more subject of geopolitical and energy security contention between Russia and the West. The energy-rich Arctic is too valuable of an asset to be surrendered to Russia at a time when global energy demand is growing and supply remains limited and unreliable. The competition for the Arctic is likely to continue to in the 2020s and beyond. Likewise, Russia is likely to be competing with China for using the Northern Maritime Path above the Arctic Circle as a trading route to move energy resources by sea, instead of using the high traffic, political tension, and long distances of the Straits of Malacca.<sup>211</sup>

In recent years, Russia has aggressively moved forward with expanding its presence in the Arctic region, while the US has been less active in advancing its interests in this strategically important region endowed with vast natural resources.<sup>212</sup> As Arctic sea-lanes are becoming more navigable due to climate change, the competition for the vast natural resources of the Arctic is more likely to intensify. In February 2011, Russia’s state-controlled, Rosneft and British petroleum giant BP, entered into agreement to develop Arctic oil fields with estimated

---

<sup>207</sup> Alexander Gabuev, “Print – Cold War Goes North: Russia and the West begin the race for the Arctic Region,” *Kommersant*, August 4, 2007

<sup>208</sup> “Russia: Polar Expedition Means ‘Very Little’ For Territorial Claims,” RFE/RL, August 3, 2007

<sup>209</sup> “Russia Greets Flag Team ‘Heroes’ as the World Condemns Arctic Stunt,” *The Times*, August 4, 2007

<sup>210</sup> “The Hunt for Red Gas: Putin Triggers Arctic Energy Rush to the North Pole,” *The European Weekly*, no. 741, August 4, 2007

<sup>211</sup> Eric Watkins; Russians, Chinese eye Arctic oil route; *Oil & Gas Journal*, Vol. 108, Iss. 11, March 22, 2010

<sup>212</sup> Ariel Cohen. “From Russian Competition to Natural Resources Access: Recasting U.S. Arctic Policy,” Heritage Foundation, Background #2421, *June 15, 2010*, at <http://www.heritage.org/Research/Reports/2010/06/From-Russian-Competition-to-Natural-Resources-Access-Recasting-US-Arctic-Policy#.ftn62> (March 16, 2011)

reserves of 5 billion tons of oil and 10 trillion cubic meters of gas. However, Russian Arctic energy development is likely to face difficulties because of the significant risks and costs associated with the Arctic offshore drilling.

Great challenges are also abound for the Arctic and East Siberian/Far East gas fields. These reserves lack functioning gas fields and pipelines, and require hundreds of billions of dollars in investments. Many hopes were connected with the Shtokman gas field, located over 300 miles offshore in the Barents Sea, where local sea depths exceeding 300 meters.<sup>213</sup> After many delays, Gazprom reconsidered its earlier decision to go it alone and in July 2007 signed an agreement with France's Total and in October 2007 with Norway's Statoil Hydro on the first phase of Shtokman development.<sup>214</sup> However, the agreement gives Total and Statoil Hydro no ownership rights to the gas. Gazprom, through its 100 percent-owned subsidiary Sevmorneftegaz, remains the full owner of the Shtokman development license and will be the full owner and sole exporter of products.<sup>215</sup>

Gazprom's choice of partners was politically motivated. First, U.S. companies were kept out despite earlier promises to include Chevron and possibly Conoco Phillips. Second, Europe is a principal part of Russia's geopolitical energy game. While Norway's Statoil Hydro has vast experience drilling off shore in the northern longitude, Total is cash-rich but has no experience working in Arctic conditions.<sup>216</sup> The completion of the Shtokman field in the Arctic has now been pushed back to 2016. Other fields under development in the Arctic and Polar Regions are often even more challenging than Shtokman. Only in the case of the Kovykta field in East Siberia production is assured: this field was essentially expropriated away from BP by GOR, and handed over to Gazprom, which GOR controls, so that Gazprom could develop it and build a pipeline to China. Likewise, there is substantial additional gas in Eastern Siberia, including in Yakutia, which could be developed for the Chinese market.

China, Japan, and other destinations in East Asia are also attractive markets for East Siberian and Sakhalin Island gas, but it remains to be seen if Russia develops massive new fields in the Arctic, as the difficulties with the recent Rosneft-BP deal may suggest. There, BP's Russian billionaire partners in TNK-BP joint venture derailed asset swap and Arctic field development by BP and Rosneft.

Recoverable gas and oil reserves around Sakhalin Island, one of the world's largest natural gas fields, are estimated at almost 7 billion barrels and 80 trillion cubic feet respectively, one of the largest in the world.

---

<sup>213</sup> Shtokman Field, Gazprom Project – Field website,

<http://www.gazprom.com/production/projects/deposits/shp/>

<sup>214</sup> "Statoil Hydro to develop Shtokman field," New Europe, Issue 753, October 25 2007, <http://www.neurope.eu/articles/Statoil-Hydro-to-develop-Shtokman-field-/79155.php>, and "Total signs on Shtokman dotted line," Upstream Online, July 13, 2007,

<http://www.upstreamonline.com/incoming/article137232.ece>

<sup>215</sup> "New owner of Shtokman license", Barents Observer, Energy, February 18, 2009, <http://www.barentsobserver.com/new-owner-of-shtokman-license.4559032-16178.html>

<sup>216</sup> "Shtokman Watchers: Statoil Demonstrates Arctic Capability", Oil & Gas Eurasia, July 25, 2007, <http://www.oilandgaseurasia.com/news/p/0/news/835>

The Russian government announced a number of costly programs to explore and develop East Siberian oil and gas fields and to build a network of oil and gas pipelines towards the 2020-2030 timeframe, which will cost many tens of billions of dollars.<sup>217</sup> In addition, Russian leadership realizes the need to open up to foreign investment in its energy sector, since Russia needs Western capital and technology to successfully develop its climatically and geologically challenging oil and gas reserves. Furthermore, Russia, unlike any of the other major energy exporting countries, is also one of the world's leading industrial energy consumers, primarily because of the country's inefficient, aging infrastructure and utilities.

### **Internal Consolidation**

The Russian oil and gas sector is notorious for easing domestic and foreign corporations out of majority equity stakes in Russian mega-projects and for consolidating domestic ownership in the hands of government-controlled entities. Senior officials close to Vladimir Putin head the two Russian energy national champions, which are vertically integrated state-owned or controlled global champions capable of competing with foreign companies. Putin's former Chief of Staff and later successor as president, Dmitry Medvedev, was the ex-officio chairperson of Gazprom. Today, Putin one-time mentor, former Prime Minister Victor Zubkov, occupies this position. Putin's ally Alexei Miller is the long-serving CEO of Gazprom. A Putin confidante and First Deputy Prime Minister Igor Sechin chairs the board of Rosneft, Russia's largest state-run oil company, which expropriated the bulk of YUKOS assets. This management scheme ensures that Gazprom and Rosneft are reliable foreign policy arms for the Kremlin. Since the early 2000s Moscow limited access by major international energy corporations to giant Russian fields and forced them to give up their majority stakes in lucrative projects.

The Natural Resources Law limited foreign participation in energy exploration projects to minority stakes—25 percent in 'strategic' oil and gas fields, and 49 percent in other energy projects. Limited in their rights to own exploration licenses, the transnational corporations are reduced in many cases to operator or technical service provider roles. In June 2007, then-First Deputy Prime Minister Sergey Ivanov said that foreign companies "will never operate" Russia's major fields again.<sup>218</sup>

Although leading officials, including Mr. Medvedev, have explicitly rejected state capitalism as a model for Russia, the Kremlin is consolidating its ownership in the energy sector. Putin envisages the state not as the great re-nationalizer, but the biggest shareholder in a privatized economy.<sup>219</sup> Return of strategic assets under state control is often presented to the public as restoration of national property illicitly acquired in the mid-1990s by corrupt and politically manipulative oligarchs at deeply discounted prices.

---

<sup>217</sup> U.S. Energy Information Administration, Independent Statistics and Analysis, Russia: Country Analysis Brief, November 11, 2010, accessed at: <  
<http://www.eia.doe.gov/cabs/Sakhalin/Background.html>>.

<sup>218</sup> Torrey Clark and Lucian Kim, "Gazprom Gains BP Gas Field as Putin tightens control," *Bloomberg*, June 22, 2007,  
<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=afwFHAGtof3Y&refer=uk>

<sup>219</sup> Nick Paton Walsh, "Meet the Chief Exec of Kremlin Inc.," *The Guardian*, July 6, 2005

This, however, certainly was the case with the state-owned Rosneft's 2004 murky acquisition of Yuganskneftegaz, the key production unit of forcibly bankrupted YUKOS. Despite the company receiving a clean bill of health by tax authorities, the State, through trumped-up bankruptcy proceedings, sold YUKOS to a straw company in a no-bid sale, which in turn sold it to Rosneft for a grossly undervalued price. Rosneft then amalgamated the YUKOS oil-producing company into its operations. The two YUKOS principal owners, Mikhail Khodorkovsky and his business partner Platon Lebedev, since then received a 13.5-year sentence in two highly flawed court proceedings. Since then, the YUKOS affair has become a byword for Russia's judicial arbitrariness and politically motivated justice.

The Kremlin's push for asset consolidation has touched the major energy companies working in Russia. Royal Dutch Shell has been pushed out of a major Russian energy project. Under pressure from the Kremlin for alleged environmental breaches, Shell announced in 2006 the sale of its majority stake in Sakhalin-2 oil and gas fields, off Sakhalin Island in Russia's Far East, to Gazprom.<sup>220</sup> While announcing the entry of Gazprom into the project, Putin said that the threats by the government's environmental agency to take legal action over the alleged ecological breaches are likely to be resolved, demonstrating once again that Russia's state environmental regulator can be used by the Kremlin as a tool of exerting pressure on the international energy companies working in Russia.<sup>221</sup> Indeed, Sakhalin Island has been particularly good to the Russians this year: According to Alexander's Gas and Oil Connections, the island has "produced 61% more in the same drilling period as last year", or around 12.7 billion cubic meters of natural gas.<sup>222</sup>

Later, British Petroleum was evicted from the lucrative Kovykta gas field in eastern Siberia after the forced sale of its 62.9 percent stake to Gazprom in June 2007. TNK-BP joint venture was unable to meet the production quotas prescribed by the Kremlin since the pipeline monopolist Gazprom had refused to develop any export pipelines. After officials threatened to cancel the license, and the courts refused to intervene, BP-TNK agreed to sell its Kovykta stake to Gazprom at a fraction of its market value.<sup>223</sup> Later on, in 2007–2008, TNK-BP joint venture, with its unique 50–50 control between the Russian and British partners almost fell apart. This was due to pressure by the Russian partners, known as Alfa Access Renova (AAR) to oust the BP-appointed CEO and gain more control of the company. Many experts suspected that the ultimate goal was to force the British company to sell to AAR or to a Russian state-owned oil company; however, falling oil prices and the precipitous Russian stock market slide of 40 percent from May to August 2008 may have put pressure on the Russian partners to settle. A compromise, rare in the Russian oil sector, was achieved in early September 2008, and for now, the joint venture is continuing. BP, however, has recently signed a joint-venture contract with Russia's Rosneft oil giant to develop the oil reserves in Russia's arctic regions

---

<sup>220</sup> Andrew Kramer, "Shell Cedes Control of Sakhalin-2 to Gazprom," *International Herald Tribune*, December 21, 2006

<sup>221</sup> "Gazprom Grabs Sakhalin Gas Stake," *BBC News*, December 21, 2006.

<sup>222</sup> Sakhalin Island's gas production jumped by over 60%; Alexander's Gas & Oil Connections, News and Trends, Vol. 15, Issue 11, August 25, 2010, at [www.gasandoil.com/goc/company/cnr103420.htm](http://www.gasandoil.com/goc/company/cnr103420.htm) (Sept. 22, 2010)

<sup>223</sup> "Russian Arm Twisting: Another Energy Firm Backs Down," *The Economist*, June 22, 2007.

in January 2011, and BP's chief executive; Bob Dudley called the agreement a "milestone."<sup>224</sup> However, the relations between AAR and BP remain problematic, as was mentioned above. While BP's leadership may envision a new strategy in Russia aimed to overcome its troubles in the Gulf of Mexico, Russia's past relationship with foreign oil companies and with BP in particular raises many questions for risk management.

Due to the resumption of the global economic growth, and even before the current instability in the Middle East since January 2011, the oil prices have increased, and accordingly, Russian oil companies enjoyed higher oil revenues. In March 2011, Russian-British oil joint venture, TNK-BP, reported a 51% increase in the 2010 fourth-quarter profit on higher oil prices. Accordingly, TNK-BP plans to increase investment in exploration and production by 50 %, to \$ 5 billion in 2013. The company will invest \$ 3.3 billion this year, with the main projects being oil deposits in the Irkutsk region in Siberia, in the Orenburg region in the Urals, and on the Yamal peninsula in Russia's north. The company also plans to invest \$ 800 million in development of the Yamal deposits in 2011, increasing to \$ 1.5 billion -- \$ 1.8 billion in 2013. The amount of investment in Yamal is dependent on construction of the Purpe-Zapolyarnoe oil pipeline.

The Kremlin-affiliated structures are squeezing independent energy companies to get hold of their assets. In a groundbreaking interview to *Kommersant*, Oleg Shvartsman, the then head of the Finansgroup financial-industrial group close to the *siloviki* ("men of force", primarily the leaders around Putin who have security services background), revealed a scheme of pressuring private companies that the Kremlin finds insufficiently accountable to the state.<sup>225</sup> Among the group's key assets is the Russian Oil Group that cooperates with Rosneft, TNK, and Lukoil. After an initial push for trading alliances, Finansgroup began to acquire small and medium-sized oil-refineries, using illicit activities to bring down corporate values prior to the acquisition.<sup>226</sup> Finansgroup is also managing the so-called Social Investments Corporation to exercise what Shvartsman called the "velvet re-privatization" of strategic assets based on various voluntary and coercive market instruments of asset absorption. Shvartsman said the group enjoys the full support of the Russian "power" ministries, including the Interior Ministry, FSB, and the tax and environmental authorities.<sup>227</sup> Simultaneously, Russia is seeking to develop its energy services industry: only recently, the Eurasian Drilling Company, the largest provider of onshore drilling services in Russia, signed a substantive contract with world-famous hydrocarbon oil and gas services firm Schlumberger. According to the strategic contract, a vast exchange of assets will occur between the two industry leaders,

---

<sup>224</sup> ABC Staff; *BP signs deal with Russian oil giant*, Australian Broadcasting Corporation, News, Jan 15, 2011, <http://www.abc.net.au/news/stories/2011/01/15/3113634.htm> (Accessed March 1, 2011)

<sup>225</sup> "Partiyu dlya nas olitsetvoryaet silovoy blok, kotoryy vozglavlyaet Igor Ivanovich Sechin [The Party is embodied for us in the power bloc led by Igor I. Sechin]." *Kommersant*, November 30, 2007, <http://www.kommersant.ru/daily.aspx?date=20071130>,

<sup>226</sup> Jonas Bernstein, "Finansgroup: How Russia's Siloviki Do Business," Jameston Foundation *Eurasia Daily Monitor*, November 30, 2007, [www.jamestown.org](http://www.jamestown.org).

<sup>227</sup> "Partiyu dlya nas olitsetvoryaet silovoy blok, kotoryy vozglavlyaet Igor Ivanovich Sechin [The Party is embodied for us in the power bloc led by Igor I. Sechin]." *Kommersant*, November 30, 2007, <http://www.kommersant.ru/daily.aspx?date=20071130>

but most importantly, Schlumberger will become a subcontractor for Eurasia's drilling operations for "up to 200 rigs for a 5-year period."<sup>228</sup>

Domestic consolidation of Russian oil and gas industry under the Kremlin's direct ownership or control increases Moscow's options in the continued use of energy as its foreign policy tool. These major takeovers and expropriations further limit the opportunities for foreign investment and technology transfer to the Russian energy sector and beyond it. They signal the return of statist economic policies, widespread corruption, while allowing the state to interrupt the flow of oil or gas for political reasons much easier than a private-sector owned company would do.

### **A Gas OPEC?**

Russia is the principal power behind the development of an international cartel to control the price and output of gas. For a while, it appeared that a new gas OPEC may be emerging based on the Gas Exporting Countries' Forum (GECF), created in 2001. In addition to Russia, this cartel is supposed to include the world's major gas producers in Latin America and the Middle East. The group members plan to "reach strategic understandings" on export volumes, production and delivery schedules, and pipeline construction. They also discuss joint exploration and development of gas fields. To continue their work, the participating states plan to create a permanent secretariat. The impetus for the creation of this cartel has been slowed down by the global 2008-2009 recession, competition from LNG producers, and the appearance of shale gas, which reduced US LNG demand.

Yet one should note that Russia's Energy Strategy briefly mentioned Moscow's aim to negotiate "just prices for energy resources" with other producing states.<sup>229</sup> During his February 2007 visit to Qatar, President Putin called the gas OPEC "an interesting idea."<sup>230</sup> In Doha, Russia initiated the creation of a High Level Group to "research" gas pricing models, and an unnamed "high ranking member of the Russian delegation" told RIA Novosti that "as the gas market undergoes globalization, such an organization, a gas cartel, will appear and is necessary."<sup>231</sup>

The GECF members agreed to discuss dividing up the consumer markets between them, particularly in Europe, where Russia and Algeria are major players.

### **China and the Far East: Strategic Energy Exports Reorientation**

Russia appears very interested in expanding its share in the fast-growing Chinese market. Such expansion, however, would require longer pipelines. However, with Chinese financing,

---

<sup>228</sup> *Eurasia Drilling Company and Schlumberger Enter Strategic Alliance, Sell and Purchase Assets*, Schlumberger, Press Release, October 5, 2010, [http://www.slb.com/news/press\\_releases/2010/2010\\_1005\\_edc\\_slb\\_alliance.aspx](http://www.slb.com/news/press_releases/2010/2010_1005_edc_slb_alliance.aspx) (Accessed on March 1, 2011)

<sup>229</sup> "Energy Strategy of the Russian Federation for the Period till 2020."

<sup>230</sup> Ariel Cohen, "Gas OPEC: A stealthy cartel emerges," *The European Journal* (print edition), 14, no. 5, May/June 2007, p. 15.

<sup>231</sup> *Ibid.*

a strong energy partnership between China and Russia is under way. On January 1, 2011, the first oil pipeline linking the world's biggest oil producer, Russia, and the world's biggest consumer of energy, China, has started transporting oil.<sup>232</sup> The pipeline, running between Siberia and the northeastern Chinese city of Daqing, will allow a rapid increase in oil exports between the two countries. The project, partially financed by Chinese loans, cost \$25 billion. It is expected to export 15m tons of oil through the new pipeline yearly during the next two decades, at a rate about 300,000 barrels a day.<sup>233</sup> Prior to 2011, China received modest oil supplies from Russia only via rail, but with the new pipeline developments, these volumes could substantially increase, especially as Russia plans to develop new fields in East Siberia. The energy relationship between China and Russia is based on a convergence of interests between Russia's vast endowment in natural resources, including in East Siberia and the Far East, and China's growing demand in energy. The advantage of geographic proximity provides China with a direct overland link to resources rather than the vulnerable overseas routes from the Middle East and Africa. As a result, Russian supplies carry a unique strategic significance for China, making the country's economies complimentary and their foreign policies allied – as Prime Minister Putin suggested more than once.

### **U.S. and Europe Remain Concerned**

Russia is pursuing a comprehensive energy strategy, which masterfully integrates geopolitics and geo-economics. Its assertive posture is a growing concern for Brussels as well as for Washington. The EU's dependence on Russian energy diminishes its ability to deal bilaterally with gas exporting countries, such as Azerbaijan and Turkmenistan, while bypassing Russia, or challenge Moscow's lack of energy liberalization, including the absence of gas and pipeline sectors deregulation, and weaken the EU resolve to oppose the use of energy as a foreign policy tool. The Kremlin will gain more leverage in Europe where Russia's direct national interests range from preventing NATO expansion and deployment of ABM defenses in Poland and the Czech Republic, to fostering division between the EU and the United States, and regaining more comprehensive control over the post-Soviet space.

For Europeans, the concerns stem not only from Russia's monopolistic behavior but also because of the opacity regarding its supply practices and new projects. European demand for Russian energy is projected to grow by leaps and bounds. According to the 2006 European Energy and Transport Report, in 2030 the EU will consume 15 percent more energy than it did in 2000.<sup>234</sup> Natural gas demand is projected to grow considerably through 2030 (by some 140 mtoe compared to the 2000 level.)<sup>235</sup> This is particularly the case if the Middle East remains unstable, and the nuclear renaissance fails to materialize. At the same time, Europe is experiencing a steep decline in its indigenous energy production, unless development of shale gas becomes successful. Consequently, by 2030 Europe will rely on imports for two-thirds of

---

<sup>232</sup> Institute for Energy Research. "[China: World's Largest Energy Consumer; Surpasses the U.S.](http://www.instituteforenergyresearch.org/2010/08/06/china-world%E2%80%99s-largest-energy-consumer-surpasses-the-u-s/#_edn1)," August 8, 2010, at [http://www.instituteforenergyresearch.org/2010/08/06/china-world%E2%80%99s-largest-energy-consumer-surpasses-the-u-s/#\\_edn1](http://www.instituteforenergyresearch.org/2010/08/06/china-world%E2%80%99s-largest-energy-consumer-surpasses-the-u-s/#_edn1) ( March 16, 2011).

<sup>233</sup> "Russia-China oil pipeline opens," January 1, 2011, at <http://www.bbc.co.uk/news/world-asia-pacific-12103865> ( March 16, 2011).

<sup>234</sup> European Commission, Directorate-General for Energy and Transport, "European Energy and Transport: Trends to 2030 – update 2005," 2006.

<sup>235</sup> *Ibid.*

its overall energy needs. Gas import dependency is projected to rise from some 50 percent today to 84 percent in 2030.<sup>236</sup> This begs the question whether Russia will be able to satisfy this growing energy demand and meet its international commitments. In its public pronouncements, Russia says it expects its natural gas exports to increase from 185 bcm in 2002 to 275–280 bcm by 2020.<sup>237</sup> However, many experts doubt Russia's capability to ensure the needed energy supply. Leonid Fedun, the vice-president of LUKoil, Russia's largest independent oil company, said he believed that Russia's oil production in 2007 was the highest he would see "in his lifetime." Finance Minister Alexei Kudrin, who famously said that Russia is unlikely to again experience \$147 barrel oil, echoed this sentiment.

When it comes to gas, the uncertainty is even greater. The output of Gazprom's three giant fields in West Siberia, which account for three-quarters of its production, is declining at a rate of 6 to 7 percent a year, and the output from a gas field brought online in 2001 has already peaked.<sup>238</sup> Gazprom's development of a giant field in the Arctic (Yamal peninsula) will take years. Exploration of new deposits has been underinvested since the 1990s, causing steep decline in oil and gas replenishment rates. Russia's official statistics indicate that the extraction of mineral resources in 2006 has grown by as little as 2.3 percent in comparison to 2005, when the World Bank reported a mere 1.3 percent increase (compare this to 6.8 growth in 2004, and 8.7 percent in 2003.) Thus, availability of Central Asian gas, which makes up a lion's share of total gas exports growth from Russia, is critical for Gazprom's ability to maintain its international commitments.

Russia's obsolete energy infrastructure raises additional concerns. Deterioration of Soviet-era major export pipelines is close to critical levels. According to Gazprom's own data, almost 14 percent of the pipelines have served for over 33 years and must be fully renovated, with an additional 20 percent of the pipes being over 20 years old.<sup>239</sup> This antiquated, oftentimes dilapidated infrastructure, minimally refurbished since the end of the USSR, is becoming an energy security concern in and of itself: in late October 2010, according to the *Moscow News*, Prime Minister Vladimir Putin stated that some 9 trillion rubles (\$292 billion) would be required to keep up Russia's oil output over the next decade.<sup>240</sup> EU's then-high representative for common foreign and security policy Javier Solana said in 2006: "due to Russia's outdated oil and gas pipelines, the equivalent of a quarter of Russia's total gas exports to Europe was being lost in transport."<sup>241</sup> Russia will need tens of billions of dollars to bring the gas transit infrastructure up to speed. Meanwhile, its own energy consumption is growing. Fueled by cheap subsidized domestic gas, the Russian economy is extremely energy intensive, with

---

<sup>236</sup> Ibid.

<sup>237</sup> "Energy Strategy of the Russian Federation for the Period till 2020."

<sup>238</sup> "Fears Emerge over Russia's Oil Output," *Financial Times*, April 14, 2008; "A Bear at the Throat," *The Economist*, April 12, 2007, [www.economist.com/world/europe/displaystory.cfm?story\\_id=9009041](http://www.economist.com/world/europe/displaystory.cfm?story_id=9009041).

<sup>240</sup> Chaykovskaya, Yevgeniya, "Trillions necessary to maintain Russia's oil production", *Moscow News*, Business section, October 29, 2010, <http://themoscownews.com/business/20101029/188166707.html?referfrommn>

<sup>241</sup> Vitel, Phillipe, "224 STCEES 10 E rev1 – A Sustainable Energy Strategy for the Alliance," NATO Parliamentary Assembly, Annual Session Committee Report, 2010, <http://www.nato-pa.int/default.asp?SHORTCUT=2074>



sectors such as aluminum and petrochemicals enjoying a state subsidy. The ratio of domestic energy consumption to GDP in Russia is 2.3 times above the world average, and 3.1 times higher than the EU average. Thus, Russia is subsidizing its exports through cheap energy, which may partially explain its reluctance to join WTO and sign the Energy Charter. In addition, seasonal fuel consumption hikes may cause supply interruptions. Long and intense cold waves increased Russian domestic gas demand and strain Gazprom's delivery capability.

European energy supply may also suffer from Russia's growing commitment to Asian markets. By 2020, Russia expects to sell 30 percent of its oil and 15 percent of its natural gas to Asia. To achieve this ambitious target, Russia needed to invest in exploration of East Siberian energy deposits and build an export pipeline to Asia. Thus, in May of 2010, Rosneft issued a statement that they would begin to develop the Vankor oil field of East Siberia,<sup>242</sup> and has discussed with Turkmenistan a new east-west pipeline that would connect Russian infrastructure to the rest of the Turkmen infrastructure, including the set of lines going into China.<sup>243</sup> Wary of the threats to its energy supply, the EU has been working to engage Russia in a more reliable energy cooperation framework based on the Energy Charter, designed to promote energy security through greater openness and competitiveness of the energy markets, while respecting the principles of sovereignty over energy resources. Compliance with the Charter would increase Moscow's predictability and transparency in energy markets and attract foreign investments. In particular, Russia would have to offer foreign investors fair access to its oil and gas deposits and export pipelines.<sup>244</sup> Unfortunately, despite its assurances of being a responsible and reliable partner in energy matters, Russia refused to ratify the Energy Charter and in 2009 formally announced that it does not intend to sign it, annulling previously protocols.

For Russia, the Charter's key negative aspect is its provision allowing access of third parties to Russian deposits and energy transit facilities. Charter's Russian critics say this would imply a loss of sovereignty in Russia's strategic energy industry. However, if European companies are discriminated against in their access to Russian natural resources, the EU is under no obligation to grant Russian companies broader access to its downstream infrastructure (distribution companies, refineries, etc.) The EU can and should apply its anti-monopoly and competition laws and regulations and insist on equal access to Russia's energy resources -- in exchange for Russian companies getting access to valuable assets in European gas transportation and distribution networks.

However, Moscow's ambitions to gain access to European downstream markets may suffer a blow as Europe forges ahead with its energy liberalization policy. The regulations keep energy-producing companies from controlling distribution networks in Europe. Gazprom, now banned from acquiring European gas-delivery networks, may need to divest from gas distribution joint ventures. V.V. Putin and Gazprom leaders have harshly criticized this

---

<sup>242</sup> "Rosneft to invest in Vankor field"; Alexander's Gas & Oil Connections, News and Trends, vol. 15, iss.9, July 14, 2010, at [www.gasandoil.com/goc/news/ntr102872.htm](http://www.gasandoil.com/goc/news/ntr102872.htm) (Sept. 22, 2010)

<sup>243</sup> Asad Ismi, "Russia, China and Iran defeat US in the 'pipeline wars'; Alexander's Oil and Gas Connections, News and Trends: FSU/Russia, vol. 15, iss. 9, July 14, 2010, at [www.gasandoil.com/goc/news/ntr102871.htm](http://www.gasandoil.com/goc/news/ntr102871.htm) (Sept. 22, 2010)

<sup>244</sup> "European Energy Charter," Europa, Legislation summary, January 30, 2007, [http://europa.eu/legislation\\_summaries/energy/external\\_dimension\\_enlargement/l27028\\_en](http://europa.eu/legislation_summaries/energy/external_dimension_enlargement/l27028_en)

proposal as “the most absurd idea in the history of the world economy.”<sup>245</sup> Further, the European Commission included a “reciprocity clause” informally dubbed as a “Gazprom clause” in its September 2007 energy liberalization proposals. This provision would prevent foreign companies from acquiring energy assets in Europe unless their home countries reciprocate.<sup>246</sup> In October 2007, the EU and Russia agreed to set up a joint panel to assess the implications of the new energy policy that drew harsh criticism from Moscow. In spite of the arguments, the two sides remain interdependent, as EU-27 remains Russia’s largest market, while it will need European technological and financial support to fully exploit its vast resources.

### **Russian Energy Geopolitics to 2020: The American Perspective**

Russia’s energy nationalism has been a source of frustration in Washington. From an American perspective, growing European energy imports on monopolistic Russian oil and gas exporters is a negative long-term geopolitical trend. However, there are other issues. Despite being the world’s largest energy consumer, the United States has limited energy relations with Russia. In 2002–2003 Russia refused to construct projects dedicated to oil exports to the United States, such as the Murmansk pipeline, suggested by the then-privately held YUKOS, LUKoil and Sibneft oil companies. Moscow has also derailed attempts by U.S. oil majors to buy a significant non-controlling stake in a large private Russian company such as YUKOS. On the other hand, Gazprom considered and abandoned plans to export LNG to US West Coast.

If Moscow is serious about the “reset”, US companies should gain access to oil and gas fields and pipeline projects, not limited by the obsolescent Natural Resources Law and the state-owned pipeline monopolies.

When the energy prices skyrocketed in 2007-2008, Russia has become an assertive anti-status quo power that challenged the U.S. and its allies on many fronts, especially in territory of the former Soviet Union, as the 2008 Russian-Georgian Five Day War demonstrated. There are also ongoing frictions in the Balkans and the Middle East. This happened both because of ample funding available to finance a more ambitious foreign policy due to energy revenue and self-assurance which comes with general economic prosperity, and because of Moscow’s use of energy as a foreign policy tool. As the oil prices rise, it is safe to expect Russia’s cockiness to return.

Russian strategic goals include preventing countries around its borders from becoming pro-American and increasing control over the transportation of Russia hydrocarbons through the territory of its neighbors. Furthermore, the Kremlin aims to control export of the neighbors’ oil and gas by directing their flow via the Russian pipeline system. By locating pipelines and gas storage facilities in Austria, Hungary, Bulgaria, Greece and Turkey, Russia connects them

---

<sup>245</sup> “Gazprom calls EU energy shake-up plans ‘absurd’”, Reuters, Brussels, February 21, 2007, <http://uk.reuters.com/article/2007/02/21/gazprom-eu-unbundling-idUKL2117408120070221>

<sup>246</sup> “‘Gazprom clause’ issues Russia ultimatum for energy co-operation,” Euractiv.com, Energy, September 20, 2007, <http://www.euractiv.com/en/energy/gazprom-clause-issues-russia-ultimatum-energy-operation/article-166888>

to Moscow by the ties that bind. Sometimes, these ties also include lucrative personal economic deals, as demonstrated by employment of Gerhardt Schroeder as the Chairman of North Stream gas pipeline consortium, and similar arrangements for other prominent European politicians.

Russia also attempted to push the United States out of Central Asia, and successfully limited US participation in new Caspian energy projects, excluding it from the SCO's Energy Club. The United States, for its part, supports diversification of energy transportation routes in Eurasia. From the Russian perspective, the U.S. and EU-backed pursuit of diversified energy sources and transportation routes is unfriendly towards Russia, politically motivated, economically unfeasible and environmentally damaging. The Kremlin is likely to use Europe's dependence on Eurasian energy to exacerbate differences in transatlantic relations and use its influence to minimize pro-American foreign policy agenda. In the current decade, America's allies in Europe may face tough choices between cost and stability of energy supply, on one hand, and siding with the United States on some key issues, on the other hand.

In sum, the developed world economies and energy net importers in general will benefit from greater stability, security, transparency, and the rule of law in energy-exporting states, to ensure that oil and gas remain readily available, ample, affordable, and safe. The Kremlin, on the other hand, views energy as a tool of assertive foreign policy and uses it broadly, often without much concern for diplomatic niceties. If current trends prevail, in the current decade and beyond the Kremlin might translate energy monopoly into increasing foreign and security policy influence in Europe. In particular, Russia is seeking recognition of its predominant role in the post-Soviet space and Eastern Europe. This has already affected geopolitical issues important for the West, such as NATO expansion, ballistic missile defense, the tension around the status of Kosovo, and increased Moscow's influence in the post-Soviet space.

Furthermore, before the current instability erupted, Moscow was seeking to re-engage in a centuries-old balance-of-power game in the Middle East, from Algeria, where it attempted a gas condominium, to Syria, where it is rebuilding naval bases in Tartus and Ladakiye and supplying modern weapons, to Iran and India.<sup>247</sup> Though in the end it voted in the UN Security Council with the U.S. and Europe, during diplomatic crises over the Iranian nuclear enrichment program, Moscow provided Teheran ample diplomatic cover in the United Nations and elsewhere, as well as expanded arms supplies. Moscow also abstained in the UNSC vote on Libya – together with China and Germany. Premier Putin harshly criticized the Libya war as a “new crusade”, clearly trying to score points for Russia in the Middle East. The Obama Administration seems to be less concerned about European energy dependence on Russia than its predecessor was. Nevertheless, Washington should encourage Europe's energy diversification, providing political and diplomatic support to major consumers of Russian oil and gas to develop alternative energy pipelines throughout Europe and Eurasia. It is vital for EU members to come up with a joint position on energy geopolitics instead of lucrative bilateral deals, which increase dependence on Russian oil and gas. It is also necessary to insist that Russia lives up to its commitments to uphold and implement the rule of law, without which its economic development, property rights, and civil liberties will

---

<sup>247</sup> “Top Russian arms clients: India, Algeria, China, Venezuela, Syria”, *World Tribune*, News, January 29, 2010, [http://www.worldtribune.com/worldtribune/WTARC/2010/eu\\_russia0069\\_01\\_29.asp](http://www.worldtribune.com/worldtribune/WTARC/2010/eu_russia0069_01_29.asp)

remain in limbo. Otherwise, Russia will apply the ancient Roman principle—*divide et impera*—to 21st century energy geopolitics.

### **Future Issues**

The following research questions could profitably be explored in the future:

Continuation of an extremely anti-Western regime in Iran is a threat to Europe's energy security. This is because both the US and the EU are not interested in developing Iranian energy sector, especially natural gas, as it would provide a massive cash flow to the ayatollahs. However, Iran is a logical alternative to Russia as a natural gas supplier to Europe. Ergo, a regime change in Iran may alleviate Europe's dependence on Russian gas. Both the US and the Europeans need to work together to develop a strategy for regime change – or at least for bringing the Iranian nuclear issue under control. Future research should be focused on modalities of such joint Europe-US policy cooperation on Iran.

Russia is blocking or severely limiting Western investment in its energy sector through a number of legislative roadblocks, including its Strategic Sector Law, and oil and gas law. Moscow is criminalizing certain key data release, including oil and gas reserves. Future research should be focused on identifying the road blocks and finding ways to reverse them, bringing Western capital into the Russian energy sector.

Russia currently does not have a clear-cut Arctic investment policy. Future research should focus on the Russian Arctic policy, ways to cooperate with Russia, seek solution to territorial disputes in High North, and pave the way to future Western investment there.

Russian practice of abusing the rule of law, as demonstrated in Khodorkovsky and Magnitsky cases, undermines Western engagement and investment in the energy sector. Improvement in the rule of law realm, including addressing deficiencies in the court system, as Medvedev repeatedly called for, is likely to improve the investment climate in Russia, including in the energy sector. Future research should focus on improve the rule of law – and sanctioning Russian officials involved in the worst abuses of the legal system in Russia, including through targeted US sanctions.

## THE RUSSIAN MILITARY FACES THE FUTURE

STEPHEN BLANK<sup>248</sup>

US Army War College

The Russian military has recently undergone three concurrent transformations of which at least two are ongoing. Consequently there is currently a good deal of turmoil within the Russian armed forces and this fact obliges us to rethink our understanding of future trends in Russian policy, strategy, and military development as they apply to both conventional and nuclear forces. These three transformations are the reset policy with the US which is part of the broader foreign policy transformation whose purpose is to serve Russia's technological modernization;<sup>249</sup> the current military reform, launched in 2008 and the most comprehensive reform in 85 years;<sup>250</sup> and the overall modernization drive that is intended to create a so-called "innovation" economy. However as noted above, there are signs that the military reform may have come to an end as we shall discuss below.

In the context of Russian defense the reform program to create an "innovation" economy overlaps with the defense reform that aims to galvanize Russia's defense industry to produce high-tech weaponry suited to the reformed military. Indeed, ultimately the success of the defense reform that started in 2008 depends upon the success of the defense industrial sector in making the transition to high-tech platforms and weapons systems. Russia's new State Armaments Program for 2011-20 totals 20.7 trillion rubles (\$646 Billion) of which 19.4 trillion rubles goes to the needs of the Ministry of Defense. 79 percent of that sum will go to the acquisition and purchase of high-tech armaments (including nuclear weapons which remain a priority). This represents a tripling of the previous 2006-15 program that supposedly provided for delivery of 1300 models of equipment and armament of which 220 require modernization or creation of new capacities.<sup>251</sup> Within this new program that also entails the comprehensive modernization of the entire machine tool sector along with the high-tech sector, the state order (Goszakaz) for 2011 will go up by a third to 1.5 trillion rubles in 2011 and then another third by 2013 to 2 trillion rubles.<sup>252</sup> All told, by 2013 national defense expenditures will have risen 64.4 percent from 2010 while the annual budget deficit goes from

---

<sup>248</sup> The views expressed here do not represent those of the US Army, Defense Department, or the US Government

<sup>249</sup> "Программа Эффективного Использования На Системной Основе Внешнеполитических Факторов В Целях Долгосрочного Развития Российской Федерации (Program For The Effective Use On A Systematic Basis Of Foreign Policy Factors With The Aim Of The Long-Term Development Of The Russian Federation)," *Rusky Newsweek*, May 11, 2010, <http://www.runewsweek.ru/country/34184/>

<sup>250</sup> Ilya Kramnik and Konstantin Makiyenko, "Analysis and Commentary: For What the Russian Army Is Preparing: Reflections After the Exercises," Moscow, *RIA-Novosti Online*, in Russian, July 9, 2010, *Open Source Center, Foreign Broadcast Information Service, Central Eurasia* (Henceforth *FBIS SOV*), July 9, 2010

<sup>251</sup> Moscow, *Interfax-AVN, Online*, in Russian, December 13, 2010, *FBIS SOV*, December 13, 2010; Moscow, *RIA-Novosti, Online*, in Russian, December 8, 2010, *FBIS SOV*, December 8, 2010; Moscow, *ITAR-TASS*, in English, December 13, 2010, *FBIS SOV*, December 13, 2010; Moscow, *RBK Online*, December 14, 2010, *FBIS SOV*, December 14, 2010

<sup>252</sup> Moscow, *RIA-Novosti Online*, in Russian, December 8, 2010, *FBIS SOV*, December 8, 2010;

2.2 percent of GDP to 5.3 percent of GDP (if current estimates for rising GDP and defense spending hold).

Therefore Russia's military prospects, both nuclear and conventional, can only be fully understood with reference to these three processes as well as to existing threat perceptions and the nature of the governmental system. In other words, those reforms or transformational processes too do not occur in a vacuum. They will themselves be decisively shaped by subjective factors within Russian politics that will influence the trajectory of these transformations and thus decision-making about nuclear and conventional weapons, strategy, doctrine, etc.

However, those domestic factors of reform and Russian politics are not the only factors that determine the outcome of the reforms and future trends regarding defense policies by themselves. The policies of such key players as the US /NATO and China (or more precisely Russia's perception of those policies), and the potential for nuclear proliferation also are critical determinants of Russian policy. But those phenomena, unlike the reform processes, are largely beyond the control of Russian policymakers. So while Russia will clearly influence those external trends to some extent; it will, in turn, be influenced by them probably even more. For example, Russia's defense doctrine of February 2010 openly expects new nuclear states by 2020.<sup>253</sup> Logically this would lead us to expect that (all things being equal) Russia will therefore wish to retain a sizable nuclear deterrent against this expected threat because it cannot meet many of the existing conventional or nuclear threats across all its peripheries with its current conventional forces, which is where the new proliferators are located. Indeed, for all of its recovery in 1999-2008 Russia cannot even afford to revive its earlier Soviet investments in Afghanistan without foreign aid.<sup>254</sup> Therefore we should not be surprised that the new State Armaments Program stresses nuclear, air, air defense, and naval weapons, until Russia can field credible non-nuclear deterrent forces. This program suggests an ongoing nuclear priority even if the ground forces are losing their historic primacy to air and long-range strike platforms.<sup>255</sup>

One of the critical subjective and domestic factors that will drive future Russian thinking about nuclear weapons and overall defense policies, and strategy is the identity of the chief decision-maker (whatever his title) and of the coalition that supports him. Absent democratic checks and balances, including democratic control over the armed forces, and where many military men (and maybe civilian elites) still invoke a Stalin-like military leadership in World War II, the personality, outlook, and thinking of the leader is much more critical than in more structured, democratic, and accountable polities.<sup>256</sup> This point is even more compelling when we realize that the structure of Russian politics means that this absence of democratic controls

---

<sup>253</sup> "Military Doctrine of the Russian Federation," February 5, 2010, [www.kremlin.ru](http://www.kremlin.ru), *FBIS SOV*, February 9, 2010

<sup>254</sup> Moscow, *Interfax*, in Russian, August 10, 2010, *FBIS SOV*, August 10, 2010

<sup>255</sup> Russia in Counter-Trend: Defense Spending Will Increase by 6)% in 2013," [www.avionews.com](http://www.avionews.com), accessed on August 2, 2010; "Russian Defense Spending To Rise By 60% by 2013," *RIA Novosti*, July 30, 2010,

<sup>256</sup> For an example of this nostalgia for Stalin's leadership structure of 1941-45 see Col. V.V. Natvichuk and Col. A.L. Khryapin (Ret) "A Strategic Deterrence System Under New Conditions," *Military Thought*, NO. 1, 2010, pp. 43-49

in defense policy generates a constant temptation to use military forces to solve political problems at home and abroad. While this paper focuses on the regular military we must note that the Russian state remains, in crucial ways, among the most militarized governments in the world and thereby extends into the future a long-standing Tsarist and Soviet tradition. Thus, in a regular armed forces of about a million men today there are more than 200,000 professional military officers in the country on active duty. Around 1.1 million soldiers serve on the staff of the Interior Ministry; more than 300,000 serve inside the Federal Security Bureau; around 200,000 work in prosecutors' offices; and another 150,000 in different investigative committees. Close to the same number work for the Tax Police; and more than 100,000 serve in the Customs Committee and the Federal Migration Service. We won't mention smaller organizations like the Anti-Drug Administration and many others. In total, more than 3.4 million people –*close to 12 percent of the active male work force* – are employed in organizations that hew to the principles of vertical organization, unquestioning obedience, and deeply rooted corruption.<sup>257</sup>

Concurrently, Russia has been at war against domestic if not foreign adversaries virtually constantly since 1994.. Moreover, Russian leaders' rhetoric is imbued with the concept of war against enemies, domestic and foreign.<sup>258</sup> This is largely because the structure and nature of Russian politics also generates a constant predisposition to magnify a sense of threat, if only for domestic purposes, and a tendency towards securitization and even militarization of many if not all aspects of Russia's politics, economy, and political rhetoric.<sup>259</sup>

This militarization is visible in recent developments suggesting that for all the rhetoric about the US and NATO being the primary threat, the government is terrified of potential domestic threats. Already in 2005-06 the MOD formed Special Designation Forces from Spetsnaz brigades under the Minister's direct control. They have air, marine, and ground components and conduct peace support and counterterrorist operations.<sup>260</sup> Since the minister answers only to the president, essentially this also means putting all Russia under threat of counterterrorist or other so called operations without any Parliamentary accountability or scrutiny.

Since then matters have, if anything, grown worse. An April 2009 report outlined quite clearly the threat perceived by the authorities. Specifically it stated that, The Russian intelligence community is seriously worried about latent social processes capable of leading to the beginning of civil wars and conflicts on RF territory that can end up in a disruption of territorial integrity and the appearance of a large number of new sovereign powers. Data of an information "leak," the statistics and massive number of antigovernment actions, and official statements and appeals of the opposition attest to this.<sup>261</sup>

---

<sup>257</sup> Vladimir I. Inozemstsev, "Neo-Feudalism Explained," *The American Interest*, VI, NO. 4, March-April, 2011, p. 79

<sup>258</sup> Andrei Illarionov, "The Siloviki in Charge," *Journal of Democracy*, XX, NO. 2, April, 2009, p. 72

<sup>259</sup> Stephen Blank, "A Work in Regress? Russian Defense Industry And the Unending Crisis of the Russian State," Paper Prepared for the FOI Conference on Russian Military Development, Stockholm, October 4, 2010

<sup>260</sup> *Ibidem.*, Alexander Mikhailov, p. 2

<sup>261</sup> "Russia On the Brink of Civil War," Moscow, *Vlasti*, in Russian, April 19, 2009, *FBIS SOV*, April 19, 2009

This report proceeded to say that these agencies expected massive protests in the Moscow area, industrial areas of the South Urals and Western Siberia and in the Far East while ethnic tension among the Muslims of the North Caucasus and Volga-Ural areas was also not excluded. If anything the situation in the North Caucasus has greatly deteriorated since 2009. The author of this report also invoked the specter of enraged former Army officers and soldiers who were being demobilized because of the reforms that should dramatically reduce the armed forces might also take to the streets with their weapons. But while this unrest threatened the government, it has characteristically resorted to strong-arm methods to meet this threat. In other words it is repeating past regimes (not least Yeltsin's) in strengthening the VVMVD (Internal Forces of the Ministry of Interior) and now other paramilitary forces as well.<sup>262</sup>

More soberly, this report, along with other articles, outlined the ways in which the internal armed forces are being strengthened. Special intelligence and commando subunits to conduct preventive elimination of opposition leaders are being established in the VVMVD. These forces are also receiving new models of weapons and equipment, armored, artillery, naval, and air defense systems. 5.5 Billion rubles were allocated in 2008 for these forces' modernization. Apart from the already permitted "corporate forces" of Gazprom and Transneft that monitor pipeline safety the MVD is also now discussing an Olimpstroï (Olympics Construction) Army and even the Fisheries inspectorate is going to create a special armed subunit called Piranha.<sup>263</sup>

Since then even more information about the extent of the domestic reconstruction of the MVD into a force intended to suppress any manifestation of dissent have emerged. As of 2003 there were 98 special-purpose police detachments (OMONs) in Russia. By comparison in 1988 during the crisis of the regime and its elites under Gorbachev 19 OMONs were created in 14 Russian regions and 3 union republics. By 2007 there were already 121 OMON units comprising 20,000 men operating in Russia. Moreover, by 2007 there were another 87 police special designation detachments (OMSNs) with permanent staffing of over 5200 people operating with the internal affairs organs, making a grand total of 208 special purpose or designated units with 25,000 well-trained and drilled soldiers. The OMSVs have grown from an anti-crime and anti-terrorist force to a force charged with stopping "extremist" criminal activity. All these units train together and have been centralized within the MVD to fight "organized crime, terrorism, and extremism." From 2005 to 2006 the financing of these units was almost doubled. By 2009 they were also working with aircraft assets, specifically the MVD's own Aviation Center with nine special purpose air detachments throughout Russia. Seven more such units are to be created. Furthermore the MVD has developed a concept for rapidly airlifting these forces to troubled areas from other regions when necessary. These forces are also receiving large-scale deliveries of new armored vehicles with computers in some cases and C3 (command, control, communications) capabilities. Since these are forces apart from the regular VVMVD, "On a parallel basis with the OMON empire, a multi-level internal security troop machine is being developed-with its own special forces, aircraft,

---

<sup>262</sup> *Ibid.*

<sup>263</sup> *Ibid.*



armored equipment, situational-crisis centers, and so forth.”<sup>264</sup> When one considers this huge expansion of the domestic Silovye Struktury (power organs) it becomes clear why already in 2008 Russia announced that it would increase funding for the Ministry of Interior by 50% in 2010 and where the government’s estimation of the true threat to Russian security lies.<sup>265</sup> Given the state’s paranoia about public unrest, the Arab revolutions of early 2011 will probably only add more forces to this mix.

Consequently Russia still believes itself to be “a besieged fortress,” beset by both internal and external enemies who are linked together. According to former Secretary of State George Shultz and former Secretary of Defense William Perry, the Russians they have talked to still believe hostile or potentially hostile forces in both the east and west encircle their country (their word).<sup>266</sup> And this, we should note, is the Leninist threat paradigm which, however attenuated, still drives policy. In this threat perception Russia is menaced by external rivals and by their “fellow travelers” within Russia. Both the 2010 defense doctrine and the 2009 National Security Concept fully embodied this sense of being under siege and display the ensuing militarization of rhetoric by postulating not only threats from NATO enlargement and internal forces but also by openly expecting the incidence of local conventional wars that could, if not controlled, escalate to larger, even nuclear conflicts, in and around Russia’s periphery. The purpose of these wars would be to seize Russia’s natural resources, including oil and gas, or to deny it its supposedly rightful rising place in world affairs.<sup>267</sup> Thus Defense Minister Anatoly Serdyukov, with the full assent of President Medvedev, told the Defense Collegium in 2009 that,

The military-political situation has been characterized by the US leadership’s striving to achieve global leadership and by an expansion and buildup of military presence of the United States and its NATO allies in regions contiguous with Russia. The American side’s aspirations were directed toward gaining access to raw material, energy, and other resources of CIS countries. Processes aimed at crowding Russia [out] from the area of its traditional interests were actively supported. International terrorism, religious extremism, and the illegal arms trade seriously influenced the military-political situation. They have been manifested more and more often in countries bordering on Russia. Georgia’s attack on South Ossetia was a direct threat to RF national interests and military security. This attempt to settle the conflict by force was aimed first and foremost at destabilizing the situation in the Caucasus. On the

---

<sup>264</sup> Irina Borogan, “In Shoulder-Boards: The Kremlin’s Anti-Crisis Project: When OMON Rushes to Help,” Moscow, *Yezhenedevnyi Zhurnal*, in Russian, December 15, 2009, *FBIS SOV*, December 15, 2009

<sup>265</sup> Moscow, *Agentstvo Voyennykh Novostey Internet Version*, in Russian, July 4, 2008, *FBIS SOV*, July 4, 2008

<sup>266</sup> William J. Perry and George P. Shultz, “How to Build on the Start Treaty,” *New York Times*, April 11, 2010, [www.nytimes.com](http://www.nytimes.com)

<sup>267</sup> *FBIS SOV*, February 9, 2010, Stephen Blank, “No Need to Threaten Us, We Are Frightened of Ourselves: Russia’s Blueprint for a Police State,” in Stephen J. Blank and Richard Weitz, Eds., *The Russian Military Today and Tomorrow: Essays in Memory of Mary Fitzgerald*, Carlisle Barracks, PA: Strategic Studies Institute US Army War College, 2010, pp. 19-150; *Natsional’naya Strategiya Bezopasnosti Rossii, do 2020 Goda*, Moscow, Security Council of the Russian Federation, May 12, 2009, [www.scrf.gov.ru](http://www.scrf.gov.ru), in English it is available from *FBIS SOV*, May 15, 2009, in a translation from the Security Council website (Henceforth NSS)

whole the analysis of the military-political situation permits a conclusion about the growing likelihood of armed conflicts and their potential danger to our state.<sup>268</sup>

Not only did Serdyukov buy this General Staff threat assessment, he intensified it by saying that the likelihood of threats to Russia in the form of wars and military conflicts is increasing.<sup>269</sup> While this perception has receded since then due to the reset policy, indeed, Serdyukov recently said the threat was minimal, it is never far from the surface.<sup>270</sup> Indeed, while the perception of threat from the US/NATO is well known, the general perception of being under constant threat remains the foundation, not the endpoint, of policy. Russian security policy begins with this foundational presumption of conflict with all of its interlocutors.

For example, in 2010 Russia carried out the largest exercises in its history on its Pacific coast, Operation Vostok 2010, whose starting point is the perception of being at risk against a US, Japanese, South Korean, and/or Chinese threats. Russia perceives itself in Asia, just as in Europe, as essentially friendless and at risk from all three of its principal interlocutors there. Therefore in both theaters it must rely disproportionately on military instruments and threats, and given its conventional inferiority, this means nuclear weapons. Indeed, as in Zapad 2009, the comparable exercises on the Baltic front, Vostok 2010 ended with a simulated nuclear attack using tactical nuclear weapons (TNW).<sup>271</sup> In Zapad 2009 it is unclear whether the simulation involved TNW or ICBMs but whatever the operational differences in the two theaters may be, the strategic messages transmitted thereby could not be clearer.<sup>272</sup>

### **The Nuclear Priority and the Prospects for Conventional Modernization**

The emphasis on nuclear use reflects Russia's current conventional weakness and also the profound strategic changes in world politics and war since 1989-91. As Jacob Kipp observes, Russia now must entertain the possibility of nuclear use in regional conflicts that would otherwise remain purely conventional lest Russian equities be threatened.<sup>273</sup> This links together or even conflates regional and intercontinental contingencies and local, regional, and intercontinental threats to Russia. Nuclear weapons must simultaneously deter all these threats, hence the concern that local wars could escalate out of control and then compel consideration of nuclear use. Kosovo remains a paradigm of what could go wrong here. Since 1991, but especially after NATO's Kosovo operation in 1999, conventional weakness and the

---

<sup>268</sup> Text of Speeches by President Dmitry Medvedev and Defense Minister Anatoly Serdyukov at a Defense Ministry Collegium, Samara Volga Inform, in Russian, March 17, 2009, FBIS SOV, March 17, 2009 (Bold author)

<sup>269</sup> *Ibid.*

<sup>270</sup> "Spiegel Interview With Russia's Defense Minister: Moscow Wants to 'Participate as an Equal Partner'," *Der Spiegel Online*, October 27, 2010, <http://www.spiegel.de/international/world/0,1518,725231-2,00.html>

<sup>271</sup> Jacob Kipp, "Russia's Nuclear Posture and the Threat That Dare not Speak Its Name," Forthcoming in Stephen J. Blank, Ed., *Russia's Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011; Valery Usoltsev, "Combat at the Sergeevskiy Range," Khabarovsk, *Suvorovskiy Natisk*, in Russian, July 17, 2010, FBIS SOV, July 17, 2010 and August 23, 2010 (Military and Other Exercises in Russia in the Third quarter of 2010), pp. 6-7

<sup>272</sup> Kipp

<sup>273</sup> *Ibid.*

failure to reform the military or invest substantially in its modernization, Russian nuclear weapons' range of missions have extended to encompass those local war scenarios even as their numbers declined.<sup>274</sup> Thus as a direct result of NATO's Kosovo campaign in 1999 Colonel General Vladimir Yakovlev, the then CINC of Russia's nuclear forces, stated that: "Russia, for objective reasons, is forced to lower the threshold for using nuclear weapons, extend the nuclear deterrent to smaller-scale conflicts and openly warn potential opponents about this."<sup>275</sup> There have been no countervailing public statements about the threshold since then.

However, the possibility of "wild cards" or unexpected threats remains quite real. From Moscow's standpoint Libya evokes Kosovo. In Moscow's eyes NATO with the Secretary-General's assent, has rode roughshod over the original resolution of a no fly zone to intervene decisively on behalf of one side in a civil war simply because of its values. Moscow believes NATO is planning a ground offensive and that it may actually be thinking about intervening somehow in Syria, another Russian client. Needless to say were a Libyan scenario to break out in the CIS or in Russia (a by no means inconceivable possibility) NATO might decide to act in similar fashion as in Kosovo and Libya and threaten what Russia deems as its vital interests.

Thus Foreign Minister Sergei Lavrov stated on March 11 2011 that Russia shares the position of the African Union that, "foreign military intervention in Libya in any form must be ruled out."<sup>276</sup> Lavrov's Deputy, Sergei Ryabkov, was even stronger saying that Russia categorically objects to the use of force by any side and that the answer to the crisis in Libya is "reconciliation through dialogue."<sup>277</sup> Since then leaders have repeatedly complained about NATO's unilateral enlargement of the terms of reference of the original UN resolution calling for a no fly zone, arguing that the West is killing civilians, attempting to overthrow if not kill Qaddafi, forcefully intervening on behalf of one side in a civil war without proper international authorization (i.e. a Russian veto as expressed in the Security Council), and risking a protracted war and ground offensive to ensure the rebels' victory.<sup>278</sup> Russian commentary also sees the NATO operation as insufficient and indecisive and repeatedly worries that this frustrating stalemate will lead to pressures for ever more escalation like a ground war (In this there is much to be said for their view). For example, On Tuesday, March 22, 2011, Russian Defense Minister Anatoly Serdyukov told visiting US Defense Secretary Robert Gates that the surest way to protect civilians in Libya was an immediate ceasefire. And this was not the first Russian criticism of the allied intervention. A day earlier, Prime Minister Vladimir Putin declared that armed intervention is becoming too frequent, adding that in US policies "this is becoming a persistent trend and development." More emphatic still, he

---

<sup>274</sup> Stephen Blank, "Russia and Nuclear Weapons," Forthcoming in Stephen J. Blank, Ed., *Russia's Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011,

<sup>275</sup> Martin Nesirsky, "Russia Says Threshold Lower for Nuclear Weapons," *Reuters*, December 17, 1999

<sup>276</sup> "Russia Backs African Union on Non Use of Force Against Libya," Moscow, *Interfax*, in Russian, March 11, 2011, *FBIS SOV*, March 11, 2011

<sup>277</sup> "Russia Against use of Force Against States in Middle East, North Africa-Diplomat," Moscow, *Interfax*, in English, march 11, 2011, *FBIS SOV*, March 11, 2011

<sup>278</sup> References to be furnished

labeled the intervention a “medieval call for a crusade, when someone would call on someone to go to a specific place and liberate something.”<sup>279</sup>

Another reason for Russian opposition to intervention lies in the fact that Russia has consistently tried to restrict US use of force (not its own) to conditions whereby Washington must go to the UN Security Council where Russia has a veto. This consistent invocation of the UN as the supreme arbiter of the use of force for the US has been a systematic plank in Russian foreign policy for over a decade. Were the US and/or NATO to demonstrate that they did not need this sanction (which Russia if not China would undoubtedly veto) this too would display Russia’s importance and Washington’s effective and even successful disregard for it to the world with a corresponding blow to Russian status, prestige, and real influence in the Middle East and beyond. Therefore continuation or worse, extension and prolongation, of this operation would only confirm Russian fears that Washington and NATO are unpredictable actors who are not bound by consideration of Russian interests, international law, or anything other than their own sense of their values and interests which, quite inexplicably to Russian leaders, are often indistinguishable and an unnecessary complexity in the conduct of relations with the West. Russia, like China, clearly would like to conduct a “values-free” foreign policy with the US and Europe in the manner of 18<sup>th</sup> or 19<sup>th</sup> century cabinet diplomacy.<sup>280</sup>

All these considerations came together when Lavrov met Chinese foreign Minister Yang Jiechi in Moscow on May 6, 2011. The two sides announced not only their grave concern over Middle Eastern events but also that they would also now coordinate actions to bring about a “speedy stabilization” of the situation and prevent negative unpredictable consequences. Specifically they adhere to the principle that peoples should be free to arrange their affairs as they see fit without outside interference. They both see the UN Contact Group as having grossly overstepped its authority and as now being favor of a NATO ground operation, thus usurping the Security Council’s formal role. They called for a peaceful settlement and no foreign intervention, which means Qaddafi wins and stays in power.<sup>281</sup> This coordination will undoubtedly spread to questions concerning reform in Central Asia even though Moscow, as noted above, would like to see cautious reforms. And finally it could undermine the Obama Administration’s reset policy with Russia. This would not be unusual as previous efforts at US-Russian cooperation have always foundered on regional security issues. But the possibility underscores what is now at stake due to the Arab revolutions. Those revolutions are “wild cards” par excellence and future regional outbreaks can, as in the past, derail the reset policy, heighten bilateral tensions, lead Russia closer to China, and generate support for an even more antagonistic posture towards Washington. A conflict in Korea, a real possibility discussed below, could also have profound regional and international consequences.

---

<sup>279</sup> References to be furnished

<sup>280</sup> References will be furnished

<sup>281</sup> “Transcript of Remarks by Russian Foreign Minister Sergey Lavrov and Response to Media Questions at Joint Press Conference With Chinese Foreign Minister Yang Jiechi, Moscow, May 6, 2011, “ Moscow, *Ministry of foreign Affairs of the Russian Federation*, in English, May 6, 2011, *FBIS SOV* May 7, 2011

Under these circumstances and given the growth spurt of 1999-2008 that generated the possibility for greatly increased investment in military modernization, Russian military thinkers, and possibly policymakers, are now exploring options for adding conventional or “pre-nuclear” rungs to the escalation ladder and specifically conventional deterrents to escalation to full-scale war to deter any such conflict, i.e. local and purely conventional wars.<sup>282</sup> Materializing the capability to employ such conventional rungs of the deterrence ladder is a crucial goal of the current SAP and the defense reform. Should Russia successfully create its version of network-centric armed forces about which its military writers now opine, its capacity for establishing powerful conventional deterrents may grow. Probably Russia will eventually consummate its own unique transition to the high-tech military with high-precision weapons that could reduce its reliance on nuclear weapons to deter, preempt, or launch preventive war in even local wars or at the operational-tactical level.<sup>283</sup> But given the trends in the defense industrial sector discussed below, this attainment is likely to be partial and incomplete without giving Russia anything like the full measure of success for which it is aiming.

Moreover, this conclusion also assumes no breakout by the US or China to a new form of warfare and/or weaponry that would put Russia further behind or the planned massive expansion of US missile defenses that Russia perceives as a threat to its vital interests and nuclear deterrent. Either one of those alternatives would constitute another “wild card” especially if it coincided with a turn towards seeing Russia as the primary enemy. In the meantime Russia views missile defenses as signifying that the US thereby intends to hold Russia’s first-strike nuclear deterrent at risk with conventional means or neutralize it with defenses to be free to threaten Russia or strike at it or its interests using high-tech conventional or even nuclear systems. Indeed, its officials still insist that missile defenses are aimed at Russia not Iran.<sup>284</sup> This mentality and its institutionalized embodiment in official documents and policies mean that the reset policy has a priori narrow limits. Thus absent major domestic reform in Russia, current US policies will probably not convince Russia to undertake a fundamental rethinking of its relations with the US and NATO and its defense policies will still rely excessively on nuclear weapons. Likewise, the continuing rise of China, if not interrupted, points, though for different reasons, to a similar conclusion. Accordingly major changes like the possibility of fundamental reform in Russia and “the breakout” of China’s military capability are major “game-changers” that could fundamentally alter the strategic situation. While the first possibility, i.e. large-scale reform, is quite unlikely at present, the second one is quite possible. So while we watch China very closely concerning its capabilities that could be directed against us, we should never forget that those selfsame capabilities can be directed with equal facility against Russia, and Moscow knows it.

Although a successful defense reform and modernization of defense industry might increase Russian confidence in its conventional capabilities for deterring attack and for war fighting

---

<sup>282</sup> Roger N. McDermott, “Russia’s Conventional Armed Forces, Reform and Nuclear Posture to 2020,” Forthcoming in Stephen J. Blank, Ed., *Russia’s Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011 pp. 21-22

<sup>283</sup> *Ibid.*, *passim*

<sup>284</sup> “U.S. Missile Defenses Aimed at Russia, Minister Asserts,” *Global Security Newswire*, www.nti.org, September 17, 2010

and add conventional rungs to the escalation ladder, thereby enhancing Moscow's feeling of security, it could also encourage greater bellicosity and aggressiveness since Russia will also then have increased capabilities for conventional offensive operations.<sup>285</sup> This potential for aggressive behavior will likely grow to the extent that Russia perceives the West as divided and irresolute, sees situations on its frontier as simultaneously threatening and tempting, and most importantly, to the extent that the present political system continues without more than cosmetic reforms. Absence of reforms plus added capabilities enhance Russia's vulnerability to the aforementioned temptation to take military action for political reasons that has characterized the Russian Federation since 1991. Then Russia could, for example, plausibly try to extend deterrence to the CIS along its borders to justify future offensive operations there, or actually conduct them as in Georgia in 2008. Certainly Russian leaders fully believe that their possession of nuclear weapons deterred the West from intervening on behalf of Georgia then so a repeat opportunity cannot be ruled out.

But even with some success in producing the required conventional capabilities, absent genuine reforms the self-generating threat perception will remain necessary for the unchanged political system and the absence of democratic controls over the instruments of force will continue to tempt Moscow into military adventurism. Yet paradoxically failure to reform the polity and economy will make it even harder to keep pace with China, leading to even greater reliance on nuclear deterrence in the Far East and heightened threat perceptions there. Indeed, we may say that even as NATO continues to disarm, China's unceasing military modernization will enhance its status as a potential threat to Russia. This is especially true as the demographic time bomb inside Russia continues to explode. If Russia cannot meet manpower requirements, particularly in its Far East and if its conventional rearmament program continues to falter, as is presently the case, then no other option makes sense against China other than a robust nuclear deterrent, which dictates a strong reluctance to reduce nuclear arsenals unless China does so too.<sup>286</sup> Consequently we cannot abstract the future of Russian nuclear strategy and policy solely from the analysis of its domestic trajectories in politics and economics. Nor can we abstract Russia's future nuclear or overall military strategy and policy exclusively from the global context. Simply stated, the absence of reform fosters continued industrial and thus military backwardness relative to potential adversaries, continually regenerates the foundational perceptions of linked domestic and foreign threat, and imposes an inertial trend to rely on nuclear weapons to solve problems conventional forces would otherwise resolve. This conclusion is also as a result of the failure to address the demographic disaster as manpower requirements simply will not be available, and if the educated part of society continues to shun military service it will be extremely difficult to field a high-tech army capable of network-centric or other forms of modern precision-strike warfare. In turn, that consideration favors the retention of nuclear weapons for a broader range of missions than is the case in the US/NATO and China.

## **The Debate Over Nuclear Weapons**

---

<sup>285</sup> Essentially this is a restatement of the paradox that having nuclear weapons makes it safer for their possessor to wage conventional war as he has a deterrent at his disposal.

<sup>286</sup> On the current situation in the defense sector see Medvedev's remarks, on May 10, 2011, *Soveshchanie po Voprosam Razvitiia Oborono-Promyshlennogo Kompleksa Rossii*, "<http://www.kremlin.ru/transcripts>, May 10, 2011

This point leads to another important observation. As Russia confronts domestic and military reforms, debates over the missions and causes for use of nuclear weapons (if not the advisability of going first with them altogether) are occurring. The latest public debate began in earnest in October 2009 when Nikolai Patrushev, Secretary of Russia's Security Council, told an interviewer that the forthcoming defense doctrine will be amended to allow for possible preventive and preemptive first strikes, including nuclear strikes, even in the context of a purely conventional local war and even at the lower level of operational-tactical, as opposed to strategic, strikes.<sup>287</sup> This triggered a major public debate over those questions that paralleled the private debate among Russia's leaders. Many participants in the debate openly proclaim that nuclear weapons are war-fighting weapons that should and will be used even if they do not specify the circumstances. A recent Russian article describing the need for a fundamentally new universal armored vehicle states that,

We must not neglect the preservation of the capabilities for the restoration of the combat capability during an exchange of nuclear strikes by the weapons and equipment (VVT) system. After the employment of weapons of mass destruction, a troop grouping must rapidly take heart, rid itself of radioactive contamination, restore its combat capability, and continue to accomplish the combat missions. If that will not occur, the permissibility of the conduct of a preventive nuclear strike by Russia, which is declared in the new Military Doctrine, simply doesn't make sense. The 1980s field regulations examined these variants of the developments of events. Today rehearsals of operations to restore combat capability after employment of nuclear weapons are actually not being conducted.<sup>288</sup>

Here clearly nuclear weapons are battlefield weapons. Similarly, in an otherwise unremarkable 2008 interview, General Vladimir Boldyrev, then Commander in Chief of Russia's Ground Troops, described the missions of Russia's tank troops as follows,

Tank troops are employed primarily on main axes to deliver powerful splitting attacks against the enemy to a great depth. Having great resistance to damage-producing elements of weapons of mass destruction, high firepower, and high mobility and maneuverability, they are capable of exploiting the results of nuclear and fire strikes to the fullest and achieving assigned objectives of a battle or operation in a short time.<sup>289</sup>

Indeed, Boldyrev's remarks, like those on armored vehicles, show that he, and presumably his colleagues, fully expect that Russia if not both sides will use nuclear weapons as strike

---

<sup>287</sup> Interview With Russian Federation Security Council Secretary Nikolai Patrushev," Moscow, *Izvestiya*, in Russian, October, 14, 2009, *FBIS SOV*, October 14, 2009; David Novak, "Report: Russia To Allow Pre-Emptive Nukes," Associated Press, October 14, 2009

<sup>288</sup> Ilya Kedrov, "An Expert Evaluation: A universal Armored Vehicle; The Infantry Needs a Fundamentally New Combat Vehicle and Not a Taxi to the Forward Edge of the Battle Area," Moscow, *Voyenno-Promyshlennyy Kuryer Online*, in Russian, May 26, 2010, *FBIS SOV*, June 4, 2010. This advocacy also suggests that despite rhetoric exercises relative to the use of nuclear weapons in war-fighting are not being conducted

<sup>289</sup> Artem Troitsky, "Interview With CINC Ground Troops General of the Army Vladimir Anatolyevich Boldyrev," Moscow, *Voyenno-Promyshlennyy Kuryer*, in Russian, October 1, 2008, *FBIS SOV*, October 19, 2008

weapons in combat operations.<sup>290</sup> But the first article also suggested that exercises in a nuclear battlefield are not taking place suggesting contradictory views. Yet the experiences of Russia's most recent major exercises Zapad-2009 and Vostok-2010, described below, argue for the idea that Russia (if not others) will use nuclear weapons in a first-strike mode to compensate for conventional inferiority. Russia's reluctance to discuss reductions of its large (estimated at several thousand) arsenal of tactical nuclear weapons (TNWs) also suggests an interest in using nuclear weapons in a war-fighting scenario because,

The existence of tactical nuclear weapons is an important indicator of a war-fighting strategy in which the country is prepared to use nuclear weapons in a deliberate escalation strategy which in turn requires the deployment of a large quantity of nuclear weapons of all yields and ranges.<sup>291</sup>

This process of conventionalizing nuclear weapons, in and of itself, substantially lowers the threshold for nuclear use just as Moscow did in 1999.<sup>292</sup> Similarly Colonel-General Nikolai Solovtsov, Commander in Chief of the Strategic Missile (Rocket) Forces, stated in 2008 that new military uses for nuclear weapons are coming into being. Thus,

The radical changes that have occurred since the end of the Cold War in international relations and the considerable reduction of the threat that a large-scale war, even more so a nuclear one, could be unleashed, have contributed to the fact that in the system of views on the role of nuclear arms both in Russia and the US, a political rather than military function has begun to prevail. In relation to this, besides the traditional forms and methods in the combat use of the RVSN, a new notion "special actions" by the groupings of strategic offensive arms has emerged. --- Such actions mean the RVSN's containment actions, their aim to prevent the escalation of a high-intensity non-nuclear military conflict against the Russian Federation and its allies.<sup>293</sup>

Though there is a diminishing threat of large-scale war, a new mission for nuclear weapons will be their use in actions during a limited conventional war to control intra-war escalation and deter adversaries. Such dialectical reasoning makes no sense unless one postulates an a priori hostility between East and West and grants Russia the right of deterrence that it has unilaterally arrogated to itself over other neighboring states who have never publicly accepted it. Indeed, the new calls for renovating the nuclear forces and having a solution guaranteeing nuclear deterrence in all cases have now become policy even if America deploys its global defense system and moves to a defense dominant world.<sup>294</sup>

Obviously we ignore this Russian thinking at our peril. Clearly it contradicts much of what is taken for granted in the West, that nuclear weapons are of declining or even minimal military

---

<sup>290</sup> Kedrov, *FBIS SOV*, June 4, 2010

<sup>291</sup> Chu Shulong and Bong Yu, "China: Dynamic Minimum Deterrence," Muthiah Alagappa Ed., *The Long Shadow: Nuclear Weapons and Security in 21<sup>st</sup> Century Asia*, Stanford, CA: Stanford University Press, 2008, p. 170

<sup>292</sup> Nesirsky

<sup>293</sup> *FBIS SOV*, October 19, 2008

<sup>294</sup> Moscow, *Agentstvo Voyennykh Novostey Internet Version*, in English, September 29, 2008, *FBIS SOV*, September 29, 2008



utility and are primarily political weapons capable of deterring essentially only other nuclear attacks.<sup>295</sup> A sound US policy depends on an equally well-founded understanding of the fact that other states (not only Russia) think about these weapons quite differently than we do. For example Muthiah Alagappa observes that in Asia “all relevant countries are modernizing and building their strategic arsenals, albeit at a relatively moderate pace, and developing strategies for their employment.”<sup>296</sup> And as this includes Russia whose threat perception from China is actually growing, it behooves us to pay careful attention to debates in these countries like the present Russian debate.

In that context Patrushev’s remarks of October 2009 ignited a debate where some well-known military thinkers advocated other means of deterrence beyond nuclear weapons.<sup>297</sup> Retired General Makhmut Gareyev, President of the Academy of Military Studies, gave a wide-ranging speech in December, 2009 that covered the situation in Afghanistan, the expansion of NATO, the South Caucasus, Central Asia, transnational threats, changes in the strategic environment. Though he stressed that nuclear weapons remain the most important and reliable means to ensure Russia’s security, he said that due to new threats nuclear weapons could not be regarded in absolute terms. Gareyev noted, “Having a mindset that Russia’s security is guaranteed as long as there are nuclear weapons does not conform fully to the new realities. We know the Soviet Union had nuclear weapons, but nuclear weapons remain and there is no union state.”<sup>298</sup>

Moreover, Gareyev emphasized that nuclear weapons cannot be general-purpose, as it was futile to use them in local situations such as Chechnya or to neutralize economic and information threats or all types of subversive activity. Gareyev further invoked the onset of World War II, saying that it was now time to assess the merits of the decisive importance not only of the initial period of war, but above all the first strategic strike. Citing Operation Desert Storm and Kosovo, he said that in contemporary conditions it is impossible to withstand a massive conventional first strike. “Therefore, as in the fight against terrorism, more aggressive actions are needed and preemptive actions as well, if necessary.”<sup>299</sup> His appeal, as Roger McDermott notes, seemed less nuclear than it did conventional.<sup>300</sup> But anyone who wanted to could find here a justification for preemptive nuclear strikes or for preemptive conventional strikes that could trigger an escalation process..

---

<sup>295</sup> See for example, Muthiah Alagappa, “Exploring Roles, Strategies, and Implications: Historical and Conceptual Perspectives,” Muthiah Alagappa Ed., *The Long Shadow: Nuclear Weapons and Security in 21<sup>st</sup> Century Asia*, Stanford, CA: Stanford University Press, 2008, p. 83; United States Department of Defense *Nuclear Posture Review Report*, Washington, D.C. 2010, <http://www.defense.gov/npr/docs/2010%20nuclear%20posture%20review%20report.pdf>

<sup>296</sup> Muthiah Alagappa, “Preface and Acknowledgement,” Muthiah Alagappa Ed., *The Long Shadow: Nuclear Weapons and Security in 21<sup>st</sup> Century Asia*, Stanford, CA: Stanford University Press, 2008, p.

<sup>297</sup> McDermott, “Russia’s Conventional Armed Forces, Reform and Nuclear Posture to 2020,” pp. 19-21

<sup>298</sup> Gennadiy Miranovich, “Military Science: Assignment for Tomorrow,” *Krasnaya Zvezda*, December 21, 2009.

<sup>299</sup> *Ibid.*

<sup>300</sup> McDermott, “Russia’s Conventional Armed Forces, Reform and Nuclear Posture to 2020,” p. 22

Andrei Kokoshin, a member of the Russian Academy of Sciences and former Deputy Defense Minister and member of the Security Council stated similarly that, “The new Russian-US treaty on strategic offensive armaments lays the basis for strategic stability for the foreseeable future. However, this is not an automatically achievable objective; it can only be achieved if Russia continues to carry out a whole range of improvements to its strategic forces.” Russia should keep its strategic forces secure against attacks and increase their capacity to penetrate any potential missile defense. But he added that, “Strategic stability will largely depend on precision weapons with conventional warheads, to which a great deal of attention should also be paid, providing Russia with a potential for non-nuclear or pre-nuclear deterrence.<sup>301</sup> The latter, by the way, is prescribed by the new Russian military doctrine.”<sup>302</sup> His reference to pre-nuclear deterrence drew upon Gareyev’s thinking, but is still a long way off as the conventional modernization of the Russian armed forces faces technological and defense industry-related challenges even if the doctrine prescribes such systems. Thus reality may preclude such “general-purpose” options for a long time to come. And his effort to invoke the new 2010 doctrine is primarily to give his ideas political cover as the doctrine in its published form (there is a large classified nuclear annex) is by no means as unequivocal as he would like to pretend.<sup>303</sup>

Simultaneously a second concurrent and related debate also broke out into the open between Putin and Medvedev as to whether or not Russia needs to build more offensive nuclear weapons than it had originally planned in order to meet the alleged challenge posed by US missile defenses in Eastern Europe. Even as Medvedev hailed the progress being made in negotiating this treaty and said that a final version was close at hand, Putin decided to show who was boss and to play to the hawks’ gallery. On December 28, 2009, in Vladivostok he said that,

The problem is that our American partners are developing missile defenses, and we are not, --  
- But the issues of missile defense and offensive weapons are closely interconnected ... There could be a danger that having created an umbrella against offensive strike systems, our partners may come to feel completely safe. After the balance is broken, they will do whatever they want and grow more aggressive ---. In order to preserve a balance, while we aren't planning to build a missile defense of our own, as it's very expensive and its efficiency is not quite clear yet, we have to develop offensive strike systems.<sup>304</sup>

But at the March 5, 2010 expanded session of the Defense Ministry Collegium Medvedev made it clear that Russia does not need to increase its offensive nuclear capability any further than was originally planned.<sup>305</sup> Thus the divisions between the two men on this issue are out

---

<sup>301</sup> *Ibid.*, Author’s emphasis. Kokoshin’s remarks reflect the belief cited above that success in developing advanced conventional weapons affords Moscow more non-nuclear deterrence options along the escalation ladder.

<sup>302</sup> “Ex-Security Official: Russia Should Keep Improving Strategic Forces,” *Interfax*, April 9, 2010.

<sup>303</sup> *FBIS SOV*, February 9, 2010

<sup>304</sup> “Putin Says Russia Will build Weapons to Offset planned US Missile Defenses,”

<http://www.guardian.co.uk/world/2009/dec/29/nuclear-weapons-russia>, D12/2/11ecember 29, 2009

<sup>305</sup> Speech at an Expanded Meeting of the Defense Ministry Board, March 5, 2010,

[http://eng.kremlin.ru/speeches/2010/03/05/2058\\_type82913\\_224669.html](http://eng.kremlin.ru/speeches/2010/03/05/2058_type82913_224669.html)

in the open.<sup>306</sup> But their resolution will occur in a tough context for innovative and non-belligerent policymaking where strong trends for greater reliance on nuclear weapons (regardless of quantity) will exist. And this example validates the importance of who the leader is because it is clear that in the current leadership struggle two distinct orientations are arising with regard to nuclear weapons. Even if reform remains partial at best, that still leaves several different options open regarding the nuclear an agenda, even though Russia will rely on them more than do its interlocutors. And this debate exemplifies the prospect of such competing options.

Consequently debates over the numbers of weapons Russia requires, their missions, and conditions of operational use will continue. And their outcome greatly depends not just on the nature of the ruling coalition of interests at any given time, but also on objective or structural issues like the progress of the current efforts to implement a comprehensive reform of the armed forces and the military-industrial complex as a whole. So while the defense doctrine was relatively taciturn about nuclear weapons, although it reminded people that only the President decides their use; that did not end the debate.

A second, classified document, “The Foundations of State Policy in the area of Nuclear Deterrence to 2020,” was issued with the new defense doctrine to clarify policy for the elite. Leaked sections of that document suggest two types of threats that could lead to nuclear use: attacks upon vital economic and political structures, early warning systems, C2 and nuclear weapons systems -- which is the more likely scenario involving US/NATO forces -- and second, during an enemy invasion by ground forces into Russian territory that the Russian Army cannot repulse through purely conventional means –this suggests a PLA thrust against the Russian Far East.<sup>307</sup> These constitute a representative sample of the many threats that the Russian military-political elite perceive and for which they might have to resort to force, not to mention nuclear weapons.<sup>308</sup> Yet the exercises depicted below in the appendices suggest other contingencies that could expand into nuclear use as well. Therefore it seems too bold to say, as some have suggested, that the new doctrine, judged exclusively from its overt unclassified statements, tightens and reduces nuclear use, including that of tactical nuclear

---

<sup>306</sup> But despite this debate both men subscribe to similar outlooks on deterrence as the proper relationship between Russia and the US (if not China)

<sup>307</sup> Kipp, citing Vladimir Mokhov, “Osnovy Natsional’noi Bezopastnosti,” *Krasnaya Zvezda*, February 6, 2010

<sup>308</sup> Stephen Blank, “No Need to Threaten Us, We Are Frightened of Ourselves: Russia’s Blueprint for a Police State,” in Stephen J. Blank and Richard Weitz, Eds., *The Russian Military Today and Tomorrow: Essays in Memory of Mary Fitzgerald*, Carlisle Barracks, PA: Strategic Studies Institute US Army War College, 2010, pp. 19-150; *Natsional’naya Strategiya Bezopasnosti Rossii, do 2020 Goda*, Moscow, Security Council of the Russian Federation, May 12, 2009, [www.scrf.gov.ru](http://www.scrf.gov.ru), in English it is available from *FBIS SOV*, May 15, 2009, in a translation from the Security Council website (Henceforth NSS); *FBIS SOV*, February 9, 2010

<sup>308</sup> *Natsional’naya Strategiya Bezopasnosti Rossii, do 2020 Goda*, Moscow, Security Council of the Russian Federation, May 12, 2009, [www.scrf.gov.ru](http://www.scrf.gov.ru), in English it is available from *FBIS SOV*, May 15, 2009, in a translation from the Security Council website (Henceforth NSS); *FBIS SOV*, February 9, 2010

weapons (TNW).<sup>309</sup> In fact we simply do not know what would trigger nuclear use in an actual conflict and in any real conflict doctrine would probably go out the window as Von Moltke famously suggested. Nevertheless it is clear that Russian discussions about nuclear use self-consciously invoke nuclear weapons first strike as “the threat that leaves something to chance” to deter all manner of potential contingencies against Russia, its territory, and vital interests.

These debates relate primarily though not exclusively to the subjective factor mentioned above, namely who or which coalition prevails over time in Russian policymaking, not how many or what kind of nuclear weapons will be built or of the conditions of their use and missions. Rather it is also a question of how the ruling group sees the present balance between threats and opportunities in Russian security and whether or not it inclines towards autarchic solutions that intensify the trend towards militarization or interactive ones that further Russia’s integration into the global economy and system of international relations. Given Putin’s primacy and his associates like Igor Sechin’s inclination to statist, autarchic policies and heightened perceptions of a western threat, excessive optimism on this score may be unwarranted.

### **Prospects for the Military-Industrial Complex (MIC)**

This consideration forces us to consider the linkages between threat perceptions and the prospects for successfully reforming the defense industrial sector and possibly reducing the need for excessive reliance on nuclear weapons. Western observers were divided in their opinions as to whether or not such “modernization” can occur by 2020.<sup>310</sup> But clearly this modernization is being driven by both the military and defense industry’s previously inferior performance, the official threat perception, Medvedev’s and Putin’s statements reaffirming that perception, and the official documents like the national security concept of 2009, and the 2010 defense doctrine. And, as mentioned above, there is a desire to explore the potential for non-nuclear but effective means of deterrence in modern warfare. Meanwhile a big political struggle over the key issues of defense spending and buying foreign advanced systems for purposes of copying and later developing them in Russia has started.<sup>311</sup>

We cannot dismiss such statements and documents by saying they are merely for domestic consumption alone because even if that were the case they clearly reflect and further stimulate a corresponding domestic demand for militarizing the economy, state, and political rhetoric. Note, for example, President Medvedev’s ambitious demands on the military industrial complex (MIC) stated in 2008, namely that by 2020 Russia should have,

---

<sup>309</sup> Nikolai Sokov, “The New 2010 Russian Military Doctrine: The Nuclear Angle,” Center for Nonproliferation Studies, Monterey Institute for International Studies, February 6, 2010, [www.cns.miis.edu](http://www.cns.miis.edu)

<sup>310</sup> This became obvious at the Conference, Strategy and Doctrine in Russian Security Policy, Washington, D.C., National Defense University, Fort Lesley J. McNair, June 28, 2010, where many of the audience members argued that the current program could conceivably succeed to the point of giving Russia the requisite conventional capabilities even if it did not fully reach all of its goals while many of the panelists were more skeptical about this conclusion.

<sup>311</sup> Blank, “A Work in Regress? Russian Defense Industry And the Unending Crisis of the Russian State, “

A guaranteed nuclear deterrent system for various military and political circumstances must be provided by 2020 . . . We must ensure air superiority, precision strikes on land and sea targets, and the timely deployment of troops. We are planning to launch large-scale production of warships, primarily, nuclear submarines with cruise missiles and multi-purpose attack submarines... We will also build an air and space defense network.<sup>312</sup>

Here Medvedev built upon Putin's earlier demands on the military-industrial complex (MIC) because in one of his last speeches as President he explicitly advocated an arms race with the US to deter the perceived US/NATO threat. Specifically he said that,

The only alternative of deterring NATO's expansion and other hostile politico-military moves towards Russia is developing the production of new types of arms that are not inferior in their quantitative characteristics to those at the disposal of other states and in certain cases even surpass them.<sup>313</sup>

This advocacy essentially amounts to a call for an arms race, even if it is an asymmetric one, as well as the structural militarization of Russia's economy, albeit at lower levels than occurred in the Soviet Union. After all, it is quite clear that the scenarios envisioned in these statements do not include chasing terrorists around the North Caucasus. Even though the current defense reforms that Serdyukov and his Chief of Staff, General Nikolai Makarov, have launched clearly reflect a disbelief in the likelihood of major war with NATO and a force optimized for wars like that of Israel vs. Hezbollah in 2006 or against Hamas in 2008-09; the procurements called for here still favor weapons systems for a big war against the US/NATO or China. Indeed, Deputy Prime Minister Sergei Ivanov has repeatedly stated that the nuclear deterrent remains the first priority of defense spending.<sup>314</sup> And the new State Armaments Plan, cited above, does so too.

It is noteworthy here that despite the fact that the North Caucasus is on fire and that Russia heretofore has shown no idea of how to put out that fire, it still persists in saying its main security threat, against which this plan is dedicated, is a big conventional war either from NATO and the US or from China or the US alliance system in Asia. Thus Russia makes almost no provision for reforming its armed forces to deal with the contingency at hand, rather postulating classical conventional if not nuclear threats. And this again reflects the idea that the presupposition of conflict with the big powers lies at the foundation of Russian security thinking and policy. Thus the apparent end of the defense reforms discussed below forecloses certain options for Russia and represents a yielding, at least in part, to those who still hanker after a large traditional Russian and Soviet mass mobilization army even if it is clearly unsustainable and maybe even unnecessary. The undisputed triumph of "new

---

<sup>312</sup> President Dmitry Medvedev, cited in "Russia Ready for Meaningful Military Reform. Again. Really," in [www.moscowsshadows.wordpress.com/2008/09/27](http://www.moscowsshadows.wordpress.com/2008/09/27)

<sup>313</sup> Vladimir Putin, "Intervention at the Broadened Session of the State Council on "the Strategy of Russia's Development Until 2020, February 8, 2008, <http://www.interos.ru/straegy/gos.rf1814-vladimirputin-vystuplenie-na.html>, quoted in, V. Abadjian, "Kakistocracy Or the True Story of What Happened in the Post-Soviet Area," *Journal of Eurasian Studies*, I, NO. 2, July 2010, p. 159

<sup>314</sup> Moscow, *Interfax*, August 7, 2009, *FBIS SOV*, August 7, 2009

thinking” on defense matters would be a wild card that might lead to fundamental changes, but from today’s vantage point, it appears unlikely.

Indeed, it is this expectation and prognosis of big interstate wars in the face of the experience of the last twenty-three years of warfare that has now led to some of the turmoil cited above. Makarov, in a recent speech, took full aim at Gareyev and his academy, which still ascribes “pole position” to the study of World War II (the Great Patriotic War). Makarov blasted the twenty-year failure to develop a military science and threat assessment adequate to contemporary requirements that forced Russia to undertake defense reform without a sufficient theoretical base. As a result the US leapt forward to new concepts like network-centric warfare and mobile defense while Russia stood still cognitively and in practice. He equally disparaged dissertations in the Ministry of Defense’s educational institutions for being detached from real issues and focusing on World War II. He demanded that the General Staff, not the Security Council, play a leading role over other agencies and specifically emphasized the General Staff’s control of the development of a new aerospace defense force (VKO). Clearly he is attempting to reorient the General Staff, the Academy, and the Ministry to the creation not just of this new force but also of an appropriate military science for it to rejuvenate the thinking of the General Staff.<sup>315</sup> Thus a new round of ferment over military science, doctrine, threat assessments and analyses of the character of contemporary warfare has been launched so at present we are in the midst of a new major political struggle in and around the armed forces.

But the turmoil does not end here. In this context the situation of the Military-industrial complex (MIC) along with the progress of Serdyukov’s reforms are illustrative. The 2011-20 State Armaments Plan grows out of the failure of the current arms program from 2006-2015 that was budgeted at 5 trillion rubles (\$155 billion). Typically that plan proved to be “ineffective and expensive, leading to delays in introducing new armaments.”<sup>316</sup> Indeed, “Not a single one of the previous arms programs was fulfilled even at 20 percent of the planned level. Even the existing program, (the 2006-15 program-author) which came about, during the years of oil-sale prosperity, is not being fulfilled.”<sup>317</sup>

On this basis it is hardly likely that the next program for 2011-20 will be fulfilled. Nonetheless the government developed that program while it pushes a forecast calling for real annual growth of 3-6% annually through 2015. Thus it, like many other governments, is painting a rosy scenario that is probably too optimistic.<sup>318</sup> Indeed, Putin now says that by 2020 the armed forces will get over 1500 new aircraft and helicopters and about 200 new air defense systems by 2020.<sup>319</sup> Yet these promises are being made in an environment where

---

<sup>315</sup> Roger McDermott, “The “Brain of the Russian Army Degenerates,” *Eurasia Daily Monitor*, April 6, 2011; Jacob Kipp, “The Emperor Has No clothes.: Military Reform without Military Science,” *Eurasia Daily Monitor*, April 5, 2011

<sup>316</sup> Martin Sieff, “Russia Reveals New 10-year Arms Plan to Upgrade Armed Forces,” *UPI*, January 20, 2009, [www.upi.com](http://www.upi.com)

<sup>317</sup> Dmitry Litovkin, “The Army Will Become a Trillionaire,” Moscow, *Izvestiya*, in Russian, January 20, 2009, *FBIS SOV*, January 20, 2009

<sup>318</sup> Felgenhauer, “Russia will Spend 20 Trillion Rubles on New Weapons,” Moscow, *ITAR-TASS*, in English, July 19, 2010, *FBIS SOV*, July 19, 2010

<sup>319</sup> *Ibid.*

there has been no reform of the MIC since 2007 or such reforms as have been attempted have failed and where the government admits that the procurement plan for 2009 was completed only to 50% according to the Accounting Chamber.<sup>320</sup> Furthermore Medvedev's reform efforts have, by his own admission, fallen flat. So these forecasts and promises represent or should represent to most unbiased observers a Russian version of what former President George H.W. Bush called "voodoo economics." Indeed, signs of failure of modernizing the defense forces are already apparent.<sup>321</sup> Rather than modernize the armed forces by 10% a year to 2020 as previously planned, Medvedev now demands that 30% of the armed forces weaponry be modernized by 2015, a sure sign of continuing failure as this actually reduces the target goal.<sup>322</sup> Indeed, Russia failed to reach its 2009 procurement targets by 50%.<sup>323</sup> At the same time MG Vasily Burenok, Director of the Defense Ministry's 46<sup>th</sup> Research and Development Institute disclosed that the annual rate of rearmament is only 2% annually.<sup>324</sup> Thus the extent of the armed forces' modernization as of 2010 is 12%.<sup>325</sup> This too suggests a continuing reliance mainly on nuclear weapons, as conventional modernization cannot succeed to the degree of the government's desires at this pace unless some external shock is admitted to the system.

Furthermore the results of 2010 have come in and they are hardly encouraging. Just as the modernization level in 2009 was 12 percent, in 2010 it moved to 15 percent, in accordance with Burenok et al's observations.<sup>326</sup> Worse yet, it has already become clear that defense industry, which has never been able to provide the armed forces with its requirements, has again failed as of 2010. Recent articles make the extent of this failure very clear. Specifically,

Last year, for example, they did not get a single nuclear submarine cruiser, although the Yuri Dolgoruky with 12 Bulava missiles on board and a multirole Yasen-class nuclear submarine were to have been commissioned at the very least, and only five out of 11 communications and reconnaissance satellites were sent into space. Nor did the fleet get a project 20380 corvette. Only six out of nine Yak-130 aircraft planned for delivery were received and just 78 out of 151 BMP-3 infantry fighting vehicles.<sup>327</sup>

---

<sup>320</sup> "Russia to Assign Trillions for Strategic Nuclear and Ground Forces," *Pravda*, July 21, 2010, [http://english.pravda.ru/print/russia/economics/114313-stratgic\\_nuclear\\_forces-0](http://english.pravda.ru/print/russia/economics/114313-stratgic_nuclear_forces-0)

<sup>321</sup> *Soveshchanie po Voprosam Razvitiia Oborono-Promyshlennogo Kompleksa Rossii*, <http://www.kremlin.ru/transcripts>, May 10, 2011

<sup>322</sup> "Share of Modern Weaponry in Russian Military Must Be 30% by 2015-Medvedev," *RIA Novosti*, May 24, 2010, [http://en.rian.ru/military\\_news/20100524/159135253.html](http://en.rian.ru/military_news/20100524/159135253.html)

<sup>323</sup> Vitaly Salnyk, "Russia to Assign Trillions for Strategic Nuclear and Ground Forces," *www.pravda.ru*, July 21, 2010.

<sup>324</sup> Roger McDermott, "Medvedev's Military Modernization Program Faces Crisis," *World Security Network*, May 8, 2010, [www.worldsecuritynetwork.com/showArticle3.cfm?article\\_id=18282](http://www.worldsecuritynetwork.com/showArticle3.cfm?article_id=18282)

<sup>325</sup> Roger McDermott, "Medvedev's Military Modernization Program Faces Crisis," *World Security Network*, May 8, 2010, [www.worldsecuritynetwork.com/showArticle3.cfm?article\\_id=18282](http://www.worldsecuritynetwork.com/showArticle3.cfm?article_id=18282); "Most Russian Army Weapons Obsolete-Commander, Moscow, *Interfax-AVN*, July 19, 2010, cited in *Johnson's Russia List*, July 19, 2010, [www.starfighter.net](http://www.starfighter.net)

<sup>326</sup> "Share of Modern Weaponry in Russian Armed Forces Reaches 15% - Serdyukov", *Interfax.com*, March 18, 2011, <http://www.interfax.com/newsinf.asp?id=229793>.

<sup>327</sup> "Supreme Commander in Chief's Five Tasks. New People Are Needed to Fulfill Them," Moscow, *Nezavisimaya Gazeta Online*, in Russian, March 21, 2011, *FBIS SOV*, March 30, 2011

Yet typically nobody received a reprimand for this confirming “nonfulfillment of the Army’s orders in the defense industry has become the norm for our country.”<sup>328</sup> Under the circumstances the planned modernization of the forces’ armaments remains a dubious proposition. But in turn that raises the question of how the military is to fulfill Medvedev’s 2008 directive that by 2020 Russia should have,

A guaranteed nuclear deterrent system for various military and political circumstances must be provided by 2020 . . . We must ensure air superiority, precision strikes on land and sea targets, and the timely deployment of troops. We are planning to launch large-scale production of warships, primarily, nuclear submarines with cruise missiles and multi-purpose attack submarines. . . We will also build an air and space defense network.<sup>329</sup>

Yet according to Deputy Defense Minister Vladimir Popovkin, according to the procurement plan for the next few years, Russia plans to develop a new liquid-fueled heavy ICBM to carry up to ten warheads, and having a service life of up to 35 years. Former RVSN Commander General-Lieutenant Andrey Shvaychenko talked about a new liquid heavy as far back as late 2009, and the issue’s been debated in the Russian military press since. Popovkin said the Defense Ministry plans to accept the Bulava SLBM and the first two *Borey*-class SSBNs this year. There will be 4-5 Bulava launches this year. We should recall that to date only 7 of 14 Bulava tests have been successful. Addressing Bulava’s past failures, Popovkin said there were many deviations from the design documentation during production. He also said Russia plans to build eight SSBNs to carry Bulava by 2020. He was unclear if this includes the first two *Borey*-class boats.<sup>330</sup>

These plans also subsume a debate over the nature of the next generation of nuclear weapons. Within this new program that also entails the comprehensive modernization of the entire machine tool sector along with the high-tech sector, the state order (Goszakaz) for 2011 will go up by a third to 1.5 trillion rubles in 2011 and then another third by 2013 to 2 trillion rubles.<sup>331</sup> Right now there is a serious debate regarding the nuclear sector. Many sectors of defense industry possess the ambition to virtually double ICBM production through 2020 by modernizing production lines and producing heavy liquid-propellant missiles and spending nearly 77 billion rubles towards these ends.<sup>332</sup> Russia aims to modernize its quantitative arsenal to conform to the new treaty’s requirements. Furthermore because it maintains that the US has not definitively settled upon a missile defense model (which is strange given the Administration’s policy) it allegedly needs to modernize qualitatively to have designs that can counter space weapons, a set of weapons that Moscow apparently fully believes the US intends to create.<sup>333</sup>

---

<sup>328</sup> *Ibid.*

<sup>329</sup> President Dmitry Medvedev, cited in “Russia Ready for Meaningful Military Reform. Again. Really,” in [www.moscowsshadows.wordpress.com/2008/09/27](http://www.moscowsshadows.wordpress.com/2008/09/27)

<sup>330</sup> “Popovkin Details the GPV,” <http://russiandefpolicy.wordpress.com/tag/vladimir-popovkin/>, February 25, 2011

<sup>331</sup> Moscow, *RIA-Novosti Online*, in Russian, December 8, 2010, *FBIS SOV*, December 8, 2010;

<sup>332</sup> Dmitriy Litovkin, “Successors to the ‘Topol’ Have Appeared,” Moscow, *Izvestiya Online*, in Russian, March 24, 2011, *FBIS SOV*, March 25, 2011

<sup>333</sup> *Ibid.*



Therefore one way to meet these demands is to create a heavy liquid-propelled ballistic missile, an issue that has touched off a major debate among missile designers with First Deputy Defense Minister Vladimir Popovkin supporting it and Yuri Solomonov, a famous missile designer at the Moscow institute of thermal Technology opposing it. In opposition to the calls for this new missile are the designers of the Topol-M, Yars, and Bulava solid propellant systems. In other words Russia's nuclear program, although work has started on the liquid-propellant system, is in the throes of a debate, so its final outcome and prognosis remains unclear at this time.<sup>334</sup> Despite this as yet unresolved debate, the current expectation is that the ultimate design will copy that of the Satan (SS-18 ICBM) and be insensitive to the effect of an electromagnetic (EMP) impulse, can be launched from a silo even after a missile has hit it, and is capable of carrying a large complex of defense penetration aids so that it can evade missile defenses and deliver a 10 ton combat payload to any point in the world. It also will include ten individually guided warheads of the megaton class, i.e. it will be MIRVed.<sup>335</sup> These plans date back at least to 2008 when it was first announced that the new RS-24 would be MIRVed.<sup>336</sup>

It is clear that this construction program contemplates not just deterrence but a war using nuclear weapons albeit in what is possibly a restricted number of contingencies, but clearly premised on a US/NATO attack. Indeed, as Popovkin said in another interview, the first priority is the strategic deterrent, which includes nuclear weapons, early warning missile and aerospace defense (i.e. the new VKO force discussed below).

The first priority - the strategic deterrent force. They have two components: the strategic nuclear forces, as well as a system of missile warning, missile defense and aerospace defense. The second priority - a long list of high precision weapons, whose use is based on information support from space. Third - automated command and control in the next two or three years to link all species of ACS in a single management system. Modernize it so it was with an open architecture and it allows you to build the capacity in any direction.<sup>337</sup>

Consequently Russia's military-strategic plans for force structure once again contradict its defense industrial system and military-strategic rhetoric. Russia cannot afford its security interests without invoking the broad use of nuclear weapons or without incurring the constant temptation to militarize the economy, despite the visible inefficiency of that latter approach. Clearly the present MIC cannot support either Serdyukov's new look or a conflict with the US/NATO or China unless Russia quickly goes to nuclear weapons. Therefore to "stay in the game" according to its self-conception as a great power, Russia must continue relating to its neighbors and principal interlocutors through deterrence which presupposes an a priori and constant hostility among states as well as the primacy of nuclear weapons and retain a defense industry that is utterly maladapted to its needs. And it must do so even as it seeks to persuade those governments to improve relations and transfer both advanced technologies and weapons

---

<sup>334</sup> *Ibid.*

<sup>335</sup> *Ibid.* (MIRV stands for multiple independent reentry vehicles)

<sup>336</sup> Mark A Smith, *A Russian Chronology, July-September 2008*, Conflict Studies Research Centre Advanced Research assessments Group, [www.da.mod.uk/arag](http://www.da.mod.uk/arag), 2008, p. 25

<sup>337</sup> Yuri Gavrilov, "To Arms! First Deputy Defense Minister Vladimir Popovkin Revealed Plans to Re-equip the Army," Moscow, *Rossiyskaya Gazeta*, in Russian, July 2, 2010, <http://russiadeffence.englishboard.net/t1294-interview-with-vladimir-popovkin>

systems. Just as Russia's ambitions far outreach its real capabilities, this ambivalent posture is another of the enduring paradoxes of Russian security policy. But clearly failures in the MIC or in the concurrent defense reform certainly affect the likely future importance of nuclear weapons.

The similarly recent admissions that the effort to build a professional army had failed and that Russia is returning to conscription likewise have profound consequences for overall defense policy.<sup>338</sup> Even if Makarov is right in saying that conscripts will decline to a figure of about 10 percent of the force, the Russian press is replete with examples of how the armed forces are trying to prevent conscripts from serving only one year and essentially forcing them to become "professional soldiers." Such practices have a long pedigree.<sup>339</sup> Meanwhile it is clear that the ministry keeps changing its mind about the size of the conscript force it needs and finds it very difficult to come to terms with the facts of Russia's demographic crisis. Still worse, the armed forces in early 2011 announced the hiring of 70,000 new officers to a new aerospace defense or VKO (Vozdushnaia-Kosmicheskaja Oborona) force directed primarily against the US and NATO, clearly bowing to pressure from the officer corps.<sup>340</sup> The creation of the VKO force with 70,000 new officers can only reinforce that threat perception since it is precisely a NATO/US air-space attack that is the scenario most dreaded by Russian planners. At the same time this move clearly terminates and contradicts the whole thrust of the reform to date, reverts back to older threat assessments, and gravely burdens the defense budget since the new officers are promised double pay.<sup>341</sup>

This failure means that Russia probably must forsake the dream of a professional, highly educated, and motivated army capable of fighting a high-tech conventional and most likely local war. While there will undoubtedly be pockets of excellence, the ensuing Russian army will probably be unable to fully optimize or utilize high-tech systems and will be plagued by low moral, educational, and health levels, large-scale draft evasion, and corruption. This incomplete success at best of the current reform will force Russia to invoke nuclear forces in many cases as substitutes for what would otherwise have been a much more robust high-tech conventional capability and deterrent. These trends reinforce the conclusion that nuclear weapons will continue to enjoy primacy in strategy and procurement, especially absent meaningful reform. In a recent assessment of the appointment of Deputy Defense Minister Vladimir Popovkin, former commander in chief of the Space Forces, defense correspondent Pavel Felgenhauer observed that,

Popovkin's first procurement priority is Russia's strategic deterrent: strategic nuclear forces, the early warning system, and the air and air-space defenses. The second priority is the procurement of satellite-guided precision weapons. His third priority is to update the

---

<sup>338</sup> Failure to build a professional army, return to conscription

<sup>339</sup> Stephen Blank, "Bait and Switch : Moscow's Shell Game in Chechnya," *Eurasia Daily Monitor*, April 14, 2005

<sup>340</sup> Pavel Felgenhauer, "The US Threat Dominates Russian Defense Spending and Foreign Policy Decisions," *Eurasian Daily Monitor*, February 10, 2011

<sup>341</sup> Pavel Felgenhauer, "Slashed Russian Officers Re-called to Military Service and Promised Double Pay," *Eurasia Daily Monitor*, February 4, 2011

automated command and control systems. According to Popovkin, in two or three years a joint force automated command and control system must be created “with an open architecture that could allow its further enhancement in any direction.”<sup>342</sup>

## **Defense Spending and Modernization, and Nuclear Weapons**

It is not just the unlikelihood of meeting the leadership’s ambitious demands that leads to this conclusion. The impact of the current crisis on the Russian economy budgetary spending should rationally constrain spending through 2015 if not 2020 lest the economy overheat and Russia once again fall prey to a paler version of the Soviet Union’s structural militarization.<sup>343</sup> Instead the regime has apparently opted for militarization albeit at a lesser pace than did the USSR. At first the recently approved State Armament Program from 2011-2020 allocated only 13 trillion rubles to rearm the armed forces, a figure that the Acting Defense Ministry Chief of Armaments, Lt. General Oleg Frolov claimed to allow for modernization only of the strategic nuclear forces, air, and air defense forces, leaving the navy and army underfinanced.<sup>344</sup> Not surprisingly the military demanded another 23 trillion rubles to modernize the army through 2020 to modernize all of the armed forces and their accompanying infrastructure.<sup>345</sup> Although such funding might place the budget and the economy under a great burden, the armed forces prevailed here. This episode, if understood in the context of the official threat perception, defense industry’s miserable record of modernization, and the new urgency behind modernization signifies Russia’s effort to launch a simultaneous brisk development of both conventional and nuclear capabilities albeit in the latter case, with fewer weapons. Given Russia’s real economic capabilities this might well be considered an attempt at arms racing and structural militarization. When Serdyukov spoke about threats above in 2008-09 the share of modern armaments in the armed forces only made up 10% of their arsenal and only 19% of defense spending was earmarked for re-equipping the army and navy in 2008. That re-equipping was then a third priority behind organizational reform and maintenance of the nuclear forces.<sup>346</sup> So the priority of the nuclear deterrent during modernization was already evident then. Neither has that priority discernibly changed since 2008.

Nevertheless pressure for increasing defense spending and procurement is clearly strong. When Frolov’s budget was originally introduced the Finance Ministry had to concede that whereas defense spending stood at 2.6% of GDP in 2010, in 2011-12 it will increase to 2.9% of GDP and 3% in 2013 after which it will grow to 3.1%, leading to increased purchases of weapons and hardware.<sup>347</sup> But even with increased defense spending as a percentage of the budget it seemed like it would be clearly constrained for the foreseeable future because Russia will not reach a balanced budget until 2015 given the latest official predictions.<sup>348</sup> But even

---

<sup>342</sup> Pavel Felgenhauer, “Russia Seeks to Impose New ABM Treaty on the US By Developing BMD,” *Eurasia Daily Monitor*, July 13, 2010

<sup>343</sup> Maria Antonova, “Kudrin Signals Steep Spending Cuts,” *The Moscow Times*, April 7, 2010

<sup>344</sup> Pavel Felgenhauer, “Russia Struggles to Modernize Its Military,” *Eurasia Daily Monitor*, June 10, 2010

<sup>345</sup> Moscow, *Interfax*, in English, June 3, 2010, *FBIS SOV*, June 4, 2010 CEP20100607964184

<sup>346</sup> *Ibid.*;

<sup>347</sup> Moscow, *Interfax*, in English, June 3, 2010, *FBIS SOV*, June 4, 2010, CEP 20100607964287

<sup>348</sup> Moscow, *Interfax*, in English, July 27, 2010, *FBIS SOV*, July 27, 2010

those figures suggest heightened military pressure upon the budget i.e. signs of structural militarization. Moreover, we can also see rising pressure by the military upon the budget.

Meanwhile the extent of the demilitarization of the Russian state budget from Soviet times appears to have been overstated. Julian Cooper's earlier analysis, for example suggests that while official figures for 2000-2008 remain within the parameter of about 2.8 percent of a rising GDP, "by 2010, almost 20 years after the collapse of Communism, the volume of military expenditure in Russia in real terms will still be half the level of 1991 and just over three-quarters of the level of the first year of transition."<sup>349</sup> Whereas in 2007 available figures pointed to a policy to maintain that percentage of GDP through 2015; there is good reason to believe that despite the recession of 2008-09 and the ongoing failure to modernize that a large expansion of military procurement is underway.<sup>350</sup> Yet despite the large increases in defense spending to match the growth of the economy in 2000-2008, it is no less clear that the deformities of the Russian economy and particularly of this sector meant that that much of this money was either inefficiently invested or simply wasted and stolen. Richard Weitz has summarized the trajectory of defense spending since 2007, which is a very confusing one since funds are added in the middle of the year and much spending is hidden from view.

In 2007 the Russian government approved a \$240 billion rearmament program that will run through 2015. In February 2008 Russia's Ministry of Defense announced that it would further increase the military budget by about 20 percent, allocating approximately one trillion rubles (about \$40 billion) to military spending in 2008. Following the August 2008 war in Georgia, the Russian government announced it would increase the defense budget yet again in order to replace the warplanes and other equipment lost in the conflict as well as to accelerate the acquisition of new weapons designed since the Soviet Union's dissolution. This year (i.e. 2008-author) the Russian military will spend over \$40 billion. The figure for 2009 should exceed \$50 billion.<sup>351</sup>

While the ongoing failure to modernize the defense sector is failure reflects upon the continuing failure of the defense industrial sector to respond to market conditions after 1991, it has not only led to ever greater state control of that sector but to neo-Stalinist answers. Thus even in late 2008 when crisis was apparent Moscow sought to accelerate the failed 2006-15 plan and compress it to be completed by 2011 when the new plan, which certainly entails even more state control and thus guaranteed suboptimal outcomes, is to begin.<sup>352</sup> Indeed, as a result of the economic crisis, the unending inflation in Russian defense industry and its inability to function in a market economy, the government had to cut the 2009 defense budget for 2009 by 15% and despite its denials cut procurement.<sup>353</sup> Thus by July 2009, funding cuts

---

<sup>349</sup> Julian Cooper, "Military Expenditure in the Three-Year Federal Budget of the Russian Federation, 2008-10," Research Working Paper, University of Birmingham, 2007, p. 16

<sup>350</sup> *Ibid.*, pp. 16-17

<sup>351</sup> *Ibid.*, pp. 58-59

<sup>352</sup> Sieff

<sup>353</sup> Stephen Blank, "The Political Economy of the Russian Defense Sector," Jan Leijonhielm and Frederik Westerlund Eds., *Russian Power Structures: Present and Future Roles in Russian Politics*, Stockholm: Swedish Defense Research Agency, 2008, pp. 97-128; Stanislav Secieriu, "Illusion of Power: Russia After the South Caucasus Battle," *CEPS Working Document*, No 311, February, 2009, p. 5, [www.ceps.be](http://www.ceps.be) (CEPS stands for Center for European Policy Studies); Alexander Chuykov,

were hampering the acquisition of manpower for the planned new permanent readiness units, construction of the Yuri Dolgoruky class of SSBNs submarines, and of funding for the development of foreign naval bases.<sup>354</sup> Yet clearly the defense sector refused to accept this outcome as final.

The government operated through 2010 under the already ill-starred 2006-15 program. It was supposed to cost 5 trillion rubles or \$155 Billion. The program for 2011-20 that Medvedev announced in May 2010 substantially increased that spending to 13 trillion rubles or \$420 Billion, more than doubling the preceding figure. But, as Frolov said, that would essentially deprive the Army and Navy of funding for procurement. Instead he advocated an increase of the program to 36 trillion rubles for the entire armed forces or \$1.161 trillion over the 2011-20 decade. And if that could not be done a program costing 28 trillion rubles or \$920 Billion would allow the army to rearm.<sup>355</sup>

Frolov and his allies then brought substantial and ultimately successful pressure to bear upon the government, partly because they were operating in a climate based on the precedent of rising outlays for procurement. Deputy Defense Minister Vladimir Popovkin, Frolov's boss told audiences at the Farnborough show in July that the government would spend 20 trillion rubles of \$620 billion more on procurement, less than Frolov asked for, but still a large increase. Under these revised figures spending on R&D and procurement will exceed \$50 Billion annually. Perhaps more importantly total Russian defense spending may reach 4-5% of GDP, more than any other major power and a sign of creeping structural militarization. Indeed, already in 2008 it was clear that Russia was trying to maintain and modernize an army of 1.12 million men, only 20% less than the US armed forces, on a budget that in 2007 was one/fifteenth of the U.S. budget.<sup>356</sup> And there is no doubt about the high rate of defense spending in the annual budget.<sup>357</sup>

Thus by 2013 the annual defense budget will have risen by about 60 percent with much of this increase supposedly going to the navy and aviation branches. For example, Popovkin "announced plans to spend this windfall to procure a thousand new helicopters in ten years including heavy Mi-26 helicopters that can carry 25 tons of cargo or more than 100 passengers for short distances."<sup>358</sup> The need for such weapons is quite visible in the North

---

"Bulava and Dolgoruky Unveiling," Moscow, *Argumenty I Fakty*, in Russian, June 18, 2009, *FBIS SOV*, June 18, 2009

<sup>354</sup> Alexander Chuykov, "Bulava and Dolgoruky (Unveiling)." Moscow, *Argumenty Nedeli Online*, in Russian, June 18, 2009, *FBIS SOV*, June 18, 2009; Alexander Chuykov, "The Crisis Has Caught Up with the Military Bases," Moscow, *Argumenty Nedeli Online*, in Russian, June 25, 2009, *FBIS SOV*, June 15, 2009; Moscow, *Prime-TASS Online*, in Russian, June 29, 2009, *FBIS SOV*, June 29, 2009

<sup>355</sup> Pavel Felgenhauer, "Russia Will Spend 20 Trillion Rubles on New Weapons," *Eurasia Daily Monitor*, July 22, 2010

<sup>356</sup> Margarete Klein, "Military Implications of the Georgia War: Russian Armed Forces in Need of Reform," Hans- Henning Schroeder Ed., *The Caucasus Crisis International Perceptions and Policy Implications for Germany and Europe*, Berlin: Stiftung Wissenschaft Und Politik, 2008, p. 16

<sup>357</sup> Felgenhauer, "Russia Will Spend 20 Trillion Rubles on New Weapons," *Eurasia Daily Monitor*, July 22, 2010

<sup>358</sup> *Ibid.*, and "Russia's Defense Spending to Rise by 60% By 2013-Paper,<http://defensenews-updates.blogspot.com/2010/07/dtn-news-russias-defense-spending-to.html>, July 30, 2010; Oliver

Caucasus, which is on fire. Likewise Russia will also procure 20 new heavy AN-124 Ruslan transport aircraft and 60 new T-50 “fifth generation” stealth jet fighters starting in 2013. Meanwhile Russia is already deploying new RS-24 ICBMs.<sup>359</sup> But without fundamental structural reforms in the state or procurement it is probably unlikely that the vast increases in defense procurement will reach their target as they will be likely stolen or misspent. However, they will likely add to the structural militarization of the state and the economy without necessarily reducing the role of nuclear weapons in procurement and thus in policy. Despite more spending given the nature of the economy, the foregoing analysis suggests a corresponding and ongoing structural inability to realize the plans for modernizing the Russian armed forces by 2015 or by 2020.<sup>360</sup> Moreover, even nuclear capabilities are under pressure as the Bulava’s sorry experience indicates (the Bulava is Russia’s new SLBM and as of April 2010 it has failed on all of its first 12 tests). Therefore for all these reasons it is very possible that despite Russia’s stated plans, in fact its procurement results will mainly be oriented to new nuclear and missile defense systems rather than primarily to conventional capabilities for technological renovation and modernization of the armed forces. Or if they are not oriented to such programs, it is a reasonable assumption that the conventional modernization program, absent fundamental reform, will be only partially successful and incomplete, saddling Russia with the obligation to use nuclear threats and weapons to cover a wider range of contingencies than might otherwise be the case. Meanwhile Russia must not only replace most of its existing strategic (and probably sub-strategic) systems, it may not be able to sustain an arsenal greater to or even equal to the numbers granted in the new START treaty of 2009.<sup>361</sup> Thus once again we come up against the contradiction between the enormous ambitions of the Russian leadership and the severely limiting realities concerning what it can realistically accomplish.<sup>362</sup>

## Nuclear Missions

Therefore we need a more precise understanding of what missions’ nuclear weapons perform now and in the next decade. Nuclear weapons perform multiple strategic, political and psychological missions for Russia in both peacetime and wartime. These missions often have overlapping dimensions since weapons that contribute to greater security obviously possess a

---

[Bloom, “Russia Plans 60% increase in Defense Budget by 2013, <http://csis.org/blog/russia-plans-60-increase-defense-budget-2013>, July 30, 2010](http://csis.org/blog/russia-plans-60-increase-defense-budget-2013)

<sup>359</sup> Felgenhauer, “Russia Will Spend 20 Trillion Rubles on New Weapons,”

<sup>360</sup> Remarks by Stephen Blank, Eugene Rumer, Mikhail Tsytkin, and Alexander Golts at the Heritage Foundation Program, “The Russian Military: Modernization and the Future,” April 8, 2008, <http://www.heritage.org/press/events/ev040808a.cfm>; Stephen Blank, “Civil-Military Relations and Russian Security,” Forthcoming, in Stephen Blank, Ed., *Contemporary Issues in International Security, Russian, European, and American Views*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College

<sup>361</sup> Dale R. Herspring, “Russian Nuclear and Conventional Weapons: The Broken Relationship,” Forthcoming in Stephen J. Blank, Ed., *Russia’s Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011; Nikolai Sokov, “Nuclear Weapons in Russian National Security Strategy,” Forthcoming in Stephen J. Blank, Ed., *Russia’s Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011

<sup>362</sup> For a further example of just how grandiose Russian military ambitions are see Moscow, *ITAR-TASS*, in English, August 22, 2010, FBIS SOV, August 22, 2010

component of psychological and cognitive reassurance. Most obviously nuclear weapons deter the US (NATO), China, and other potential aggressors or proliferators from direct attacks on Russia proper, its vital interests, and its armed forces. Therefore they compensate for Russia's clear conventional inferiority. Consequently they allow Russia, as virtually every commentator has written, to pose as a great or even superpower that is entitled to equality with the US despite its visible inferiority in every other dimension, and claim a seat at the "presidium table" in world politics. But apart from this particular form of psychological reassurance (much like the mirror for the wicked queen in Snow White), these weapons provide Russia with another no less vital form of psychological reassurance, mainly that not all is lost and that Russia still is the great global or even superpower it imagines itself to be.<sup>363</sup>

Aligned with this sentiment is the fact that possession of usable nuclear weapons validates and in fact facilitates Moscow's belief that it retains full sovereignty and independence of action in its policies. This sense of remaining a fully sovereign state is crucial to the Russian government's self-perception and its overall political project for whom preservation and extension of this sovereignty is a crucial objective. For if Russia were deprived of its nuclear weapons it would then logically be on a par with all the other "subject" or incompletely sovereign states and forced to act according to other more truly sovereign states' dictates, for instance the US or China. Therefore from the standpoint of what might be called "identity politics" nuclear weapons are a crucial part of the armature of Russia's self-perception, identity, and security. And the Putin regime has played a critical part in forging these linkages and establishing them at the center of Russian security policy.<sup>364</sup>

But here the psychological and the strategic blend together because inherent in Russia's self-defining postulates of being a truly sovereign great power is its supposedly foreordained right to express that sovereignty by dominating the non-sovereign states of the former Soviet Union, the CIS or former Soviet space. Possession of nuclear weapons is also critical to this enterprise. Possession of nuclear weapons along with a robustly presented strategy of deterrence and willingness to use them in a first-strike exchange or in a conventional or local war deters potential allied intervention in any conflict in the CIS where Russia might participate. Russian leaders fully believe that their possession of nuclear weapons deterred the West from intervening on behalf of Georgia then. Thus possession of nuclear weapons makes it safe for Russia to wage war if need be in the CIS without fear of allied intervention or retaliation. The possession of nuclear weapons is supposed to allow Russia to act with maximum, if not full freedom in the CIS and confirm its great power status and sphere of influence there. So beyond deterring attacks upon Russia or in the CIS these weapons allow Russia to wage conventional wars there freely.

But beyond that nuclear weapons not only deter foreign attacks they provide a mechanism by which Russia can use those weapons in a conflict in the CIS or other vital sectors. And given

---

<sup>363</sup> Dimitri Trenin, *Russia's Nuclear Policy in the 21st Century Environment*, Proliferation Papers, Paris, France: Institut Francais des Relations Internationales (IFRI) Security Studies Department, Autumn 2005, p. 1, available from [www.carnegie.ru/en/pubs/media/73180.htm](http://www.carnegie.ru/en/pubs/media/73180.htm). or [www.ifri.org](http://www.ifri.org)

<sup>364</sup> Andrei Shoumikhin, "Nuclear Weapons in Russian Strategy and Doctrine," Forthcoming in Stephen J. Blank, Ed., *Russia's Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011, pp. 11-12

considerations of space and Russia's proximity to those possible theaters in the CIS or Baltic we must understand that weapons use pertains as well to TNW. Indeed in the Zapad-2009 and Vostok-2010 exercises Russia simulated TNW use on Warsaw in 2009 and the PLA in 2010. Consequently nuclear weapons are not merely instruments of deterrence, they are instruments of war or war-fighting weapons as well in the belief that the threat (if not the use) of them can compel intra-war de-escalation and regain for Russia control over the escalation ladder. Soon after Patrushev's remarks above Lt. General Andrey Shvaichenko, Commander in Chief of Russia's Strategic Forces (RVSN) stated on December 16 2009 that, In a conventional war, the RVSN and the strategic nuclear forces ensure that the opponent is forced to cease hostilities on advantageous conditions for Russia by means of multiple preventive strikes against the aggressors' most important facilities. --- Regional instability in immediate proximity to the borders of Russia and the CIS countries does not make it possible to completely rule out the risk that our country may be pulled into military conflicts of various intensity and scale.<sup>365</sup>

Here Shvaichenko went beyond the previous line that nuclear weapons may be used to defend Russia's vital interests in a first-strike mode if the vital interests of the country are at risk or deemed to be at risk as stated in the 2000 and 2009 doctrines.<sup>366</sup> That posture translated into a peacetime strategy of using Russia's nuclear forces to deter any aggression launched against either Russia or its CIS neighbors or against Russia if it made war upon those states as in Georgia's case in 2008.<sup>367</sup> In other words, the nuclear warning's strategic political purpose then and now is to demarcate a theater of both military and peacetime operations wherein Russia would have relative if not full freedom of action to operate as it saw fit, free from foreign interference. In political terms nuclear weapons, and particularly Shvaichenko's remarks not only represent a "no go" sign or an anti-access strategy for potential enemies, they also are an attempt to intimidate NATO allies that they will be targets of Russian nuclear strikes if they try to invoke Article V of the Washington Treaty should Russia move on the Baltic States or undertake similar kinds of attacks against NATO partners like Ukraine or Georgia. Thus for Russia to have a sphere of influence there – which is a crucial component of its self-image as a great power and one of the few truly sovereign states in the world -- it must extend its deterrence umbrella throughout that sphere to make its claim credible and with that its claim to great or even superpower status.

Neither is Russia's professed readiness to use nuclear weapons confined to land-based systems. Vice-Admiral Oleg Burtsev, the Navy's Deputy Chief of Staff, told RIA Novosti that, "Probably, tactical nuclear weapons will play a key role in the future," and that the navy may fit new, less powerful nuclear warheads to the existing types of cruise missiles as Medvedev indicated. "There is no longer any need to equip missiles with powerful nuclear warheads," Burtsev said. "We can install low-yield warheads (possibly fusion weapons Author) on existing cruise missiles."<sup>368</sup> Indeed, Burtsev recently added that the role of TNW

---

<sup>365</sup> Moscow, *Interfax*, in Russian, December 16, 2009, *FBIS SOV*, December 16, 2009

<sup>366</sup> See Russia's last doctrine of 2000, Moscow, *Nezavisimoye Voyennoye Obozreniye* in Russian, January 14, 2000, *FBIS SOV*, January 14, 2000

<sup>367</sup> *FBIS SOV*, December 16, 2009

<sup>368</sup> "Russia Could Focus On Tactical Nuclear Weapons For Subs," *RIA Novosti*, March 23, 2009, <http://en.rian.ru/russia/20090323/120688454.html>



on multipurpose nuclear submarines will increase.<sup>369</sup> This is clearly something unacceptable as a threat to European security.<sup>370</sup> Certainly we cannot assume this to be mere rhetoric for as Swedish foreign Minister Carl Bildt has told us Russia has already deployed TNW on its Baltic Fleet's ships.<sup>371</sup> In apparent confirmation of Bildt's remarks is the following episode from 2006.

In responding to a question from Putin on the number of nuclear submarines currently deployed worldwide, (Defense Minister Sergei) Ivanov stated: "At this moment... we have eight nuclear submarines deployed. Of them, five are strategic submarines and three are multipurpose submarines, but all of them are deployed with nuclear weapons. The ships have different missions – intercontinental, that is, and multipurpose, but on board of each of them are nuclear weapons." Since general purpose (attack) submarines do not carry SLBMs, Ivanov's comments appeared to indicate that these vessels, which prior to the Presidential Nuclear Initiatives had carried tactical, nuclear-armed cruise missiles and nuclear-armed torpedoes, were again carrying weapons in either or both of these categories.<sup>372</sup>

The worst aspect of these deployments and plans stated here is that they point to the General Staff and government's strategy as being one of supposedly limited nuclear war. Key officials confirmed this interpretation, conceding limited nuclear war as Russia's officially acknowledged strategy against many different kinds of contingencies.<sup>373</sup> And Ilya Kedrov, in his discussion of armored vehicles above, also ratified his understanding of the doctrine as affirming this strategy.<sup>374</sup> In September 2008, at a roundtable on nuclear deterrence, General Solovtsov noted that Russia was giving explicit consideration to the concept of "special actions" or "detering actions of the RVSN aimed at the prevention of escalation of a non-nuclear military conflict of high intensity against Russia." Solovtsov further stated that, These actions may be taken with a view to convincingly demonstrating to the aggressor [the] high combat potential of Russian nuclear missile weapons, [the] determination of the military-political leadership of Russia to apply them in order to make the aggressor stop combat actions --- In view of its unique properties, the striking power of the Strategic Missile Forces is most efficient and convincing in the de-escalation actions<sup>375</sup>

This strategy also openly reflects Moscow's bizarre, unsettling, and unprecedented belief that Russia can control escalation and nuclear war by initiating it despite forty years of Soviet

---

<sup>369</sup> "Interview with RF Main Naval Staff First Deputy chief, Vice-Admiral Oleg Vladimirovich Burtsev," Moscow, *RIA Novosti Online*, in Russian, March 24, 2009, *FBIS SOV* April 22, 2011

<sup>370</sup> "Russia Could Focus On Tactical Nuclear Weapons For Subs," *RIA Novosti*, March 23, 2009, <http://en.rian.ru/russia/20090323/120688454.html>

<sup>371</sup> "Bildt Plays Down Russian Nuclear Threat," *The Local*, August 18, 2008,"

<http://www.thelocal.se/13780/20080818>; Mark Franchetti, "Russia's New Nuclear Challenge to Europe," *Timesonline*, August 17, 2008,

[www.timesonline.co.uk/tol/news/world/europe/article4547883.ece](http://www.timesonline.co.uk/tol/news/world/europe/article4547883.ece)

<sup>372</sup> Russia's Newest Submarine-Launched Missile Fails in Tests, But Tests of Other Systems Succeed: Defense Minister Ivanov Raises Questions on Status of Russian Sea-Based Tactical Nuclear Weapons," *WMD insight*, November 2006

<sup>373</sup> Bildt Plays Down Russian Nuclear Threat"; Franchetti

<sup>374</sup> Kedrov, *FBIS SOV*, June 4, 2010

<sup>375</sup> "Russia RVSN Military Academy Discussing Strategic Deterrence," *ITAR-TASS*, September 22, 2008, Johnson's Russia List, No. 173, September 22, 2008, [ww.worldsecurityinstitute.org](http://www.worldsecurityinstitute.org)

argument that no such control was feasible and that there was no such thing as limited nuclear war. Meanwhile current procurements display a reliance on new, mobile, survivable, nuclear weapons against which there is no defense even as numbers fall. Accordingly, as Russian officials regularly proclaim, nuclear procurements are intended to develop missiles against which America has no defense, e.g. mobile missiles, MIRVs, and fusion, low-yield nuclear weapons that can also be used on the battlefield. For example, Russia seeks to keep its mobile missile systems of the nuclear forces invisible to foreign reconnaissance systems while also developing means to suppress those reconnaissance and surveillance systems.<sup>376</sup>

Thus nuclear weapons are war-fighting weapons. Even if the 2010 doctrine is relatively silent about nuclear weapons, Moscow's threats from October 2009 not only follow previous doctrine, They expand on it to openly admit that limited nuclear war is its option or hole card. The idea behind such a "limited nuclear war" is that Russia would seize control of the intra-war escalation (or war termination) process by detonating a first-strike even in a preventive or preemptive mode and this would supposedly force NATO to negotiate a political solution that allows it to hold onto at least some of its gains. Apart from the immensity of Moscow's gamble that NATO will not have the stomach to retaliate for nuclear strikes which for Moscow will be carried out to inflict a "preset" amount of damage that it believes will signal its "limited" intent, Moscow is essentially engaging in nuclear blackmail because the real risk is that the West will not acquiesce but rather that retaliate or even escalate, further adding to the inherent unpredictability of any conceivable nuclear war scenario.

Therefore the debate ignited by Patrushev is of critical significance. The 2010 doctrine stepped back from his guidelines but the classified document published then concerning nuclear scenarios prevents us from knowing for sure under what conditions Russia will use nuclear weapons and for what purposes or missions. Some analysts, e.g. Nikolai Sokov, believe that:

- (1) During the last ten-fifteen years Russian nuclear policy has experienced approximately the same evolution as that of other nuclear weapons states (NWS) – gradual increase in the perceived role of these weapons, emergence of new missions, and then, toward the end of this decade, gradual reduction of their role. In Russia, the decrease of the role of nuclear weapons has been somewhat less pronounced than in other NWS.
- (2) Nuclear weapons have two missions. One is traditional strategic deterrence – prevention of a large-scale aggression against Russia. The other, which is considered more pertinent under present circumstances, is deterrence of a more limited conventional attack by a powerful country or an alliance (a clear reference to the United States and NATO), which cannot be repelled with Russian conventional forces alone. Recently, the perceived urgency of the latter mission has somewhat receded, but it remains on the books.
- (3) Russia seeks to gradually shift emphasis from nuclear to long-range high-precision conventional assets. It has been at least 15-20 years behind the United States and its

---

<sup>376</sup> Moscow, *Interfax*, in English, December 17, 2009, *FBIS SOV*; Moscow, *Interfax-AVN Online*, in Russian, October 22, 2008, *FBIS SOV*, October 22, 2008

allies, however, and the verdict is still out whether it will be able to cover that gap. It is clear that efforts will continue, in particular because nuclear weapons are increasingly seen as unusable and thus not very relevant for security policy.

- (4) Nuclear posture has seen rather radical changes in the first half of this decade following a fundamental revision of long-term plans in 2000 and then a series of partial revisions to new policy. Currently, Russia seems to be moving toward a posture that can be characterized as a balanced dyad – a relatively equal (60 to 40 percent) distribution of nuclear warheads between the land and the sea legs. The air leg remains part of the nuclear triad, but only formally – the main mission of long-range aircraft is increasingly conventional and, furthermore, its nuclear assets are subject to the least modernization.<sup>377</sup>

Even so, Sokov's conclusions do not radically diverge from what appears to be the mainstream belief that limited nuclear war options for the potential contingencies listed above remain at the heart of Russian nuclear strategy. Thus he argues that, while the 2000 Doctrine anticipated resorting to nuclear weapons "in situations critical for [the] national security" of Russia, the 2010 version allows for their use in situations when "the very existence of [Russia] is under threat." At least in this regard, the new Doctrine returned to the principles of the 1993 and 1997 strategies.<sup>378</sup> In the new doctrine the role of nuclear weapons is "prevention of nuclear military conflict or any other military conflict." These weapons are regarded as "an important factor in the prevention of nuclear conflicts and military conflicts that use conventional assets (large-scale and regional wars)." The new doctrine also clearly indicates the possibility of a conventional regional war escalating to the nuclear level. The doctrine slightly changes and broadens the 2000 formulation to say that nuclear weapons are now not only seen as a means of deterring or dissuading states that might attack Russia with conventional armed forces, but also an expression of concern that similar escalation might take place elsewhere. Therefore Russia has retained the de-escalation mission and mandates nuclear sufficiency, i.e. the means of accepting what Sokov calls calibrated or other would say pre-assigned or preset damage, as in 2000. He argues (here he appears to be in a minority) that, "an interesting feature of the 2010 Doctrine is the emphasis on strategic deterrence capability. The choice of terms seems to indicate that Russia does not assign a visible role to sub-strategic (or tactical) nuclear weapons."<sup>379</sup>

Although this is something of a minority view among analysts there is some support for it in a recent interview with missile designer Yuri Solomonov Head of the Moscow Institute of Thermal Technology, who said that, "the most important, if not the only system criterion, in determining the development of the country's (SYaS -- strategic nuclear forces -- author) is the criterion defined by the obvious requirement: infliction, when we are talking about arms, of unacceptable damage on the presumed adversary in retaliatory actions with minimal losses."<sup>380</sup> Solomonov's remarks clearly invoke the criterion of pre-assigned damage that would be unacceptable and which is much less than the all-out scenarios of the Cold War, so

---

<sup>377</sup> Sokov, pp. 2-3

<sup>378</sup> *Ibid*, pp. 15-17, *FBIS SOV*, February 9, 2010

<sup>379</sup> *Ibidem*.

<sup>380</sup> Moscow, *Natsional'naya Oborona Online*, in Russian, April 1-30, 2010, *FBIS SOV*, July 20, 2010

this suggests that TNW might not be as necessary as before in forthcoming weapons policy. The question then becomes what is the coefficient of unacceptable nuclear damage to particular adversaries and the best way of inflicting it or the best weapon for inflicting it. Sokov further argues that the doctrine emphasizes conventional forces, especially high-precision assets, C3I and other issues. Thus he concludes,

Overall, the change in the role of nuclear weapons appears to be positive, but limited: the missions remained the same as before, albeit the criterion for nuclear use was somewhat tightened. The direction of the trend is similar to that in the United States under the new administration, but the degree of change is noticeably smaller. Notwithstanding the fact that the new strategy will remain in force for at least several years, one can hardly expect a significant downgrading of the status of nuclear weapons in the foreseeable future. They continue to enjoy elite and public support as a symbol of Russian power and independence and thus any government that might consider further downgrading of that component of Russian armed forces is likely to encounter stiff resistance. Furthermore, modernization of Russian conventional forces proceeds at a very slow pace. In the foreseeable future concern about conventional forces of the United States and NATO and, increasingly, of China will remain high necessitating continued reliance on nuclear capability.<sup>381</sup>

So even he ultimately sees relatively little downgrading of the importance of nuclear weapons and of their potential missions in the future compared to U.S. trends.

### **Threat Assessments and the Development of Conventional Capabilities**

But if war-fighting scenarios will still predominate in Russian thinking about nuclear weapons what threats must those weapons meet and to what degree might this change under the impact of the current military reforms? In general terms in both the European and Asian-Pacific theaters the threat of a large-scale conventional armed invasion of Russia or of one of its CIS allies would seem to represent the most likely scenario but such an attack could take many forms, vary from theater to theater, and have many causes. Kosovo certainly exercised Moscow's strategic imagination. This is not just because it reflected unilateralism, a disdain for Russian interests, and unwillingness to utilize the UN. It also heralded a new form of aerial attack that alone could destroy a country's strategic infrastructure. Since then the government's official statements, doctrine and national security strategy outlined further contingencies that could trigger a war or that represent a threat, attempts to gain control of Russia's energy resources, attempt to injure the status and dignity of Russian communities abroad, efforts to enlarge NATO and have it advance militarily, and missile defenses in Eastern Europe.<sup>382</sup> Earlier examples would also relate to attempts to overthrow the constitutional foundations of a CIS state (i.e. by color revolutions).<sup>383</sup>

Russian elites see themselves under pressure from the West, which is ratcheting up its armed forces' conventional capabilities especially the US. The US missile defense program is

---

<sup>381</sup> Sokov, pp. 16-17

<sup>382</sup> *FBIS SOV, February 9, 2000; NSS, FBIS SOV, May 15, 2009; <http://www.kremlin.ru/eng/sdocs/news.shtml>, August 11, 2009*

<sup>383</sup> Sergei Ivanov, "Russia Must Be Strong," *Wall Street Journal*, January 11, 2006, p. 14

universally seen as representing an effort to deny Russia the use of its nuclear missiles in a first strike mode to retaliate against a conventional strike and to therefore use its military superiority for purposes of coercive diplomacy. Rarely do Russians admit that it also deprives Moscow of its habitual threat to incinerate Europe, which is a cornerstone of Russian strategy because Moscow must be able to threaten the continent with credible threats if it is to remain in its own eyes a credible great military power.<sup>384</sup> Should a war break out over any or all of these issues in line with Russia's limited nuclear war strategy we could expect first-strike use by Moscow relatively early in the conflict since its conventional capabilities cannot keep pace. Indeed Russia's exercises described below in the annexes demonstrate the kinds of contingencies it fears and that could lead to first-strike nuclear attacks by its forces.

In the Asia-Pacific region (APR) or Russian Far East (RFE) Vostok-2010, the major exercise conducted in June-July 2010 demonstrates Russian apprehensions about the regional strategic environment. The dangers of conflict in Taiwan or closer to home in Korea (about which Moscow is quite nervous) or of a direct attack by either the US, Japan, or China, from the sea or by land are clearly apparent from this operation.<sup>385</sup> Vostok -2010 built upon a presumption of potential threat from China, Japan, and the US, underscoring Russia's presumption of universal hostility, strategic isolation and thus major weakness in its most remote and indefensible theater, one that has historically been an economy of force theater, and not a strong one. The mounting public anxiety about China's rise and the situation on the Korean peninsula is attributable to those highly overt developments but also to less well-known events such as the Chinese exercises of 2009. As Jacob Kipp observes,<sup>386</sup>

A year ago, informed Russian defense journalists still spoke of the PLA as a mass industrial army seeking niche advanced conventional capabilities. Looking at the threat environment that was assumed to exist under Zapad 2009, the defense journalist Dmitri Litovkin spoke of Russian forces confronting three distinct types of military threats: "an opponent armed to NATO standards in the Georgian-Russian confrontation over South Ossetia last year. In the eastern strategic direction Russian forces would likely face a multi-million-man army with a traditional approach to the conduct of combat: linear deployments with large concentrations of manpower and firepower on different axis. In the southern strategic direction Russian forces expect to confront irregular forces and sabotage groups fighting a partisan war against "the organs of Federal authority," i.e., Internal troops, the border patrol, and the FSB.<sup>387</sup> By spring of this year, a number of those involved in bringing about the "new look" were speaking of a PLA that was moving rapidly towards a high-tech conventional force with its own understanding of network-centric warfare.<sup>388</sup> Moreover, the People's Liberation Army

---

<sup>384</sup> Stephen Blank, Eastern European Missile Defense: Russia's Threat Assessment and Iran, *AEI Critical Threats*, 2009, <http://www.criticalthreats.org/russia/eastern-european-missile-defense-russias-threat-assessment-and-iran>

<sup>385</sup> Stephen Blank (Korea)

<sup>386</sup> Kipp, "Russia's Nuclear Posture and the Threat That Dare not Speak Its Name"; McDermott, "Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020,"

<sup>387</sup> Dmitri Litovkin, "Ucheniia Popali v Seti," *Izvestiya*, (28 September 2009), cited in *Ibid*.

<sup>388</sup> A. Kondrat'ev, "Nekotorye Osobennosti Realizatsii Kontseptsii Setsentricheskaia Voina' v Vooruzhennykh Silakh KNR," *Zarubezhnoe Voyennoe Obozreniye*. No. 3 (March 2010), pp. 11-17), cited in *Ibid*

conducted a major exercise "Stride-2009" which looked like a rehearsal for military intervention against Central Asia and/or Russia to some Russian observers.<sup>389</sup>

Beginning in 2009 overt discussions of the potential Chinese military threat began to surface in the military press. These statements were deliberately planned to call attention to Chinese military prowess.<sup>390</sup> And they all pointed to the threat of an invasion, not just by a large, multi-million man army, but also, as Roger McDermott observes, to the example derived from China's military modernization that has led China to an informatizing, if not informatized, high-tech capable military in just over a decade.<sup>391</sup> In a dilapidated and remote theater that is an economy of force theater with vast distances inadequate infrastructure, and a declining industrial and manpower base,

In the first instance, in any military conflict the Russian VVS cannot guarantee air superiority against the Chinese. Moreover, they do not possess sensor-fused cluster munitions, though in theory their surface-to-surface missiles (SSM's) could deliver cluster munitions depending on whether the missile troops remained intact long enough. Faced with an advancing PLA division or divisions, early use of TNW would present a viable option.<sup>392</sup>

Apart from the rising anxiety generated by China and the situation in Korea, the Russian military knows full well that U.S. nuclear and conventional deployments in the APR constitute a threat to their nuclear deterrent. David McDonough's analysis of U.S. nuclear deployments in the Pacific Ocean during the George W. Bush Administration states that,

The increased deployment of hard-target kill weapons in the Pacific could only aggravate Russian concerns over the survivability of its own nuclear arsenal. These silo-busters would be ideal to destroy the few hundred ICBM silos and Russia's infamously hardened command-and-control facilities as well as help reduce any warning time for Russian strategic forces, given their possible deployment and depressed trajectory. This is critical for a decapitation mission, due to the highly centralized command-and-control structure of the Russian posture, as well as to pre-empt any possible retaliation from the most on-alert Russian strategic forces. The Pacific also has a unique feature in that it is an area where gaps in Russian early-warning radar and the continued deterioration of its early-warning satellite coverage have made it effectively blind to any attack from this theatre. This open-attack corridor would make any increase in Pacific-deployed SLBMs appear especially threatening.<sup>393</sup>

A second major concern is the strengthening of the U.S.-Japan alliance in the twin forms of joint missile defenses and the apparent consolidation of a tripartite alliance including Australia and South Korea, if not India. For both Russia and China one of the negative

---

<sup>389</sup> "Ucheniia," *Zarubezhnoye Voennoye Obozreniye*, No. 8 (31 July 2009), and Aleksandr Khranchikhin, "Starye Osnovy Novoi Doktriny," *Voyenno-Promyshlennyyi Kuryer*, Bo. 6 (17 February 2010), p. 5, cited in *Ibid*.

<sup>390</sup> Simon Saradzhyan, "The Role of China in Russia's Military Thinking," *International Relations and Security Network*, May 4, 2010, [www.isn.ethz.ch](http://www.isn.ethz.ch); Kipp

<sup>391</sup> Kipp, *Russia's Nuclear Posture and the Threat That Dare not Speak Its Name*; McDermott, "Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020,"

<sup>392</sup> *Ibid*.

<sup>393</sup> David McDonough, "The US Nuclear Shift to the Pacific," *RUSI Journal*, April, 2006, p. 68

consequences of the DPRK's nuclear and missile tests has been the strengthened impetus it gave to U.S.-Japan cooperation on missile defense. Russian experts long ago noted that the military balance there was unfavorable to Russia and specifically invoked the specter of Russia losing its nuclear naval potential there.<sup>394</sup> That nuclear naval potential remains precarious as Moscow recently admitted that its submarines conducted a total of three patrols in 2007.<sup>395</sup> In fact in the Pacific, according to Japanese sources, Moscow is deploying formerly retired ships like the nuclear powered Admiral Lazarev, a decommissioned Kirov class nuclear missile cruiser, to counter the rise in Chinese power and deter threats ranging from an outbreak of war in Korea to growing Chinese naval and strike power along with US buildups.<sup>396</sup> One high-ranking Russian naval officer openly said that, "in order to maintain a power balance with China in the far eastern ocean area, it has become urgent that we reinstate nuclear ships that enable long-range area navigation and are equipped with advanced attack capabilities."<sup>397</sup> Other Defense Ministry spokesmen, who briefed the press on Vostok-2010, similarly observed that while the multi-million-man size of China's army generates concern, "we have the most convincing trump, nuclear forces."<sup>398</sup>

To overcome these weaknesses and threats, and thanks to Russia's economic resurgence (largely energy-driven however) then President Vladimir Putin and Ivanov announced a planned strategic upgrade for the Pacific Fleet specifically aiming to address this problem and make the Fleet Russia's primary naval strategic component.<sup>399</sup> This policy reversed the prior naval policy that made Russia's Northern Fleet the strategic bastion for anti-American scenarios in the 1990s, testifying to an enhanced threat perception in Asia despite the recent Russian show of force in the Arctic and calls to incorporate Arctic scenarios into Russia's armed forces' training and doctrine.<sup>400</sup> Here we should understand that Russia's forces, particularly those in the North and the Far East may be deployed on a "swing basis" where either the Fleet, or air forces in one theater moves to support the fleet or air forces in the other. Russia has carried out exercises whereby one fleet moves to the aid of the other under such a concept.<sup>401</sup> Likewise Russia has rehearsed scenarios for airlifting ground forces from the North to the Pacific in order to overcome the "tyranny of distance" that makes it very difficult for Russia to sustain forces in Northeast Asia. And the revival of regular air patrols over the oceans have clearly involved the Pacific-based units of the Long Range Aviation forces as well as some of the Air forces based in the North and Arctic who fly in the areas around Alaska.<sup>402</sup> Indeed, nuclear exercises, moving forces or targeting weapons from the North to

---

<sup>394</sup> Moscow, *Interfax*, in English, September 15, 2003, FBIS SOV, September 15, 2003

<sup>395</sup> "Russia 'No Longer Uses' Nuclear Sub Deterrent," *United Press International*, April 29, 2008

<sup>396</sup> Tokyo, *Tokyo Shimbun Morning Edition*, in Japanese, May 10, 2010, FBIS SOV, May 10, 2010

<sup>397</sup> *Ibid.*

<sup>398</sup> Pavel Sedakov, "Far Off in the Exercise," Moscow, *Rusky Newsweek Online*, in Russian, July 12, 2010, FBIS SOV, July 14, 2010

<sup>399</sup> Open source Center, *OSC Report*, in English, FBIS SOV, September 7, 2007

<sup>400</sup> Kristian Atland, "The Introduction, Adoption and Implementation of Russia's "Northern Strategic Bastion" Concept, 1992-1999," *Journal of Slavic Military Studies*, X, NO. 4, 2007, pp. 499-528; "Russia and Norway's Arctic Challenge," *Jane's Intelligence Digest*, May 20, 2008

<sup>401</sup> Dmitri Litovkin, "We Didn't Send Him For a Star: A Skif Flew From the North Pole to Kanin Nos," Moscow, *Izvestiya Moscow Edition* in Russian, September 13, 2006, FBIS SOV, September 13, 2006

<sup>402</sup> Moscow, *ITAR-TASS*, in English, May 5, 2008, FBIS SOV, May 5, 2008; Yuri Gavrilov, "Long-Range Aviation Inhabits Arctic Skies," Moscow, *Rossiyskaya Gazeta*, in Russian, May 15, 2008, FBIS SOV, May 15, 2008; Moscow, *IRAR-TASS*, in English, March 20, 2008, FBIS SOV, March 20, 2008

the Pacific or vice versa, have also occurred.<sup>403</sup> To the degree that Arctic missions become part of the regular repertoire of the Russian armed forces they will also to some degree spill over into the North Pacific. And this all preceded Vostok-2010.

Since that exercise new signs of mounting Russian concerns about Chinese naval potency and potential claims as far as the Arctic have led to further naval plans. Many of these concerns relate to the defense of energy platforms in Europe, Asia, and the Arctic. Defense of those platforms has become a central mission of the armed forces, particularly the Navy. In fact Russia has substantially militarized its energy policies across the globe. Russian domestic legislation permits Gazprom and Transneft to have their own private armies and Gazprom is bolstering the security of its vast network of pipeline with UAV's.<sup>404</sup> It is notable that this legislation came about after NATO indicated that it was forging links with multinational energy companies in 2006-07, particularly in using NATO maritime resources together with these companies. NATO even offered BP and Royal Dutch Shell seaborne rapid response forces to defend their energy platforms from hostage takers, terrorists, and hijackers.<sup>405</sup> But while the actual legislation permitting private companies to possess their own armed forces may be tied to those NATO developments (in turn probably a reaction to the Russo-Ukrainian "gas war" of 2006), in fact Russia tasked its armed forces, particularly its navy, with this mission well before NATO's actions. Indeed, the belligerence often associated with Russian defense activities and officials' statements is intimately connected with the problem of defending energy installations. As a Swedish commentary on Russian energy policy in Central Asia observes, "By making energy into a question of national security, the Russian perspective legitimizes the use of extraordinary measures in relation to other actors."<sup>406</sup> And in Asia extraordinary measures means invoking the military instrument even if only rhetorically.

In Europe the main naval concern is defense of the Nord Stream gas pipeline from Russia to Germany through the Baltic Sea.<sup>407</sup> Similarly in 2007 Colonel-General Aleksandr' Rukshin, then chief of the Main Operational Directorate of the General Staff stated that, "The use of the Armed Forces to assert economic and political interests of the Russian Federation may be aimed at creating conditions for the safe economic activities by the RF itself or its representative economic structures."<sup>408</sup> Here the Navy is building on the task assigned to it in Russia's 2001 naval doctrine to protect Russia's economic interests in its territorial zone and

---

<sup>403</sup> Dmitri Litovkin, "We Didn't Send Him For a Star: A Skif Flew From the North Pole to Kanin Nos," Moscow, *Izvestiya Moscow Edition* in Russian, September 13, 2006, *FBIS SOV*, September 13, 2006; Moscow, *Agentstvo Voyennykh Novostey*, April 9, 2008

<sup>404</sup> Lt. Commander Cindy Hurst (USNR), "The Militarization of Gazprom," *Military Review*, September-October, 2010, pp. 59-67

<sup>405</sup> *Ibid.*, pp. 62-63

<sup>406</sup> Charlotte Niklasson, *Russian Leverage in Central Asia*, Stockholm: Swedish Defense Research Agency, 2008, p. 28

<sup>407</sup> Mark A. Smith, *The Russian Chronologies, April-June 2009*, Defence Academy of the United Kingdom, [www.da.mod.uk/arag](http://www.da.mod.uk/arag), 2009, p. 35

<sup>408</sup> Colonel-General Alexander Rukshin, "Doctrinal Views on Employment and Organizational Development of the Armed Forces of Romania," *Military Thought*, NO. 2, 2007, quoted in James Bosbotinis, *The Russian Federation Navy: An Assessment of Its Strategic Setting, Doctrine, and Prospects*, Special Series of the Defence Academy of the United Kingdom, [www.da.mod.uk/arag](http://www.da.mod.uk/arag), 2010, p. 6



continental shelf and in the air and waters above and below it.<sup>409</sup> Thus the 2001 “Basic Policy of the Russian Federation in the Field of Naval Activities,” also openly stated that one of the Navy’s tasks was “establishing and maintaining the conditions for --- economic activities of the Russian Federation in its territorial sea, exclusive economic zones, continental shelf, and remote areas of the oceans.”<sup>410</sup> Thus these statements and documents involve a general tasking of mission for Russian forces.

Neither is this connected only with Russian territorial waters. Quite recently Russia announced its interest in returning to a naval base at Vietnam’s Cam Ranh Bay, a step that is probably connected to joint Russo-Vietnamese energy projects off of Vietnam’s coast.<sup>411</sup> Arguably a similar phenomenon has occurred in Russia’s Far East (RFE). The government sees the RFE as a region rich in natural resources, primarily oil and gas, as sparsely settled and therefore underdeveloped while it is close to China. i.e. “countries which are densely populated, which lead quite poor lives, and which evidently need new sources of existence.”<sup>412</sup> Thus one motive for the Vostok- 2003, and possibly the more recent Vostok-2010 exercises may be connected with the need to defend energy deposits in the RFE.<sup>413</sup>

Consequently experts see the primary direction of four new directions for the fleet as being the protection of Russia’s access to oil, gas, and other mineral reserves or deposits on Russia’s continental shelf. All in all 36 submarines and 40 surface ships are to be added by 2020.<sup>414</sup> But beyond this primary mission and the other three directions for future naval construction these plans betray a reorientation of Russia’s naval emphasis to the Asia-Pacific, and to a new emphasis on meeting the challenge posed by China’s naval buildup.<sup>415</sup> Indeed, this naval buildup is supposed to help Russia compensate for its vast conventional inferiority in numbers and quality vis-à-vis China in the RFE.<sup>416</sup>

A critical area for future energy exploration is the Arctic. Moscow intends to sharply raise hydrocarbon supplies along the Northern Sea Route in 2011 and its officials say that the value of mineral resources in the Arctic exceeds \$30,000 Billion. Finally Arctic development, particularly of energy deposits, “is directly linked to solutions to long-term political, economic, defense, and social problems of the state and will ensure our country’s competitiveness on global markets.”<sup>417</sup> Two-thirds of the estimated wealth of the Arctic’s

---

<sup>409</sup> Morskaya Doktrina Rossiiskoi Federatsii, Moscow, 2001, <http://ruschm.org/konvenciya/rossiiskie-dokumenty/drugie-vazhnye-dokumenty/morskaya-doktrina-rossiiskoi-federacii/view>

<sup>410</sup> *Basic Policy of the Russian Federation in the Field of Naval Activities*, Moscow: 2001, pp. 9-11, Cited in Bosbotinis, p. 12

<sup>411</sup> Vladimir Radyuhin, “Russia Renews Interest in Vietnam Base,” *The Hindu*, October 8, 2010

<sup>412</sup> Cited in Mikhail A. Alekseev, *Vostok-2003 War Games: Preparing to Defend a Nigeria on the Pacific*, Program on New Approaches to Russian Security PONARS Policy Memo, no. 317, 2003, p. 4

<sup>413</sup> *Ibid.*

<sup>414</sup> Mikhail Lukanin, “Navy Prepares to Defend Russian Oil,” *Moscow, Trud*, November 24, 2010, *FBIS SOV*, November 28, 2010; “Reforma Flota: Glavnaya Ugroza na Dalnem Vostoke,” *Voyennoye Obozreniye*, December 10, 2010, <http://topwar.ru/2646-reforma-flota-glavnaya-ugroza-na-dalnem-vostoke.html>

<sup>415</sup> *Ibidem.*

<sup>416</sup> *Ibidem*

<sup>417</sup> Moscow, *ITAR-TASS in Russian*, October 2, 2010, *FBIS SOV*, October 6, 2010, Moscow, *ITAR-TASS*, in English, October 6, 2010, *FBIS SOV*, October 6, 2010

resources, according to officials like Deputy Prime Minister Sergei Ivanov, lie in Russia and the region produces about 15 percent of Russia's GDP and about a quarter of its exports.<sup>418</sup>

Given the wealth presumed to be in the Arctic and the increasing possibility of its being a thoroughfare for international trade, China has publicly stated its interests in the Arctic and demand to be taken account of there. Hu Zhengyue, Chinese Assistant Minister of Foreign Affairs, made a statement outlining China's overall Arctic agenda while attending an Arctic forum organized by the Norwegian Government on Svalbard in June 2009.

Hu said, "When determining the delimitation of outer continental shelves, the Arctic states need to not only properly handle relationships among themselves, but must also consider the relationship between the outer continental shelf and the international submarine area that is the common human heritage, to ensure a balance of coastal countries' interests and the common interests of the international community." Professor Guo Peiqing put it more directly: "Circumpolar nations have to understand that Arctic affairs are not only regional issues but also international ones." Guo has estimated that about 88 per cent of the seabed of the Arctic Ocean would be under the control of the Arctic littoral states if the Commission on the Limits of the Continental Shelf were to approve all the existing or expected claims to the Arctic Ocean continental shelf.<sup>419</sup>

Essentially this means that China, though not a member of the Arctic Council, disputes any claims of sovereignty in the Arctic waters beyond littoral countries' twelve-mile limit or economic exclusion zone if they signed the UN Convention on the Law of the Sea (UNCLOS). Furthermore "although China is lacking an Arctic coast, China stated recently: "The Arctic belongs to all the people around the world as no nation has sovereignty over it."<sup>420</sup> This statement directly challenges Russia's assertion over Arctic waters beyond its territorial limits and thus challenges a cornerstone of Russian policy.

While Arctic problems and issues, as China knows and admits, have hitherto been resolved by peaceful means like the Russo-Norwegian treaty,

China appears to be particularly wary of Russia's intentions in the Arctic. Chinese observers have made note of Russia's decision in August 2007 to resume long-distance bomber flights over the Arctic and the planting of a Russian flag on the Arctic seabed that same month. Guo Peiqing has said that the disputes in the Arctic are in fact 'Russia and some other states' challenge to the international order and international law after the end of the cold war'. China and the rest of the world would be at a disadvantage if Russia's claims over the underwater terrain between the Lomonosov and Mendeleev ridges are legitimized because, in that case, Russia alone would have rights to the resources in that area. Even if that claim is unsuccessful, some Chinese Arctic specialists have expressed concern that the commercial

---

<sup>418</sup> *FBIS SOV*, October 2, 2010

<sup>419</sup> *Ibid.*, p. 10

<sup>420</sup> Gordon G. Chang, "China's Arctic Play, The Diplomat from 3/10/10, <http://the-diplomat.com/2010/03/09/china-s-arctic-play/> <blockedhttp://the-diplomat.com/2010/03/09/china%E2%80%99s-arctic-play/>, quoted in Muekusch

advantage of the Arctic routes would substantially decrease if Russia were to unilaterally charge exorbitant service fees for ships passing through its EEZ waters.<sup>421</sup>

Consequently and despite the previous invitations to China, the signs of Chinese interest in the area have clearly rattled the Russian leadership despite the endless protestations that Russo-Chinese relations are at their peak and that an identity of interests exists between the two states.

Given the importance Russia attaches to the Arctic and that it has already begun to serve as a maritime “highway” for shipping oil to Japan and China, plus the fact that Japan, following China, has tasked its foreign ministry to study North Pole policy, Russia has steadily augmented the defense element in its approach to the Arctic.<sup>422</sup> First of all, and dating back to the initial Russian foray into the Arctic in 2007 if not earlier, Moscow has sought to link the Northern Fleet and its air forces in the North to defense of the Russian Far East, including energy installations as stated above. Russian experts long ago noted that the military balance there was unfavorable to Russia and specifically invoked the specter of Russia losing its nuclear naval potential there.<sup>423</sup>

Since that exercise one high-ranking Russian naval officer openly said that, “in order to maintain a power balance with China in the far eastern ocean area, it has become urgent that we reinstate nuclear ships that enable long-range area navigation and are equipped with advanced attack capabilities.”<sup>424</sup> Other Defense Ministry spokesmen, who briefed the press on Vostok-2010, similarly observed, as noted above, that while the multi-million-man size of China’s army generates concern, “we have the most convincing trump, nuclear forces.”<sup>425</sup>

In upgrading the status of and funding allotted to the Pacific Fleet Russia’s leaders were clearly reacting to the same phenomena: the overall regional dynamism, unresolved political issues, and rise of China that had at the same time caught the attention of military commentators who argued for making the Pacific Fleet the main Russian fleet and a primarily nuclear one at that.<sup>426</sup> All these activities are part of a broader buildup of military power comprising air, naval, nuclear and combined army, MVD, FSB, and Border Guards forces in the Arctic since 2007.<sup>427</sup>

---

<sup>421</sup> Jakobson., p. 12

<sup>422</sup> “Japanese Foreign Ministry Sets Up Task Force to Study North Pole Policy,” *Kyodo*, September 2, 2010, Retrieved from Lexis-Nexis; Eric Watkins, “Russians, Chinese Eye Arctic Oil Route,” *Oil & Gas Journal*, March 22, 2010, Retrieved from Lexis-Nexis

<sup>423</sup> Moscow, *Interfax*, in English, September 15, 2003, FBIS SOV, September 15, 2003

<sup>424</sup> *Ibid.*

<sup>425</sup> Pavel Sedakov, “Far Off in the Exercise,” Moscow, *Russky Newsweek Online*, in Russian, July 12, 2010, FBIS SOV, July 14, 2010

<sup>426</sup> Mikhail Barabanov, “Time to Raise the Question of Priority Pacific Fleet Development,” Moscow, *Voyenno-Promyshlennyy Kuryer*, in Russian, August 30, 2006, FBIS SOV, August 30, 2006

<sup>427</sup> Ariel Cohen, *From Russian Competition to Natural Resources Access: Recasting U.S. Arctic Policy*, Washington, D.C.: Heritage Foundation, June 15, 2010  
<http://www.heritage.org/research/reports/2010/06/from-russian-competition-to-natural-resources-access-recasting-us-arctic-policy>

To the degree that Arctic Missions become part of the regular repertoire of the Russian armed forces they will also, to some degree, spill over into the North Pacific. The Vostok-2010 exercise reinforced these tendencies in Russian strategy by highlighting the airlifting or flight of army and air forces from Central Russia to the Pacific along with ongoing naval exercises along these lines involving the Northern and Pacific Fleets.<sup>428</sup> Still more recently the Commander in Chief of the Russian Navy, Admiral Vladimir Vysotsky, announced the continuing buildup of these two fleets in the Arctic, along with the efforts to build up the coastal reconnaissance surveillance system and the Air Forces. Likewise submarine patrols will also continue in the Arctic.<sup>429</sup> And Moscow may also step up Arctic patrol flights by Ilyushin IL-38 and TU-142 aircraft.<sup>430</sup> But most amazingly Vysotsky, most likely speaking with authorization from above, recently singled out China as a threat. Vysotsky said that, There are a lot of people who wish to get into the Arctic and Antarctic from an economic point of view. --- We have already been observing how a number of states, which are not members of the Arctic Council, are setting out their interests quite intensively and in various ways. In particular, China has already signed agreements with Norway to explore the Arctic zone. We know about the economy and infrastructure that exist in China today, which is becoming our serious partner from both positive and problematical sides. --- Therefore Russia needs to form its rational position and, at the same time, not give up any of its interests. – There are not long-standing relationships, overt opponents, or overt allies in the Arctic yet. But I believe the most problematic relations will be with those countries, which are not traditional members of the Arctic Council.<sup>431</sup>

Indeed, Russia's heightened threat perception in Asia resembles its perception of European threats. Just as in regard to the perceived threat of U.S. missile defenses in Europe Putin proposed that Russia and America share operation of the Gabala and Krasnodar radar and missile defense bases, and by so doing create a real strategic partnership that would "revolutionize" world politics, so too in Asia Moscow wants to participate in shaping strategic relationships there.<sup>432</sup> But at the same time it warns that if it is not heeded it will go its own way. In Asia that means, at least as regards missile defenses, enhanced cooperation with China. As Deputy Foreign Minister Aleksandr' Losyukov said in 2007,

We would like to see a non-circuited system. Besides, we might make our own contribution to it, too. Then we would have no reason to suspect this system is targeted against us, -- If it is true that the system being created is expected to ward off some threats posed by irresponsible regimes, then it is not only Europe, the United States or Japan that one should have to keep in mind. When some other countries' concerns are kept outside such a system, they may have

---

<sup>428</sup> Ilya Kramnik, "Russian Navy Participates in Vostok-2010 Military Exercises," [http://rusnavy.com/news/newsofday/index.php?ELEMENT\\_ID=9878](http://rusnavy.com/news/newsofday/index.php?ELEMENT_ID=9878);"[Vostok-2010 games: A test of Russia's new army](http://en.rian.ru/analysis/20100705/159695795.html)," *RIA Novosti*, July 5, 2010, <http://en.rian.ru/analysis/20100705/159695795.html>

<sup>429</sup> Moscow, *RIA Novosti*, in Russian, October 2, 2010, *FBIS SOV*, October 2, 2010; Moscow, *RIA Novosti*, in Russian, October 1, 2010, *FBIS SOV* October 1, 2010

<sup>430</sup> Moscow, *RIA Novosti*, in Russian October 1, 2010, *FBIS SOV*, October 1, 2010

<sup>431</sup> "Navy Commander Says Russia to Fight for Arctic As China Sets Its Eyes On it," Moscow, *ITAR-TASS*, News Agency, in Russian, October 4, 2010, *FBIS SOV*, October 4, 2010

<sup>432</sup> Moscow, *ITAR-TASS*, in English, July 4, 2007, *FBIS SOV*, July 4, 2007; Moscow, *ITAR-TASS*, in English, July 2, 2007, *FBIS SOV*, July 2, 2007; Moscow, *Agentstvo Voyennykh Novostey*, July 4, 2007, *FBIS SOV*, July 4, 2007;

the feeling threats against them are growing, too. Consequently, the systems to be created must accommodate the concerns of other countries concerned.<sup>433</sup>

Clearly the other countries to which he refers are Russia and China. Thus it is not surprising that Russia publicly criticized the U.S.-Japan collaboration on missile defenses and the linking of Australia to the U.S.-Japanese alliance about which it had previously been silent. Here Moscow has adopted China's argument for certainly the U.S. alliance system is not primarily targeted on Russia. Such arguing on behalf of mainly Chinese interests suggests that as part of the Sino-Russian partnership we are beginning to encounter the phenomenon that many Russian analysts warned about, specifically that Russia ends up following China's line. But this may well be because Russia perceives that Washington will not grant it the self-inflated status that it claims for itself either in Europe or in Asia.<sup>434</sup>

Russian opposition to an American missile defense system goes back a decade and Russia argued against its appearance in Asia, using every available Asian security forum for that purpose back then.<sup>435</sup> By 2005 it also was coming to view the placement of such defenses in the Asia-Pacific as part of the US alliance system as part of an effort to create a bloc isolating it, even though it still was not yet opposed to that system as of 2005.<sup>436</sup> And now, as it increasingly appears that its earlier hopes that a peaceful resolution of the North Korean nuclear problem would undermine Washington's justification for Asian missile defenses will be dashed, it may have decided to go on the offensive in Asia just as it has in Europe.<sup>437</sup>

While Western and U.S. scholars and policy, seen from Moscow, tend to marginalize Russian as an actor in Asia, Russia has made up its mind to react.<sup>438</sup> It perceives U.S. nuclear policy and strategy as part of an overarching strategy to isolate and threaten it and is responding accordingly, asymmetrically as promised. Thus its response is partnership, if not alliance, with China, pressure on Japan to desist from targeting Russia with its missile defenses coupled with alternating offers of economic incentives for partnership in the region, and the nuclearization of the Pacific Fleet to ensure robust deterrence and a second-strike capability. Furthermore, at least some writers have pointed out that the rise in China's capabilities could go beyond a conventional threat to Russian assets in Siberia and Russian Asia. For example, there are multiplying signs that the no first use injunction in Chinese military doctrine is neither as absolute a ban on first use as China has previously proclaimed and that it is under

---

<sup>433</sup> Moscow, *ITAR-TASS*, in English, October 23, 2007, *FBIS SOV*, October 23, 2007

<sup>434</sup> Minxin Pei, "China's Hedged Acquiescence," Byung-Kook Kim and Anthony Jones, Eds., *Power and Security in Northeast Asia: Shifting Strategies*, Boulder, Colorado: Lynne Rienner Publishers, 2007, p. 115

<sup>435</sup> Esook Yoon and Dong Hyung Lee, "A View From Asia, Vladimir Putin's Korean Opportunity: Russian Interests in the North Korean Nuclear Crises," *Comparative Strategy*, XXIV, NO. 3, 2005, p. 188

<sup>436</sup> Alexander Ignatov, "Russia in the Asia-Pacific," Rouben Azizian Ed., *Russia and America in the Asia-Pacific*, Honolulu: Hawaii, Asia-Pacific Center for Security Studies, 2007, pp. 9-11

<sup>437</sup> Yoon and Lee, p. 194

<sup>438</sup> Glenn C. Buchan, David Matonic, Calvin Shipbaugh, Richard Mesic, *Future Roles of U.S. Nuclear Forces: Implications for U.S. Strategy*, Santa Monica, CA: Rand Corporation, 2000, p. 15; Joseph Ferguson, "U.S.-Russia Relations: Awaiting the G-8," *Comparative Connections*, June 2006 As Kipp points out the current US National Security Strategy speaks exclusively of Russia as a partner in Europe not Asia, Kipp, "Russia's Nuclear Posture and the Threat That Dare not Speak Its Name,"

pressure from younger officers there.<sup>439</sup> Thus China is now debating retention of its no first use posture regarding nuclear weapons and such weapons appear to be playing a more prominent role in Chinese strategy than was hitherto believed to be the case. China is building a hitherto undisclosed nuclear submarine base in the Pacific and a major nuclear base in its interior, moves that suggests consideration of a second strike capability but that can also put much pressure on Russia's Pacific Fleet and Russian Asia.<sup>440</sup>

The following 2004 analysis took into account both the limited nuclear capability China had then and the possibilities that could ensue based on those forces' ongoing development. Despite the significant qualitative makeup of the current Chinese nuclear missile potential, its combat capabilities are quite limited; it would hardly be adequate to destroy highly protected command and control posts and could not substantially degrade Russia's ground and sea-based strategic nuclear forces. However, this potential would be capable of substantially degrading the Russian Federation Armed Forces group in the Far Eastern theater of Military Operations and of doing major damage to the population and economy not only in the Far Eastern and Urals regions, but even in the Central Region of European Russia. According to available data, so far China does not have missile systems with MIRVed warheads, but the upsurge in activity related to the building of antimissile defense systems could accelerate its development of that type of weapons system, including antimissile defense countermeasures. It should be noted that the PRC's economic and technological potential is quite adequate for a quantitative and qualitative breakthrough in the area of its strategic offensive weapons development.<sup>441</sup>

Today Chinese capabilities are even greater and still growing rapidly. Given the aforementioned discoveries of growing Chinese interest in and capabilities for using nuclear weapons that suggest consideration of a second strike capability and can also put much pressure on Russia's Pacific Fleet and Russian Asia, we might well see a rethinking of Russia's nuclear strategy in Asia.<sup>442</sup>

Moscow is already increasingly ambivalent about the Intermediate Range Nuclear Forces Treaty of 1987-88 (INF Treaty). While this part of a heightened ambivalence about most of the Gorbachev-era's arms control treaties and very much tied to the consequences of NATO enlargement; the concern about this treaty reflects Russian concerns about China's (and Iran's) missile buildup. As Russian officials from Putin down have argued, other countries to

---

<sup>439</sup> Larry M. Wortzel *China's Nuclear Forces: Operations, Training, Doctrine, Command, Control, and Campaign Planning*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2007; Richard Spencer, "China To Modernize Nuclear Weapons Capability," *London Daily Telegraph*, May 9, 2008; Baohui Zhang, "The Taiwan Strait and the Future of China's No-First-Use Nuclear Policy," *Comparative Strategy*, XXVII, No. 2, March-April, 2008, pp. 164-183

<sup>440</sup> Wortzel; Spencer; Zhang; "Extensive Missile Site in China Revealed by Satellite: analyst," *Space War*, May 15, 2008; "Extensive Nuclear Missile Deployment Are Discovered in Central Asia," Posted by Hans Kristensen, May 15, 2008, [www.fas.org/blog/ssp/2208//05/extensive-nuclear-deployment-area-discovered-in-central-china](http://www.fas.org/blog/ssp/2208//05/extensive-nuclear-deployment-area-discovered-in-central-china);

<sup>441</sup> Aleksandr' Menshikov, "Problems of Russian Antimissile Defense: What It Can and Should Protect Against, And What It Should Not," Moscow, *Vozdushno-Kosmicheskaya Oborona*, in Russian, August 15, 2004, *FBIS SOV*, August 15, 2004

<sup>442</sup> Wortzel; Spencer, Zhang

Russia's south and east are building such missiles but America and Russia are debarred from doing so. In October 2007,

Mr. Putin said that Russia would leave the INF treaty unless it was turned into a global agreement to constrain other states, including those "located in our near vicinity." He did not identify any country but Iran and North Korea are within the range covered by the treaty. Dmitri Peskov, a Kremlin spokesman, later acknowledged that China, India and Pakistan had medium-range missile capabilities. He insisted that Mr. Putin was concerned about an imbalance of regional security rather than any specific threat.<sup>443</sup>

But these remarks also reveal that Moscow cannot publicly reveal or confront its true threat perceptions and instead blames Washington for its failure to take Russian interests into account. Thus while Moscow had "privately told Washington it wanted medium range missiles to counter Iranian threats, it publicly argued that the lack of Iranian missiles meant the US did not need a defense system."<sup>444</sup>

As part of this debate General Vladimir Vasilenko raised the issue of withdrawal from the treaty after Sergei Ivanov did so in 2005 though it is difficult to see what Russia gains from withdrawal from that treaty.<sup>445</sup> Indeed, withdrawal from the INF treaty makes no sense unless one believes that Russia is genuinely -- and more importantly -- imminently threatened by NATO, or Iran and China, but most of all by the U.S.' superior conventional military power, and cannot meet or deter that threat except by returning to the classical Cold War strategy of holding Europe hostage to nuclear attack to deter Washington and NATO. Similarly with regard to China and Iran, absent a missile defense, the only applicable strategy would be to use nuclear weapons to deter them, but this means admitting that these supposed partners of Russia actually constitute a growing threat to it. Furthermore, it is by no means clear that Moscow could regenerate production for both intermediate and intercontinental ballistic missiles as their plant for such production systematically misses production goals. Thus withdrawal from the treaty could actually further diminish Russian security, not enhance it.<sup>446</sup> Therefore the desire to leave the INF treaty and reactivate missile production of IRBMs represents only the interests of the defense and defense industrial sectors, not necessarily Russia's state interest.<sup>447</sup>

Vasilenko also stated that the nature and composition of any future U.S./NATO missile defense would determine the nature and number of future Russian missile forces and systems

---

<sup>443</sup> Tony Halpin, "Putin Confronts US With Threat To Arms Pact," *Times Online*, October 13, 2007, <http://www.timesonline.co.uk/tol/news/world/europe/article2648440.ece>

<sup>444</sup> Demetri Sevastopulo, Neil Buckley, Daniel Dombey, Jan Cienski, "Russia Threatens To Quit Arms Treaty," *Financial Times*, February 15, 2007, [www.ft.com](http://www.ft.com)

<sup>445</sup> Martin Sieff, "Russia Rattles Missile Treaty," *UPI*, March 2, 2006

<sup>446</sup> "The ISCIP Analyst," XIII, NO. 9, March 8, 2007, Institute for the Study of Conflict, Ideology, and Policy, Boston University, [www.bu.edu/iscip](http://www.bu.edu/iscip)

<sup>447</sup> "Press Conference with Political Analyst Alexei Arbatov and Vice President of the Academy of Geopolitical Problems Leonid Ivashov on Russian Foreign Policy," *RIA Novosti*, February 6, 2007, [www.fednews.ru](http://www.fednews.ru); Alexei Arbatov, "An Unnecessary and Dangerous Step," *Nezavisimoye Voyennoye Obozreniye*, No. 7, March, 2007, <http://www.america-russia.net/eng/security/143683092>

even though admittedly any such missile defense systems could only defend against a few missiles at a time. Therefore,

Russia should give priority to high-survivable mobile ground and naval missile systems when planning the development of the force in the near and far future. --- The quality of the strategic nuclear forces of Russia will have to be significantly improved in terms of adding to their capability of penetrating [missile defense] barriers and increasing the survivability of combat elements and enhancing the properties of surveillance and control systems.<sup>448</sup>

Obviously such advocacy represents a transparent demand for new, vast, and unaffordable military programs, similar to the demand for reactivating production of IRBMs regardless of consequences. But in that case, Russia's government and military, are, as Nikolai Sokov suggested, thereby postulating an inherent East-West enmity that is only partially and incompletely buttressed by mutual deterrence.<sup>449</sup> Thus that posture also openly warns Beijing and Tehran of Russian suspicions concerning their ambitions and capabilities especially to the degree that Vasilenko's building program is being carried out which appears to be the case. It also appears to be the case, however, that Russian funding priorities for its strategic and tactical nuclear weapons appear to reflect Vasilenko's criteria for new forces.

Thus Russia's reaction to Asian military challenges comprises both conventional force reforms and nuclear strategies. Here we restrict ourselves to nuclear issues (the section on the new Far East military district follows below). The Pacific Fleet will be the main fleet and one of two nuclear fleets, suggesting that the main mission of the fleet is to provide a reliable second-strike deterrent and for the non-nuclear vessels to protect the "boomers" (nuclear armed submarines) and prevent hostile forces from coming within their range. In other words Russia is following a deterrence strategy here as in Europe. Meanwhile Russia's long-term rearmament program apparently envisions renewing the submarine fleet as nuclear propelled multirole submarines, in an effort to save money. Three missions for them will be anti-submarine warfare, anti-aircraft carrier missions (mainly against US carrier battle groups), and attacking surface ships and transports. And they will be armed with precision conventional weapons to be a strategic non-nuclear deterrence force.<sup>450</sup>

The drive to the Arctic also presupposes the use of both Pacific and Northern Fleets, in particular the latter, which is also a nuclear armed fleet, as a swing fleet that can get to challenge enemies from the North Pacific, presumably from bastions there. Just as that fleet has a bastion or bastions in the Kola Peninsula, so too does the Pacific Fleet have its bastions which the Northern Fleet or elements thereof may be tasked to help defend. Alternatively the Northern Fleet and Russian Air forces based in the high north will be used to sweep the North Pacific of enemy air and naval assets.

---

<sup>448</sup> *Interfax*, February 27, 2006

<sup>449</sup> Nikolai Sokov, "Second Thoughts About a First Strike," *Nonproliferation Review*, XIV, NO. 1, March, 2007, p. 141

<sup>450</sup> Moscow, *Agentstvo Voyennykh Novostey Internet Version*, March 21, 2005, *FBIS SOV*, March 21, 2005



At the conventional level, apart from ongoing reinforcement or resupply of the forces with what is hoped to be more advanced conventional weapons and improved training and quality of the manpower (a very dubious assumption given the inability and refusal to build a truly professional army) reform also entails experiments in new force structures and rapid reaction forces. While conventional forces in the Far East will have no choice but to fight at the end of a precarious supply line in an austere theater, Moscow is endeavoring to develop a functioning mechanism of rapid response and airlift (the idea of the swing fleet also plays here) from the North or interior of Russia to threatened sectors of the theater. And this program of airlift and rapid air mobility can also apply to nuclear forces.<sup>451</sup>

Second, Russia, as in Central Asia, is building an integrated, mobile and all arms if not combined arms force, consisting of land, air and sea forces capable of dealing with failing state scenarios, insurgencies, terrorism, scenarios involving large-scale criminal activities, and ultimately conventional attack. Third, if, however, the scale of the threat overwhelms or is too large for the conventional forces, doctrine evidently continues to point to the use of nuclear weapons (probably TNW in a first-strike or possibly even preventive mode as stated by Chief of Staff General Yuri N. Baluyevsky in 2008.<sup>452</sup> On January 20, 2008 he stated that, We do not intend to attack anyone, but we consider it necessary for all our partners in the world community to clearly understand ... that to defend the sovereignty and territorial integrity of Russia and its allies, military forces will be used, including preventively, including with the use of nuclear weapons.<sup>453</sup>

Russian commentators noted that he was speaking entirely within the parameters of established Russian doctrine and that he essentially conceded the failure of conventional forces to provide adequate defense and deterrence at the high end of the spectrum of conflict.<sup>454</sup> But beyond that Baluyevsky invoked the use of nuclear weapons in a first or preventive strike to defend allies. While he probably meant largely the CIS states to which Moscow has extended an unsolicited nuclear umbrella, in the context of Russia's Asia-Pacific territories his remarks bring us to the political dimensions of Russia's efforts to overcome the strategic challenges it faces there. Here again we see the inclination to threaten limited nuclear war as part of the deterrence strategy.

China's rise presents Russia with difficult choices especially given its nuclear naval deficiencies. Russia must take account of the growing pressure on China to abandon its no first use policy and China's increased nuclear and apparent second-strike capability, even as it must reduce its nuclear forces.<sup>455</sup> This downward pressure on the Far East's regional arsenal was already apparent in 2004-05 and if Baluyevsky's remarks are to be taken seriously it is likely that the Northern Fleet's nuclear forces and Russia's TNW will become more important for consideration of deterrence or first strike in the Asian as well as European theater. As of 2004

---

<sup>451</sup> Litovkin, *FBIS SOV*, September 13, 2006; *Agentstvo Voyennykh Novostey*, April 9, 2008

<sup>452</sup> Steve Gutterman, "Russia Could Use Preemptive Nuclear Strikes," *Associated Press*, January 21, 2008

<sup>453</sup> *Ibid.*

<sup>454</sup> *Ibid.*

<sup>455</sup> Wortzel; Spencer; Zhang, pp. 164-183

Currently, about 20% of the deployed Russian strategic nuclear forces remain in the Eastern part of Russia. As strategic forces shrink, the pace of reductions in the region is the fastest. In particular, three of the four divisions of the Russian Strategic Forces that have been disbanded since 2000 were located here. And the reductions will continue. Most likely, the SS-18 base at Uzhur will be closed down after 2010. The future of the SS-25 mobile intercontinental ballistic missiles (ICBMs) is also uncertain, as they are getting older. It is likely the submarine base on the Kamchatka peninsula will no longer host strategic submarines once the last Delta-III nuclear submarines will be retired. Thus, perhaps, the only place where strategic forces will remain in this part of Russia is Ukrainka, the home of strategic bombers. As deployment of strategic nuclear forces in the Eastern part of Russia is curtailed, non-strategic nuclear weapons in the region may be assigned a stronger role. According to the author's assessment, nearly one third of the 3,300 Russian non-strategic weapons are assigned for deployment with general-purpose forces in the Siberian and Far Eastern military districts. All of these weapons are currently kept at central storage facilities of the 12th Directorate of the Russian Armed Forces. In case of hostilities they can be deployed with surface-to-surface, surface-to-air, air-to-surface, anti-ship, antisubmarine missiles, and other dual-use means of the Ground, Air, and Naval Forces.<sup>456</sup>

However, if nuclear missions grow in importance and likely consideration, that will inhibit North Korea's disposition to give up its existing nuclear weapons not to mention foregoing new nuclear weapons. Similarly Japan and South Korea will either be further tempted to go nuclear or cleave ever more to Washington who would likely increase its regional military presence under such conditions.<sup>457</sup> Therefore a purely military and very considerable nuclear strategy leads Russia into a strategic dead end here. A political strategy is essential and even paramount in Russia's endeavors to defuse potential security challenges here.

Vostok-2010 represented an effort to confront at least some of these strategic dilemmas within the context of the ongoing defense reforms and is described in Annex 2. It ended with a simulated TNW attack on Chinese forces and the use of the precision guided Tochka-U missile suggesting Moscow's desire for conventional precision-guided options. But clearly those are still not yet available and will not be for some time so we have to look at both missile defenses and TNW as options.

Finally there is the potential "wild card" of a Korean conflict either due to the breakdown of the DPRK's government or to its starting a war against South Korea by design or by miscalculation. Here too the consequences that can now be visualized in these cases are extremely negative for Russia. Already in September 2010, Russian Deputy Foreign Minister Alexei Borodavkin, Moscow's delegate to the six-party talks, said that the Korean peninsula was on the brink of war, something nobody else has said in public.<sup>458</sup> The current impasse

---

<sup>456</sup> Eugene Myasnikov, "Russian Perceptions and Prospects for Nuclear Weapons Reductions in Northeast Asia," *Inesap Bulletin*, No. 24, 2004, [www.inesap.org/bulletin24/art05.htm](http://www.inesap.org/bulletin24/art05.htm)

<sup>457</sup> Moltz, p. 730

<sup>458</sup> Andrew Osborn, "North and South Korea On the Brink of War, Russian Diplomat Warns," [telegraph.co.uk](http://www.telegraph.co.uk/news/worldnews/asia/northkorea/8020972/North-and-South-Korea-on-the-brink-of-war-Russian-diplomat-warns.html), September 24, 2010, <http://www.telegraph.co.uk/news/worldnews/asia/northkorea/8020972/North-and-South-Korea-on-the-brink-of-war-Russian-diplomat-warns.html>

over North Korean proliferation threatens Russian interests in many ways. First, Russia confronts an explosive situation and potential crisis of immense magnitude on its doorstep where it has little or no influence over many of the main actors, not least Pyongyang. And this crisis, which it can do little to manage or control, has enormous potential consequences for it. A recent article in the Ministry of Foreign Affairs' journal *International Affairs* stated (incidentally quoting a Chinese analyst Zhou Feng),

Indeed, the situation on the Korean Peninsula, which is in close proximity to our Far Eastern borders, is explosive and fraught with the most unpredictable consequences. Peace is very fragile here. No one can guarantee that it will not collapse as a result of a clash between the two Koreas with the involvement of other countries in the conflict and the use of weapons of mass destruction. "The aggravation of the North Korean nuclear issue is one of the long standing problems leading to new ones. This issue cannot be expected to be settled easily because difficulties have emerged in relations among large East Asian states. The settlement process can subsequently lead to a redistribution of roles of large states on the Asian political field – that is a new regional security problem."<sup>459</sup>

That restructuring of the Asian political order could easily ensue at Russia's expense given its visibly relative weakness there. And it could ensue by means over which Russia has little or no influence even if they are not violent means. While Moscow has long since said that it does not fear the unification of the two Koreas and might actually welcome that outcome, it could only do so if it happened through a peaceful process, not war.<sup>460</sup>

This potential restructuring of the Asian state system also has profound implications for Russia's Far East (RFE) that Moscow already sees as a major security problem due to its relative poverty, isolation from European Russia, and vulnerability to a host of foreign influences, particularly a Chinese economic takeover.<sup>461</sup> Failure to move forward on the Korean issues, if it leads to war or the stagnation of regional economic development, threatens Russia's domestic development program for the RFE. As Gleb Ivashentsov, Moscow's Ambassador to Seoul has said,

In no other region are internal and external interests of Russia so interconnected as in Northeast Asia. For the future of Russia as a great power to a great extent depends on the economic, technological, and social uplift of Siberia and the Russian Far East. To achieve that aim we need the absence of external threats. By Russia's view such guarantees could be best provided by promoting positive relations with her neighbors.<sup>462</sup>

Therefore Russia desperately wants to prevent a war breaking out over Korea either by US and ROK attacks upon the North, or if the North was to attack South Korea or Japan. Moscow's reaction to the Cheonan incident, its professed skepticism as to whether North

---

<sup>459</sup> M. Nikolaev, "The Asia-Pacific Region and Russia's National Security," *International Affairs* (Moscow), LVI, NO. 3, 2010, pp. 68-69

<sup>460</sup> Moscow, *Interfax*, in Russian, September 24, 2007, *Open Source Center Foreign Broadcast Information Service Central Eurasia*, (Henceforth *FBIS SOV*), September 24, 2007

<sup>461</sup> *Ibid.* pp. 71-77

<sup>462</sup> Address by H.E. Mr. Gleb A. Ivashentsov, Ambassador of Russia to the Republic of Korea at the 5<sup>th</sup> Jeju Peace Forum, Jeju, August 13, 2009, [http://www.russian-embassy.org/Press20090813\\_chej.htm](http://www.russian-embassy.org/Press20090813_chej.htm)

Korea actually sank the ship, insistence on conducting its own investigation, readiness to cooperate with China to avert escalation of the crisis by all means, and insistence on returning to the table all indicate its anxiety lest this crisis engender a breakdown of the negotiation process or actual conflict.<sup>463</sup>

That conflict could quickly escalate even to the nuclear level and could only end with a hostile power (either the US or China) occupying North Korea and its border with Russia. It is not certain that Russia could stay out of such a war and the consequences for it would, under almost every imaginable circumstance, be very severe. No outcome here is acceptable to Russia, but its means of preventing these possible outcomes are decidedly limited. At the same time, conflict in the Korean peninsula also undermines any hope of developing the RFE with foreign assistance since Russia cannot do so alone. Absent such development all talk of Russia, as a great Asian power remains just that, talk.

### **Missile Defenses and TNW**

These two issues are sure to be on the next arms control treaty's agenda and indeed already were on the so-called New Start treaty's agenda. Washington has made clear its desire that TNW be on the next negotiation's agenda while Russian opposition to missile defenses is longstanding. That opposition stems from several motives. First, it stems from Russia's determination to prevent the permanent stationing of US troops and NATO forces in the former Warsaw Pact states. In turn that opposition to NATO's military enlargement, which it regards as a threat as opposed to a danger stems from its a priori hostility to NATO as such. Russia insists on seeing NATO, regardless of NATO's claims, as a hostile military alliance and that goes double for US military capability that also is a priori a constant, if not always growing threat. This goes back to the foundational presupposition of conflict with its interlocutors that we have discussed above. That hostility manifests itself in a refusal to cooperate fully with NATO even on topics of joint concern, ongoing expressions of hostility and repeated threats to threaten Eastern European and CIS governments with missiles and nuclear weapons if they allow NATO forces' presence.<sup>464</sup> Indeed, those threats have multiplied in the last few years as the missile defense issue has gained prominence.<sup>465</sup> Since nuclear weapons are the last and greatest threat with which Moscow can intimidate Europe anything that threatens to reduce their utility even in potential is eo ipso an enemy threat. Moscow sees its nuclear arsenal as a kind of all-purpose deterrent especially as its official statements in the doctrine and security concept, Serdyukov's remarks above, and statements

---

<sup>463</sup> Jacob W. Kipp, "Moscow Seeks Room to Maneuver As Crisis on the Korean Peninsula Intensifies," *Eurasia Daily Monitor*, June 18, 2010; Moscow, *Interfax*, in English, May 20, 2010, *FBIS SOV*, May 20, 2010; Moscow, *Ekho Moskvy Radio*, in Russian, May 20, 2010, *FBIS SOV*, May 20, 2010; Moscow, *Interfax-AVN Online*, in Russian, June 8, 2010, *FBIS SOV*, June 8, 2010; Moscow, *ITAR-TASS*, in English, June 4, 2010, *FBIS SOV*, June 4, 2010; Moscow, *Interfax*, in English, June 2, 2010, *FBIS SOV*, June 2, 2010; Seoul, *the Korea Times Online*, in English, June 7, 2010, *FBIS SOV*, June 7, 2010

<sup>464</sup> Richard Weitz, "Russian Tactical Nuclear Weapons: Current Policies and Future Trends," Forthcoming in Stephen J. Blank, Ed., *Russia's Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011

<sup>465</sup> *Ibid.*

by Colonel-General Nikolai Solovtsov, Commander in Chief of the Strategic Missile (Rocket) Forces in 2008 all charge that threats to Russia are multiplying. Thus Solovtsov argued that, Some potential threats to the defense and security of the Russian Federation, including large-scale ones, remain, and in some sectors are intensifying. Moreover, the possibility cannot be ruled out that major armed conflict could arise near Russia's borders, which will affect its security interests, or that there could be a direct military threat to our country's security. This is graphically illustrated by the military aggression unleashed by Georgia overnight from 7 to 8 August against South Ossetia.<sup>466</sup>

Therefore Russia must always deter the United States and other potential foes at the price of accepting that Russia too is deterred from a nuclear strike on the U.S. (or Europe or China). In return for accepting that it too is similarly deterred, Russia, however postulates as one of the fundamental corollaries of its policy and strategy that Moscow must retain a capability to intimidate and destroy Europe and hold it hostage in some sense to that threat posed by its nuclear and other missiles. Hence the continuing aforementioned reliance upon all kinds of nuclear weapons including TNW no matter the cost.

Therefore the elite unanimously believes or professes to believe that any missile defense is a threat because it presages a network covering Europe that will negate its threat and counter its first-strike capability even though Lavrov admitted that the present stage of developments do not threaten Russia.<sup>467</sup> This is particularly true as the Obama Administration's plans envisage extending the adapted phased construction of missile defenses throughout Europe by 2020.<sup>468</sup> This Russian elite unanimity puts the new treaty into jeopardy even before it is ratified because Russian statements about missile defenses mean that should Russia decide that US missile defense programs go beyond Russia's definition of strategic stability within the treaty's limits and threaten Russia's strategic deterrence forces it can withdraw unilaterally from the treaty.<sup>469</sup> Thus key members of the Duma like Speaker Boris Gryzlov threatened to block ratification if this legally binding linkage is omitted.<sup>470</sup>

Russian demands for nuclear weapons without defenses also relate to the fact that Moscow cannot conceive of defending itself against the threats it perceives, mainly from NATO, but also from China, without continuing to build, renew, and modernize nuclear weapons. And its capacity for doing so is visibly open to questions, a fact that creates many dilemmas for Russia's strategic leadership. Certainly its continuing program to build new nuclear missiles

---

<sup>466</sup> Moscow, *Agentstvo Voyennykh Novostey (Internet Version)*, in Russian, September 10, 2008, FBIS SOV, September 10, 2008

<sup>467</sup> Transcript of Remarks and Response to Media Questions by Russian Foreign Minister Sergey Lavrov at Press Conference in Relation to the Upcoming Signing of a Treaty between Russia and the USA on Measures to Further Reduction and Limitation of Strategic Offensive Arms, Moscow, April 6, 2010, [www.mid.ru](http://www.mid.ru)

<sup>468</sup> Unclassified Statement of Lt. General Patrick J. O'Reilly, USA Director, Missile Defense Agency, Before the House Armed Services Committee Regarding Missile Defense in Europe, October 1, 2009

<sup>469</sup> Transcript of Remarks and Response to Media Questions by Russian Foreign Minister Sergey Lavrov at Press Conference in Relation to the Upcoming Signing of a Treaty between Russia and the USA on Measures to Further Reduction and Limitation of Strategic Offensive Arms, Moscow, April 6, 2010, [www.mid.ru](http://www.mid.ru); Moscow, *Ministry of Foreign Affairs of the Russian Federation*, in English, May 24, 2010, FBIS SOV, May 24, 2010

<sup>470</sup> Moscow, *Interfax*, in English, March 16, 2010, FBIS SOV March 16, 2010

and usable nuclear weapons like low-yield and fusion weapons shows what it thinks of President Obama's quest for a global zero for nuclear weapons as does the new doctrine's expectation that there will be more nuclear powers by 2020.<sup>471</sup> Therefore it regards any US missile defense, whether in Europe or Asia, as being a constant threat to its strategic stability and vital interests. Strategic stability here means its ability to respond to conventional attacks by nuclear means and to intimidate Europe accordingly to force de-escalation in any local conflict that looks like it could escalate to become an East-West conflict. Moscow's fears about the future threat from the US/NATO and/or China may be seen in Lavrov's recent demand that any subsequent arms control negotiations be multi-lateralized to include other nuclear powers, primarily NATO, China, and Pakistan.<sup>472</sup>

Second, Russia's military is clearly unwilling to accept the notion of no linkage between offenses and defenses. It claims that the US reshaped its missile defense posture in Europe, in September 2009 "because, according to our clear assessment, this area would definitely create risks for Russia."<sup>473</sup> But since then this Russian demand to curtail even the new adaptive phased program for missile defenses became the principal obstacle to conclusion of the treaty.<sup>474</sup> It has also become a matter of public contention within Russian politics. Putin's aforementioned remarks from December 2009 underscore that point.<sup>475</sup> Since the U.S. government has just stated that it will complete the construction of a pan-European missile defense by 2018 Russia could easily activate its threat to withdraw from the treaty on those grounds.<sup>476</sup> Nevertheless despite the risks to the reset policy the Russian military remains unappeased on this issue. Russian Chief of Staff General Nikolai Makarov warned that, The factor of parity should be accompanied by the factor of stability, if the U.S. missile defense begins to evolve; it will be aimed primarily at destroying our nuclear missile capabilities. And then the balance of force will be tipped in favor of the United States ---With the existing and maintained parity of strategic offensive means, the global missile defense being created by the U.S. will be able to have some impact on the deterrence capabilities of the Russian strategic nuclear force already in the medium term. --- This may upset the strategic balance of force and lower the threshold for the use of nuclear weapons. Although missile defense is a defensive system, its development will basically boost [the] arms race.<sup>477</sup>

This article also points out that current Russian nuclear programs aim to overcome or even neutralize US missile defenses.

---

<sup>471</sup> *FBIS SOV*, February 9, 2010

<sup>472</sup> "Russia Demands Broader Participation in Future Nuclear Cuts," *Global Security Newswire*, [www.nti.org](http://www.nti.org), August 3, 2010

<sup>473</sup> Moscow, *ITAR-TASS* in English, November 14, 2009, "US Does Its Best to Accelerate Drafting of New START-State Department Aide," *FBIS SOV* November 14, 2009

<sup>474</sup> "Russia Says Arms Control Talks Held Up By US Missile Shield Plan," *Global Security Newswire*, [www.nti.org](http://www.nti.org), February 22, 2010; Moscow, *Interfax*, in English, February 9, 2010, *FBIS SOV*, February 9, 2010;

<sup>475</sup> Putin Says Russia Will build Weapons to Offset planned US Missile Defences,"

<sup>476</sup> "Missile Shield Should completely cover Europe by 2018, U.S. Says," *Global Security Newswire*, [www.nti.org](http://www.nti.org), April 16, 2010

<sup>477</sup> Moscow, *ITAR-TASS*, in English, March 22, 2010, *FBIS SOV*, March 22, 2010

The impression is that the Kremlin no longer believes in America's military omnipotence. Russia responded to the ultimatum with a maiden flight of its latest T-50 fighter and rearmament of its anti-aircraft defense system with T-400 Triumph complexes (this may be referring to what we call the S-400 SAM-author). To all appearances, Triumphs are ASAT weapons also capable of intercepting and destroying inbound ballistic warheads. Continuation of Bulava missile tests was proclaimed as well. Work on the missile will be brought to its logical end, sooner or later. Specialists are even working on a concept of the future strategic bombers that will replace TU-95s and Tu-160s one fine day.<sup>478</sup>

During the recent treaty negotiations Moscow then demanded that the US pledge not to do anything unilaterally, evaluate threats jointly with Russia based on corresponding reports from experts of both countries within the framework of the joint threats evaluation mechanism, and make decisions of the deployment of theater and eventually global missile defenses against ICBMs exclusively on that basis. Moscow also wants Washington to confirm that it will discuss missile defenses once this treaty is ratified.<sup>479</sup> The recent talks on hammering out a joint threat assessment have not yet yielded anything either and Russian spokesmen have recently warned that it is premature to ascribe success to this dialogue though the atmosphere is better than before.<sup>480</sup> Russia thus still seeks a veto on US force decisions and complains that Washington is unwilling to act in concert with it but instead prefers to create unilateral facts on the ground. When seen in the context of Russian politics and overall defense policy this is a most instructive episode.

Third, since Moscow rigorously adheres to this mutual hostage concept it cannot trust the US. Therefore any US unilateral advance in defenses must be compensated by greater Russian offensive capabilities. The following citations demonstrate this deep-rooted belief in the mutual hostage relationship, deterrence of the enemy, and the action-reaction process regarding armaments among the Russian political and military leadership. First, Lavrov told an interviewer in February 2007 that,

Our main criterion is ensuring the Russian Federation's security and maintaining strategic stability as much as possible. --- We have started such consultations already. I am convinced that we need a substantive discussion on how those lethal weapons could be curbed on the basis of mutual trust and balance of forces and interests. We will insist particularly on this approach. We do not need just the talk that we are no longer enemies and therefore we should not have restrictions for each other. This is not the right approach. It is fraught with an arms race, in fact, because, it is very unlikely that either of us will be ready to lag behind a lot.<sup>481</sup>

---

<sup>478</sup> Andrei Uglanov, "What is Behind Washington's Ultimatum,?" Moscow, *Argument Nedeli* in Russian March 10-17, 2010, *Johnson's Russia List*, March 17, 2010

<sup>479</sup> "Moscow Pulls the Brake At START Talks," Moscow, *ITAR-TASS*, March 11, 2010, In English, *FBIS SOV*, March 11, 2010; Peter Baker, "Twists and turns On Way to Arms Pact With Russia," *New York times*, March 27, 2010, [www.nytimes.com](http://www.nytimes.com); Mary Beth Sheridan and Michael D. Shear, "U.S., Russia Agree To Nuclear Arms control Treaty," *Washington Post*, March 27, 2010, p. A02

<sup>480</sup> Moscow, *ITAR-TASS*, in English, September 3, 2010, *FBIS SOV*, September 3, 2010

<sup>481</sup> "Interview with Foreign Minister Sergei Lavrov," *Rossiyskaya Gazeta*, February 21-28, 2007, [www.mid.ru](http://www.mid.ru)

Here Lavrov signaled Russia's unwillingness to leave a mutually adversarial relationship with America and its presupposition of mutual hostility as reflected in both sides' nuclear deployments. Similarly Alexei Arbatov ridiculed the Bush Administration's view, stated by Ambassador Linton Brooks, that because the two sides are no longer adversaries, detailed arms control talks are no longer necessary, as either naiveté or outright hypocrisy.<sup>482</sup> Since then Deputy Foreign Minister Sergei Ryabkov recently stated that,

Issues of strategic offensive and defensive arms are inextricably linked. To deny this relationship is meaningless because it is the essence of relations between the countries that have the appropriate potential in both areas. An augmented capacity of one of the parties in the realm of missile defense is automatically echoed in the form of plans and decisions of the other party in the realm of strategic offensive arms. And not even obliquely, but in the most direct way what is happening in the field of missile defense and US relations with its East European allies on this topic has an impact on our START follow-on negotiations. Without recognition of the relationship between strategic and offensive defensive arms, there can be no such treaty; it cannot take place.<sup>483</sup>

Likewise, Deputy Prime Minister Sergei Ivanov told the Munich Security conference in February 2010,

It is impossible to speak of reducing nuclear potentials in earnest while a state that possesses nuclear weapons is developing and deploying systems of defense against means of delivery of nuclear warheads that other states possess. It is like the sword and shield theory, where both are continuously developing with the characteristics and resources of each of them being kept in mind.<sup>484</sup>

Putin's aforementioned remarks of December 2009 fit right into this outlook.

The problem is that our American partners are developing missile defenses, and we are not, -- - But the issues of missile defense and offensive weapons are closely interconnected ... There could be a danger that having created an umbrella against offensive strike systems, our partners may come to feel completely safe. After the balance is broken, they will do whatever they want and grow more aggressive.<sup>485</sup>

As a result, Russian elites have discerned a new potential threat.

A relatively recent new concern is deployment of U.S. missile defense, which eventually could, in theory, intercept a Russian nuclear second strike and thus undermine both the "existential deterrence" capability and the de-escalation mission. Deployment of missile defense leads Russian military planners to suspect that the United States intends to "make the world safe for conventional war" and only serves to enhance the perceived value of nuclear weapons for Russia.<sup>486</sup>

---

<sup>482</sup> Arbatov, *Russia and the United States—Time To End the Strategic Deadlock*, p. 2

<sup>483</sup> Ryabkov, Interview, FBIS SOV, February 25, 2010

<sup>484</sup> Moscow, *Interfax*, in English, February 6, 2010, *FBIS SOV*, February 6, 2010

<sup>485</sup> "Putin Says Russia Will build Weapons to Offset planned US Missile Defences,"

<http://www.guardian.co.uk/world/2009/dec/29/nuclear-weapons-russia>, D12/2/11ecember 29, 2009

<sup>486</sup> Sokov



On the other hand since the conclusion of the treaty public commentary has subsided on this issue although Moscow has clearly not changed its position. This raises the possibility that prolonged discussions along the lines of the discussions on joint threat assessment might eventually defuse that issue but it is by no means easy to see that denouement even in the improved tone generated by the reset policy. U.S. trends add to the difficulty. First the US under both the Bush and Obama Administrations is steadily decreasing its reliance on nuclear missiles for offensive missions and moving to a more defense dominant posture that relies mainly on precision strike conventional weapons using high technology for offensive purposes. This makes it difficult to compromise with Moscow since there are few tradeoffs that can be made in return for a concession on defenses given the asymmetry in force structure between the two states.<sup>487</sup> Russia will clearly continue to rely more than we do on nuclear weapons and will therefore be less able to yield on them, especially if the Chinese threat and/or the perception of it continue to grow as seems likely. Second, given the strong domestic support in the US for missile defense that on the Republican side approaches a theological level, it will be very difficult to negotiate and then formalize in a treaty an agreement limiting the US missile defenses that can pass the Senate. Clearly the argument over missile defenses will continue for some time to come even if it is for now at a lower level of intensity.

TNW present their own particular difficulties as well and they could become even more important to Russia if the Chinese threat and perception of it grow as seems likely. Indeed, China's new DH-10 cruise missile represents a significant advance in China's own TNW capability, as does the operationalization of several cruise missile brigades. Even if Taiwan is the focus of Chinese military planning, that planning still identifies Russia and the US (as well as India) as potential enemies thereby envisaging possible nuclear scenarios against them.<sup>488</sup> If Vostok-2010 is any guide the simulated launching of TNW and of Tochka-U precision missile strikes against China suggests that the role of TNW in Asia will grow, not decrease.<sup>489</sup>

The difficulties in negotiating a reducing of Russian TNW are immense. There are no agreed upon definitions of what constitutes a TNW or what Russia calls non-strategic nuclear weapons (NSNW). Nor is there much clarity as to how many of these weapons Moscow currently possesses. Second, the Navy, as Burtsev's remarks suggest, is particularly wedded to them. Third, Vostok 2010 if not other exercises, suggests a growing threat against which they could be used. As Richard Weitz suggests, TNW play multiple roles in Russian strategy and calculations.

From Moscow's perspective, nuclear weapons, including tactical nuclear weapons (TNWs), serve a variety of valuable and often unique security functions that Russian policy makers will not soon surrender. First, they deter other countries from launching a nuclear strike against

---

<sup>487</sup> *Ibid.*

<sup>488</sup> "Power Posturing – China's Tactical Nuclear Stance Comes of Age," *Jane's Intelligence Review*, August 12, 2010, [www4.janes.com/subscribe/jir/doc\\_view.jsp?K2DocKey](http://www4.janes.com/subscribe/jir/doc_view.jsp?K2DocKey), Accessed August 13, 2010

<sup>489</sup> Moscow, *infox.ru*, in Russian, July 8, 2010, *FBIS SOV*, August 23, 2010; Private conversation with Roger McDermott, August 9, 2010; Kipp

Russia. Second, having such an enormous nuclear arsenal bolsters Moscow's international status. Third, Russia's nuclear weapons help compensate for weaknesses in Russian conventional forces in two ways—for deterrent purposes (by denying adversaries the presumption that they can guarantee that any conflict with Russia will remain conventional). And, under certain conditions, for actual battlefield operations, by destroying important targets more effectively than conventional weapons. Fourth, Russian nuclear weapons can achieve both results at a lower financial cost than Moscow would incur by acquiring (if this were even possible notwithstanding the major weaknesses in Russia's military-industrial base) and sustaining a conventional force equivalent in strength to that of the United States. Fifth, Russia's response to NATO's expanding ballistic missile defense program has been to strengthen its offensive nuclear forces so as to overwhelm any defense system. Russia's large number of TNWs would almost guarantee that at least some nuclear strikes, especially against front-line forces, would evade enemy defenses. Sixth, Russian policy makers can issue nuclear threats to try to influence the foreign and defense policies of other countries. In recent years, Russian political and military leaders have sought to discourage former Soviet bloc states from joining NATO or hosting U.S. ballistic missile systems on their territory by warning that such actions would make them legitimate targets for Russian nuclear strikes. Finally, TNWs represent one of the few defense dimensions in which Moscow has a clear advantage over NATO militaries. This superiority enhances Russia's bargaining position in certain arms control negotiations. Given the many benefits that the Russian government derives specifically from its TNWs, Russian officials would likely require major NATO concessions to relinquish, reduce, or otherwise restrict them.<sup>490</sup>

Consequently TNW are probably important elements of Russia's unpublished nuclear study mentioned above and play an important doctrinal and strategic role in its defense planning.<sup>491</sup>

Beyond that Moscow may well see the development of pressure from within NATO to get the US to withdraw its TNW from Europe as justifying inaction on its part in order to exploit potential schisms within the alliance (a long-standing tactic and policy).<sup>492</sup> Certainly it has steadfastly refused till now to entertain any thought of bilateral negotiations to reduce its stock of TNW until and unless Washington moves its weapons out of Europe on the grounds that its fundamental principle is no nuclear weapons in third party countries. Since all TNW are in Russia, it can hide behind this screen for a long time. Makarov has publicly stated that Russia will retain its TNW as long as Europe is "packed with armaments" as a guarantee of Russian security and that priority funding will be directed to Russia's nuclear arsenal. And other officials have for years followed this line that NATO must first disarm and remove its TNW, something that is still quite unlikely for the immediate future.<sup>493</sup>

Finally there is one last consideration regarding Russia's reluctance to discuss reduction let alone reduce TNWs unilaterally. As Weitz observes,

---

<sup>490</sup> Weitz,

<sup>491</sup> Jacob Kipp, "Russia's Tactical Nuclear Weapons and Eurasian Security," *Eurasia Daily Monitor*, March 5, 2010

<sup>492</sup> *Ibid.*; Weitz

<sup>493</sup> *Ibid.*; "Russian Military Chief Defends Nonstrategic Nukes," *Global Security Newswire*, December 17, 2008, <http://www.nti.org>

Several Russian writers have expressed concern that discussing limitations on non-strategic nuclear weapons could undermine the prospects for reforming Russia's conventional forces. Not only could opponents of reform cite the resulting anti-Russian rhetoric of east European NATO members fearful of Moscow, but they could object to exposing Russian vulnerabilities during the unstable transition period that would arise between when the existing structure was dismantled and the new one was fully operational.<sup>494</sup>

Roger McDermott and this author similarly observe that,

Lieutenant-General Yevgeny Bushinsky, the former Head of the Defense Ministry's International Legal Department, said that Russia could begin such discussions only after first achieving conventional parity with the US, including in relation to high-precision weapons. "We should not start negotiations on the reduction of tactical nuclear armaments as long as we have disparity in conventional armaments, especially, high-precision ones. Under these circumstances, tactical nuclear armaments are means of deterrence and any reductions will inevitably damage Russian security."<sup>495</sup>

Therefore if we were to persuade Moscow to enter into a bilateral negotiation this could lead to an end to defense reform, as Moscow would then undertake a major buildup of its conventional high-tech systems to reach some sort of approximate parity with the US to compensate for its present inferiority. This consideration not only underscores the difficulties of negotiating on TNW as many writers have pointed out, but also the difficulties inherent in the essential asymmetry of Russian and US forces and the difficult choices this will impose on US negotiators as they strive to implement the Administration's vision of moving towards zero.<sup>496</sup>

### **Conclusions-Nuclear Weapons, Strategy, High-Tech, and Doctrine**

These conclusions are presented as points for policymakers to consider as we strive to move forward on the US' nuclear agenda.

- Russian antagonism to the US derives from the nature of its system which prizes autocratic freedom of action at home and abroad, rejects democratic controls over its security forces and defense policies, and suffers from an ingrained and deeply rooted "sacro egoismo" and inflated sense of its importance that is equally deeply tied to its nuclear weapons. The belief that Russia is a besieged fortress threatened from within and without is integral to this political system regardless of what others do (although their actions might obviously enhance the threat).

---

<sup>494</sup> Weitz

<sup>495</sup> McDermott, "Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020"; Blank, "Russia and Nuclear Weapons,"

<sup>496</sup> Weitz'; McDermott, Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020" and the sources they cite

- Given this mindset Russia cannot conceive of relations with its principal interlocutors other than those of an adversarial nature and with the US and China it insists on formulating those relations from the foundational perspective of mutual deterrence that presupposes hostility. Moreover, as regards the US it also insists on preserving this deterrence in the form of the “mutual hostage” paradigm of the Cold War where neither side is allowed to move forward on its own in the belief that we are not enemies.
- In this context for Russia nuclear weapons resemble a Swiss army knife that can perform multiple political and strategic missions in many different contexts and cannot be dispensed with until and unless adequate alternatives, e.g. modern precision-guided weapons are available.
- Although Moscow will eventually develop high-tech conventional forces of its own given the nature of its economy and political system; it is quite unlikely to reach its desired targets by 2015 or 2020 absent major reform (and possibly even then). Therefore it will have to continue to rely more than does the US on nuclear weapons for a broader range of missions than we do.
- The rising threat of China due to its advancing economic and military power as it becomes apparent that Russia cannot keep up strongly suggests a growing and more overt reliance on nuclear weapons in the RFE, including TNW. In both this point and the following point the assumption is that Russia works out its problems with the Bulava SLBM. If it cannot do that the entire strategic and nuclear role of the Navy (its primary mission) is then cast into doubt with serious repercussions.
- There is as yet little sign of a readiness to consider let alone negotiate reductions on TNW in view of its continuing conventional inferiority, although possibly the scope of these weapons mission is being reduce.
- The public record also suggests continuing strong opposition to any form of missile defenses in Europe and probably the Asian-Pacific region as well based on the arguments offered above. Furthermore the discussions on joint threat assessments have not yielded fruit, nor are there any sign of serious Russian cooperation with NATO outside of the rather limited example of Afghanistan.
- As the US implements the phased adaptive missile defense program, more antagonisms with Moscow are likely and the prospect of an agenda where more or less equal concessions can be made for a new round of nuclear weapons cuts (including the contentious issue of TNW) becomes more difficult.
- Absent fundamental change in Russian politics and thinking it is quite unlikely that Moscow will come to see the wisdom of global zero. Indeed, its sense of being isolated and under siege may grow as its status plummets due to unfulfilled reforms. It may well have to reduce its nuclear arsenal (even if Bulava works) for reasons of cost and capacity, but there are too many forces wedded to the adversarial world view

concerning other major governments and the unlikelihood of a truly successful conventional forces or weapons reform to suggest it can undertake to move towards zero.

- Likewise, for these reasons and again absent major changes it is unrealistic to assume that Moscow will move away from its ingrained belief in deterrence to a defense-dominated world and a less adversarial posture towards Washington. It will continue to see us in an adversarial light even as it may come increasingly to view China in its own way in similar fashion.
- Accordingly, and absent major technological breakthroughs on our part, the Administration is likely to be disappointed in its quest for nuclear zero and even major reductions in the US nuclear arsenal. The only way we can move towards those goals and a defense-dominated environment is to induce Russia to stop believing that we are its enemies. Unfortunately it is the nature of the Russian political system and culture which are very deeply rooted to generate both the perception of the US as an ultimate threat (even if tactical cooperation e.g. Afghanistan) is possible) and more importantly matching behavior that seeks to obstruct and frustrate US policies, interests, and objectives, including global zero or at least a dramatic reduction in both sides' reliance on nuclear weapons before 2015.

## **Part II The Conventional Reform of the Armed Forces**

Until now we have focused largely on nuclear weapons, the defense spending program, and major strategic issues. Quite clearly the future of the conventional or general-purpose forces hinges on the success of the first of the three reforms, the large-scale reforms of the armed forces since 2008.<sup>497</sup> The initial goals of the reform were:

1. Improving the organization and structure of the forces by converting all divisions and brigades to permanent readiness brigades, abolishing the mass mobilization principle and abandoning the division-based system.
2. Enhancing the overall efficiency of command and control (C<sup>2</sup>) (later interpreted as opting for a three tiered structure: operational command-military district-brigade).
3. Improving the personnel training system, including military education and military science.
4. Equipping the armed forces with the latest weapon systems and intelligence assets, primarily high technology, in order to “achieve air superiority, deliver precision strikes on ground and maritime targets, and ensure operational force deployment.”
5. Improving the social status of military personnel, including pay and allowances, housing, and every day living conditions as well as a broad range of support packages.<sup>498</sup>

Based on their study of NATO armed forces the reformers adopted an officer to enlisted personnel ratio of 1:15. The pre-reform 355,000 officer corps would be cut to only 150,000 as

---

<sup>497</sup> Baranets, “The Army Will Be Getting the Latest Weapons,” *Op. Cit.*

<sup>498</sup> Nikolay Poroskov, “Military Arrangements,” *Vremya Novostey*, October 8, 2008.

well as placing new demands on them.<sup>499</sup> This meant shedding 205,000 officer posts by 2012 in order to optimize the system by addressing its “top heavy” features that resulted in having more colonels and lieutenant colonels than junior officers.<sup>500</sup> The officer reductions were severe. According to Roger McDermott, serving generals would be cut from 1,107 generals to 886 by 2012. Colonel posts were slashed from 25,665 to 9,114, majors from 99,550 to 25,000, and captains from 90,000 to 40,000. The only increase was to affect lieutenants moving from 50,000 to 60,000. By 2010 Serdyukov explained that another three years were required, and reported that 67,000 officers had been dismissed from service in 2009.<sup>501</sup>

The reform or “new look” abolished the traditional division-based system and replaced it with a brigade-based structure geared towards maneuverability, cadre units were to be jettisoned and in their place only “permanent readiness” formations would remain. The transformation affected all the services though it mostly affected upon the ground forces, as 85 brigades were formed in 2009 and divisions disbanded, while their pre-reform total of 1,890 units was earmarked for reduction to only 172 units and formations. In the air force only 180 of the 340 units would remain converting to a squadron-based system, while the navy was scheduled to move from 240 units to 123. The Strategic Rocket Forces (*Raketnye Voyska Strategicheskogo Naznacheniya*—RVSN) were to be streamlined from 12 to 8 divisions, while the airborne forces (*Vozdushno Desantnye Voyska*—VDV) from 6 to 5 and the latter faced a brigade-based restructuring in an indication that in the reform concept there were one size fits all approaches (this was later successfully resisted by the VDV, despite the fact the VDV had always deployed at sub-divisional level with a brigade HQ in its recent combat history).<sup>502</sup> The air force had to shed 50,000 posts,<sup>503</sup> or around 30 percent of existing air force officer positions. In January 2009, Colonel-General Alexander Zelin, the Commander-in-Chief (CINC) of the *Voyenno-Vozdushnyye Sily*—VVS confirmed that the restructuring of the air force was underway: reforming 80 percent of units, among which 10 percent were to be disbanded, 22 percent redeployed and 68 percent would experience staff changes.<sup>504</sup> The overall driving force in the transition to the brigade-based structure was to enhance the ground forces with greater maneuverability.<sup>505</sup>

The government also slashed military educational institutions.

---

<sup>499</sup> Gavrilov, “General’s Reduction,” *Ibid.*

<sup>500</sup> *Ibid.*

<sup>501</sup> Interview with Serdyukov, *Rossiia 24*, March 6, 2010.

<sup>502</sup> *Ibid.*

<sup>503</sup> (Вадим Соловьев, «Военная реформа 2009–2012 годов», *Независимое Военное Обозрение*, декабря 12, 2008 года. [http://nvo.ng.ru/forces/2008-12-12/1\\_reform.html](http://nvo.ng.ru/forces/2008-12-12/1_reform.html)) Vadim Solov’ev, “Voyennaya Reforma 2009 – 2012 Godov,” *Nezavisimoye Voyennoye Obozreniye*, December 12, 2008.

<sup>504</sup> “Around 30 Percent of Russian Air Force Officers to be Dismissed During Reform,” *Interfax*, February 11, 2009.

<sup>505</sup> (Иван Николаевич Воробьев, Валерий Александрович Киселев, “Переход Сухопутных войск на бригадную структуру как этап повышения их маневроспособности,” *Военная Мысль*, Номер 2, 2010) Ivan N. Vorobyev, Valeriy A. Kiselev “Perekhod Sukhoputnikh Voisk na Brigadnuu Strukturu Kak Etap Povisheniya Ikh Manevrosposobnosti”, *Voyennaya Mysl*, No. 2, 2010/ Major-General (Ret.) Ivan Vorobyev, and Colonel Valeriy Aleksandrovich Kiselev, “Ground Troops Transition to Brigade Structure as a Phase of Improving Their Maneuverability,” *Voyennaya Mysl*, No. 2, 2010.

By late 2009, 85 permanent readiness brigades were formed as well as the new three-tiered command and control system. Medical staff lost 10,000 officer posts and 22 military hospitals were closed.<sup>506</sup> Additionally, 80 percent of all lawyers were dismissed, and only 20 officer posts in military media organizations remained –preserving those working for the official defense ministry publication *Krasnaya Zvezda*. Military educational institutions were also earmarked for reduction from 65 to 10; three military educational centers, six academies, and one military university (streamlining the General Staff Academy), as its structure needed to serve a new role based around filling the brigades with effective commanders and promoting efficiency and higher standards in these institutions.<sup>507</sup>

Finally in 2010 the government decreed the transformation of the six existing military districts into four so called operational-strategic commands, North, East, West, and South. In each of these districts all the forces would be jointly commanded by the district commander who in some cases like the West has turned out to be an Admiral, thus for the first time subordinating ground forces to a naval officer. This clearly aims at enhancing Russian capability for combined arms if not truly joint operations. This culminating move stemmed from the government and MOD's assessment of the course of the reform and of the major exercises of 2009, Zapad-2009 and Ladoga.

In this context Lt. General Valery Yevnevich, Chief of Armed Forces Training, observed that all the exercises carried out in 2009 in the West, South and East were combined arms operations. In the Zapad-2009 exercise an “interbranch“ and coalition group of forces (with Belarus) operated on a strategic axis under the unified direction of the operational-strategic district commander. Thus the exercise combined amphibious, air-sea, and airborne assault forces in naval ranges and Kaliningrad where an assault group of landing forces was formed. The ground and air forces rehearsed combined operations involving close-air support, attacking in an armored formation to operate on the flanks of the enemy with the conduct of ambush operations, a tactical air assault and enveloping detachments. Helicopters conducted remote mining operations to restrict enemy maneuver.<sup>508</sup> Thus the exercises featured the new tactical, operational, and strategic command and control formations established by the reforms. In all of Russia's six military districts an operational-strategic command, resembling what is described above, has been established by presidential order.

According to the then Land Forces Commander, General of the Army, Vladimir Boldyrev, The military districts will also act as operational-strategic commands, and the military district commanders will be declared commanders of operational-strategic commands in definite strategic directions. For instance, the entire grouping of the troops, based in the Leningrad Military District in the northwestern strategic direction, which sprawls from Belarus to the Barents Sea, have been subordinated to the operational-strategic commander. These forces will encompass the air force, the fleet, and all other units and formations, based on the

---

<sup>506</sup> “Russia to close 22 Military Hospitals, Cut Over 10,000 Medical Officer Posts,” Interfax, May 27, 2009; “Military Reform 2009-2013, *Nezavisimoye Voyennoye Obozreniye*, January 1, 2009; “Defense Ministry to Close Officer Jobs in Military Media,” *Interfax-AVN online*, December 3, 2009.

<sup>507</sup> McDermott, ““Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020,”

<sup>508</sup> Moscow, *Ministry of Defense of the Russian Federation*, in Russian, November 30, 2009, *FBIS SOV* December 8, 2009

territory and controlled by the operational-strategic command. --- These troop groupings will be subordinate to the operational-strategic commander first of all in the operational planning and in the general planning of troops employment and training, including in drills like the current (Ladoga 2009) exercise.<sup>509</sup>

Boldyrev further elaborated that in wartime the VVMVD and MChS (Ministry of Emergency Situations) forces would also be subordinated to the operational-strategic commander and even if all the district forces in any district are independent peacetime organizations, e.g. the Northern Fleet which is part of the Navy (and a nuclear fleet), in wartime they would be placed under that district and operational-strategic command. Likewise a submarine command has been created to perform the most important missions at sea.<sup>510</sup> Because Russia simply cannot afford to cover all its borders with large troop formations and the initial phase of war is so crucial (and implicitly as in Iraq) could be the only and thus last phase of combat operations, it is essential as well to have 85 maneuverable brigades that can at permanent readiness in the theater and/or rapidly deployable to the scene of fighting and fight in any theater without mobilization and that can reach its objective in the shortest possible time.<sup>511</sup> The Vostok-2010 exercises further refined this concept of combined arms serving together in a single operational-strategic command formation with simplified command and control so that all forces, including all the services, and domestic military forces would be operationally subordinated to a combined forces command that could also carry out joint operations in each particular district as long as possible.

Thus in the future the idea is that each district, operating under this combined forces command will be able to conduct effective joint operations with general purpose forces that have permanent readiness capability to act or move to an active theater. Several writers, if not the Ministry of Defense, envisage that the creation of these forces will enable Russia at some time in the future (assuming the forces have the requisite weapons and technologies and capability to use them with effective systems integration) to conduct Moscow's vision of network-centric or net centric operations.<sup>512</sup> At present there is no single Russian concept of network-centric operations. Instead Russian writers are at the start of a long debate over the meaning in Russian conditions of such operations and the means available to execute them.<sup>513</sup> Moreover, the armed forces are simply not ready to undertake the systems integration necessary to conduct such operations, nor is it at all clear, as we have suggested above, that industry can provide Russia with the requisite systems in time to carry out such operations anytime soon.<sup>514</sup>

However, it is not just a question of industry's capability. For defense reforms to succeed they must lead to a truly new army in ethos not just organizational structure even if the organizational reforms clearly move in the right direction and were carried out against unrelenting opposition from many military commanders and bureaucrats. And here there are

---

<sup>509</sup> Moscow, *Interfax-AVN Online*, in English, September 29, 2009, *FBIS SOV*, September 29, 2009

<sup>510</sup> Yuri Gavrilov, "Defensive Strike," Moscow, *Rossiyskaya Gazeta*, in Russian, December 23, 2009, *FBIS SOV*, December 23, 2009

<sup>511</sup> Moscow, *Interfax*, in Russian, September 24, 2009, *FBIS SOV*, September 24, 2009

<sup>512</sup> McDermott, "Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020,"

<sup>513</sup> *ibid.*

<sup>514</sup> *ibid.*



major difficulties. Opposition to Serdyukov's reforms has not stopped or abated. Virtually every week there are articles saying that he will resign or that Makarov will resign because he is fed up with the "circus" and lack of professionalism of Serdyukov's people, or that Makarov will replace him, etc.<sup>515</sup> Second, Serdyukov got himself into trouble when he unleashed a tirade at a military-religious ceremony in the fall of 2010 but apparently Medvedev if not Putin has ordered him to stay on. Nonetheless it is clear that politically Serdyukov skates on thin ice.<sup>516</sup> Third, many of the defects that Serdyukov has tried to uproot are so deeply entrenched that they may be able to outlast him. Finally, and fourth it may well be the case that key elements of the reform have already failed jeopardizing the whole process. Thus the Ministry of Defense admitted in 2010 that the effort to professionalize the Army by hiring contract soldiers had been a total failure.<sup>517</sup> Moreover, not only did they also not get down to 150,000 officers as planned, the creation of the new VKO force cited above terminates and contradicts the whole thrust of the reform to date, reverts back to older threat assessments, and gravely burdens the defense budget since the new officers are promised double pay.<sup>518</sup>

The opposition to Serdyukov takes many forms. On the one hand there is overt political opposition expressed through the media, or by the officer corps and their political supporters in the Duma or elsewhere, or through organizations of former military personnel who have been politicized by their public displays of opposition to his policies. On the other hand there is unremitting subversion or covert opposition to his efforts to tackle corruption and uproot hazing (*Dedovshchina*) in the military. Although officials maintain that crime and criminality decreased in 2010 (though the final figures have not yet been published) the following data shows that it was pervasive and increasing through 2009.

As a result of the audit conducted by Defense Minister Sergei Ivanov in 2006-07 he discovered that corruption then was even worse than expected. For example, on April 3, 2008 the Audit Chamber announced that more than 164.1 million rubles had been stolen from the ministry through fraud and outright theft. Another report stated that, the Ministry of Defense (MoD) "accounts for 70 percent of the budgetary resources used for purposes other than those officially designated."<sup>519</sup> But while President Putin recognized the need for a new broom to sweep clean the Ministry and appointed Anatoly Serdyukov to do so, it is clear that despite Serdyukov's best efforts corruption continued and is still going on.

---

<sup>515</sup> "More on the Command Changes," *Russian Defense Policy*, January 14, 2011, <http://russiandefpolicy.wordpress.com/2010/01/14/>

<sup>516</sup> "Political Tinge of the Serdyukov Flap," *Russian Defense Policy*, October 25, 2010, [fpolicy.wordpress.com/2010/10/25/political-tinge-of-the-serdyukov-flap/](http://russiandefpolicy.wordpress.com/2010/10/25/political-tinge-of-the-serdyukov-flap/)

<sup>517</sup> Aleksandr' Golts, "End of the Contract Army," *Moscow Times*, March 16, 2010

<sup>518</sup> Pavel Felgenhauer, "Slashed Russian Officers Re-called to Military Service and Promised Double Pay," *Eurasia Daily Monitor*, February 4, 2011

<sup>519</sup> "Defense Ministry Will Shed Excess Equipment," RFE/RL Newsline, April 3, 2008, <http://www.rferl.org/content/Article/1144084.html>. See also, "Russian Official Says 30 Percent of Military Budget Lost Through Corruption," *Agentstvo Voyennykh Novostey*, July 2, 2008, also in *World New Connection* (hereafter as WNC) (articles available by subscription, see <http://wnc.fedworld.gov/index.html>).

Similarly an audit revealed significant violations of financial and economic activity in the Air Force, amounting to a loss of over 660 million rubles. These violations occurred in the use of Air Force resources and funds by officials in Air Force commands, military units and organizations.<sup>520</sup> In other words, this corruption pervaded the Air Force. And this pervasiveness embraces as well the entire armed forces not just the Air Force. Thus in 2008 Russia's leading defense correspondent, Alexander Golts, told a US audience that 30-50% of the annual defense spending in Russia is simply stolen.<sup>521</sup> Indeed, Russia recently admitted that it failed to reach its 2009 procurement targets by 50%.<sup>522</sup> In 2009 prosecutors uncovered mass fraud in Rosoboronzakaz (Russian State Defense Purchasing Agency) in the amount of 6.5 billion rubles as well as the unlawful spending of 1.3 billion rubles and the inappropriate use of funds of 98 million rubles.<sup>523</sup> From January-August 2009 alone an investigation uncovered 1,343 violations of the law on the placement of defense orders in Rosoboronzakaz alone.<sup>524</sup> Indeed, an earlier investigation in June by the Main Military Prosecutor's office revealed about 3000 violations costing the state another 380 million rubles, leading a commentator to observe that some these criminal schemes were notable not just for their scope but for their brazenness, "one gets the impression that these persons were not afraid of anything."<sup>525</sup>

Arguably Medvedev's failure to date to uproot this pervasive criminality is what has led to the recent disclosures of corruption in numerous sectors of state and military activity as of 2009. For example, in the military figures show that the number of crimes committed by the military during 2008 rose by 9% and the crime rate in the military was the highest among the security related agencies in Russia (this is what is in the report, and given the notorious corruption of the police this is a frightening claim). Military prosecutors completed investigations of 12,000 crimes and brought 80% of cases to court, including 12 cases against high-ranking military officers.<sup>526</sup> And in the first half of 2009 military investigators completed proceedings of 6,296 crimes, almost 10 percent more than in 2008 while there are also reports of falling crime rates in the Ministry of Emergency Situations and the Ministry of Interior.<sup>527</sup> Nevertheless the number of cases in this sector involving the abuse of authority for "mercenary" reason is increasing, as is the overall military crime rate.<sup>528</sup>

---

<sup>520</sup> Moscow, *RIA OREANDA*, in Russian, July 1, 2009, *FBIS SOV* August 17, 2009

<sup>521</sup> Remarks by Stephen Blank, Eugene Rumer, Mikhail Tsympkin, and Alexander Golts at the Heritage Foundation Program, "The Russian Military: Modernization and the Future," April 8, 2008, <http://www.heritage.org/press/events/ev040808a.cfm>

<sup>522</sup> Roger N. McDermott, "Russia's Conventional Armed Forces, Reform and Nuclear Posture to 2020," Forthcoming in Stephen J. Blank, Ed., *Russia's Nuclear Weapons: Past, Present, Future*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2011

<sup>523</sup> Moscow, *RIA Novosti*, in Russian, August 31, 2009, *FBIS SOV*, August 31, 2009

<sup>524</sup> Moscow, *Vechernyaa Moskva*, in Russian, August 31, 2009, *FBIS SOV*, August 31, 2009

<sup>525</sup> Yuri Gavrilov, "Robbery to Order," Moscow, *Rossiyskaya Gazeta*, in Russian June 17, 2009, *FBIS SOV*, June 17, 2009

<sup>526</sup> "Crime Rate In Russian Military Rises 9% in 2008," *RIA Novosti*, March 26, 2009

<sup>527</sup> "Interview With Lt. General A.S. Surochkin, Deputy Chairman of the Investigations Committee Attached to Russian Federation Prosecutor's office and Head of the Military Investigations Directorate by Aleksandr' Kots, Moscow, *Komsomolskaya Pravda*, in Russian, September 7, 2009, *FBIS SOV*, September 7, 2009

<sup>528</sup> *Ibid.*

Subsequently, in July 2009, the Chief Military Prosecutor announced that crimes committed by officers had reached “unprecedented levels.” During 2008 officers had committed 4,159 crimes, including 1,754 corruption-related offenses, a 38% increase over 2007. Meanwhile already by June 2009 they had committed over 2000 crimes, or one in four of total crimes, an increase of 7% on a year-on-year basis. While many of these crimes involve physical assaults on service personnel (over 5430 personnel reporting such assaults); one third of the crimes involved corruption. Since 2004 the number of Russian generals and admirals prosecuted for corruption had increased by almost seven times.<sup>529</sup> Official figures calculate that these cases of corruption resulted in losses of at least 2.2 Billion rubles (\$78.6 Million) to the state budget in 2008.<sup>530</sup> Meanwhile in 2010, “The scope of corruption in the military has not been decreasing, while bribe-taking has been on the rise, said Col. Konstantin Belyayev of the Main Military Prosecutor's Office. Last year, more than 2,400 corrupt deals were uncovered. The incidence of fraud increased almost 1.5 times, and bribe-taking and abuse of office became more common.”<sup>531</sup>

Finally the evidence of the military forces and its leadership’s collusion with organized crime has also come to light. The US Cyber Consequences Unit reported to the US government that,

“Denial of service and Web defacement attacks launched last year against Georgian web sites were carried out by Russian civilians and sympathizers rather than the government but were coordinated with the invasion of the former Soviet state and had the cooperation of both the Russian Army and organized crime, according to a report being released today to U.S. government officials.”<sup>532</sup>

This connection, unfortunately, is not so surprising given the extensive reporting of the links between major energy firms like the notorious Rosukrenergo, a key middleman in Russo-Ukrainian gas deals and leading figures of Russian organized crime and similar such links throughout Eastern Europe.<sup>533</sup>

---

<sup>529</sup> “Crime Among Russian Military Officers Highest in Decade,” *RIA Novosti*, July 9, 2009

<sup>530</sup> *Ibid.*; “Crime Soars to 10-Year High in Army,” *Moscow Times*, July 10, 2009

<sup>531</sup> SIMON SARADZHIAN, “RUSSIA IN REVIEW,” CITING *INTERFAX*, FEBRUARY 10, 2011, WWW.

BELFERCENTER.KSG.HARVARD.EDU

<sup>532</sup> William Jackson, “Russian Military, Organized Crime In On Cyberattacks Against Georgia,” *Government Computer News*, August 17, 2009

<sup>533</sup> Moscow, *Gazeta.ru*, in Russian, July 27, 2009, *FBIS SOV*, July 27, 2009; Author’s conversations with members of European foreign ministries and intelligence services, 2008; Keith C. Smith, *Russian Energy Politics in the Baltics, Poland, and the Ukraine: A New Stealth Imperialism?*, Washington, D.C.: Center for Strategic and International Studies, 2004; Anita Orban, *Power, Energy, and the New Russian Imperialism*, Washington, D.C.: Praeger, 2008; Edward Lucas, *The New Cold War: Putin’s Russia and the Threat to the West*, London: Palgrave Macmillan, 2008; Robert Larsson, *Nord Stream, Sweden and Baltic Sea Security*, Stockholm Swedish Defense Research Agency, 2007; Robert Larsson; *Russia’s Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Supplier*, Stockholm: Swedish Defense Research Agency, 2006; Janusz, Bugajski *Cold Peace: Russia’s New Imperialism*: Washington, D.C.: Center for Strategic and International Studies, Praeger, 2004, passim; Richard Krickus, *Iron Troikas*, Carlisle Barracks, PA: Strategic Studies Institute of the US Army War College, 2006; Valery Ratchev, “Bulgaria and the Future of European Security,” Paper presented to the SSI-ROA Conference, “Eurasian Security in the Era of NATO Enlargement,” Prague, 4-5 August 1997; Laszlo Valki, “Hungary and the Future of European Security,” *Ibid.*; Stefan Pavlov, “Bulgaria in a Vise,” *Bulletin of the Atomic Scientists*, January-February 1998, pp. 28-31; Moscow, *Izvestiya*, in

If we assume that cases which are uncovered are only a fraction of the sum total of criminal activity in an organized social environment, it becomes clear that we are witnessing the overall degradation of the Russian military and government. It is not too much to say, as do many European governmental analysts and officials, that we see a criminal, if not Mafia, state (their term).<sup>534</sup> Indeed, no military organization is so isolated from the state and society that its degradation does not both imply and rebound back upon the overall degeneration of that state and society. For example, recent investigations have uncovered figures that were shocking even to the Russian government concerning the brutality and venality of the police forces and the level of criminal violations among them.

According to the available statistics, the law enforcement [agencies] is far ahead of the other corruption-prone bodies of power. In 2008 3,329 police were punished for bribes, in contrast to 433 employees in the health service and 378 in education. According to police, 2,516 crimes committed by police and federal migration service personnel have been identified in January-July, including 1,600 cases of abuse of office.<sup>535</sup>

This last charge that amounts to the criminalization of the state is not as surprising as it may seem, for Russian and foreign observers have long pointed to the integration of criminal elements with the energy, intelligence and defense industrial sectors of the economy and as instrument of Russian foreign policy in Eastern Europe.<sup>536</sup> Accordingly, summarizing a great

---

Russian, 19 June 1997, in *FBIS SOV*, 97-169, 18 June 1997; Sofia, *Novinar*, in Bulgarian, 10 April 1998, in *Foreign Broadcast Information Service, Eastern Europe* (hereafter *FBIS EEU*), 98-100, 13 April 1998.

<sup>534</sup> Author's conversations with European foreign ministry and intelligence officials, 2008

<sup>535</sup> "Courts Take unduly Soft Line Toward Police Violence-Media," *ITAR-TASS*, August 17, 2009

<sup>536</sup> Vitaly Shlykov, "The Economics of Defense in Russia and the Legacy of Structural Militarization," in Steven E. Miller and Dmitri Trenin Eds., *The Russian Military: Power and Purpose*, Cambridge, MA: MIT Press, 2004., pp. 160-182, p. 160; Vitaly Shlykov, "The Anti-Oligarchy Campaign and its Implications for Russia's Security," *European Security*, XVII, No. 2, 2004, pp. 11-128; Leonid Kosals, "Criminal Influence/Criminal Control Over the Russian Military-Industrial Complex in the Context of Global Security," *NATO Defense College Research Paper*, No. 1, March, 2004, pp. 6-8; "Moscow, *Ekho Moskvy in Russian*, June 4, 2004, *FBIS SOV*, June 4, 2004, *Moscow, ITAR-TASS*, April 14, 2005, *FBIS SOV April 14, 2005*; *Moscow Center TV* in Russian, September 30, 2003; *FBIS SOV*, October 1, 2003; *Moscow, Moskovskaya Pravda, in Russian, April 17, 2003, FBIS SOV*, April 17, 2003; *Moscow, "Interview With OAO Gipromez General director Vitaly Rogozhin, Rossiyskaya Gazeta*, in Russian, July 13, 2005, *FBIS SOV*, July 13, 2005; Janusz Bugajski, *Cold Peace: Russia's New Imperialism*, Washington, D.C. and Westport CT.: Praeger Publishers, 2005; Richard J. Krickus, "The Presidential Crisis in Lithuania: Its Roots and the Russian Factor," Remarks at the Woodrow Wilson Center, Washington, D.C., January 28, 2004, provided by the kind consent of Dr. Krickus; Richard Krickus, *Iron Troikas*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2006; Keith C. Smith, *Russian Energy Politics in the Baltics, Poland, and the Ukraine: A New Stealth Imperialism?*, Washington, D.C.: Center for Strategic and International Studies, 2004; Tor Bukevoll, "Putin's Strategic Partnership With the West: the Domestic Politics of Russian Foreign Policy," *Comparative Strategy* XXII, No. 3, 2003, pp. 231-233; Stefan Pavlov, "Bulgaria in a Vise," *The Bulletin of the Atomic Scientists*, January-February, 1998, p. 30, Robert D. Kaplan, "Hoods Against Democrats," *Atlantic Monthly*, December, 1998, pp. 32-36 As Foreign Minister Igor Ivanov said "Fuel and energy industries in the Balkans are totally dependent on Russia. They have no alternative." "Ivanov on Foreign Policy's Evolution, Goals," *Current Digest of the Post-Soviet Press (Henceforth CDPP)*, L, No. 43, November 25, 1998, p. 13, U.S.-Slovakia Action Commission: Security and Foreign

deal of evidence, Janusz Bugajski observes that such criminal penetration of Central and Eastern Europe, including the members of the CIS is a major security concern to those governments because these criminal networks both destabilize their host countries and render services to political interests in Moscow.

The Russian *Mafiya* greatly expanded its activities throughout the region during the 1990s and established regional networks in such illicit endeavors as drug smuggling, money laundering, international prostitution, and migrant trafficking. In some countries, Russian syndicates have been in competition with local gangs, while in others they have collaborated and complemented each other. Analysts in the region contended that Russian intelligence services coordinated several criminal groups abroad and directed a proportion of their resources to exert economic and political influence in parts of Eastern Europe.<sup>537</sup>

Bugajski's observations correspond to the findings of many other researchers and East European officials concerning the linkages among business, state, intelligence, and organized crime. Thus it has long been known that throughout Eastern Europe and the CIS that the Russian state, intelligence services, energy firms, and organized crime, all collaborate together on behalf of Russian interests. As the record shows they seek to gain access to legitimate business firms, control key sectors of the economy, media, subvert political parties and buy political influence and politicians throughout the region.<sup>538</sup>

This widespread criminality provides powerful disincentives to reforming the conditions that make soldiers the easy prey of veterans and officers. And the uprooting of such phenomena as Dedovshchina (hazing), enserfment of soldiers, theft, and violence against them by superior officers and veterans is essential to any successful defense reform, which, after all aims at creating a so-called professional army. Despite the reforms to date it is still clear that these phenomena remain and pose a serious problem within the armed forces. Indeed, the reforms

---

Policy Working Group: Center for Strategic and International Studies, and Slovak Foreign Policy Association, *Slovakia's Security and Foreign Policy Strategy*, 2001, Czech Security Information Service, *Annual Report 2000*,

<sup>537</sup> Janusz Bugajski, *Back to the Front: Russian Interests in the New Eastern Europe*, Donald Treadgold Papers, NO. 41, Seattle: University of Washington Press, 2004, p. 25

<sup>538</sup> Keith C. Smith, *Russian Energy Politics in the Baltics, Poland, and the Ukraine: A New Stealth Imperialism?*, Washington, D.C.: Center for Strategic and International Studies, 2004; Author's conversations with members of European foreign ministries and intelligence services, 2008; Anita Urban, *Power, Energy, and the New Russian Imperialism*, Washington, D.C.: Praeger, 2008; Edward Lucas, *The New Cold War: Putin's Russia and the Threat to the West*, London: Palgrave Macmillan, 2008; Robert Larsson, *Nord Stream, Sweden and Baltic Sea Security*, Stockholm Swedish Defense Research Agency, 2007; Robert Larsson, *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, Stockholm: Swedish Defense Research Agency, 2006; Janusz Bugajski *Cold Peace: Russia's New Imperialism*: Washington, D.C.: Center for Strategic and International Studies, Praeger, 2004, passim; Richard Krickus, *Iron Troikas*, Carlisle Barracks, PA: Strategic Studies Institute of the US Army War College, 2006; Valery Ratchev, "Bulgaria and the Future of European Security," Paper presented to the SSI-ROA Conference, "Eurasian Security in the Era of NATO Enlargement," Prague, 4-5 August 1997; Laszlo Valki, "Hungary and the Future of European Security," *Ibid.*; Stefan Pavlov, "Bulgaria in a Vise," *Bulletin of the Atomic Scientists*, January-February 1998, pp. 28-31; Moscow, *Izvestiya*, in Russian, 19 June 1997, in *FBIS SOV*, 97-169, 18 June 1997; Sofia, *Novinar*, in Bulgarian, 10 April 1998, in *Foreign Broadcast Information Service, Eastern Europe* (hereafter *FBIS EEU*), 98-100, 13 April 1998.

during the first six months of 2009 did not lead to a reduction in the incidence of crime or corruption within the armed forces, if anything these manifestations increased.<sup>539</sup>

This is not only a question of crime and corruption but of hazing, and violence, including torture against soldiers by officers, suicides, and other non-combat deaths.<sup>540</sup> And despite regime efforts hazing is still admitted to be rampant.<sup>541</sup> Military spokesmen suggest that this problem may continue because even as the officer corps is downgraded, those remaining are not trained or equipped to deal with a new army and others may resist losing their perquisites. Worse yet in 2009 figures suggest that not only is the Russian army drafting people with a criminal record for the first time in this decade, but that their number amounts to more than half of those drafted since autumn 2008.<sup>542</sup> While the government is now introducing chaplains for the armed forces to introduce some form of moral counseling and attempting other procedural reforms to stop this trend, if the new army remains a home for criminals and brutes that will defeat the entire purpose of the reform.

More grandly, this widespread brutality and corruption lead the military leadership, much of which directly benefits from this state of affairs, to resist reforms and create powerful obstacles to reforms that would lead to a genuinely modern, and truly professional army where soldiers have enforceable legal rights and recourse against accountable colleagues and officers rather than perpetuate the continuing treatment of enlisted men as serfs and “baptized property” (the term coined by the nineteenth century dissident (Alexander Herzen to describe serfs). Moscow’s earlier inability and refusal to reform its military, end conscription, and institute a genuinely professional military leads to an armed force composed of the uneducated, physically, morally, and mentally unfit, and widespread brutality and corruption which militates against an army that can, except for certain specialized forces, effectively use high-tech weaponry.

Certainly the pervasiveness of these pathologies precludes creation of a truly professional army in any sense of the word. This is not merely a question of men and women being paid well for their services to the state, nation, and military. It also is a question of inculcating in the armed forces the sense of professionalism, of belonging to a profession with a genuine ethic of patriotic service. This ethic, arguably is that of a profession not that of a bureaucracy although in Russia’s case while we have the pathologies of bureaucratic procedure and an immense state, we certainly do not even have a bureaucracy in the sense of a disinterested and nonpartisan corps of public servants. As a result the notion that commanding officers can lead the armed forces in such a way as to inculcate this professionalism and an ethic of it among the men under their command flies out the window. Instead we have an army like the one seen in Georgia and described above by Makarov.<sup>543</sup>

---

<sup>539</sup> Roger N. McDermott, “Crisis Looms In Russia’s Armed Forces,” *Asia Times*, September 4, 2009,

<sup>540</sup> *Ibid.*

<sup>541</sup> “Hazing in Russian Military Still Rampant – Chief Prosecutor,” *Interfax*, January, 11, 2011, <http://www.interfax.co.uk/russia-cis-general-news-bulletins-in-english/hazing-in-russian-military-still>

<sup>542</sup> McDermott, “Crisis Looms In Russia’s Armed Forces,”

<sup>543</sup> See Don M. Snider, Paul Oh and Kevin Toner, *The Army’s Professional Military Ethic in an Era of Persistent Conflict*, Carlisle Barracks, PA: Strategic Studies Institute, US Army War College, 2009, p. 2

Yet at the same time the reform has paradoxically given a new impetus to corruption and criminality within the armed forces that may help explain the rise of such incidents even as the reform is occurring. Marc Galeotti offers the following reasons for the new impetus towards corruption. The reform takes place in a context of constantly rising defense appropriations, including for 2010. Much of this will go to the reform, specifically raising salaries and professionalization, i.e. the “recruitment” of “professional” soldiers at higher rates of pay and improved conditions and housing. Already some officers receive bonuses that triple or quadruple their basic pay. Consequently officers are scrambling for bonuses and to avoid dismissal as the armed forces downsize.<sup>544</sup>

This has created massive opportunities for corruption. Senior officers and those within the personnel directorates can demand and expect substantial bribes for their recommendations. According to some Defense Ministry sources, the going rate can be the equivalent of a full year’s salary in return for guaranteeing continued employment on the higher pay scale. Furthermore, the Defense Ministry is gearing up for a massive campaign of refurbishing and replacing rundown barracks and other facilities. This opens up opportunities for a wide range of money-making ventures from selling off second-hand furniture and equipment (which is then logged as having been destroyed) to manipulating bidding by contractors to secure government contracts.<sup>545</sup>

And the continuing insurgencies in the North Caucasus contribute greatly to this state of affairs.

If crimes by officers throughout the country in general hold to their normal level, meaning that every fourth criminal is an officer, then, in the 42<sup>nd</sup> Motorized Rifle Division, which deployed to Chechnya, the situation is much worse, with more than half the crimes in the unit committed by the officer corps. The situation is also bad in the Airborne Troops, the Space Troops, the Air Force, the Volga-Urals Military District, North Caucasus Military District and the Moscow garrison. Almost a third of all crimes reported there last year, were committed by officers.<sup>546</sup>

Crime has not limited to lower and mid-level officers. The same source noted, “In 2004, only three generals were tried, but in 2008, 20 were.” The bottom line is that officer crimes are out of control. “The crime rates are the highest over the past ten years. Officers are responsible for more than 2,000 crimes with one-third of these linked to corruption.”<sup>547</sup> Beyond that the government admitted in 2010 that professionalization was a failure and a waste of money. The effort to create a professional soldiery and from it professional NCOs as in the West had failed and the Armed forces are therefore still relying upon conscription and trying to squeeze more blood from that stone by lengthening the conscription period and talking about drafting

---

<sup>544</sup> Marc Galeotti, “Have Russia’s Dirty Generals turned on Shamanov,?” *Radio Free Europe Radio Liberty*, September 29, 2009

<sup>545</sup> *Ibid.*

<sup>546</sup>. “Military Honor is Being Disbanded,” *Moskovskiy Komsomolets*, July 30, 2009, <http://www.mk.ru/>, also in WNC 8/1/09.

<sup>547</sup>. “Crime Rates in Army Highest Over Past Ten Years - Prosecutor,” *ITAR-TASS*, July 9, 2009, also in WNC, 7/10/09.

men who are 27-30.<sup>548</sup> Yet they are not lengthening the 12-month training period. Finally, all of the foregoing trends, added to the fact that so much of the draft age population is either unfit to service or escapes through corruption or other extra-legal means points to the likely fact that the regime is not able to make its goal of a million man army. Although official figures are not yet available, there is good reason to believe that the armed forces actually comprise about 850,000 people. The addition of the new 70,000 officers not only has the deleterious consequences cited above, it also heralds a reversion back to the previous status quo of an armed forces with too many officers and not enough NCOs or troops.

### **Conclusions-Conventional Forces, Manpower, Defense Reform**

The impact of all the foregoing trends discussed here suggests very strongly the following conclusions:

- A truly professional army composed of NCOs and of soldiers who can handle high-tech combined arms warfare is quite unlikely anytime soon except in some special niche units.
- Absent fundamental reform in the government, law, society, and army, e.g. abolition of conscription, giving soldiers legally enforceable rights, instilling a true sense of vocation, paying real wages and good conditions for families, not only is a professional army unlikely, but continued reliance on “baptized property” with few rights and therefore a heightened vulnerability to hazing, brutality, criminality, and corruption is all but inevitable.
- Similarly a dramatic change of the situation in regard to hazing and overall corruption and criminality in the Silovye Struktury (power structures) is also inconceivable in the short to medium term absent such fundamental changes
- Given the foregoing analysis the chances for a complete overhaul of the army to the goal of one that is 70 percent equipped with high-tech in 2020 is unlikely but even apart from the equipping of the force, it is unlikely that these armed forces or their officers will truly be able to optimize the potential inherent in these weapons or make full use of combined arms, let alone net centric operations. While partial success is likely; that is about the best that can be hoped for
- Given the widespread corruption of the state, backwardness and disorganization of the defense industry (which apparently still relies on mobilization reserves<sup>549</sup>) it is also quite unlikely that Russia can reach its production goals for either high-tech weaponry, or keep up with its likely competitors

---

<sup>548</sup> “Sharp Cut in Contract Soldiers Coming,” *Russian Defense Policy*, June 2, 2010, <http://russiandefpolicy.wordpress.com/2010/06/02/sharp-cut-in-contract-soldiers-coming/>

<sup>549</sup> Author’s conversations with Vitaly Shlykov, Washington, D.C., September 15, 2010)



- These trends point to a continuing reliance upon nuclear weapons for a broader range of missions than contemplated by the US, France, Great Britain, or possibly China and a corresponding inability to wage conventional operations beyond CIS borders.
- Absent major benevolent transformations in world politics or in domestic governance, the military burden on the economy will remain excessive relative to other countries, and excessive precisely because of its inefficiency, corruption and waste. Russia is likely to remain a country whose demands for security and claims to greatness outstrip the material basis for the society to sustain them, requiring the constant whipping up of an enemy image and a government with an inherently anti-democratic bias to sustain those claims.
- Consequently, absent major domestic or international transformation Russia will be a country with diminishing relative international military capability or standing yet one that is unable to fully utilize the talents and resources of its lands or people. It will likely continue to demand an international role beyond its capabilities and try to sustain it but increasingly be forced to yield to its rivals because it cannot, under its present dispensation, sustain either its government or the linked economy, not to mention its armed forces. Trotsky famously observed that, “The army is a copy of society and suffers from all its diseases, usually at a higher temperature.” Perhaps nowhere is that insight more valid than in Russia. The army reflects all the pathologies of its society and state and the cure for the pathologies of the former depends, not so much on its own actions but on the fundamental transformation and recovery of the latter.

### **Annex 1: the Zapad 2009 Exercise and Nuclear Weapons**

In Zapad-2009 Russian forces had to defend against a NATO attack on Kaliningrad from Poland and Lithuania. Meanwhile in the parallel operation Ladoga (split off to stay within CFE limits), NATO had begun a combined arms, air, land, and sea offensive in Northwestern Russia. As a result, in this scenario,

Our troops had to repel the aggression with forces of a group established on this axis, which include units of the Ground Troops, Air Force, Northern Fleet, VDV (Airborne Troops), and even Internal Troops (VVMVD), and MChs (Ministry of Affairs of Civil Defense, Emergency Situations, and Elimination of Natural Disasters). All were subordinate to [the] Leningrad Military District Commander, Lieutenant-General Nikolay Bogdanovskiy, who, at the same time, was commander of the Operational-Strategic Command (OSK), a structure that had appeared in the process of creating the “new look.”<sup>550</sup>

Lt. General Valery Yevnevich, Chief of Armed Forces Training, also observed that all the exercises carried out in 2009 in the West, South, and East were combined arms operations. In the Zapad-2009 exercise an “interbranch” and coalition group of forces (with Belarus) operated on a strategic axis under the unified direction of the operational-strategic district

---

<sup>550</sup> Olga Bozhyeva, “New War Festival,” Moscow, *Moskovskiy Komsomolets Online*, in Russian, October 8 2009, *FBIS SOV*, October 8, 2009

commander. Thus the exercise combined amphibious, air-sea, and airborne assault forces in naval ranges and Kaliningrad where an assault group of landing forces was formed. The ground and air forces rehearsed combined operations involving close-air support, attacking in an armored formation to operate on the flanks of the enemy with the conduct of ambush operations, a tactical air assault and enveloping detachments. Helicopters conducted remote mining operations to restrict enemy maneuver.<sup>551</sup> Thus the exercises featured the new tactical, operational, and strategic command and control formations established by Russia's current defense reforms. In all of Russia's six military districts an operational-strategic command, resembling what is described above, has been established by presidential order.

Furthermore the Ladoga and Zapad exercises comprise an effort to examine the contingency of two simultaneous strikes against northwestern Russia, running all the way up to the Barents Sea and the Northern Fleet, at the same time.<sup>552</sup> In addition, every district will get a brigade outfitted with the Iskander SRBM (280 miles) that comes as both cruise and ballistic missile and can have either a conventional or nuclear warhead.<sup>553</sup> Indeed, from Boldyrev's remarks here and as cited above we may discern that he, and presumably his colleagues, fully expect both sides to use nuclear weapons as strike weapons in combat operations. And so it was in Ladoga and Zapad 2009.

Typically in these exercises Russia is defending against aggression by NATO. But that defense is clearly not limited to Russia's boundaries and featured a rehearsal of a full range of conventional and nuclear theater conflicts. These two exercises emphasized rapidly maneuverable and high technology forces that could quickly get to the theater and then take the battle to the enemy. Russia duly moved by air and rail large numbers of troops to the theater. Naval forces sailed around Scandinavia into the Baltic Sea. The Russian forces then conducted amphibious landings on enemy territory with fire support by the Baltic and Northern Fleet, and airborne assault landings to encircle the enemy on Polish soil (in the exercises), having already used missile and artillery strikes with air support. They also proposed to rehearse Spetsnaz operations.<sup>554</sup>

However, by far the most alarming aspect of Zapad 2009 was that despite the efforts of the conventional forces to deny the enemy access and seize the territory of Lithuania is that the air force simulated the dropping of three nuclear weapons on Poland (it is not completely clear if they were TNW's or ICBMs). This occurred in conjunction with a major drill by

---

<sup>551</sup> Moscow, *Ministry of Defense of the Russian Federation*, in Russian, November 30, 2009, *FBIS SOV* December 8, 2009

<sup>552</sup> Olga Bozhyeva, "Interview With Ground Troops Commander Vladimir Boldyrev," *Moskovskiy Komsomolets Online*, in Russian, September 30, 2009, *FBIS SOV*, September 30, 2009

<sup>553</sup> Moscow, *Nezavisimoye Voyennoye Obozreniye*, in Russian, October 2, 2009, *FBIS SOV*, October 2, 2009; Moscow, *Interfax*, in English, September 29, 2009, *FBIS SOV*, September 29, 2009; OSC Feature, Moscow, *Rossiyskaya Gazeta*, November 24, 2009, *FBIS SOV*, November 24, 2009

<sup>554</sup> Jacob Kipp, "Ten Years of Anti-NATO Exercises by Russian and Belarusian Armed Forces," *Eurasia Daily Monitor*, September 29, 2009; Alexander Raybushev, "Aggressors Have Attacked Yantarnyy Kray," Moscow, *Nezavisimaya Gazeta* in Russian, September 9, 2009, *FBIS SOV*, September 9, 2009

Russian nuclear forces to rehearse their actions in a military conflict involving both conventional and nuclear weapons.<sup>555</sup>

Therefore these exercises demonstrate that Moscow is moving to create joint armed forces capable of waging the entire range of anti-access operations and of seizing the territory of one or more Baltic State and of launching nuclear strikes on NATO allies. Politically Moscow will use the threat of nuclear weapons and its energy and other political assets of influence to divide the alliance and inhibit members from allowing the stationing of all manner of bases on their soil (land, sea, air, and nuclear). Moscow will use mines, submarines, surface vessels, air, sea, and ground based artillery to close the Baltic to foreign vessels and its land, sea, and air, and air defense assets to reduce US and NATO aerospace superiority in the theater. Since Russian sources unanimously admit that despite their best efforts they cannot counter that allied air superiority and naval superiority they will not only resort to large-scale information warfare, but also to nuclear attacks, TNW on nearby allies like Poland and possibly ICBMs (either land-based or air-based) or SLBMs to redress the unfavorable conventional balance, strike at either European or the US homelands, or major battle targets (e.g. a Carrier battle group), and supposedly force a return to the negotiating table and the status quo ante.

As the Russian military commentator Petr Belov recently observed, this resort to nuclear weapons indicates that Russia can no longer guarantee a retaliatory response to aggression or defend against a conventional strike. Moreover, he believes that a fierce struggle that could culminate in a war can develop around attempts to seize Russia's natural resources (this by the way is enshrined as an official view in the 2009 national security strategy).<sup>556</sup> Therefore to prevent foreign precision-guided munitions from destroying Russia's C3 network the order may be given to launch these weapons either to preempt such attacks or in a preventive mode.<sup>557</sup>

These exercises, in particular the Ladoga and Zapad 2009 exercises, are also significant for other reason. These two exercises were part of a broader plan of exercises called Osen' (fall) which embraced the entire Western Front from the Arctic to the Black Sea. As such these two exercises were much larger than any previous exercises, extending a trend that had begun with earlier exercises, to the point where according to chief of Staff General Nikolai Makarov, they embraced 60,000 troops from all services.<sup>558</sup> As such they built upon the trend discerned already in the 2008 exercises, Stabilnost' (Stability) 2008. The 2009 exercises built upon Stabilnost' 2008 and earlier exercises that had clearly involved using nuclear weapons in a first-strike mode for in the period September 28-October 10, 2009 Russia's strategic missile (RVSN) forces conducted drills to launch massive nuclear strikes using the Topol-M and

---

<sup>555</sup> International Centre for Defence Studies, Estonia, "Words and Steel," *Postimees* [www.icds.ee](http://www.icds.ee), September 19, 2009, accessed, November 30, 2009

<sup>556</sup> Moscow, *Ekho Moskvyy Radio* in Russian, December 15, 2009, *FBIS SOV*, December 15, 2009; *Natsional'naya Strategiya Bezopasnosti Rossii, do 2020 Goda*, Moscow, Security Council of the Russian Federation, May 12, 2009, [www.scrf.gov.ru](http://www.scrf.gov.ru), *FBIS SOV*, May 15, 2009

<sup>557</sup> *FBIS SOV*, December 15, 2009

<sup>558</sup> "Russia Practices War in the West," *Eastweek*, Centre for Eastern Studies, Warsaw, [www.osw.waw.pl](http://www.osw.waw.pl), September 30, 2009; "Large Russian Military Exercise in Baltic Sea Area Involves Tens of Thousands of Troops," Helsinki, *Helsingin Sanomat International Edition*, August 20, 2009, [www.hs.fi/english](http://www.hs.fi/english)

Stiletto RS-18 ICBMs and apparently striking “army assets.”<sup>559</sup> It is noteworthy that this apparently represented a change from the 2004 exercises where the Russians used TNW in a first-strike mode because they could not otherwise stop a conventional offensive. In other words, now it is apparently equally as likely that they will use ICBMs against the US or Europe for those purposes rather than TNW.<sup>560</sup>

This 2008 exercise likewise was larger than anything preceding it and involved all the armed forces from Special Forces to nuclear forces in a series of operations designed to repulse enemy attacks that began as an air and sea operation and expanded to a nuclear exchange. The exercises of 2008 also involved combined Special Forces, ground, air, and air defense forces attempts to repulse enemy aerospace attacks, long-range tactical missile strikes.

Russian Defense Minister Anatoly Serdyukov, in an interview with Russian Defense Ministry newspaper *Krasnaya Zvezda* on February 22, 2008, outlined the scope of STABILNOST 2008. He said the exercise will "consists of a series of operational and command-staff exercises and training of various levels, which are united by a single concept of operations and are conducted over the course of two months in Russia's various regions." --- Rossiya TV channel's news program "Segodnya" on December 1, 2007, stated, "The Stability 2008 strategic command-post exercise will become the core event [of 200 large scale exercises]. The Army and Navy will spend two months practicing elimination of armed conflicts in different regions of Russia. The exercise will finish with a command-post drill in command and control over the entire Armed Forces, including the nuclear component." Russian First Deputy Defense Minister Col. Gen. Alexander Kolmakov was reported by Interfax of April 29, 2008, as stating "all the branches of the armed forces will be involved in it [STABILNOST 2008] The exercise will be held not only at the level of the armed forces, but also at the level of national military structures." Other news reports stated that Kolmakov said the exercise would include all parts of Russia. Serdyukov told Interfax that STABILNOST 2008 would be "focusing on stamping out armed conflicts 'along the perimeter' of Russian borders." Serdyukov also spoke of Stabilnost' 2008 taking place in the "world ocean" and involving the Russian Black Sea, Baltic, Northern, and Pacific Fleets. Stabilnost' 2008 may well have included direct strikes against the continental United States, especially as it was at this time that Moscow was discussing bases in Latin America with Cuba and Venezuela.<sup>561</sup>

On August 22, 2008, Interfax-AVN provided some additional details about Stabilnost' 2008. Between September 8 and 15, 2008, the 15th Motor-Rifle (peacekeeping) Brigade stationed in Samara will begin training at the Safakulevo test range in Kurgan Region. The exercise will be under the command of Major General Oleg Torgashev, commander of the combat training directorate of the Volga-Urals Military District (VUMD). The 2,000-member brigade has responsibility for "keeping or restoring international peace and security." It is the brigade's first exercise. Other Russian peacekeeping units are already stationed in South Ossetia,

---

<sup>559</sup> Moscow, *Interfax-AVN*, in English, October 12, 2009, *FBIS SOV*, October 12, 2009

<sup>560</sup> Viktor Myasnikov, Vladimir Ivanov, Anton Khodasevich, "Lukashenka Presses Nuclear Button," Moscow, *Nezavisimaya Gazeta*, in Russian, June 26, 2006, *FBIS SOV*, June 26, 2006

<sup>561</sup> Stephen Blank, *Russia in Latin America, Geopolitical Games in the US' Neighborhood*, Institute Francais Des Relations Internationales, IFRI, Russie.NEI, Visions, No. 38, 2009, [www.ifri.org](http://www.ifri.org)

Abkhazia, and Transdniester. Other mountain motorized-rifle brigades will participate in the Stabilnost exercise in the republics of Dagestan, north of Azerbaijan, --- and Karachay-Cherkessia, in the northern Caucasus. Stabilnost also includes Long Range Aviation flights, components of the strategic nuclear forces that fly patrols over the Pacific and Atlantic Oceans and North Pole, as well as air defense (PVO) forces. Russian long-range cruise missile planes, the Tu-160 Blackjack and Tu-95MS Bear, have also received permission to use air bases in Cuba, Vietnam, and Cape Verde. There are also indications that Stabilnost will include a "strategic front exercise" that will include 32,000 reservists called to active duty. Other countries, part of Commonwealth of Independent States' Joint Air Defense System, also will participate in Stabilnost 2008, including surface-to-air missile troops, and troops in the Urals and Volga federal districts.<sup>562</sup>

Thus the nuclear thrust of the 2009 exercises as well as their large scale and scope, and the striving towards joint forces, mobile forces, and use of high-tech PGMs is not a new departure by any means. And Stabilnost' 2008 suggests a possibility of globalizing a conflict involving the US. Instead the Russian military is developing a more or less consistent operational concept along with a coherent concept of modern war. Certainly there is a clear concept of the enemy in the West, i.e. the US and NATO. In the West, according to the Chief of Staff of the Ground Forces, Lt. General Sergei Skokov, Russia faces an enemy whose reconnaissance and intelligence assets and weapons permit him to establish a single information area and see Russia's vital installations in the theater. Second, he may decide to destroy those assets using all the means at his disposal missile, air strike, or air and land mobile operations (these missile strikes can also come from the sea and there could also be amphibious landings of course). The adversary will not attack head on but try to bypass Russian strong points and assets as in Iraq in 2003. Precisely because Russia cannot and indeed should not mount a stationary defense it must have "mobile, self-sufficient troop groupings capable of repulsing possible aggression from a potential adversary in any strategic sector." Troops cannot form an unbroken line but be highly mobile and have integrated high-tech capabilities at their disposal.<sup>563</sup> But from the foregoing assessment it is also clear that nuclear forces must be invoked early in the conflict to prevent the destruction of Russia's strategic installations and systems by purely conventional means.

Furthermore, Skokov's and the official rationale for these exercises that they, along with all the other exercises conducted in June-September, 2009 aimed to train the new C2 structures and troops in those structures is insufficient. Similarly the use of the S-400 has other significant meanings for us. It is the newest and most capable of Russia's air defense SAM systems with an alleged range of up to 400Km, twice that of the analogous US PAC-3 system. The relocation of these systems to Belarus from Moscow demonstrates Moscow's intention of repulsing any air attack through Belarus and the Baltic that adjoins it by creating (much as the

---

<sup>562</sup> Wayne Madsen, "Impending Military Confrontation With Russia,?" *Wayne Madsen Report*, September 8, 2008, <http://www.thetruthseeker.co.uk/print.asp?ID=9307>; Pavel Felgenhauer, "Medvedev's Plans For Military Rearmament," *Eurasia Daily Monitor*, October 3, 2008

<sup>563</sup> Viktor Litovkin, "Thunder of Fiore, Flash of Steel: Russian Army's Operational-Strategic Exercises Have Revealed Not Only Reform Successes But Also Unresolved Problems," Moscow, *Nezavisimoye Voyennoye Obozreniye*, in Russian, October 2, 2009, *FBIS SOV*, October 2, 2009; Roger McDermott, "Zapad 2009 Rehearses Countering a NATO Attack on Belarus," *Eurasia Daily Monitor*, September 30, 2009

Egyptians did in 1973 in the Yom Kippur War) and air defense umbrella, a no fly zone, over the Baltic that applies to NATO. This clearly signifies not just a defensive posture, but also a rehearsal for offensive operations.

Other signs of this offensive potential lie in the fact that it is a long-standing Russian tactic to use exercises to camouflage an offensive leading the enemy to think he faces nothing more than another exercise of no particular importance. This was the tactic Egypt employed in 1973 to degrade Israel's capability for early warning and reaction to its offensive preparations for the Yom Kippur War. In the 1970s and 1980s Marshal Ogarkov steadily worked on a plan (probably reaching its apogee in the Zapad-81 exercises) to conduct an integrated land and air battle over the European landmass from the Baltic to the Black Sea. This offensive would begin under cover of exercises in East Germany and Czechoslovakia to suppress NATO's air power, induce it to delay nuclear use and conduct vast encirclement operations using innovative concepts like the Operational Maneuver Group (OMG) and deep fires throughout the depth of enemy positions. It is unclear if these involved nuclear first use, but they certainly aimed to deprive NATO of the means of exercising its nuclear option. Based on this tradition and these precedents it would not be surprising if the Zapad-2009 exercises and the larger exercises of which it constitutes a part represented an offensive design in the form of an avowed defensive posture. As an Estonian analysis observes,<sup>564</sup>

To put it diplomatically, the Zapad scenario is hypothetical. The official scenario of the Zapad exercise envisages a liquidation operation of terrorist groups that have infiltrated into Belarus and the eastern part of the Kaliningrad Oblast from the territory of Lithuania. The scope of the exercises, the weaponry used, the troops involved, and the scenarios rehearsed all indicate unequivocally that Russia is actually rehearsing a full-scale conventional [and nuclear-author] strategic military operation against a conventional opponent. A look at the map makes it clear that there are no other conventional forces in the region than those of NATO member states. In addition, it is also clear that NATO has not planned in the past and will not plan in the future a preventive war against Russia, in case of which it would be necessary to launch a military operation that would serve only 'defense purposes'.<sup>565</sup>

This analysis goes on to note that the operations involved in these exercises would aim to cut Lithuania off from the other Baltic States and catch it and the other Baltic States in a pocket. In any advance on the Baltic States not only would forces operate out of Belarus and the Leningrad Military District, but the nuclear Northern Fleet could also be activated to deter any European or US counteraction. Further proof of this assessment lies in the concurrent use of Russia's nuclear forces, the Strategic Rocket Forces in those exercises and their concurrent drill with these exercises.<sup>566</sup> Indeed, these exercises only strengthened Medvedev's conviction that full-scale nuclear war could erupt out of a local war, as suggested in *Stabilnost'* 2008 and his insistence that Russia must develop forces that can attain air

---

<sup>564</sup> Gordon Barrass, "The Renaissance in American Strategy and the Ending of the Great Cold War," *Military Review*, January-February, 2010, pp. 104-105

<sup>565</sup> "Words and Steel"

<sup>566</sup> *Ibid*

superiority in conducting precision strikes on land and sea targets, and in troop mobility, as well as a continuing complete overhaul and renovation of Russian armed forces.<sup>567</sup>

## **Annex 2: Vostok 2010**

Vostok-2010 represented an effort to confront at least some of these strategic dilemmas within the context of the ongoing defense reforms. Obviously it represented an effort to test the viability of the new reforms regarding the armed forces' C3 and structure in a particularly austere theater. Beyond that Lt. General Vladimir Chirkin, Commander of the Joint Strategic Command of the Central Military district observed that the exercise "Rehearsed a transition from peacetime to wartime and planned the employment of subordinate forces during command and staff mobilization trainings prior to the exercise." Second the new C2 system is being created so that in the contemporary strategic environment Russia can defend itself independently.<sup>568</sup> It also rehearsed the operation to airlift forces from the interior to the RFE in the event of an attack. Beyond that the exercise involved air, air defense, land and sea forces operating simultaneously if not jointly. In fact, it comprised the entire defense and security structure: air, ground and naval forces of the Russian Ministry of Defense but also included forces of the Internal Troops of the MVD, Federal Security Service (FSB), Border Guards, Ministry of Extraordinary Situations, Federal Security Service (FSO), and Federal Service for Execution of Punishments (FSIN).<sup>569</sup> It involved an operation to defend against a terrorist landing by illegal armed formations to separate part of the territory of the RFE from the state (i.e. the terrorist aspect was a cover or codeword for what Russia fears China may be up to). At the same time the exercise suggests what Moscow expects, at least in this theater, in the nature of a potential future war or contingency whether it involve a Korean, US/Japan, or China scenario.

Vostok- 2010 did not pit two opposing armies in linear combat. Instead, it involved isolated combat and non-combat episodes testing various forces. Fighter aviation conducted long-range deployments from European Russia to the Far East employing in-air refueling from tanker aircraft. Air defense forces launched SAM strikes against "enemy bombers seeking to attack Khabarovsk. Special Forces cooperated with the camp guards to prevent the release of a special prisoner from a labor camp near Chita. Combined naval forces, including ships from the Pacific, Northern, and Black Sea Fleets, engaged enemy surface and subsurface forces at sea and conducted air assault and amphibious landings. Other troops beat back an enemy landing on one of the Kuril Islands. Motorized rifle and tank brigades in the Siberian Military District engaged separatists seeking to cut off the Russian Far East and defeated the enemy by combined arms maneuver through the depths of the enemy, culminating in forcing the Onon River and imposing upon the enemy retreat and the assumption of a tactical defense. In Primorye, Russian forces simulated the flight of refugees from North Korea.<sup>570</sup>

---

<sup>567</sup> Felgenhauer, "Medvedev's Plans For Military Rearmament,"

<sup>568</sup> "Interview with Lt. General Vladimir Chirkin," Moscow, *Krasnaya Zvezda Online*, in Russian, August 11, 2010, *FBIS SOV* August 16, 2010

<sup>569</sup> "V Rossii Nachinaiutsia Masshtabnye Ucheniia 'Vostok-2010'," *RBC.ru* (29 June 2010), cited in Kipp, "Russia's Nuclear Posture and the Threat That Dare not Speak Its Name,"

<sup>570</sup> *Ibid.* (Kipp)

But while the RVSN did not directly participate, the exercise clearly envisioned that the new look forces could not sustain the defense against the enemy and the exercise concluded, as could be expected, with simulated TNW strikes against China.<sup>571</sup> This suggests that the Russian leadership understands that no matter how well the troops performed here (and in fact we do not know to what degree this exercise validated the new reforms as of this writing), major new reforms must be undertaken. Thus Moscow is now building three combined arms armies in Maikop in the North Caucasus to meet the terrorist threat, St. Petersburg, to meet the Baltic threat and Chita to meet the Asian threats. Forces will also build up on the borders with China and Mongolia, specifically a new Spetsnaz brigade, and two motorized brigades as well as suitable C2 structures for the transition from six to four district armies.<sup>572</sup> Undoubtedly there will be further military reforms as well. Meanwhile politically too Moscow is active as it now calls upon other nuclear powers, including China, to participate in any future nuclear negotiations regarding arms cuts.<sup>573</sup>

However, Russia still has no answer to the conventional superiority of its “conglomerate” of potential enemies in the RFE or APR other than nuclear weapons. In the US and Japanese case ICBMs and SLBMs or air-launched weapons are the answer. But against China while these could be invoked, TNW has a particularly vital place given the possibility of major ground operations. In the context of Asia’s transforming strategic environment and its own backwardness there Russia’s TNW and other strategic systems now assume a much greater importance that can only complicate the Administration’s endeavor to move to global zero. As Kipp writes,

These developments may fundamentally shift the geo-strategic context of President Obama's global zero initiative on nuclear weapons. For the last two decades, Russia's nuclear arsenal in Asia was first seen internationally as a problem of management and control as it declined in size and operational readiness. Operationally, even in its reduced capacity, it was for Russia the only military option open in case of attack in a region effectively denuded of conventional military power. China's relative military inferiority made that prospect remote. Both Moscow and Beijing could look to strategic partnership without the prospect of an emerging military threat. Chinese military modernization has in the last year changed that perception in Moscow. Now, with the emergence of a potential conventional threat from its former strategic partner, Russia is in the process of evaluating whether its reformed conventional forces might achieve a viable deterrence in case of attack from a modernized Chinese military. In the absence of such a capability, Russia will be forced to gamble even more on theater nuclear forces and be even less willing to consider reductions in its non-strategic nuclear forces. In the context of an increasing military confrontation on the Korean peninsula and periodic tensions between Washington and Beijing over Taiwan, Russia's new posture adds one further

---

<sup>571</sup> *Ibid.*

<sup>572</sup> Moscow, *Interfax-AVN Online*, in English, August 24, 2010, *FBIS SOV*, August 24, 2010; Yury Gavrilov, “East to Be Covered From West. Armed Forces to Get Three New Armies,” Moscow, *Rossiyskaya Gazeta*, in Russian, August 24, 2010, *FBIS SOV*, August 25, 2010; Vladimir Mukhin, “Moscow Nonmilitary District. Armed Forces Reform Prepares New Tests for Cadre Servicemen and their Families,” Moscow, *Nezavisimoye Voyennoye Obozreniye*, in Russian, August 25, 2010, *FBIS SOV*, August 25, 2010

<sup>573</sup> “Russia Demands Broader Participation in Future Nuclear Cuts,” *Global Security Newswire*, [www.nti.org](http://www.nti.org), August 3, 2010



complication to Eurasian security for all parties and makes Asian nuclear force reductions an even more complex problem for Washington to manage.<sup>574</sup>

---

<sup>574</sup> Kipp, "Russia's Nuclear Posture and the Threat That Dare not Speak Its Name,"

## APPENDIX: ADDITIONAL INSIGHTS

**Daniel Treisman, “Russian Politics in a Time of Economic Turmoil,”** *Eurasian Geography and Economics*, (2010), (pP. 39-57),  
([http://www.piie.com/publications/chapters\\_preview/4976/02iie4976.pdf](http://www.piie.com/publications/chapters_preview/4976/02iie4976.pdf))

Most scholars focus on the political influence of leaders or the processes of formal institutions of a country to explain its political choices. Daniel Treisman, however, claims that the key to Russian politics in the last 20 years has been public opinion, driven by economic forces. These forces shape public opinion, which in turn influence the running of institutions and whether leaders have the chance to implement their political will. He makes five claims in support of his argument. The first is that the economic downturn in 1990 and recovery 8 years later were the result of policies implemented by former leaders and inherited by those in power at the time. The second is that economic fluctuations influenced public opinion, puncturing Yeltsin’s popularity in 1990 and supporting his successor Putin, in 1998. The third is that changes in a president’s popularity directly impact his ability to set and pursue a policy agenda. The fourth is that Russia’s formal political institutions do not explain the fluidity of Russia’s presidents’ ability to enact and implement policy. The fifth is that Russian presidents over the course of the two decades in question were only able to effectively maneuver political capital when in the public’s favor. He then addresses three potential scenarios that may result from the 2008-2010 economic crisis which has significantly altered public opinion and is thus likely to bring political change.

Treisman outlines the economic crisis and recovery period to substantiate his claims. Addressing the first claim, Treisman says that Yeltsin in the 1990s and Putin in the 2000s influenced the depth and duration of recession and growth respectively, but neither was responsible for bringing about the economic phenomena. Treisman reflects that the same economic dip and rise occurred in all post-communist countries, not just Russia. In Yeltsin’s case, the economic inefficiencies of communism, depleted capital stock, and the disruption of supply and demand that accompanied the rocky transition to capitalism in place before his time led to the economic downturn. Putin had the good fortune of being in power when commodity prices rose, raising Russian GDP with it.

Addressing the second claim, Treisman maps the fluctuations in public opinion polls tracked by an independent Russian polling group (VCIOM, renamed the Levada Center) to the alterations of public perception of the state of the Russian economy by the same group (see figure 2.2). While Treisman concedes that political factors like the Chechen Wars and government manipulation of media during presidential elections had some influence, he maintains that the perceptions of economic health had a large, consistent influence.

Addressing the third claim, Treisman notes that presidential popularity impacted the ability of both Yeltsin and Putin to achieve their political goals. The first barrier he recognizes is parliament, in which neither president’s party held a majority but in which Yeltsin’s slowly lost seats as his popularity declined and Putin’s party gained as his popularity increased. Even in between election periods Treisman notes that factions grew and dwindled as deputies and independents changed sides, and that even in the early years for Putin and late years for

Yeltsin when neither had many formal political allies when presidential popularity was high he was able to achieve reform with minimal effort. For example, when Yeltsin's popularity was at an all-time high he was able to convince parliament to implement his ambitious economic reforms, however when his ratings fell he had to fight impeachment in 1992, 1993, 1995, and again in 1998. The second barrier Treisman recognizes lie in the regional capitals where regional politicians resisted remitting tax revenues and following other national policies according to how popular the national government was. Treisman gives an example of when Yeltsin's popularity was particularly low in some regions, it was the governors of these areas that opposed the dissolution of the Supreme Soviet in September 1993. In contrast, Putin effectively diminished governors' autonomy, removing popular election and reducing their budgets by over 50%, all without protest.

Addressing the fourth claim, Treisman alleges that the institutional reform that occurred prior to both Yeltsin and Putin's presidency was only effectively utilized by Putin due to his popularity. He gives the adoption of the new constitution in 1993 and the altercation of the selection of regional governors as examples to demonstrate that Yeltsin's disfavor led to blockage in the Duma that Putin did not face with the same institutional reforms. Treisman concludes that "the major recentralization of authority and reassertion of presidential power occurred between 1998 and 2002 with almost no significant simultaneous change in political institutions."

Addressing the fifth claim, Treisman argues that the linkage between presidential policy effectiveness and approval ratings is stronger in Russia than in the United States. Yeltsin's initial push for and then slowdown of economic reform were in line with public opinion and many of Putin's campaigns were aimed at increasing his favor with Russian citizens. More recently, Treisman cites Putin's level of friendliness towards the U.S. as mirroring Russian citizen's good feelings after 9/11 and his iciness as a reflection of the fall in Russian civilians' approval of U.S. policies.

Treisman then chronicles the deterioration of the Russian economy during the 2008-2010 financial crisis as mirrored by the fall in the Russian public's optimism over the state of the Russian economy, as well as casting predictions for the future political prowess of Medvedev and Putin. Based on past experience that proves the synchronized fluctuation in approval ratings of Medvedev and Putin and the impact of economic the downturn, Treisman suggests that the slight decline and pause in approval ratings might resume. Continued decline could tip the two politicians approval ratings into dangerous territory and lead to resistance from judges or an independent institutions like the Public Chamber that would worsen the economic condition and predictably the approval ratings of incumbents. However, Triesman sees the two leaders as tied together for the foreseeable future, at least in the eyes of the public. Citing signs of dissent from outspoken governors in early 2009, Treisman notes that the Kremlin has been very in tune to the potential for an uprising.

In conclusion, Treisman notes that the strong linkage between government ratings and Russia's economic status proves a greater government accountability than might be expected of the Kremlin, but that because the health of the economy is largely a function of foreign oil prices rather than incumbent policy, politicians may not be treated correctly. Though this is

not exceptional, Treisman claims that the pressure on oil output in Russia will necessitate reform uninhibited by the corruption that has faced Medvedev thus far.

Treisman predicts one of three scenarios for Russia. The first is that high oil prices will remove current urgency for reform and have continued high approval ratings. If prices remain at their current level, lower improvement ratings would eventually occur as growth slowed, though this scenario does not predict enough public discontent for rapid reform. The third is that plunging oil prices create a recession that will provoke serious opposition and challenge the regime, which Medvedev and Putin have no experience dealing with.

**Keith Crane and Artur Usanov, “Role of High-Technology Industries,” *Eurasian Geography and Economics*, (2010), (p. 95-123),**  
([http://www.piie.com/publications/chapters\\_preview/4976/05iie4976.pdf](http://www.piie.com/publications/chapters_preview/4976/05iie4976.pdf))

Russia, like every other nation, views high-technology as an economically desirable driver of future growth. Crane and Usanov assess the likelihood of high-technology development by discussing the health of these industries throughout Russia’s history and then examining the attributes and growth potential of five high-tech industries with significant sales both in Russia and the rest of the world: software, nanotechnology, nuclear, aerospace, and armaments. They then conclude with an overall assessment of the likelihood of success in each industry and of this strategy for the Russian economy as a whole.

Crane and Usanov describe Russia’s high-tech heritage as substantial, as evidenced by the many sophisticated achievements under the USSR, especially in military-related high-tech: advanced human capital, a large network of research labs and institutes, and high-tech capital. Post-USSR, the Russian government was much less concerned with maintaining Russia’s high-tech reputation and production capacity as every industry with the exception of software took a heavy hit (for example aerospace and armaments both fell by close to 80% in the 1990s). Instead Russia’s growth—like many transitioning economies—was driven by shifting ownership of assets and the vast increase in labor productivity, especially in previously low-performing industries. In figure 5.1 Crane and Usanov show that, while revenue from oil and gas did play a role in attracting financial flows which enriched other sectors, fossil fuel exports did not drive growth during this period. The Soviet industrial base has been taken over by Russia, while Soviet-era educational institutions provide the human capital for the high-tech industry, though the number, quality, and employment of its R&D institutes has fallen precipitously. R&D expenditures also shrank during this period, and continues to be funded predominantly by the public sector (unusual for OECD countries). A new avenue for growth that Crane and Usanov point to is foreign support through “subcontracting, joint ventures, wholly owned research laboratories, or funding research by independent laboratories of research institutions.”

Of the nine main product groups specified by the Standard International Trade Classification, adopted by the OECD, and noted by Moscow in “The Concept for Long-Term Social and Economic Development of the Russian Federation until 2020,” five are internationally competitive in Russia: software for office and computer, specialty materials like nanotechnologies, nuclear technology (not in the electrical machinery sector), aerospace, and armaments. Crane and Usanov exclude shipbuilding and radioelectronics which are part of Moscow’s report, but which they do not deem up to standard for international trade.

Beginning with software and IT services, Crane and Usanov characterize Russia’s industries as a success, with double-digit revenue growth since the 1990s, and also receiving sales from foreign firms. While both industries are still young—most of them start-ups by former public-sector research institute employees—these sectors benefit from their relatively small size and the lack of legal barriers or bureaucratic red tape. A 1999 study showed software to have the highest productivity rate of any of the ten sectors studied—38% of U.S. level. Russia’s rapid growth (1999-2008), followed by a dip during the economic crisis) fueled growth in the

software and IT markets as demand from individuals, firms, and the government increased. The stricter enforcement of anti-piracy and intellectual property rights also promoted growth in these high-tech sectors. The best indicator of the success in software and IT services is the rapid expansion of exports post-dotcom bubble. While low labor costs were the initial reason for offshore production by foreign firms, India has cornered the IT-BPO market. Yet Crane and Usanov express confidence that Russia will expand its presence in packaged software and in the higher-end off-shore development market. Russoft (Russia's software developer's association) divides software exports into three categories: captive software development centers, packaged software, and offshore programming. According to figure 5.5, in 2008 these sectors were worth \$400 million, \$800 million, and \$1,450 million respectively.

Crane and Usanov say that further expansion of the industries will require Russia to make its markets friendlier to foreign firms, especially offshore software companies competing on the global market. Corruption and unfriendly business regulation retard growth, while lax tax auditing leads to insufficient staffing and loyalty (as it incentivizes the use of independent contractors), which are necessary to complete large projects. However they claim that the real problem is the bribery and intimidation tactics used by government officials and police which place a premium on moving operations outside of Russia for those who can do so. For other entrepreneurs it makes both entry and continuing to conduct business a difficult and costly endeavor.

Moving on to nanotechnology, Crane and Usanov note that Moscow has made nanotechnology a state priority and it receives the most attention and funding of any high-tech sector, and falls just behind the U.S. and Japan in terms of public expenditures. However the economic crisis proved a large setback for the industry. Crane and Usanov conceive of it as an ideal expose on the strengths and weaknesses of Russia's R&D methodology. Russia is extremely innovative in terms of publishing on theoretical nanotechnology—coming 6th in terms of articles published—but performs substantially less well when it comes to commercializing their conceptions, with a ranking of 16th in the world for patented nanotechnology. The primary public nanotechnology firm is Rusnano, while the private giants in the industry are NT-MDT (characterized as the most successful Russian firm in the nanotechnology market and very active in international markets) and Optogan.

The civilian nuclear industry in Russia is wide-ranging, with a foothold on the entire nuclear fuel cycle as well as power plant design and construction and supply of equipment for the power sector. State-owned Rosatom controls both the civilian and military nuclear programs, though most of the civilian nuclear business is conducted by its joint-stock subsidiary, Atomenergoprom. Atomenergoprom is vertically integrated and one of the world's largest nuclear companies: it leads in power plant exports and second in electricity generation and uranium reserves. Overall it has an incredibly strong competitive edge in the nuclear fuel cycle, particularly in uranium conversion and enrichment with the lowest cost of enrichment in the world due to its choice of enrichment technology and large returns on economies of scale, which increases the price of the fuel they are selling 30-50%. This competitive edge is in part due to R&D and investment in the 1990s. As the lowest-cost producer, Russia has also been able to corner the service and radioisotope industry through a subsidiary of Atomenergoprom, Tenex, who takes care of a third of Europe's reactor fuel needs. Exports to

the United States are confined to the Megawatts to Megatons program, as protective measures insulate the American market for domestic producers. A jointly-owned fuel bank is also in the works, which would increase demand for Russia's enrichment services. While USEC and Areva (Rosatom's two biggest rivals) are in the process of modernizing their facilities, it is only the emergence of new technologies that might threaten Russia's competitive edge. Russia is also the only nation with a commercially operating fast reactor—a larger one is supposed to come online in 2010—which runs on thorium rather than uranium (of which people are worried has scarcity issues). Two signs of the success of Russia's performance on this measure of high-tech capability are that Russia plans to export two such reactors to China, and Siemens has chosen to break its alliance with Areva and ally itself with Rosatom. Cooperation projects between the U.S. and Russia are stalled because Congress has yet to ratify the US-Russia 123 Agreement, signed on May 6, 2008. Until recently the market for nuclear technology was depressed and Russia only with states that lent support to Russian power plants for political reasons (China, India, and Iran), but the market has picked up and other countries and companies have expressed interest. The nuclear sector is one of the few in which Russia can compete with the developed world due to strong R&D, steady government funding for R&D and domestic nuclear projects, and effective political support for Russian nuclear industry projects abroad.

Russia's aerospace industry includes rockets, satellites, and civilian aircraft, though rockets are the most competitive of the bunch with the best record among major launchers and its U.S. rival set to be retired in the next decade. In contrast to many of Russia's other successful high-tech sectors, aerospace has received little funding from the Russian government and has had to rely principally on commercial contracts and collaborative activities since the USSR collapsed. The space industry as a whole is principally government-owned by the RKA, though Khrunichev and Ts-SKB-Progress both manufacture rockets and NPO Energia has a controlling stake in the industry. The Russian commercial aircraft industry's story has not been of comparable success internationally as western models have superior avionics, controls, and more amenities. Civilian manufacturers cannot even sell to domestic airlines and their primary source of income comes from Russian military orders. Russia has tried in various ways to rejuvenate its commercial airlines business—unsuccessfully by creating a conglomerate of smaller companies called the UAC and more successfully by partnering with foreign firms like Finmeccanica and SNECMA in design and marketing. Greater success has been had in the international provision of design services and components to Boeing, United Technologies' Pratt and Whitney division, and EADS.

Russia's defense industry is on the upswing after a difficult two decades following the collapse of the USSR in which government support was cut over 80% initially, employment and output both fell substantially, and demand was drastically reduced. The industry was partially privatized in the 1990s, and now two-fifths of the industry have 25% government ownership and is largely involved in consortiums to whom their sales are guaranteed. Thus industry output figures under-estimate armament outputs, though the industry as a whole remains small both in number of enterprises (1,500 approximately) and sales (the largest Russian firm, Almaz-Antei, fell at 16th on a list of world defense suppliers). Under Putin and then Medvedev the Russian government has tried to consolidate the defense industry initially under Rosobornexport (a state arms export company), and most recently in Russian

Technologies, which carries out almost a quarter of all sales in the defense sector. While this recombination may have been necessary, apparently the lack of competition has led to rising prices as the procurement budget increases. Export orders have been essential for Russian armament firms, as every year beginning in 1998 export sales exceeded domestic orders, largely due to interest from India and China. India in particular has been one of Russia's most loyal customers since 1953, and with the signing of the 1993 Treaty of Friendship and Cooperation India has imported a wide variety of high quality military equipment such as assault hardware, infantry vehicles, MLRS, and long-range howitzers. Joint-product ventures have also been profitable for Russia, particularly in aviation equipment. China has purchased over \$15 billion in Russian equipment since 1999 including multirole fighters and transport planes for their air force, in addition to anti-ship missiles, destroyers and submarines for their navy. Russia has been unwilling to sell land assault hardware to China, though for the most part the rest of the purchases include access to associated military technology which have helped to establish China's domestic defense industry. As China seeks to develop its indigenous capabilities and India cozies up to the U.S., the Russian arms industry is shifting its focus back towards domestic markets, and has successfully reached out to Venezuela with arms sales of fighters and assault rifles and joint technology production schemes for assault rifles. Russia continues to sell to various countries in the Middle East including surface-to-air missiles to Iran and other arms to Syria, Yemen and the UAE, as well as Algeria and Indonesia.

Crane claims that as Russia enters 2011 after the recession, its growth-driving industries will switch from wholesale and construction to manufacturing as the exchange rate of the ruble falls against other major currencies and oil/gas output show few signs of recovery. While Russia has a mixed inheritance of high-tech infrastructure from the USSR, Crane claims that attempts to encourage growth through the strategic consolidation of industries into state-run enterprises (especially in aerospace, nuclear, and armaments) have not achieved the desired results. Russian policy makers see competition as inefficient rather than the driver of innovation as it is commonly seen in the U.S. While Russia has made a greater effort to support various high-tech industries through budgetary increases and firms like the Russian Venture Company to encourage private investment, Crane comments that the hope that high-tech growth will carry the Russian economy are likely misplaced. He looks at the realistic contributions of each of the five industries to Russia's future economic growth.

In the software and IT services industry, Crane finds a number of lessons on success from the fastest growing of the high-tech industries examined: integration into the world economy, large amounts of inward and outward foreign investment, no government protection when competing with foreign firms, and has little government regulation or involvement. High salaries and a good reputation for innovation, quality among foreign buyers, and the ability to maintain IPR suggests that software and IT will do very well in the future with the only potential harm coming from corruption.

The nanotechnology industry is difficult to define, and therefore future trends are difficult to predict, though Crane comments that it is unlikely that a large boost to Russia's economy will come from nanotechnology though the niche firms are doing well.



The nuclear industry has the potential to experience great growth in uranium enrichment given low costs, growing demand, and superior centrifuge technology. However it is likely to have a difficult time in power plant sales as countries opt for more dependable and safe models, but has a chance to take a portion of the market in developing countries especially if collaboration occurs with Western manufacturers.

The aerospace industry shows little potential for growth, though it is likely to maintain its niche in the rocket sector as well as with periodic launcher and rocket sales to the U.S. In terms of commercial aviation, Crane maintains that Russia will only be successful in joint ventures as its history shows, because corruption and security concerns inhibit greenfield investment and acquisitions when Russia tries to go it alone.

In the armaments industry, Crane reports a mix of good and bad. On the good side, orders are full and industry sales ran at \$10 billion in 2007. However there are several major obstacles that will impede future growth that are technological, financial, and management-related. Russian firms are small and face the competitive pressure to cut their costs without having the funds to keep up with Western firm's R&D and have relied on the same technology since the collapse of the USSR. Crane reports in 2008 that about a third of the Russian firms are at serious risk of bankruptcy, and that the capital stock and workforce have both aged (70% capital is fully depreciated and the average worker is 55 in a country where male life expectancy is 60). Additionally the new ownership scheme in which the government only holds 25% of the company isn't likely to improve efficiency according to Crane, as the only way to do that historically is for a firm to go private. As long as these problems continue to exist and Russia doesn't reach out to Western manufacturers on joint projects like it has done in other moderately successful high-tech industries, the armaments industry's future looks dismal.

Russia's high-tech industry contributed 3% to GDP and accounted for about 10% of output in 2008. However growth there will not have substantial positive effects on the growth of the whole economy, as growth in more traditional sectors will continue to lead the way. Generally, Crane finds that those industries and firms most well-integrated into the global economy with foreign partnerships (particularly in Europe) have done the best and will continue their relative prosperity. The biggest impediment to high-tech in Russia is corruption of tax collection and law enforcement, and thus the biggest short-term change that can improve prospects for high-tech firms would be to hold officials accountable and fire those with histories of corrupt behavior while developing a reputation for prosecution to discourage corruption in the longer run.

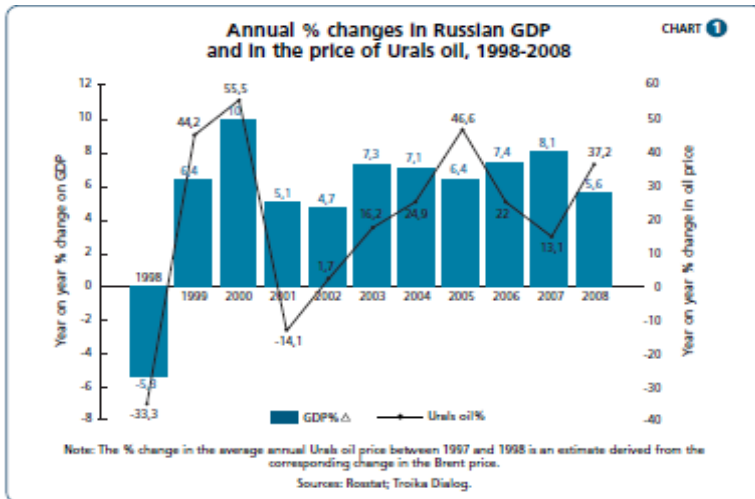
**Mark Hanson. “Russia to 2020”, *Finmeccanica Research Department, Chatham House, Occasional Paper*, (November 2009),**  
[http://www.chathamhouse.org.uk/publications/papers/download/-/id/802/file/15298\\_1109hanson.pdf](http://www.chathamhouse.org.uk/publications/papers/download/-/id/802/file/15298_1109hanson.pdf)

The purpose of this report was to study the prospects for Russia’s economy over the coming decade, with the aim of identifying the possible paths of development. Hanson begins with the disclaimer that any predictions about the duration of the current economic crisis and the lasting damage it will have are not made with much confidence. The first part of the paper examines economic performance between Russia’s financial collapse of 1998 and the current global crisis. The second part assesses Russia’s policy response to the international crisis. The third part selects two “alternative scenarios for post-crisis development.”

Russian Economy in the Past Decade: The 1998 crisis and the inter-crisis period that followed

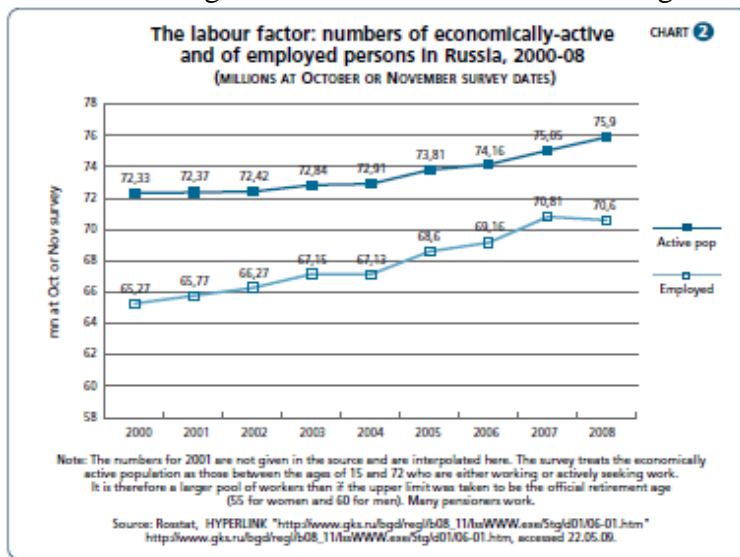
Between 1989 and 1998, GDP had fallen about 45%. The Asian financial crisis, falling oil prices, and fragile public finances resulted in poor confidence in the ruble. Exchange rate policy was “nominally anchored” to the dollar at about R6/\$1, with the intent of controlling inflation. However, public finances were in incredible disarray—barter settlements and IOUs became common, the budget was partly funded by a Treasury bill that offered 100%+ yields and non-residents were allowed to invest (upon IMF advice). The recovery after the 1998 crisis was initiated by the forced devaluation of the ruble from 6R/\$1 to 24R/\$1. Russian producers thrived because of the newly expensive imports and industrial output grew by 13% in 1999. Most economists agreed that the recovery was a result of privatization and economic liberalization. Rising oil prices since the crisis of 1998 have been very strongly connected to the level of Russian economic activity, but not because the export price of oil has an effect on GDP (it can’t have an effect) or because of the level of oil production. Because of long-term gas supply contracts, rising world oil prices drive export prices, and in addition to gas and metals, oil prices have also increased domestic incomes.

Since the crisis, Russian terms of trade have also improved, as its spending power has increased faster than its GDP. “So long as Russia’s terms of trade kept on improving”, Hanson states that this was sustainable. As the figures in the paper show, increases in oil prices were proportionately much larger than increases in GDP.



The sources of Russian economic growth in the inter-crisis period, 1998-2008

Hanson attributes post-crisis economic growth to collapse of Soviet-era economics, as well as to a growing labor force, an initially large margin of unemployed workers and under-used capacity, new investment, and scope for the re-allocation of labor and capital. These factors allowed for the growth of the labor force even though overall population was declining.



Hanson also highlights the labor market. Between 2000 and 2008, the population grew at 0.6%/year, and unemployment fell. Such insignificant changes had a negligible impact on the growth in output. Most of the labor market successes were a result of utilization of under-used capacity. It is estimated that capacity utilization accounted for one fifth of inter-crisis output growth (when new capital formation is not taken into account). Accounting for new investments, Hanson estimates the contribution of the factors driving growth between the crises utilizing a Cobb-Dougllass production function approach. His rough calculations suggest that the three quarters of the output growth were a result of the “reallocation of

resources towards more productive uses, technological progress in a narrow sense, and improvements in management and in labour skills in existing lines of production.”

This assessment is more optimistic than others and the author argues that it is in fact a reasonable assessment. The reallocation of resources from the heavy industry sector to services has been significant, and Hanson expects that growth after the 1998 crisis was in part due to strong growth in total factor productivity. “What was going on was much more than a mere pressing into service of under-used capital and labour to feed growing demand financed by petro-dollars.”

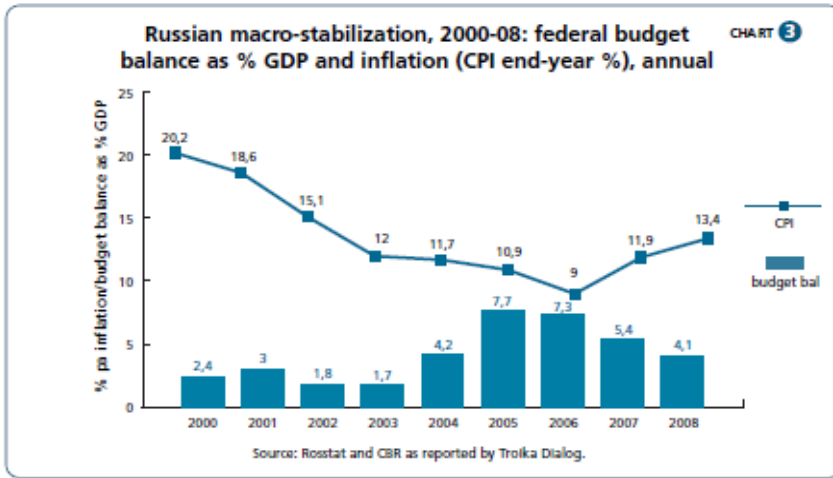
Although during the inter-crisis period, Russia was considered an “upper-middle-income country,” it appeared to be one plagued by poor governance and poor business climate more so than other countries in that category. An example of unpredictable business effects political corruption is “the use of administrative means to take assets away from owners deemed by the political leadership to be unsuitable.” Examples of this practice include “the de facto state expropriation of the assets of the Yukos oil company (2003-06), but also, albeit less flagrantly, the removal of the Kovykta gas field from the control of TNK-BP, the insertion of state control over Sakhalin Energy at the expense of Shell, Mitsui and Mitsubishi...” and others. These practices suggest a trend of development of a system of firms that are politically controlled—in effect, authorities building a business. This is not to say that businesses do not exist outside of political control—a substantial portion of the Russian economy does. Nevertheless, “routine” rent-seeking exists.

The World Economic Forum’s assessment is more generous than that of the World Bank in that it ranks Russia at 63/133 countries in its Global Competitiveness Report 2009-2010 (World Bank ranks Russia at 128/181 countries for ease of doing business). The WEF’s measures take into account a range of daily business activities (hiring, obtaining credit, registering property, etc), as well as macroeconomic factors such as market size, stability and growth of education and skills. However, the WEF ranked Russia very poorly in terms of effectiveness of goods markets, state administration, judicial independence, property rights, and condition of financial markets—well beyond the other BRIC countries.

State-controlled banks are at the head of Russia’s banking system, trailed by under-capitalized smaller banks. A majority of the stock-market is also led by state-owned resources companies as well.

Hanson explains that the inter-crisis period was dominated by external borrowing by Russian banks, hinged on the hope that the real exchange rate against the dollar would not decline, possibly precipitating macroeconomic instability. However, some stability was achieved due

to Russian policy-makers' efforts to limit state spending and build financial reserves.



<sup>7</sup> It may seem odd that there should be an electoral cycle in public spending in an authoritarian state. The explanation is that Russian political leaders, though not subject to political competition, are paranoid.

Labor productivity in Russia although modest, is still higher than that of the US a decade ago. This implies, according to the McKinsey Global Institute study of 2009 that there is still room for “catching up” in growth. Of the three sources of growth suggested by Hanson (reallocation of labor and capital to more productive activity, introducing technology, and management improvement) reallocation of labor has been substantial. Chart 4 illustrates the shifting allocation of labor between sectors of the economy as compared to the US between 2000 and 2007. Hanson expects further shifts from manufacturing and agriculture into health, education, and trade.

After the current economic crisis, Hanson does not expect growth to be quite as driven by structural change in the economy as it was in the inter-crisis period. In order to maintain the GDP growth that was seen during the inter-crisis period, there would have to be a “combination of faster investment growth, more rapid increases in skills and management methods and more rapid introduction of products and processes new to Russia.”

Russia and the rest of the world

Russia is fairly well integrated with the global economy when compared to BRIC nations. However, exports are more dominated by natural resources than other BRIC countries (65.9% of exports were crude oil products or natural gas in 2008). Its share of high-tech exports is on the lower end of middle-income countries (closer to India). Although its economic activities put Russia at a relatively “healthy” level, when considering how connected Russia is to the global economy, and particularly to Europe’s economy, Hanson warns that this makes Russia vulnerable to international economic crisis.

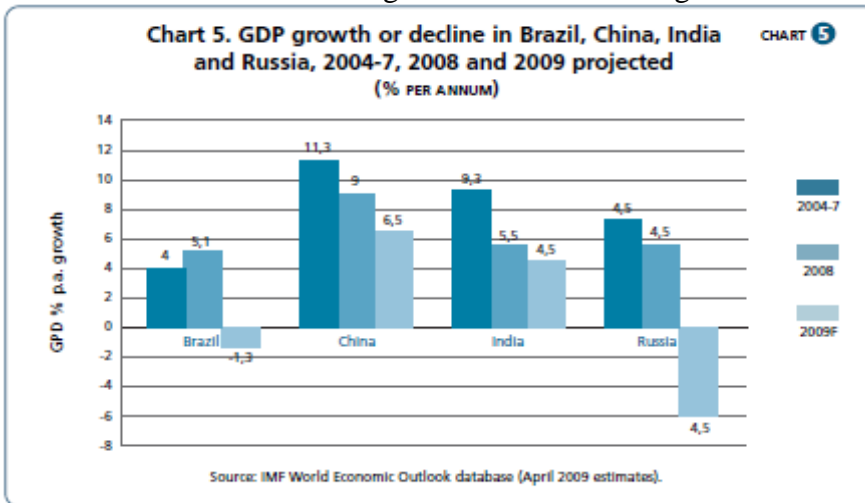
Hanson summarizes: “In short, Russia is quite strongly integrated into the global economy but would be even more integrated if its institutions were in better shape. Its natural resource wealth, the size of its market and its rapid growth in the inter-crisis period have generated a great deal of international business, but they have done so against the deterrents of high corruption, uncertain property rights, weak administration and a weak rule of law.”

## Russia and the Economic Crisis: What's Russian and What's Global?

Compared to other middle income countries, it appears that Russia has suffered proportionately more from the current economic turmoil.

How bad is the situation in 2009?

Comparatively, the magnitude of economic decline as of early 2009 has been greater, and the trend is that of a steeper decline than that of other developed countries. While economic projections around the world are low for 2009, Russia's outlook appeared even worse than its peers.' In addition to the steepness of economic decline, the scale of economic performance deterioration has also been quite notable in comparison to other middle income countries and the United States. See following chart shows the change in the rate of GDP growth.



These comparisons seem to indicate that in addition to a worldwide economic problem, there is also a more specifically Russian problem.

Many would argue that the current especially dramatic downturn is the delayed price for lack of economic diversification away from a natural resource economy, but Hanson disagrees with the simplicity of this argument. Saudi Arabia has a larger portion of its economy driven by oil and gas, and its economic performance is not projected to fall by nearly as much as Russia's.

At first glance, foreign debt does not appear to be a problem and modest by international standards. However, banks and corporations have recently been on a borrowing spree, borrowing mostly dollars and Euros.

While net flow of capital turned positive (more flow into the country) for the first time in 2006, 2007, and first part of 2008, it turned negative from 2008 and 2009, indicated a sharp downturn in performance. Hanson guesses that "the flight from risk was particularly sharp and had particularly severe consequences in Russia" by foreign investors as well as Russian banks, corporations and households.

Hanson blames this on the awareness of both foreign and domestic investors of the condition of Russia's property rights, rule of law, and (lack of) predictability in state regulation. Also, there is an awareness of the weakness of domestic financial markets.

Hanson suggests "that banks and corporations, both Russian and foreign, take the problems of operating in Russia in stride during the good times; but when there is a general downturn, they take the familiar institutional weaknesses much more seriously. For many leading Russian companies, their ownership arrangements lead logically, in bad times, to particularly large outflows of funds, producing inter alia steep falls in inventories"

A lack of political neutrality toward foreign investors and Russian investors. Examples include several cases between 2007-2009 of police officers harassing foreign direct investors in an attempt to steal funds from Hermitage Capital Management, as well as "dubious legal proceedings" that threatened to remove Norwegian telecom company's 29.9% share in a Russian mobile phone operator, Vimpelcon in 2009.

Hanson suggests that this unpredictability and record of political involvement in economic activity encourages businesspeople to react "sharply to danger signs" such as falls in oil prices because the costs and risks of a tough economic environment are much higher when taking the poor business environment of Russia into account.

Hanson further critiques Russian policies toward maintaining high employment, and the adverse effect on the business environment:

"Politicians everywhere do not want to see jobs being lost when they are in office. In countries with a rule of law they may intervene in the sense of offering subsidies to some of the firms involved. Simply ordering a private firm to subsidize loss-making production from its own funds, however, is not an option. That Russian political leaders do issue such orders reveals a fundamental feature of the Putinist system: an understanding that the state is the real boss, and private businesses operate only on sufferance."

Anti-crisis measures

In addition to the typical measures taken to ameliorate the current crisis seen in most other OECD countries (using public funds to re-capitalize banks, increasing credit, discretionary tax cuts), as well as some unconventional methods such as ordering tycoons to continue production, maintain pay, and restore jobs regardless of the condition of their business. Anti-crisis spending amounts to 3.4% of GDP in the 2009 plan, and the net package amounts to about 2.8% of GDP according to Hanson's calculations, which take specific tax cuts into account. Relative to many OECD countries, this is a moderately large anti-crisis package.

However, because of these expenditures, the MinFin has been holding down expenditures on health, infrastructure, and education, which could hinder the recovery. Hanson points to the deliberate slowing of the fall of the ruble between December 2008 and February 2009 as another error because it lowered the foreign exchange reserves by ~\$200billion. Critics of the anti-crisis measures of providing aid to banks and corporations are under-scrutinized, especially when compared to the parliamentary measures in place in the U.S. Moreover, in an under-noted reversal of policy, almost four fifths of the assigned \$50 billion for refinancing

the debts of Russian companies was withdrawn or not distributed, because of the fear that this \$50 billion would not be repaid. Hanson summarizes the anti-crisis measures as follows:

“Moscow’s anti-crisis measures, in short, have been larger, in fiscal terms, than in most other countries, not unusual in their basic elements, but open to particular criticism for the lack of public scrutiny that has attended them, and for holding desirable future spending hostage to an arguably rash, under-financed pension hike in 2010. Many of the other criticisms leveled against them, such as that state-assisted re-capitalization of banks has not generated new credit for firms and households, have been voiced in many other countries; such criticisms do not indicate a specifically Russian problem. Meanwhile, long-established structural characteristics of the economy make the crisis particularly painful for Russia.”

Russia’s recovery from the crisis depends much more on the world economy than it does on Russian policies, in particular because of its dependence on energy prices. Though Asia is expected to recover from the downturn more rapidly than the West, since most of Russia’s exports and imports were with non-Asian countries, this improvement in Asia will not benefit Russia. Box 3 explores the relationship between long-term policies and the duration of the economic crisis proposed by Aleksashenko. Compared to “systemic reform,” which involves introducing economic and political competition, increasing openness to investment and other market liberalizing and corruption reducing measures, “manual control”—the current politically-driven modifications of economic activity—is much more likely to result in a long crisis rather than a short one. Hanson agrees that reform would be likely to promote growth, and would be both necessary and sufficient for growth.

Hanson suggests that a longer crisis will put more pressure for radical change, which could either be the stabilizing reform suggested by Aleksashenko, but economic weakness could also result in increased centralization by the political elite. In exploring these two possibilities, Hanson assumes that world recovery results in a higher, but stable oil price.

Scenario A: Return to business as usual after a “short” crisis

Assuming a short crisis, recovery is clearly initiated by 2011, but would chiefly be a result of a recovering global economy. While Russia would still control 1/3 of Europe’s gas supply, it would probably not be up to its 2008 levels, and continued efforts for top-down innovation would continue to be ineffective.

Moreover, the labor force is likely to be smaller, as echoed by UN estimates and various other studies. The working age population is expected to fall by 1.1% each year between 2010 and 2020, though this portion of the population is more likely to be employed as unemployment falls. The decreasing number of young people in the workforce will slow the rate at which new skills are acquired by the workforce (young people are most likely to receive new training), and it will slow the rate at which re-allocation of labor between sectors occurs. All of this will inevitably result in the deceleration of growth output in the “business-as-usual” scenario. In this scenario, demographics is not likely to affect the rate of growth of capital stock and the introduction of new processes, but these factors are not likely to have a major impact.



Table 8 shows that although Russia has a moderate expenditure on research and development, it produces relatively few new patented inventions (similar to Soviet times), and questions the strength of the Russian educational system.

**TABLE 8. Indicators of technological capacity and achievement, BRICs, c.2007**

Indicator	Units	Russia	Brazil	China	India
Researchers	/million popn.	3,255	461	926	111
Intl. patent Applicns.	% world total	0.4	0.3	3.7	0.4
Hi-tec exports	% all m'f exp.	6.9	12.4	29.7	5.3
Universities in World top 500	Number	4	5	11	7

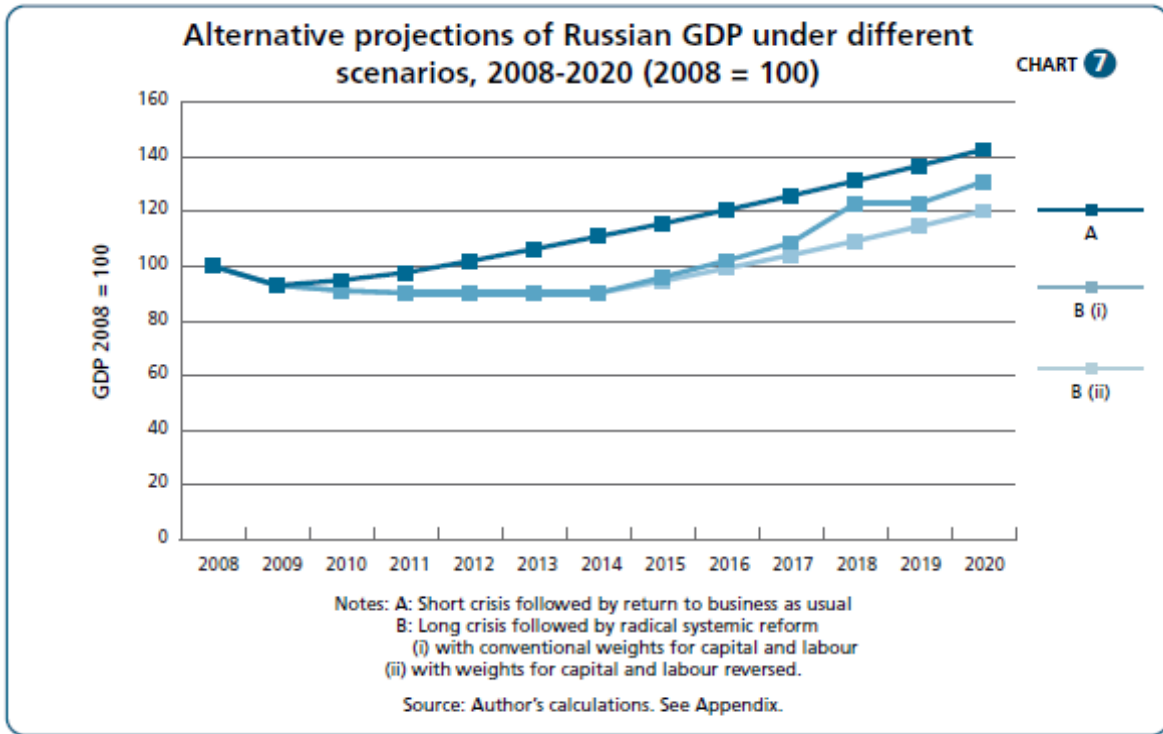
Sources: Cooper 2009, Table 4 (original sources given there), except international patent applications from the World Intellectual Property Organisation ([http://www.wipo.int/pct/en/activity/pct\\_2008.html#P1519\\_49327](http://www.wipo.int/pct/en/activity/pct_2008.html#P1519_49327), accessed 24.08.09).

The research sector has evidently not progressed much since the Soviet era. While the workforce of scientists and engineers is large, it is unproductive and does not meet international competition. In addition, scientists within the country have been arguing that fundamental science education is too weak to stand up to international levels. Hanson argues that these deficiencies have been maintained because of the continuation of a top-down organization of research and innovation. Moreover, because the 2008 law on foreign investment in sensitive activities restricts foreign competition in the Russian economy in so many industries, competition-driven innovation is severely limited. Hanson concludes that “If Russia returns to business as usual after a comparatively short crisis, these impediments to innovation will remain in place.”

**Scenario B: A longer crisis leading to radical systemic reform**

According to Aleksashenko, reform is much less likely to occur after a short crisis than after a long crisis. While the process of change would not be as turbulent as during the 1990s, incumbents are likely to put up a fight. This back-and-forth struggle to implement change, Hanson hypothesizes, would mean that new order would not be in place until 2015, and thus, growth would only begin well after the point at which growth would have begun in the “business-as-usual” scenario. However, Hanson assumes that from 2015 onwards, better property rights, rule of law, and openness to foreign capital will improve investment growth as well as capital stock growth and total factor productivity. See the following chart for a hypothetical comparison of the two scenarios over the following decade. New growth would

only start in Scenario B for the second half of the next decade (after 2015).



Because extensive reform is linked to a longer crisis, this second scenario would not yield a larger GDP before 2020. However, the rate of growth would be higher, and this path is likely to lead to improvement over Scenario A in the longer term.

#### IV. Conclusions: Russian Prospects and Western Interests

Regardless of which of the previous scenarios prevails, Russia will continue to be a major energy exporter, and continue to be dependent on natural resources. With radical reform, systemic change and diversification would eventually occur after 2015, but in the “business as usual” scenario, it would never occur. However, the situation of Russia’s gas supplies and potential market is likely to be a point of contention in the Europe-Russia relationship. Hanson explains:

“Russian policies on gas development and trade have three themes. The first is to keep Russian control of flows of Central Asian gas to Europe. The second is to develop gas fields in Eastern Siberia and the Russian Far East with a view to both “gasifying” those regions and developing exports to China, Japan and other Pacific-basin markets. The third is to draw on international oil-and-gas companies’ expertise and financial power in developing new fields without ceding control of the fields in question.”

Fears over Russia’s gas supply continue though, and this is inducing Europe to look for alternative gas suppliers (more Central Asian gas will also flow into Europe), making it less likely that Russia’s leverage as a supplier in Europe will increase.

Clearly, returning to the “business as usual” scenario would make technologic and innovation “catch-up” very unlikely in the future because of limitations on competition, imports, and investment. Top-down management is “unpromising.” However, this would not completely hinder opportunities for Western companies –it is likely that industries would continue to cooperate (examples of Boeing, IKEA, and other ventures of Western companies within Russia are explored here). But, extensive joint ventures would be less likely because of the continued fear of corruption, a predatory state, and limitations on types of industries available to foreign companies (“sensitive” security-related industries for example). Unfortunately, Hanson predicts that even in the radical reform scenario (Scenario B), evidence of successful diversification and an increased world share in manufactured goods and high tech products would likely not be apparent until at least 2020, if at all. “So far as the internationalization of Russian business is concerned, there are two differences between the two scenarios. Both would probably show up only after 2020. In the reform scenario Russian firms from a wider range of industries would be capable of expanding abroad; and the development of foreign-controlled business in Russia would be easier.”

**William Cooper. “Permanent Normal Trade Relations (PNTR) Status for Russia and U.S.-Russian Economic Ties”, *Congressional Research Service*, (December 22, 2010), (<http://www.fas.org/sgp/crs/row/RS21123.pdf>)**

Russia’s accession to the World Trade Organization (WTO) is proceeding apace and may be completed soon. As a result, members of congress will likely be inclined to pay more attention to the issue of US-Russian economic ties and specially to confront the issue of whether to grant Russia permanent normal trade relations (PNTR) status during the 112th Congress. William Cooper’s concise and informative report on the subject clarifies many of the issues regarding Russia’s NTR status, US-Russian economic ties and the implications and legislation that may result from Russia’s accession to the WTO.

Cooper begins by explaining the concept of ‘normal trade relations’ and summarising the features of the Jackson-Vanik Amendment. As he describes, ‘normal trade relations’ or ‘most-favored-nation’ trade status is used ‘to denote non-discriminatory treatment of a trading partner compared to that of other countries.’ Currently, only Cuba and North Korea do not have NTR status with the U.S. Meanwhile, the Jackson-Vanik Amendment, found under Title IV of the Trade Act of 1974, denies countries not receiving NTR status as of 3 January 1975 – then, mostly communist states – eligibility for NTR status as well as access to US government credit facilities. These restrictions can be removed by either full compliance with the freedom-of-emigration conditions set out by the Jackson-Vanik Amendment or via a presidential waiver.

After the signing of a bilateral trade agreement with the U.S. in 1990, Russia was extended NTR treatment under the presidential waiver authority in June 1992. While it has received NTR status under the full compliance provision since September 1994, as Cooper points out, many Russian leaders have pressed the US to ‘graduate’ Russia from Jackson-Vanik coverage entirely, especially since other former Soviet republics – Kyrgyzstan, Georgia, Armenia and Ukraine – have already been extended permanent and unconditional NTR status.

However, many within the US government and business community are reluctant to extend this status to Russia because of a number of contentious issues in US-Russian trade relations. Among the most sensitive issues has been the recent implementation of regulations blocking the import of American poultry to Russia – currently America’s largest market for its poultry exports. In addition, the lack of adequate intellectual property rights protection in Russia combined with its imposition of high tariffs on many foreign imports has tainted the business climate in Russia for U.S. investors.

Many of these American concerns have also been raised by the WTO working party that is responsible for Russia’s application to join the WTO. But despite these lingering problems, in recent months, the Obama administration has sought to smooth out its differences with Moscow. In June 2010, during their meeting in Washington, D.C., President Obama and President Medvedev pledged to resolve the remaining issues regarding Russia’s accession to the WTO by September 30. In October, the US government announced that both countries had ‘reached agreement on the substance of a number of Russian commitments’ geared

towards resolving outstanding issues between the two. Late last year, Russia concluded a similar agreement with the EU that resolved bilateral issues in the WTO process.

These recent agreements have removed the major obstacles to Russia's accession to the WTO, making it likely that this process will be completed soon, possibly sometime in 2011. As a result of this likelihood, the U.S. may well consider granting Russia permanent and unconditional NTR status. According to Cooper, this will likely have little direct impact on U.S.-Russian trade but could be a positive political symbol of Russia's treatment as a 'normal' country in U.S. trade and further distance US-Russian relations from the Cold War. It would also help Russia in its accession to the WTO and might mean a more stable climate for doing business in Russia. Finally, as Cooper indicates, there may also be more wide-reaching benefits of considering legislation to grant Russia PNTR status: it would likely generate debate not only on the pros and cons of granting PNTR status but also on other pressing issues in US-Russian economic relations.

**Walter Laqueur. “Moscow’s Modernization Dilemma: Is Russia Charting a New Foreign Policy?”, *Foreign Affairs*, Vol. 89 No. 6, (November / December 2010), (p. 153-160).**

In recent months, there has been talk in both Washington and Moscow of a significant change taking place in Russian foreign policy. In Washington, the Obama administration has talked of a ‘reset’, while in Moscow, unofficial Foreign Ministry publications have prompted mentions of a ‘seismic shift’ in Russia’s external policies. In his recent *Foreign Policy* article, Walter Laqueur suggests that this discernable shift may be the manifestation of Dmitry Medvedev’s new policy of ‘détente’. The central premise of Laqueur’s argument is that a new Russian foreign policy of ‘détente’ will ultimately depend on which path Russia’s rulers and ruled decide to take in regards to the country’s domestic modernization dilemma.

Following a brief introduction, Laqueur explores further Russia’s shifting foreign policy, beginning with a very brief overview of recent developments. As he explains, while Russia has made an impressive and speedy return to major power status since the fall of the Soviet Union, the new-found optimism and confidence exuded by Russian leaders by the middle of the 2000s has been greatly diminished by the effects of the global economic recession. The fallibility of the West revealed by the recent economic crisis and the realization that both Russia and the West are in a state of relative decline compared to rising Asian powers has made a policy of rapprochement appealing for both sides. This desire has been boosted by a gradual realization that NATO does not present any real threat to Russia and that a weakened US would only contribute to rising Chinese domination in the Far East and burgeoning Islamic fundamentalism in Central Asia. As Laqueur evinces, this new détente with the West has been manifested in a number of recent events from Russia’s vote for UN sanctions against Iran to its agreement with the US to further reduce its nuclear stockpiles.

According to Laqueur, whether or not this favorable shift in Russian foreign policy will continue will depend largely on what goes on inside Russia. He argues that any new course in Russian foreign policy will inevitably be shaped by internal realities ranging from Russia’s grim demographic outlook, to the effect of its considerable reserves of oil and gas, to the pervasiveness of anti-American and anti-democratic feelings among the country’s elite leadership as well as the population at large, (the latter largely a product of the tumultuous post-Soviet years when ‘democracy’ became synonymous with ‘kleptocracy’ and ‘oligarchy’.) Laqueur points out firstly that, as Russia is a conservative country, and one whose people by and large support their leaders and prefer stability to democracy, it is very likely that the current political regime will remain in power for the foreseeable future. While substantial economic reforms may seem unlikely in such a stagnant political climate, Laqueur points out that Russia’s leaders firmly understand the dangers of a lack of economic diversification and generally agree on the principle of modernization.

The problem, of course, is how to pursue modernization. On this subject, Russia is torn between two groups: the conservative faction led by Putin – advocates of a very gradual ‘top-down modernization’ that should be guided by the state and have minimal political repercussions – and the more ambitious and daring camp led by Medvedev, which argues that

substantial economic, and even political, reform may be necessary in order to successfully modernize. Laqueur concludes that while modernization is inevitable in the long-term, because of a lack of urgency at present, it is unlikely to advance very far in the short term.

Laqueur concludes by briefly discussing how far the current foreign policy 'shift' may continue. He argues that while Russia is seeking to expand its influence over the countries of the former USSR, greater Sovietization is unlikely, as is rapid democratization. While Moscow will likely seek to continue to pursue closer relations with non-Western powers, the apparent weakness of the West in the wake of the economic crisis makes détente with the US and Europe an attractive option at present and Russia will remain dependent on Western capital and technology to modernize its economy for the foreseeable future. The author concludes by pointing out that, today, most Russians seem to agree on the need for modernization but not on how, to what extent or even when they should pursue it.

**Walter Laqueur. "Moscow's Modernization Dilemma - Is Russia Charting a New Foreign Policy?", 89.6 *Foreign Affairs*,(2010), (p. 153-160).**

In this article, the author sets out to establish and attempt to answer, a few questions regarding Russia's future – In what direction is Russia moving? What will Russia be like in 20 years from now? How will it go about getting there? A few broad areas of distinction, in regards to modernization and the issues that come with change are highlighted; namely demographics, domestic political sentiment, foreign policy – making enemies and alliances, and natural resource economics.

Some facts regarding the urbanization and changing rural population landscape were presented: “Russia's demographics provide some near certainties: over the last two decades, more than 20,000 villages and small towns have ceased to exist, the immigration of Central Asian workers and Chinese traders has continued and the Russian birthrate of 1.5 children per woman has stayed well below the replacement rate of 2.1 children per woman.” The author also noted that a dramatic shift in this trend seems unlikely.

The author presents Russia's domestic policies and sentiments as symptomatic of two major influences: the communist past and perception of ‘stability’ and a reflection of external foreign relations. Much of Russia's domestic policy is tantamount to its relations with the West. The concept of stability for Russian politics is a huge indication of in what ways, if at all Russia will ‘modernize’: “Given the likely longevity of the current political regime, it is worth asking what form of modernization the Kremlin wants and what sort of reform is likely to succeed.” However the author goes on to clarify, “There is not much dissent over whether modernization is necessary – the country's economic and municipal infrastructure is very poor, and its dependence on the export of oil, gas, and other raw materials is undesirable and, in the long run dangerous...” . Due to the sheer export nature of Russia's economy- the domestic policies are undeniably driven by foreign relations and Russia's long standing desire to remain an ideal of ‘the state’- the representation of efficient and effective: “As Putin said of reform in September, ‘We don't need any kind of leaps’. In Russia, the potential victims of modernization are many: state bureaucracy, inefficient enterprises and the many who thrive on them, the Russian economy's numerous monopolies, and the sizeable part of Russian society that has an instinctive resistance to innovation. This is not to mention the members of the Russian political elite, who have a personal interest in maintaining the status quo.” Moreover, much of the recommended reforms and issues that are being addressed in Russia, are those that should benefit the state- that should first be ‘tested’ – the concept of information technology for instance, to the Russians should first be introduced into the army: “ They argue that even in many Western countries the state played a central role in the process of modernization...” Furthermore, what highlights the undeniable intersection between foreign and domestic policy in Russia is highlighted in their economy: “More broadly, a comfortable Russian business climate will require the absence of major tensions between Russia and the outside world – a détente of sorts.” Much of Russian foreign policy is directed at relations with the West. However, this past decade and the emergence of a new, shifting balance of powers brought to light avenues for modernization with other countries. However, since much of Russia's opportunity and power are derived from its economic standing and resource based



exports- the recent economic downturn has affected it's thinking in regards to foreign relations: "Perhaps Moscow overrated the prospects of the so-called BRIC alliance, that of Brazil, Russia, India and China." Diversifying conduits for external relations proves to be a contentious notion of modernization for Russia, for many ideological and geographic reasons.

Another pressing issue for Russia to take into account, in regards to foreign relations is its geographic proximity and historical past with Afghanistan and Central Asia. Laqueur states, "... what will happen to Afghanistan and the U.S. and NATO exodus? Moscow sees Central Asia as part of its zone of 'privileged interests' – and thus part of a zone of responsibility. Islamist groups would immediately threaten the Central Asian republics, even if the Taliban, at present, argue that they have no such intentions. And the growing drug problem originating largely in Afghanistan is, according to Russian officials, an even graver danger to Russia than terrorism." Despite Russia's seemingly stubborn attitude toward rapid modernization, internally, there are efforts and paradigms shifting in terms of its relations with the West and other proactive regions in the world: "[A] new détente has shown itself in a number of cases; Russia's voting for the UN sanctions against Iran, expressing remorse about the Katyn massacre, reaching an agreement with the United States to reduce nuclear weapons, inviting NATO soldiers to march on Red Square on Victory Day, being offered warships from France, proposing a Russian-EU crisis management agreement, and some others." Furthermore, "... the new policy – appears to be based on a compromise between various elements in the Russian leadership. President Dmitry Medvedev's faction, which seems to be behind this statement, is clearly willing to take more risks; it is also possible that Medvedev's supporters are using the argument of modernization to sell a broader policy of détente to various domestic constituencies.

While much of Russia's need for modernization is internal, domestic and economic, "a change not of policy but of mentality is needed among both rulers and ruled." In terms of foreign policy, the author suggests that Russia's foreign policy is a fine balance between pursuing entrance to and stability with the Western establishment: "Russia is also likely to push to join the World Trade Organization and to abolish visas for travel to Europe", while also trying to "prevent a deterioration in relations with newfound sympathizers such as Venezuela's Hugo Chavez and Iran's Mahmoud Ahmadinejad."

Demographic reforms are in need of attention as well. The author sites immigration issues and the ethnic makeup of Russia's identity as pressing issues for Russia's domestic modernization, but does not highlight these issues with positive sentiment; "[...] experts warn of the 'Islamization' of Russia, given the presence of a substantial Muslim minority in Russia, not to mention the on-going violence and turmoil in the Russian North Caucasus. In short, geopolitical games of this kind are not leading to realistic alternatives."

With all of the issues facing Russian politics and society today, modernization is as crucial as ever, but faces intense skepticism and internal barriers. The author notes that modernization, in terms of demography, economy, foreign and domestic relations, there needs to be a shift of paradigms- from one of out-dated perceptions of stability and maintenance of old ideologies, to one of forward thinking, efficient, diverse and progressive sentiment.

**Ya. A. Leshchenko, “Problems of the Sociodemographic Development of Siberia”, *Studies on Russian Economic Development*, Vol. 21, No. 6, (2010), (p. 638-43).**

Since the collapse of the Soviet Union, Russia has been suffering from an acute demographic crisis, one that is virtually unparalleled in the modern world and that is unlikely to abate in the near future unless important measures are taken. As Ya. A. Leshchenko makes clear in his article for *Studies on Russian Economic Development*, nowhere in Russia is this problem more severe than in Siberia and the Far East. Leshchenko’s well-researched article is premised on the basic fact that the present demographic crisis will continue to worsen, opening the door to broader economic and security dilemmas for the Russian Federation, unless steps are taken to avert this.

Leshchenko begins by explaining the reasons for Russia’s troublesome demographics. He put Russia’s declining population levels down to a mixture of unfavorable reproductive behavior, high morbidity levels and an increase in outward migration in recent decades. The combination of these factors means that demographic forecasts for the Russian Federation are grim: most estimates suggest that between 2030 and 2050 the Russian population will decline from its current level of 142 million to between 107 and 100 million. The demographic problem is most acute in Siberia with average population density there close to four times lower than in Russia as a whole. As Leshchenko points out, this means that demographic levels in Siberia are inefficient for the creation of a developed economic and population structure. This low population density also leaves Russia’s vast swathes of ‘no man’s land’ open to outside aggressors interested in the regions high levels of natural resources. Today, Russia’s natural resources – the vast majority of which are to be found in the Asian east – provide the bulk of its exports and are an increasingly integral part of its economy. However, Leshchenko fears that the decline of Siberia’s population will result in a weakened Russian grip on the rich natural resources located there, thereby inviting unwanted foreign intervention. In other words, Siberia’s current demographic crisis also contains the seeds of wider economic and security problems.

Leshchenko outlines two main possibilities for overcoming the underlying demographic problem: an outward looking policy based on large-scale foreign immigration and a domestic-centric development program. The first option could prove a viable one as there are large populations along Russia’s southern border that theoretically supply cheap labor on a large scale. However, this solution also provides numerous and – in the author’s option – unacceptable risks. Huge foreign population influxes could lead to interethnic tensions and confrontations, the gradual erosion of Siberian identity and, most worrying of all, Chinese domination. Leshchenko fears that large-scale Chinese immigration bears the prospect of Russia becoming ‘to a large extent, a raw-material appendage of the growing Chinese economy.’ Indeed, there is little doubt that the vast, depopulated yet resource rich territories of the Russian Far East are becoming increasingly attractive for China – with its bulging population and ever-increasing energy needs – and that this poses a potentially dangerous threat to the Russia Federation.

When it comes to finding a way of out Russia’s demographic deficit, Leshchenko clearly favors the second option: ‘the reestablishment of a stable population increase’. In the past,

projects that have attempted to solve the Siberian question in this manner have failed, with the result that today a majority of Siberian regions remain in an economically ‘unequal position’ in comparison to the rest of the country, especially in terms of state investment. Leshchenko suggests three ‘positions’ for overcoming the problem of development. First, he recommends providing special conditions for investments in Siberia, a priority status. Second, he recommends ‘an active but measured and well-balanced migration policy’ favoring migrants from European Russia and the former USSR rather than China. Finally, he acknowledges the need to work with neighboring powers, including China, in order to attract significant foreign investment.

Leshchenko concludes by arguing that a strong state role is vital if the proposed development package is to succeed. He claims outright that such a program for development ‘cannot be put into action within the existing liberal-economic paradigm’ because it is unlikely to be very profitable and thus will not be attractive to private investors. In order to realign Siberia with the rest of the country, Leshchenko proposes that a program of state subsidies and incentives will be implemented to bring the living standard in the east to an acceptable standard. If this is achieved, migration and economic growth will follow. However, this urgently-needed transformation must be ‘clear, pronounced, and fast’ and, as Leshchenko emphasizes, will only be possible on the basis of a ‘strong state program of social-demographic development.’

**Fyodor Lukyanov, "Rethinking Russia : Russian Dilemmas in a Multipolar World." *Journal of International Affairs* 63.2, (Spring/Summer 2010), (p. 19-32), (<http://jia.sipa.columbia.edu/generational-change-and-future-us-russian-relations>)**

Russian policy makers have increasingly sounded nostalgic about the Soviet Union, with Vladimir Putin calling the break-up of the Soviet Union “the greatest geopolitical catastrophe” of the 20th century. This nostalgia comes in part because Russia no longer plays nearly as influential role in world affairs as it did twenty years ago. While Russian leaders have “renounced messianism”, and no longer think that Russia will play a dominant role in world affairs, they are very concerned about increasing Russia’s stature in the world. This is in part because Russian leaders have embraced a realist view of international relations, and reject any notion that historical processes will dictate the future of international relations. The fundamental question for Russia then is how it should go about re-accumulating power. The Russians are right to believe that the world is entering a phase in history that will be characterized by instability and competition. Many of the world’s stabilizing influences have eroded. Unilateral decisions by the United States to invade Iraq and withdraw from the ABM treaty have demonstrated the increasing irrelevance of international law. International organizations such as the WTO and the UN are proving outdated and ineffective. And the United States’ adventures in Iraq and Afghanistan have demonstrated that the world’s hegemon is unable to “control the course of events through force.” Plus, the number of significant international actors is only increasing.

The question is what new sort of world we are entering. The rise of globalization and the increasing interdependence between countries has decreased the capacity of nation-states to dictate policy within their borders. It therefore seems likely that we are re-entering a classically multipolar world, where a number of countries and coalitions will vie for dominance. One likely deviation from this new multipolar world and previous ones is that power is likely to be concentrated in regional blocs. Integration projects are underway in Latin America, Africa, and the Gulf area, and the EU and China have already, to different degrees, consolidated power in their respective poles. The only country that defies this new model is the United States, which cherishes its independence from system constraints, plans to continue to interfere in affairs the world over, and continues to consider itself the world’s leader.

The United States hopes to integrate China and other emerging powers into an American-led system. This would provide these countries with the opportunities to continue to peacefully expand and would allow them to make incremental changes to the system’s rules. In exchange they would have to accept continued United States leadership.

China, for one, seems unlikely to conform to such a policy. Beijing has evinced little desire to either change or become a full-fledged member of the “existing system”, and its foreign policy is essentially concerned with ensuring access to raw materials and foreign markets. China seems little concerned with whatever benefits assimilation into the global system might bring.

From a different perspective, the question isn’t whether China will integrate into the emerging multipolar system, but whether the United States will. The paradox is that if the United States

accepts that the world is now a multi-power system, and takes on the positive role of “rectifying imbalances... [to] resolve conflicts between between various elements of the system” then the United States will have achieved a leadership role within the system, and will likely demand special prerogatives as a result. The system, then, would be US dominated instead of multipolar.

According to Lukyanov, these questions about the future structure of the multipolar world have consumed Russian policy makers since the mid 1990’s. From 1991 to 2007, Russia’s response to the emerging multi-power world has been to work to integrate itself into international institutions. Under both Yeltsin and Putin, Russia worked to attain membership into the Council of Europe, the World Trade Organization (WTO), the Organization for Economic Co-operation and Security (OSCE), as well as other organizations, and even began talks to join NATO.

Since the early 2000’s, however, “the decline of the former institutional design of the international system” has seemed inevitable. Russian leaders have accepted the realist tenet that a growth in anarchy necessitates a more competitive approach to international relations. For example, Medvedev’s notion of a collective European defense treaty does not entail any sort of integrated security apparatus, but is “traditional multilateral pact on security principles.” Russia has additionally stopped negotiating for WTO membership, because Moscow thinks that the WTO influence is declining. Instead, Russia has focused on establishing a customs union with Kazakhstan and Belarus, which Lukyanov interprets as a clear attempt to create a “pole of its own” that could compete regionally with the European Union and China.

Though Russia has not sought a global role since the collapse of the U.S.S.R, relations with the United States have proved testy. This is in part because both powers believe the other one is declining. President Obama’s attempts at the beginning of his administration to warm the relationship between the two countries came a few years too late. Since the mid 2000s, Russia has become increasingly concerned with maintaining good relations with emerging regional powers and sees little reason to cooperate with the United States on issues such as Iranian nuclear weapons. Cooperating with the United States will alienate Iran, and Iranian influence has been steadily increasing in the region while American influence has been steadily declining.

The real conflict between the United States and Russia comes because Russia views its interference in the “Eurasian space” as legitimate, while the United States rejects Russia’s claims as a regional hegemon, and is concerned with expanding its own power in the region. What Russia has to work out is how, with its looming economic and demographic challenges, it can claim its place as the leader of a regional pole, and, if that is impossible, whether it should consider becoming the junior partner in a pole led by either China or the EU. What is clear to Russia is that the era of multipolarity is upon us.

**Zeljko Bogetic, et al. “Growth with Moderation and Uncertainty: Russian Economic Report 23”, *World Bank*, (November 2010),**  
[http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/305499-1245838520910/RER23\\_Eng\\_final.pdf](http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/305499-1245838520910/RER23_Eng_final.pdf)

In November, 2010 the World Bank released Russian Economic Report No. 23, “Growth with moderation and uncertainty,” providing analysis of recent economic developments as well as the 2010-2012 economic and social outlook of Russia. With global industrial production and trade recovering to pre-crisis levels and moderate growth, the report surmises that “the feared ‘double dip’ recession remains unlikely.”

Several key findings on recent developments: domestic demand is beginning to replace external demand as the main growth sector in the industrial sector, evidenced by the 5.2 percent growth in real GDP the second quarter of 2010; there was a temporary drop in the unemployment rate, though many of the chronically unemployed dropped out of the labor market and finance is the only sector where the hiring rate exceeds the firing rate; due to higher than expected resource and oil prices, the balance of payments improved but rapidly deteriorated due to rapid import growth and acceleration; the private sector is repaying its debt as no major defaults on foreign debt obligations by banks were reported in the first half of 2010 and banks have restarted short-term borrowing; the Central Bank of Russia is facing a difficult trade-off between tightening monetary conditions and intensifying inflationary pressures while the authors do not expect CPI inflation to decline below 8 percent in 2011 or below 7 percent in 2012; and due to Russia’s troublesome demographic trends of a declining and ageing population, along with increasing demands for pension, health and education services, the federal government faces tremendous fiscal constraints and federal budget challenges.

In part two of the report, the authors provide an outlook for 2010-2012, concluding that “with moderating global and Western European growth, uncertain oil prices and capital flows,” Russia is likely to grow by 4.5 percent in 2011 and 3.5 percent in 2012, as “domestic demand expands in line with gradual improvements in the labor and credit markets.” They also predict the unemployment situation to get worse before it gets better later in 2011. If global oil prices remain within the projected (higher) range, the report projects the 2011 fiscal deficit to be 4.0 percent and 3.1 percent in 2012, but the increased revenues from higher oil prices will ultimately partly be offset from additional spending on infrastructure and economic modernization.

Part three of the report tries to account for the highly differentiated employment performances across Russia’s regions, where some regions (particularly the Mordovia, Chelyabinsk, Yaroslval, Moscow, Orel, and Tver regions) have unemployment rates that are twice as high as 2008, while others, such as Kamchatka, Karachaevo, and Tomsk, have unemployment rates 30 percent lower than before the crisis. The authors of the World Bank report find there are asymmetrical patterns of regional recovery where smaller regions with more small and medium enterprises (SMEs), better investment climate, more FDI, and stronger financial sector presence have higher unemployment rates than the rest of the country, but are also showing a more robust recovery.

Noting that most of the larger regions did not improve in the recovery, there are asymmetrical patterns of recovery to deal with: While the richer regions more open to foreign trade were hit hardest by the crisis, those initially hit hardest do not necessarily have faster rates of lowering unemployment. The report attributes higher recovery rates of SME-concentrated regions to the general responses of cost-cutting, production-adjustment, search of additional sources of liquidity, and postponing or even canceling new business ventures when faced with tighter budget constraints. Emphasizing these correlates, the report concludes, “the crisis may have provided an opportunity for reform and an impetus to rethink and accelerate public sector, financial, and diversification reforms at the regional levels.”

**Anders Aslund, Sergei Guriev and Andrew Kuchins, eds. *Russia after the Global Economic Crisis*. Peter G. Peterson Institute for International Economics and Center for Strategic and International Studies, (2010).**

Recently there has been much debate over trying to assess Russia's future role in the global community, in particular, whether its economy will ever achieve parity with more advanced countries. As the title suggests, the main issue of Russia after the Global Economic Crisis is to determine Russia's outcome and place in the international community in the near future, factoring in the impediments gained from the crisis. The authors of the essays in this book are all in agreement that Russia needs major reforms immediately if it wants to become the independent power it aspires to be. Several of the essays highlight the problems of the economy, including political and social structures, and suggestions for how Russia can overcome them.

From 1999 – 2008, Russia had been experiencing major growth with a 7 percent growth rate and the 3rd largest international currency reserves in the world. In 2008, the global economic crisis hit Russia. Sergei Guriev and Aleh Tsyvinski state in “Challenges Facing the Russian Economy after the Crisis” that the crisis hit Russia particularly hard. Its GDP fell by 8 percent, which was worse than any other G-20 country. During the decade of growth, Russia failed to address several underlying issues, such as corruption and an undiversified economy, that are now serious problems. Guriev and Tsyvinski believe that Russia may be “under a ‘resource curse’ – a situation in which resource rents reduce elite’s incentives to reform and where nonresource sectors are unlikely to grow unless reforms are undertaken.” This implies that not only are problems with the economy worse now because the elites did not take the initiative to reform during the decade of growth, but also that when the economy does improve, the elites will most likely again feel that it is not imperative to restructure the ailing areas of their society.

The authors of this essay do say, however, that the Russian economy is not in any immediate danger. The government had initially dealt with the threat reasonably and relatively effectively with the Russian financial system essentially intact and unemployment under control. It is questionable if the Russian government learned the lessons it should have from both the period of growth and subsequent economic crisis. Guriev and Tsyvinski believe that Russia should have learned that their underlying issues of corruption and inequality are more problematic than they realized and were two of the main factors that nearly sent the economy to the brink of collapse amidst the crisis. They were also major impediments in the government's ability to react quickly and efficiently to the crisis. And the government itself admitted that it did not utilize its chance to start reforming the economy during the crisis. Guriev and Tsyvinski have concluded that there can be two outcomes for Russia. One is which the government takes the necessary steps for political, social, and particularly economic reforms that will put the country on a path toward faster economic growth. The other scenario revolves around the “resource curse”, a stagnating economy, and eventual bankruptcy. The government has become too reliant on the price of oil to dictate their economy. If, given that oil prices remain high and Russia continues this dependency, the elites will most likely suspend the reforms that would promote growth in economic and political



institutions which would restrict economic growth in the long run. That would widen the gap for Russia's modernization and would make it unlikely that Russia would achieve parity with advanced economies in the next 10 to 15 years.

Anders Aslund continues the point of Russia's dependence on oil and gas in his chapter, "Gazprom: Challenged Giant in Need of Reform." Gazprom is Russia's natural gas monopoly with just over 50 percent of it state owned. It is Russia's largest corporation and comprises about one-fifth of Russia's exports, one-fifth of its market capitalization, and about 8% of Russia's GDP. Gazprom, like Russia itself, is in dire need of structural reforms. And, as Aslund states, due to "its size and importance for the Russian economy, much of Russia's future depends on how the government handles Gazprom's current dilemma." Aslund believes there are many structural issues with Gazprom. One such problem is the major influence the corporation has on the government and the corruption that accompanies that power. In the nineties the government had given Gazprom special privileges including extreme monopoly, favorable taxation, huge resource endowments, and insider privatization. The government also granted the company control of one-quarter of the world's largest gas reserves. Due to these privileges, Gazprom is also allowed to openly negotiate its taxes with the government due to an agreement of low regulated domestic gas prices.

Another concern for Gazprom is the changing market conditions and new challenges to their business. LNG and shale gas are now becoming cheaper and more viable options than what Gazprom has to offer. LNG technology, which has just recently become more affordable, is the process of freezing gas and then distributing it via tankers to re-gasification terminals and from there it is dispensed through pipelines. This allows countries further away, such as Qatar, to become an alternative to the Gazprom monopoly in Europe. Shale gas has also started to become mass produced in the United States which has refocused the projected demand of LNG to Europe. Since Gazprom sells almost exclusively to Europe, this poses a major threat. Anders writes that the main question for Gazprom now is determine if European gas prices are truly no longer connected to their oil prices, in which case Gazprom's gas prices to its main customer would be overpriced. Gazprom is under the assumption that this is only a temporary setback whereas many experts believe it is a long term development. Gazprom also needs to take into consideration the fact that the demand for gas may decline dramatically in the aftermath of the crisis due to energy saving trends.

Anders has several suggestions for how to improve upon Gazprom's situation. He writes that first Gazprom needs to be separated from the state. Then Gazprom needs to get new management, preferably from the private sector and it needs to dispose of the projected Nord Stream and South Stream pipelines. The plan behind these pipelines in question was to circumvent the usual transit countries. But, they would end up costing significantly more money than a gas transit system through more geographically logical countries, like Ukraine. Gazprom seems insistent on these specific pipelines, which would cost Russia on a tremendous scale. Anders also proposes that there should be an introduction of market prices and market allocation of gas as well as reduced flaring which will benefit Russia with large energy savings, better allocation and usefulness of resources, and a diminution of air pollution.

The Gazprom situation would also benefit from a diversification of the Russian economy, with less dependence on gas and oil. In “Role of High-Technology Industries”, Keith Crane and Artur Usanov detail Vladimir Putin and Dmitri Medvedev’s vision of incorporating more high-technology industries into Russian’s economy which they believe would ignite growth. The legacy of the Soviet Union had left Russia with many amenities for a high-technology program including skilled engineers and scientists, a strong science education program, and many laboratories and research facilities. After the collapse of the Soviet Union, pursuing this sector was no longer of great significance to Russian leaders until recently.

Crane and Usanov dissect the main areas of high-technology industries in which Russia is considered internationally competitive: software, specialty material including nanotechnologies, nuclear technologies in the nonelectrical machinery sector, aerospace, and armaments. They determined that the software industry is the most successful of the five. This is most likely due to the fact that the industry is composed mainly of startups and that the government did not try to regulate it which would most likely have encumbered its growth. If the Russian software industry can overcome its main obstacle, corruption, it should be set to experience high growth in the aftermath of the global economic crisis.

Nanotechnology had become a main focus of the government in post-Soviet Russia, but it was hit particularly hard by the crisis. Russian scientists rank well in theoretical nanotechnology research, but the commercialization and innovation phases have been lacking. This is due to a shortage of funds from the government and insufficient interest in nanotechnology from Russian industries. So, even though the business can be lucrative, there is not commensurate demand. In addition, the nature of the industry is hard to predict, so Crane and Usanov believe that nanotechnology will not provide a significant addition to the Russian economy. In terms of nuclear technology, Russia is internationally competitive in nuclear fuel, especially uranium enrichment. In fact, it is one of the most economically viable industries for Russia on the global level because it has the lowest costs of enrichment in the world. Russian leadership has also developed a strong concentration on nuclear power and it remains one of the only high-technology fields which Russia can still compete with more developed countries. This industry should do well in the coming years if not only for uranium enrichment. Selling nuclear plants, however, should pose more of a challenge due to increased competition and Russia’s loss in credibility and dependability. The authors believe it should focus on developing-country markets which are to be the major areas of growth. The civilian aircraft industry is one sector of high-technology that has not progressed particularly well since the fall of the Soviet Union. The largest importers of Soviet aircraft models were the former Soviet republics. After the dissolution, however, the inferior quality of the Russian designs drove them to seek other models. The whole industry should not be totally forgotten as Russia has been somewhat successful in supplying design components and services to the civilian aerospace industry.

Russia has had increased success in the defense sector in recent years. It has been exporting armaments to India and China, reaping the benefits of the embargos on arms shipments to China and strained relations between India and the United States over India’s nuclear program. It is predicted that these exports should decline significantly in the next five to ten years due to both countries trying to substitute imports for domestic products. Russia has been

trying to expand its arms market, exporting to Venezuela and the Middle East. But the defense industry faces serious financial and technological problems. The arms systems have not been updated in 20 years and the industry lacks the funding to keep pace with Western companies. The authors write that Russian policy for promoting growth in the high-technology industry, consolidating existing businesses into state owned corporations, has been unsuccessful. The government believed that the consolidation would increase both productivity and an ability to compete on the global market. The high-technology industry, however, would not be able to provide substantial growth for the Russian economy. Russia also needs to deal with the pervasive issue of corruption in their society which not only hinders their economy domestically, but also discourages international businesses from investing in Russia. Another issue Russia has with obtaining much needed foreign investments is its outdated foreign policy. Russia remains stuck in the past paradigm of it being more powerful than it currently is and the United States being its sole enemy. Several chapters analyze Russia's current foreign policy and note the issues that need to be reformed in order for Russia to become a modern and internationally successful state.

In "The Post-Soviet Space: An Obituary," Anders Aslund writes of the importance of the relationship between Russia and the former Soviet republics. He discusses the trivial nature of the Commonwealth of Independent States (CIS), which Russia organized as a means to facilitate the orderly dissolution of the Soviet Union. But now it has no real power and is not taken seriously. The Russian government, however, still believes it has the same power and privileges from the Cold War and tries to force the other CIS countries into submitting to Russia-friendly policies. It does not understand that without the strength or the resources to do this, they are essentially forcing their neighbors to turn their backs on Russia. He recommends dissolving the CIS and distancing itself from the possibility of neo-imperialist intentions, which Russia complicated by recognizing the independence of Abkhazia and South Ossetia in 2008. Aslund also suggests Russia should develop better relations with its neighbors for improved trade, investment, and finance.

The Russian government seems to cling to the past and does not recognize that its national interests have changed. Its neighbors do not have to submit to Kremlin demands as they did in the past. If Russia does not start treating the former Soviet republics with respect and stop alienating itself from the region, China will have picked up the pieces as it moves closer to dominating the Central Asia region. It has already become a central figure by purchasing Central Asia's gas exports and other products as well as providing tens of billions of dollars of finance.

Russia also needs to become a more reliable trading partner with its neighbors. Aslund's chapter as well as David G. Tarr and Natalya Volchkova's "Foreign Economic Policy at a Crossroads" come to the conclusion that it is in Russia's best interest to join the World Trade Organization (WTO). Tarr and Volchkova believe that the accession to the WTO would provide an opportunity to confront the domestic political economy influences that have led to excessive protection in Russia. The WTO has guidelines and Russia would need to adhere to them to gain accession. It would affect many institutions and policies including rights of foreign investors, intellectual property, tariff policy, agricultural policy, customs administration, possibly government procurement, and almost all Russian households would

gain from it. The major problem with Russian accession, however, is that Georgia withdrew its support from approving Russia to join the WTO, due to the conflict over Abkhazia and South Ossetia, and there needs to be unanimous consensus for a country to become a member. Russia needs to resolve this issue with Georgia if it wants to join the WTO. Another issue with Russian accession would be that it has been trying to enter the WTO as a customs union with Belarus and Kazakhstan since 2009. This makes little sense since they have extremely different economic structures and interests and the benefits to this union are unclear. But Russia needs to join the WTO if it wants to be known as a reliable international trading and business partner.

The title of Dmitri Trenin's chapter sums up the permeating theme of this book nicely, "modernization or marginalization?" Russia is doing fine in the short term, but it is heading down an unsustainable course. Although it faces no financial crisis and it emerged from the global economic crisis relatively intact, Russia has serious structural problems and needs major reforms in many areas. Trenin states that Russia's desire is to remain a great power which is difficult, but not impossible. And that the next ten years will be critical in determining Russia's fate.

The concluding chapter assesses that there is still a chance that Russia can maintain prominence on the global scale. It has plentiful natural resources and human capital that it can use to its advantage. Russia needs to address its corruption problem which is diseasing many aspects of the country: social, political, economic. The only thing hindering Russia is Russia. If it can change from its Cold War state of mind and launch reforms to modernize, its economy may just succeed in the coming years.

**Dmitri Trenin and Pavel K. Baev. “The Arctic: A View from Moscow”, *Carnegie Endowment for International Peace*, (2010),**  
([http://carnegieendowment.org/files/arctic\\_cooperation.pdf](http://carnegieendowment.org/files/arctic_cooperation.pdf))

In this article, Dmitri Trenin and Pavel Baev explore the implications of Russian policy in the Arctic. Trenin begins by warning that as competition over the Earth’s dwindling resources becomes more intense, the Arctic could become a source of conflict. While Russia is primed to be at the center of such a conflict, Trenin argues that the newfound interest in the Arctic could also present Russia with opportunities to cooperate with fellow Arctic countries and benefit economically. In a separate analysis, Baev concludes that Russia sees the Arctic primarily through a patriotic, rather than an economic, lens and that its aggressive approach to the Arctic is likely to bring it more risks than rewards. Together, the authors cover a number of important elements of Russia’s Arctic policy, outlining its potential to breed both conflict and cooperation, and suggest a number of insightful policy recommendations.

The paper begins with Trenin’s article entitled, “The Arctic: A Front for Cooperation Not Competition.” Trenin begins by discussing how climate change has transformed the Arctic from a region relatively free of political entanglements – “little more than a destination for scientific expeditions and home to limited economic activity” – to one that has moved to the very top of the international agenda. As Trenin discusses, the reason for this shift may lie with the melting polar ice caps which will make possible the exploration and exploitation of the Arctic’s natural resources – estimated by the U.S. Geological Survey to contain about 20% of the world’s oil and gas reserves.

A key issue which has come to the fore with the changing nature of the Arctic is the question of who actually owns the potentially vast resources in the region. As Trenin points out, unlike Antarctica, whose territory was the subject of a multilateral agreement concluded in 1959, the territorial status of the Arctic still remains very much disputed. While some expanses of territory have been claimed over the years, others have remained ownerless, “forming a ‘common zone’ in which various international corporations claim the right to prospect, develop, and extract natural resources.” This disputed status has been a source of conflict in recent years. In 2006, when a US company sent a letter to the Russian president claiming the right to explore, develop and extra oil and gas in a part of the ‘common zone’ claimed by Russia, Moscow decided to act. The following year, a Russian Arctic expedition planted a Russian flag on the seabed beneath the North Pole, inflaming public opinion in North America and Europe and creating fears of a Russian show of force in the Arctic.

Although these fears proved unfounded, as Trenin explains, the 2007 flag-planting incident revealed a great deal about how Moscow views the Arctic. According to an official document, approved by the Russian president in 2008, Russia views the Arctic as a strategic resource base that it can expand by delimiting the Arctic waters through diplomatic agreements. If Russia’s diplomatic efforts succeed, the paper concludes, by 2020 the Arctic will become “one of the Russian Federation’s leading strategic resource bases.” Much of Russia’s gas production already comes from areas that border the Arctic Circle and further projects are already being planned with Western cooperation. Importantly, the desire to secure resources in the Arctic has also led to an improvement of relations with Norway – after the two

countries settled a border dispute in the Barents Sea in April 2010 – and a ‘reset’ in relations with the US and Europe, which, according to Trenin, are now viewed by Russia “less as geopolitical competitors and more as external sources of Russia’s technological modernization drive.”

Although recent events provide some hope for cooperation among the Arctic powers in the polar region, Trenin stresses that relations will remain strained until clear rules of play are agreed upon. Of paramount importance is the question of boundaries. On this matter, most countries have fallen into two unequal groups. The first, larger group – which includes the U.S., Sweden and Finland (both of which do not border the Arctic Ocean), Britain, China and many other countries with no direct access to the Arctic – wants the region to be declared a common zone. The second group is comprised of four of the Arctic countries: Russia, Canada, Denmark, and Norway. These countries prefer to divide up the region amongst themselves. In order to resolve these conflicting views, the author suggests pushing for agreement on a particular code of conduct in the Arctic with provisions forswearing the threat of use of force, promoting political dialogue, conducting international scientific studies of the Arctic, strengthening international cooperation and establishing common regional systems uniting the resources of the five Arctic countries.

Despite this potentially dangerous rivalry over the Arctic, Trenin finishes on an optimistic note. He observes that, over the past few years, the Arctic countries have taken steps that testify to their goodwill. In 2008, the Arctic five signed the Ilulissat Declaration on cooperation in the region. Meanwhile, Russia’s relations with Denmark and Norway have warmed considerably, while its ‘reset’ with the U.S. has already started to bear fruit. Today, the declarations from Russia, Canada and other countries in 2007-08 concerning the status of the Arctic no longer seem relevant. If these trends continue, Trenin concludes, we are likely to see the Arctic as an area of increasing cooperation among regional powers in the future.

In the second article, “Russian Policy in the Arctic: A Reality Check”, Pavel Baev paints a less optimistic view of Russian policy in the Arctic. He begins by looking into the reasons behind the recent politicization of the Arctic. While the Arctic has traditionally been an area of little concern to major actors, Baev, like Trenin, believes that the reversal of this trend seems to have been initiated by renewed geopolitical interest in the Arctic as a result of the melting polar icecap. These circumstances have provided Russia with a new front on which to express what Baev describes as its “brash self-assertion” – an aggressiveness which has upset the peace among Arctic powers.

While the United States under the Obama administration has not taken a very strong stand on Arctic issues – with Washington’s policy essentially paralyzed by the conflicting priorities of environmental protection and extracting oil resources in Alaska – Russia has been bold in asserting its claims to the Arctic and its vast resources and has gone as far as to suggest that it would use military means to protect its dues. However, in Baev’s view, Russia’s militant posturing is not commensurate with its means and it is unlikely that a Russian militarization of the Arctic will ensue. Instead, Russia’s shows of force work only to aggravate its Arctic neighbors. Likewise, Putin’s call for a fleet of Russian icebreakers to serve the growing

shipping market in the northern ocean has not played out: in reality, Arctic shipping is not growing at all and Russia's merchant marine is ill-equipped to change this reality.

Another problem is that while influential publications by the US Geological Survey and others predict that the Arctic could contain 20-25% of the world's undiscovered hydrocarbon reserves, to date, "Not a single resource deposit of any kind has been discovered there" and plans to expand shipping in the region have been dashed by the global recession. Thus, as Baev points out, current competition over the Arctic could be "for the sake of something that does not even exist." Baev also notes that neither Gazprom nor Rosneft – the only companies permitted by Russian law to carry out production activity on the Arctic continental shelf – have made any serious efforts to explore the Eastern Siberian and Chukotka seas. Meanwhile, important Arctic projects which have already been approved – such as the Shtokman gas field project in the Barents Sea – have been fraught with delays. As a result, there has been a noticeable shift in emphasis in Russia's Arctic policy: "plans to develop resources as quickly as possible have given way to a desire to stake out maximum claims to territories as Moscow seeks to block competitors from oversupplying the market and ensure that its own capitalization keeps growing."

As a result of Russia's stunning lack of progress in the Arctic and its recent shift in policy, Baev doubts the accepted wisdom that its interest in the north is motivated by economic pragmatism. He argues that, while the lure of the Arctic's 'countless resources' is no doubt attractive, Moscow's real interest in the north is rooted in Russia's desire for sovereignty over a region that it has tried to conquer since Stalinist times. He supports this view by pointing out that Russia's Arctic ambitions – which involve expensive plans to extract as-yet undiscovered resources from extremely remote locations – stand in sharp contrast to Moscow's overall strategy of economic modernization and efficiency. Patriotism not pragmatism, Baev concludes, is the true motive behind Moscow's Arctic ambitions.

In the final section of Baev's analysis, he examines four of the main elements of Russia's present involvement in the Arctic: the demonstration of military power, above all by increasing the Northern Fleet's forces, the accelerated development of new oil and gas fields and offshore fields, the expansion of Russia's exclusive economic zone beyond the standard 200-mile limit (by obtaining approval from the United Nations Commission on the Limits of Continental Shelf), and increased cooperation with the Arctic countries in environmental protection.

Baev demonstrates that, as of 2010, serious problems have emerged in all four areas due only partly to the global economic crisis. The author determines that Russia's military weakness coupled with the current lack of desire among Russia's oil and gas companies to explore or invest in the Arctic, leaves Russia with few real means of asserting its sovereignty in the region. With Russia's attempts to gain official recognition from the UN of a Russian economic zone in the Arctic extending beyond the 200 mile limit also having failed, Baev suggests that sound scientific research may be one of the only weapons Russia can use to back up its Arctic claims. In his final appraisal, Baev concludes that, for the time being at least, the Arctic may offer Russia more potential risks than rewards and that Moscow would do best to steer clear of hostile confrontations in the region.

**Peter Havlik. “European Energy Security in View of Russian Economic and Integration Prospects”, *Vienna Institute for International Economic Studies*.(May 2010)**  
(<http://publications.wiwi.ac.at/modPubl/download.php?publ=RR362>)

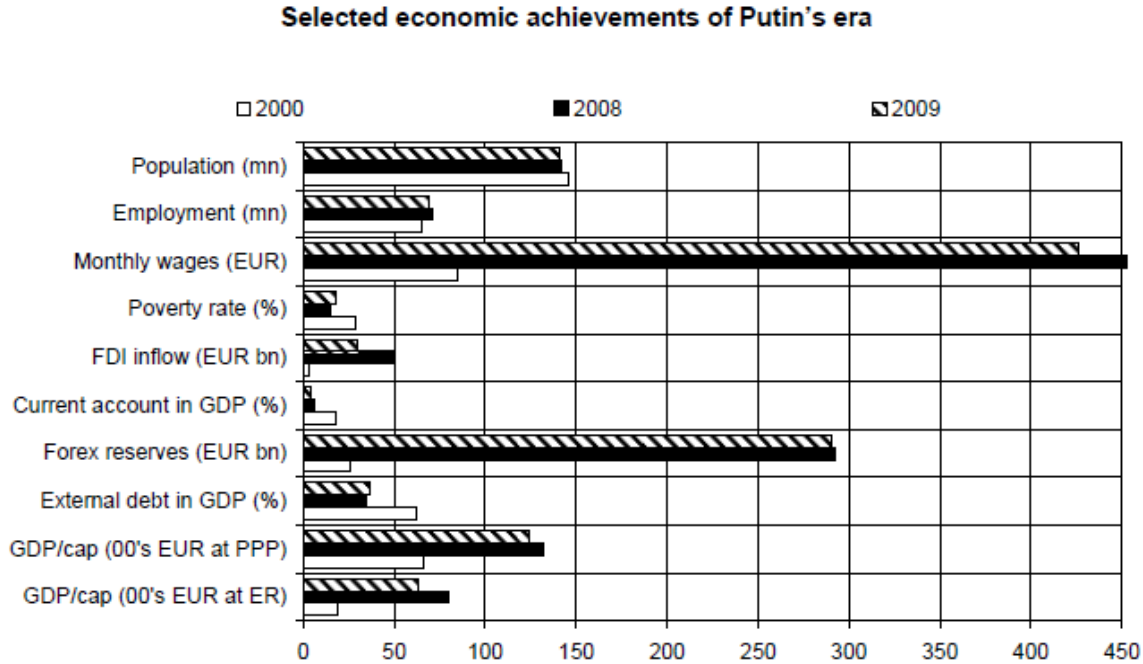
Surging energy prices have been at the root of the last decade’s economic surge. The paper sets out to analyze the role of energy in economic growth in Russia, and then explore how this affects Russia’s integration into the global economy. Havlik argues that Russia will continue to be dependent on energy exports and is unlikely to diversify its economy. European energy security is challenged by both Russia’s supply and its ability to deliver energy to markets, placing an emphasis on the importance of energy transport. Such concerns can only be addressed by cooperation between the EU and Russia, and Havlik refers to several studies by the World Bank in his analysis.

Havlik begins by summarizing macroeconomic events in Russia in the past decade. After the 1998 financial crisis, GDP grew (above 8% in 2007 and 7% between 2003-2007) mostly as a result of surging energy prices. The current financial crisis revealed Russia’s economic vulnerability due to dependence on energy exports. In 2009, GDP contracted by 8% with falling investment, although real contributions of foreign trade were positive after several years in 2009. After steep depreciation between 2008-2009, the ruble has strengthened since mid-2009, as “oil prices, export revenues and foreign exchange reserves started to recover.” In response to the recent crisis, like the US and EU, the Russian government also initiated stimulus packages after 2008 in order to improve banking liquidity and confidence. This led to a 5% deficit in budget, “but their effects are hard to measure – judging by the sharp fall in consumption and investments they had been rather disappointing.” Investments continued to fall during 2009 (~20%), steep even compared to other transition countries.

The author suggests that domestic political factors may have impacted the 70% fall in the Moscow stock market between May 2008 and January 2009, including plummeting prices of blue chip companies. These factors include the gas conflict with Ukraine in 2009 and the war with Georgia in August 2008. However, there is a distinct possibility that most of the effects on the stock market were a result of overreaction, and somewhat exaggerated because of economic “overheating” following the accelerated economic growth of the previous decade, which included paying off almost all of the country’s outstanding public external debts, accumulating foreign exchange reserves, and improving parameters of infrastructure, health and education. Figure 2 (included below) shows the extent of economic growth between



2000-2008 in terms of poverty rate, FDI inflow, current accounts, and external debt.  
 Figure 2

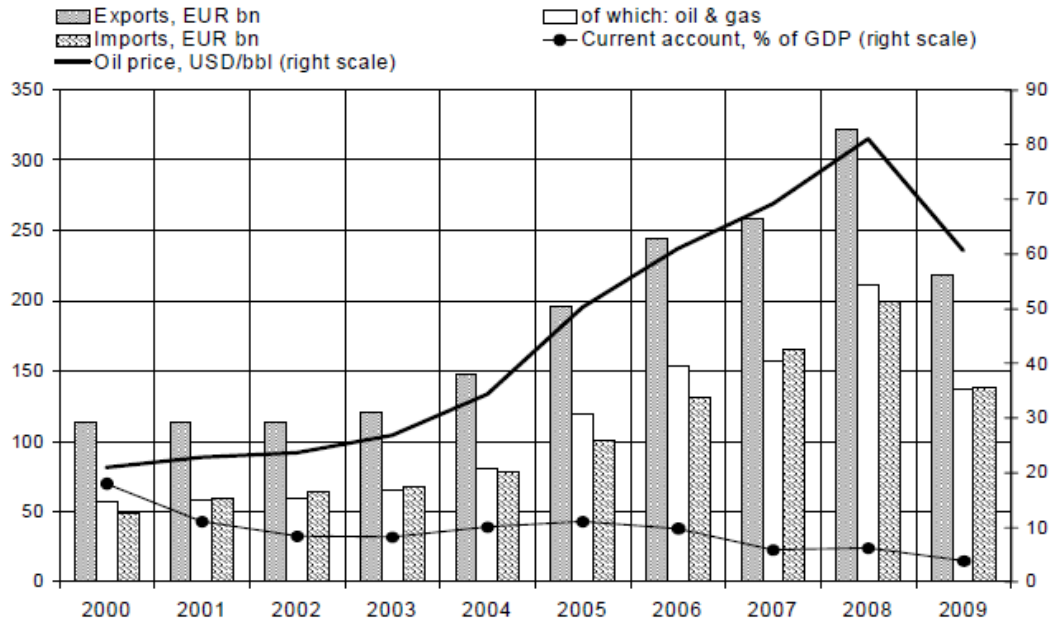


Source: ROSSTAT, CBR, own calculations.

Surging energy prices are at the root of much of the economic boom of the last decade. Revenue from energy exports have been making up a growing share of total revenues from exports (40% between 1995-1998 compared to 60% between 2004-2006), and falls and surges in energy prices have been accompanied by parallel falls and surges in the portion of total exports contributed by energy revenues (this is depicted in Figure 3, below). However, recent increases in consumption and imports have overridden the increases in energy prices. In Box 1 Havlik explains. “Russian GDP growth has been driven since 2004 by booming private consumption and investment. At the same time, the growth effect of real net exports (exports minus imports, both at constant prices) has been negative because the volume of exports is growing at a slower pace than that of imports...”

Figure 3

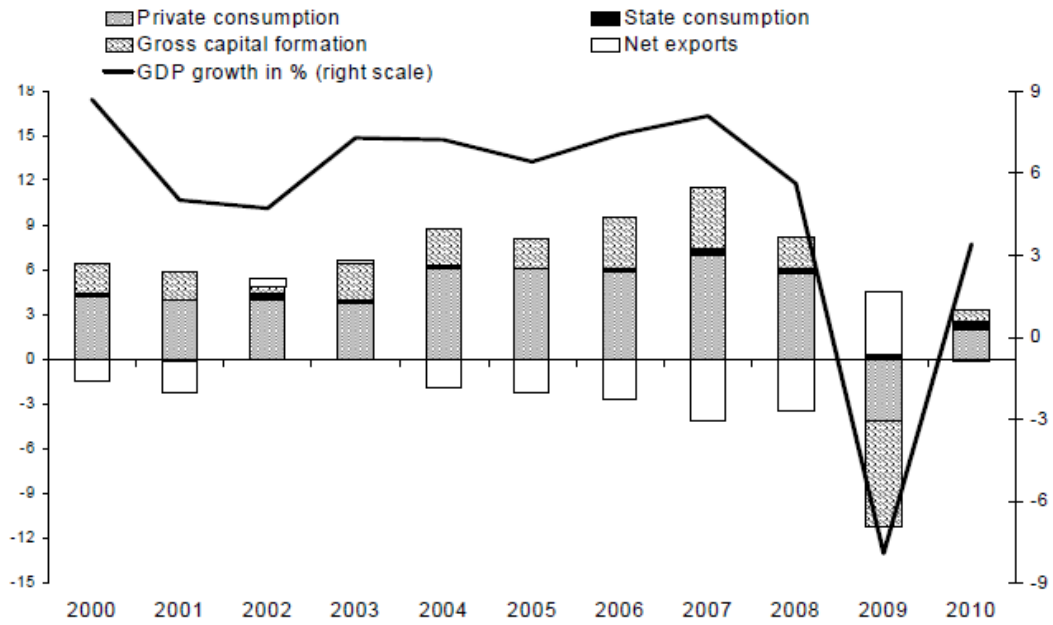
### Russian external sector and oil prices



Source: ROSSTAT, CBR, own calculations.

Figure 4

### Drivers of Russian GDP growth (contributions of main components in pp)



Source: ROSSTAT, own calculations.

The budget plan for 2008-2010 was set to make several changes in economic policy. Notably, the budget was to depend less on energy revenue, and as a result, the share of budget/GDP was expected to fall by 5% between 2007-2010. In addition, state expenditures were to increase during the same period. Before these plans could have cut into the budget surpluses of the previous decade, the global crisis exposed the overdependence on energy. Even in 2009, GDP contracted by almost 8%.

During the crisis, many anti-crisis measures centered on improving liquidity and supporting the exchange rate. More than \$200 billion in reserves were released in 2008 to this end, and the state-owned Vneshekonombank extended no-collateral loans and credit for the refinancing of short-term foreign loans. Nevertheless, this increased role of the state in the economy has led to predictably concerns about corruption, misappropriation, and ineffectiveness. “[The] anti-crisis measures may have cost about 10% of Russian GDP but their effects are hard to measure. Judging by the huge fall of GDP and investment one has the impression that the additional spending was largely squandered.” In spite of the fragile signs of recovery in late 2009, it appears evident that a medium-term GDP growth slowdown is to be expected before any (if at all) modernization or diversification take place.

The state-sponsored Industrial Policy, initiated in early 2008, intends to support public-private partnerships in heavy manufacturing (ships, airplanes, automobiles), and high-tech industries. President Medvedev laid out five priority modernization areas that needed to be rectified (quoted directly from the article).

1. Leadership in the efficiency of the production, transportation and the use of energy.
2. New developments in the field of nuclear technology.
3. Development of information technologies.
4. Earth- and space-based infrastructure for broad information services.
5. Development of medical equipment, diagnostic and pharmaceuticals for the treatment of viral, cardiovascular, cancer and neurological diseases.

Havlik echoes Medvedev’s concern in that the main challenge facing the Russian economy is replacing energy exports with the development of other sectors, as well as coping with the demographic crisis. In August 2008, the Ministry of Economic Development and Trade put together an “innovation scenario” which shows the possibility over the next decade of heavy diversification away from energy reliance. This vision involves investment in transport infrastructure, health, education, and improving the investment and entrepreneurship environment. The continued reliance on energy would result in an alternative scenario, leading to lower GDP growth rates in the medium to long term.

Especially after the 2008 war with Georgia, the possibility of the “innovation scenario” actually occurring have diminished. Havlik expressed concern that recent worsening of relations with the West will only further hinder the likelihood that Russia will undertake economic reforms in the future, and even less likely that Russia will be allowed into the WTO (even if it desires to join the WTO, which is still questioned). Later in the article, Havlik suggests that Industrial Policy (IP) tools are taking a priority over WTO accession in Russian policy, favoring protectionist and anti-reform practices over free trade negotiations with the

EU. Thus, accession into the WTO is unlikely to take place, especially in the context of worsening EU-Russia relations following the 2008 war with Georgia.

It is even less likely that the “innovation scenario” will take place outside of the WTO. Moreover, the postponement of the EU-Russia Partnership Agreement in 2008 also does not bode well. “Paradoxically, both types of Western ‘sanctions’ (delaying WTO and OECD accession, suspending talks about the new Partnership Agreement) not only further weaken the position of liberal reformers in Russia, but also diminish the success chances for an ‘innovation-based’ development strategy.”

Since 2004, private consumption had been driving GDP growth, while import volumes were surging in comparison to exports. Before any modernization occurs, GDP slowdown seems inevitable. Havlik’s forecast for 2010 assumes a modest recovery in energy prices. His most urgent concerns relate to the dangers of Dutch Disease and “the gradual erosion of cost competitiveness,” which results from appreciation of the ruble and growth of wages accompanied by only minor improvements in productivity. In other words, labor cost was growing without an associated increase in productivity –unit labor costs rose 20%/year during the last decade. This combined with rising local production costs, according to Havlik’s analysis, have made manufacturing in Russia too expensive to be competitive – perhaps a factor behind Russia’s reluctance to join the WTO.

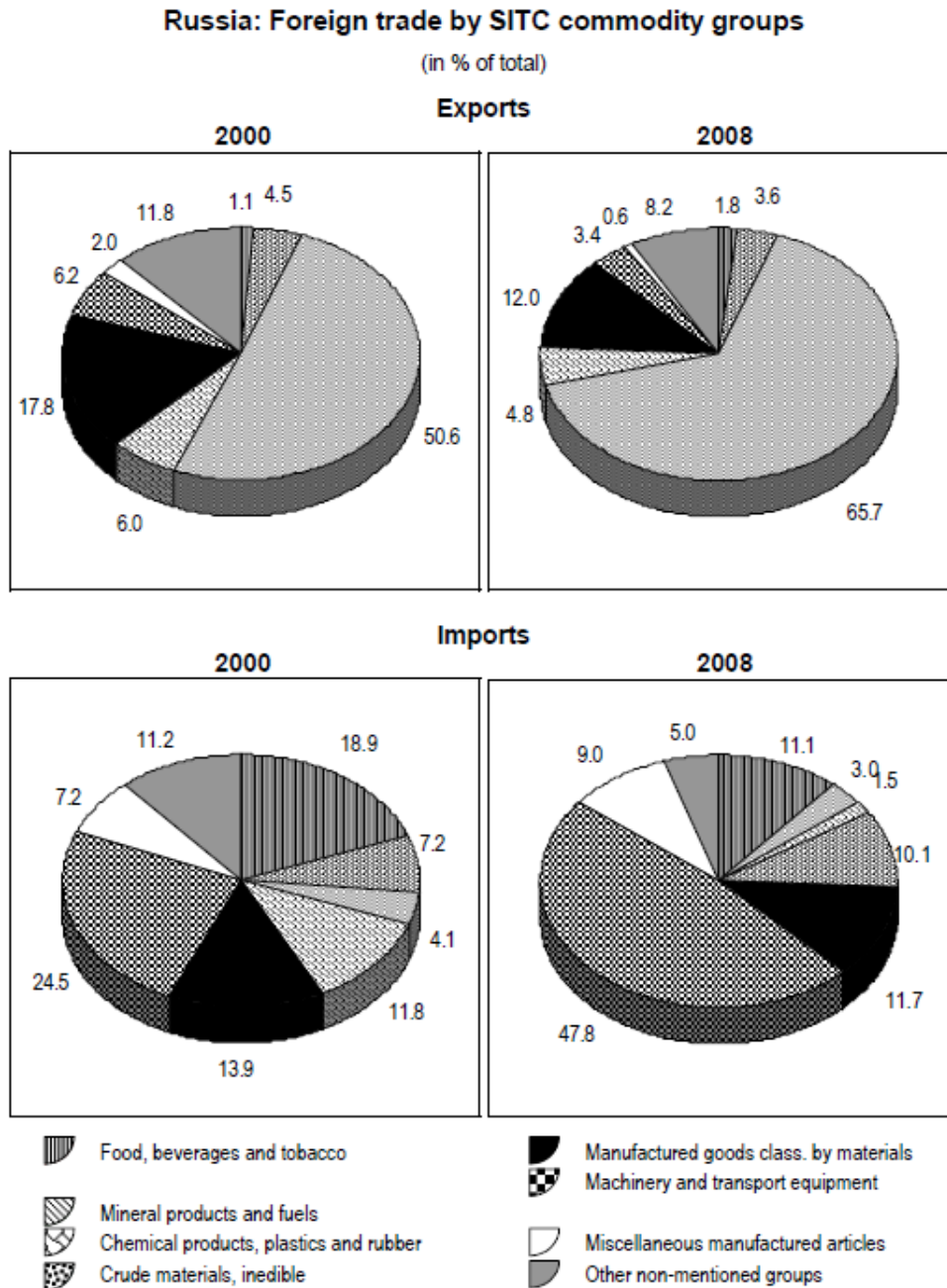
Havlik predicts a resumption in growth, although slower growth than expected, in 2010. As explained earlier, export growth will be negligible and overshadowed by growth in imports, leading to a reduction in current account surpluses. Havlik also predicts that labor shortages resulting from the demographic crisis will bring growth altogether to a stop.

Of the many problems facing EU-Russia relations and European integration, Havlik focuses on two: energy and energy security relationships and the “contest” over the post-Soviet space. He argues that “it is not only the physical availability of energy (production, transport infrastructure and exports) which affects the security of European energy supplies, but also prices, the existence of alternative markets and the willingness of suppliers and buyers to deal with each other.” As such, diversification of energy sources and transport affects Russia and the EU by encouraging competition.

Currently, more than half of energy exports from Russia end up in the EU (with about two thirds of these exports being mineral fuels), although relatively little of overall EU imports (4.2%) come from Russia. As such, it may be that Russia is more dependent on the EU. Additionally, the EU is interested in a freer Russian market, in part because of its large trade deficit with Russia.

The EU is very dependent on energy imports (80% of its oil and 60% of natural gas comes from outside the EU, and more than one third of its oil and 40% of gas comes from Russia).

Figure 9

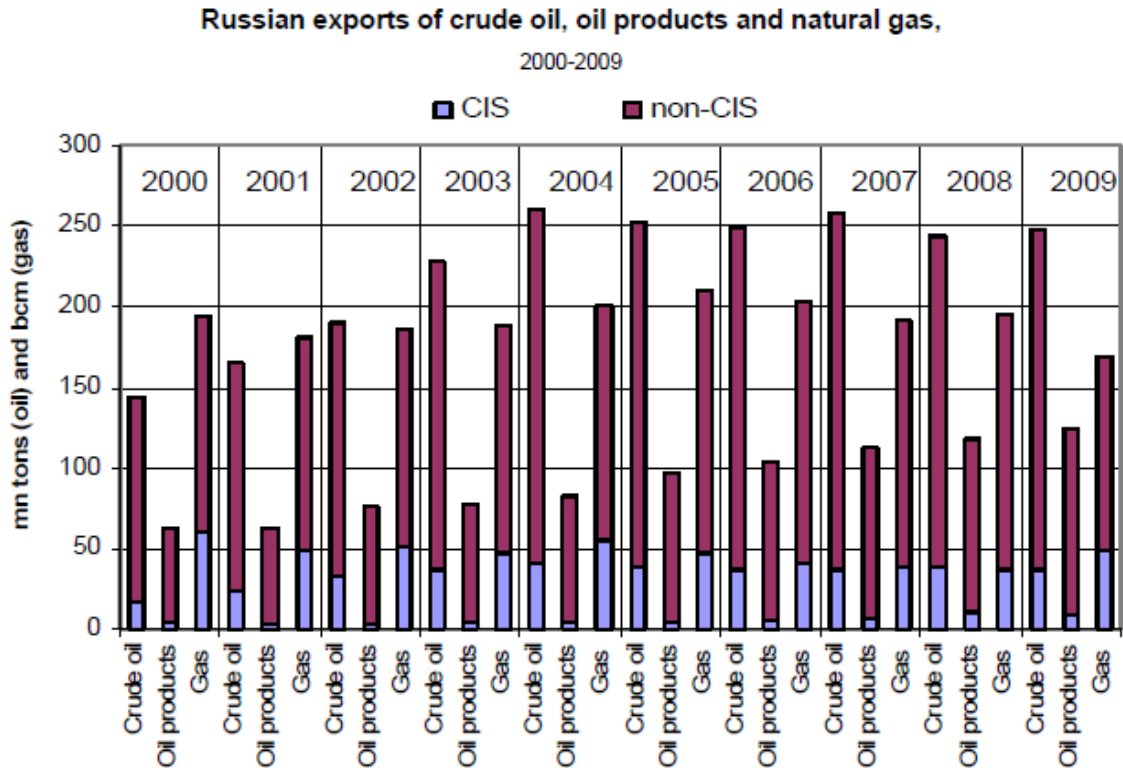


Source: ROSSTAT, own calculations.

In fact, West Europe's dependence on Russian energy has increased between 2000 and 2008. In view of this increasing dependence, energy has been seen as a *strategic* element and state involvement has substantially increased in the management of domestic natural gas supply (both Gazprom and independent crude oil producers) by means of reversing earlier privatization deals.

Russia is perhaps more dependent on the EU market for its exports (56% of overall exports go to the EU) than the EU is on Russia. This interdependence is likely to continue into the future because there are almost no other alternative supplies available to the EU easily, and very few other alternative markets for Russia. However, it is questioned whether Russia will be able to meet the growing energy demands of the EU.

Figure 12



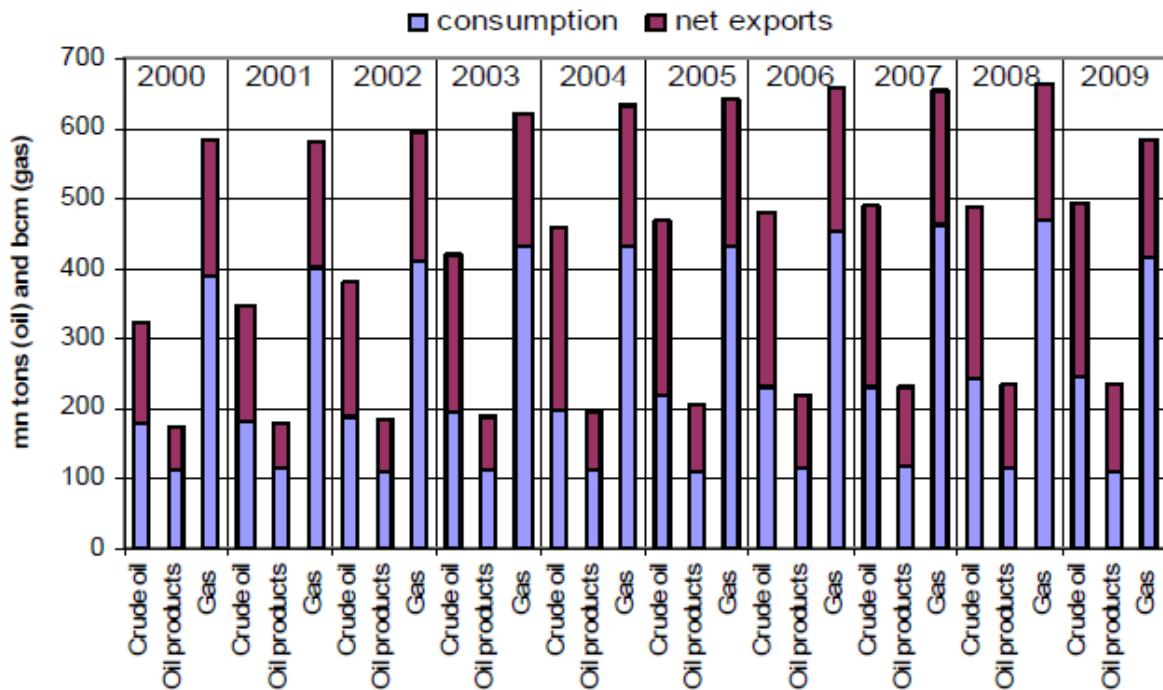
Source: ROSSTAT, CBR, own calculations.

The previous image illustrates how little of Russia’s energy exports are destined for CIS countries. Box 2 highlights changes in the CIS energy sector, namely, the fact that oil extraction in CIS countries has been stagnating during the past few years. Havlik highlights that over the last decade, Russia has exported half the crude oil produced domestically and only one third of the natural gas domestically extracted. In this same period, domestic energy consumption also increased, but only modestly — BP estimates that energy consumption increased only 9.5% between 2000 and 2008, while GDP doubled in the same time. The following figure illustrates the relationship between domestic consumption and exports.

Figure 13

**Russian crude oil, oil products and natural gas; domestic consumption and net exports**

2000-2009



Source: ROSSTAT, CBR, own calculations.

Recently, possibly due to the economic crisis, the Russian energy sector has been rather turbulent, leading to reassessments of the future of supplies and demand. In 2009, European gas demand dropped by 4% and total gas imports dropped by 2%. Havlik expects that in 2010, the portion of Russian gas imports will rise by 3% to 43% in 2010. However, new discoveries of non-conventional energy sources in the US and Canada as well as new gas fields in the Arctic may lead to some rearrangements.

Havlik questions whether extraction is declining in Russia. Russia, in addition to being a producer, is also the third largest energy consumer in the world. Havlik predicts that, “Improvements in the efficiency of Russia’s domestic energy use would apart from environmental benefits, potentially release more energy resources for exports and compensate the likely fall in extraction (this applies particularly to gas, oil and oil products – see Figure 13).” In other words, improvements in energy efficiency (mostly in the form of residential heating and industrial) could be much easier to finance than equivalent improvements in energy production. The World Bank estimates potential energy savings of 45% in residential consumption and 41% in industrial consumption in 2030.

In the geopolitical energy game, transport routes for energy are currently of strategic importance. Those linking Russia and its Caspian producers with EU markets compete with the planned Nabucco pipeline projects led by Austria. Just as the EU is looking to diversify its energy sources so as not to depend on Russia, Russia is also attempting to secure its position as the key energy supplier while bypassing certain transit countries (Belarus, Georgia,

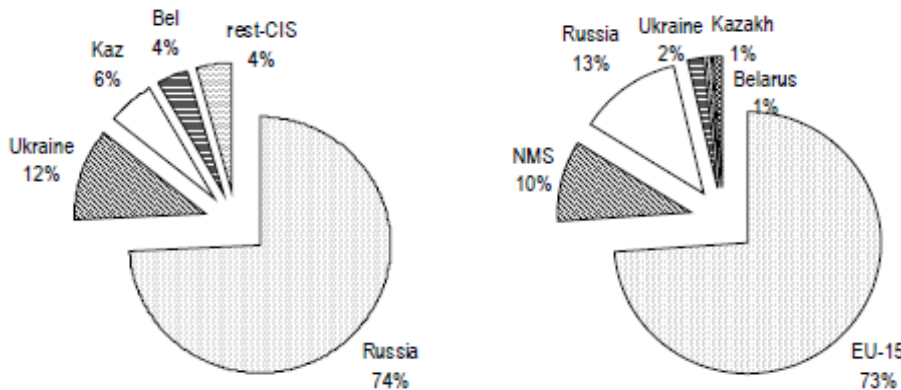
Ukraine and the Baltics). Havlik believes that Russia will prevail because the EU lacks a common energy policy and disunity among individual states will likely bring no consensus; the Baltic States and Poland are less likely to cooperate with Russia than are Germany, France, Italy and Hungary. Havlik briefly explores conflicting positions within the EU regarding the Nord Stream project and relationships with Russia. The South Stream and Nabucco projects also are surrounded by controversy, and are particularly vulnerable because of the involvement of Iran (Nabucco). Conflicts such as the Russia-Georgia conflict are also likely to be perceived as more dangerous by Western European players, and further encourage diversification of energy sources.

Several issues unrelated to energy have also recently putting strains on the EU-Russia relationship. This includes the EU’s eastward expansion and the Eastern Neighborhood Policy (ENP), which both are perceived as a threat to Russia’s sphere of influence. The ENP also amounts to a “strategy for creating an advantageously dependent periphery in the regions bordering the EU.” On the opposite side, there are several projects aiming to integrate the post-soviet space such as the CIS, the Common Economic Space (CES) and others. It is also clear that President Medvedev prioritizes CIS integration.

Regarding economic bargaining power as a result of competing efforts for influence in the post-Soviet space, “owing to its economic strength, the EU-15 is by far the biggest trading partner of the NMS and Russia, whereas the latter are much less important for the former ...Russia’s strategy to negotiate bilaterally with individual EU member states (e.g. on energy issues) is thus perfectly rational, since it reduces the economic overweight which the ‘unified’ EU as a whole would otherwise enjoy in Europe.”

Figure 14

Comparing economic size: Russia in the CIS vs. EU-15 in Europe, year 2008



Source: CISSTAT, EBRD, Eurostat and own estimates.

In light of its growing economic strength and increasing investment flows, Russia is once again becoming a more important economic partner for CIS countries. This and Russia’s growing assertiveness and hopes to restore its influence increases the suspicion of Baltic States of Russia’s intentions regarding energy supplies.

In spite of the recent crisis, Havlik is optimistic that economic integration will continue, but not very optimistic about how much the current process of integration reflects economic



realities. Havlik expresses his opinion on the process integration as follows: the “institutional framework for doing business in a wider Europe is in a clear mismatch with economic reality, challenging not only the future European integration but also its competitiveness in the global economy.” The uncertainty of the contractual relationship between the EU and Russia (with the Partnership and Cooperation Agreement expiring in 2007 with no real replacement), the recent increased economic strength of Russia and its growing assertiveness in restoring influence in the post-Soviet space may make economic coordination difficult. Havlik argues that the EU, being the stronger of the two in this relationship, should take the initiative to lead this process. However, there is another argument that Russia should integrate its own post-Soviet space (i.e. the Common Economic Space) because its interests are different from both those of the NMS and the CIS. “However, before that were to happen, Russia would have to change its sturdy behavior towards its potential integration partners, offering incentives for such an integration project instead of threats when the potential partners are hesitant.”

Havlik includes the following quote from an open letter written to President Obama in 2009 following the announcement of the “Russia reset.” The letter expresses anxieties that the United States will not continue efforts by the EU to secure its energy supplies via the Nabucco pipeline project, the Baku-Tbilisi-Ceyhan pipeline, and other diversification efforts. The entirety of the selection is included below:

“The threat to energy supplies can exert an immediate influence on our nations' political sovereignty also as allies contributing to common decisions in NATO. That is why it must also become a transatlantic priority. Although most of the responsibility for energy security lies within the realm of the EU, the United States also has a role to play. Absent American support, the Baku-Tbilisi-Ceyhan pipeline would never have been built. Energy security must become an integral part of US-European strategic cooperation. Central and Eastern European countries should lobby harder (and with more unity) inside Europe for diversification of the energy mix, suppliers, and transit routes, as well as for tough legal scrutiny of Russia's abuse of its monopoly and cartel-like power inside the EU. But American political support on this will play a crucial role. Similarly, the United States can play an important role in solidifying further its support for the Nabucco pipeline, particularly in using its security relationship with the main transit country, Turkey, as well as the North-South interconnector of Central Europe and LNG terminals in our region.” Havlik asserts that the continuation of competition for integration of the post-Soviet space into either the EU space or the Russian economic sphere will be disastrous, and it is a futile endeavor. Thus, there is a great need for a more constructive approach to a common integration of the “near abroad.” Havlik concludes that energy cooperation will be a key component of this approach.

**Adnan Vatansever, “Russia’s Oil Exports: Economic Rationale Versus Strategic Gains”, *Carnegie Endowment for International Peace, Energy and Climate Program*, No. 116, (December 2010), ([http://carnegieendowment.org/files/russia\\_oil\\_exports.pdf](http://carnegieendowment.org/files/russia_oil_exports.pdf))**

In recent years, Russia – the world’s largest oil producer since 2009 – has been vigorously pursuing the development of new outlets for its oil exports. In this article, Adnan Vatansever, a senior associate at the Carnegie Endowment’s Energy and Climate Program, examines the motives behind the expansion of Russia’s export capacity, considers the implications for the US and its allies and concludes by suggesting some policy recommendations for Washington.

Vatansever begins by providing a brief history of the Russian oil export industry, focusing on the disastrous aftermath of the Soviet collapse and the return of Russian oil power in the 2000s. As Vatansever points out, oil has a long history in Russia. It was one of the earliest countries to produce oil and has been a leader in the industry ever since. However, the collapse of the Soviet Union coincided with a comparable collapse in Russia’s oil sector and by 1996 production had plummeted to almost 50% below its 1987 peak. However, the end of the decade saw a resurgence in oil exports as a result of the restructuring and privatization of the industry, increased use of Western technology and rise in world oil prices after 1999. For decades, oil exports have been a paramount source of hard currency for Moscow as well as a tool used by Russia to maintain its sphere of influence in Eurasia.

After the Soviet collapse, privatized Russian oil companies redirected crude oil exports away from the countries belonging to the Commonwealth of Independent States and towards more lucrative markets in Europe. At the same time, the post-Soviet drop in consumption, which remained into the 2000s, resulted in a huge increase in the volume of exported oil. As Vatansever points out, there has also been a gradual shift in the geography of Russian oil production: once focused in the Volga-Urals region in southern European Russia, it shifted to West Siberia in the 1970s, while recent years have seen a gradual shift of production further afield to East Siberia, the Far East and the Arctic.

In 2009, for the first time since 1991, Russia emerged as the world’s largest oil producer, accounting for 12.5% of global output. In 2009, Russia produced 494 million tons, 102 million more tons of oil than was exported in 2000. This growth was largely driven by the rapid surge in crude oil production and the limited growth of domestic consumption during this period. The 2000s also witnessed a considerable redirection of export crude oil flows from traditional outlets – such as the Druzhba Pipeline and ports in the Baltic states – to newer outlets within the Baltic Pipeline System such the Russian port of Primorsk, now the site of the largest oil terminal in the Baltic Sea, and outlets such as the East Siberian – Pacific Ocean (ESPO) pipeline in the Far East.

Although the bottlenecks that sometimes hindered Russian oil exports in previous years no longer appear to be an issue, Russia is nevertheless pushing on with dramatic new infrastructure projects. Vatansever points to the start of construction on the Baltic Pipeline System II and the completion of the Chinese branch of the ESPO as new milestones in Russian export capacity. But even with these two massive projects already underway, Russia has further projects in the planning including the Bourgas-Alexandroupolis Pipeline (BAP) –

running through Bulgaria and Greece and bypassing the Turkish straits – and the Samsun-Ceyhan Pipeline through Turkey. In addition, in August 2010, a Russian tanker crossed the Arctic Ocean from the Barents Sea to deliver crude oil to China, suggesting that further development in the Arctic may also be in the books. With ESPO, BPS-II and even half of the proposed maximum capacity of BAP and Samsun-Ceyhan, Russia's additional export capacity could be well above 200 million tons by the end of the next decade.

The scale of this project is enormous, so big that it calls into question the economic rationale beyond such a large expansion of Russian export capacity, particularly when the prospects for substantial growth in Russian oil production are weak. However, Vatansever argues that, 'when examined individually, Russia's pipeline projects do offer some economic benefits.' ESPO may be an important response to global oil market trends and will help ensure that Russian oil is delivered to the vast population centers of Asia where there is the most growth in demand, while the BAP and Samsun-Ceyhan Pipelines could work to reduce Black Sea congestion by bypassing the Turkish straits.

Nonetheless, when viewed as a whole, the economic rationale for Russia's new drive is limited. Firstly, Russian oil production is unlikely to increase significantly: Russia estimates that production will increase by only 40-45 million tons by 2030, while the International Energy Agency actually predicts a decline by this time by as much as 50 million tons. Meanwhile, even though the geography of Russia's oil production is moving towards East Siberia and the Far East and Russian planners are predicting a boom in Asian demand for Russian oil, ESPO's planned capacity is simply too large. Most experts agree that the recoverable reserves in eastern Russia are not sufficient for ESPO to operate at full capacity. This will require substantial volumes of West Siberian crude, causing existing pipelines in Europe to compete with ESPO for these reserves. As a final point, Vatansever notes that the already high running costs of the Russian oil industry (due largely to the transportation costs incurred by the country's vast geography) are likely to rise still further as the next generation of oil will be harder to extract and will require substantial new investments.

The problems of having an excess export capacity could be alleviated by one of two methods. Firstly, Russia could adopt comprehensive reforms to promote development and investment. With enough luck, this could lead to a breakthrough in oil production that could keep the network fairly well utilized. Second, Russia could increase its crude oil exports by adopting strict domestic energy efficiency measures, particularly in transportation. However, Russia already lags behind most developed countries in the area of hybrid and energy efficient vehicles and the likelihood of a significant rise in the current level of car ownership could further complicate this strategy.

Put simply, "when Russia's oil geology and economics are put together, the possibility for unused export capacity in the future remains strong." However, as Vatansever explains, there may be significant strategic gains from such projects. For example, ESPO will help Russia position itself as a strategic energy partner with China, aid in the development of the largely unpopulated areas of the Russia Far East and allow Transneft, the state-owned business responsible for ESPO, to maintain its grip on the oil sector as a whole. Meanwhile, BPS-II will bring additional export capacity that will further improve Moscow's room for

maneuvering in negotiations with the West. It will also reduce dependency on the Baltic republics and Ukraine, providing a buffer against potential political fallout with these countries.

The implications of Russia's new pipeline network on the United States and its allies will be significant. As a result of Russia's new projects in the Far East, growing volumes of Russian crude oil have already started reaching the west coast of the US and this may increase in the future. Russian oil could help the US to acquire greater diversity, but, according to Vatansever, this would have only a limited effect on US energy security, which will remain dependent on changes in the global market. European importers and transit countries would also be affected. As Russia exports more oil to Asian and US markets, competition for Russian oil in Europe is likely to grow more intense. Meanwhile, Russia's current transit countries "will feel the heat of its growing ability to shift its crude oil exports to alternative destinations." Elsewhere, in prospective transit countries such as Bulgaria and Turkey, where negotiations for crude oil pipelines are still underway, Russian projects have begun to clash with other projects supported by European Union governments and the US. In these areas, Russia's projects are likely to succeed only if it can guarantee crude deliveries and Kazakh oil will likely be needed if Russia's pipelines are to reach full capacity.

Vatansever concludes his discussion by offering a number of policy recommendations. He argues that Washington's interest lies in promoting "transparency, stability, and predictability" and that these goals could best be advanced through active diplomacy in three key areas. Firstly, in order to promote transparency and predictability, Washington should strive to establish a platform for sharing information on oil production and export trends in Russia and the Caspian Sea region. It should work to convince Russia that maintaining uncertainty in regards to its pipeline projects will not be in its long-term interest. Second, in order to promote greater stability, the US should support Kazakhstan, a country which is likely to emerge as a major global oil supplier in the future, by pursuing stable export routes for the growing volumes of Kazakh crude oil. Finally, Vatansever, recommends that Washington support initiatives aimed at reversing the direction of the Odessa-Brody line (towards Central Europe) which would help Europe access Caspian crude, give Caspian exporters such as Kazakhstan more flexibility and increase the energy security of Eastern and Central European countries.

**Christophe-Alexandre Paillard. “Russia and Europe’s Mutual Energy Dependence,”**  
*Journal of International Affairs*, Vol. 63 No. 2, (Spring/Summer 2010)  
([http://jia.sipa.columbia.edu/files/jia/65-84\\_Paillard.pdf](http://jia.sipa.columbia.edu/files/jia/65-84_Paillard.pdf))

In this article, Cristophe-Alexandre Paillard seeks to assess current trends in the Euro-Russian gas trade as a basis on which to provide a set of policy recommendations for the European Union. Although Europe will inevitably become increasingly reliant on Russian gas imports over the next two decades, Paillard finds that Russia is even more dependent on Europe's energy market, to the extent that it poses a serious liability. He goes on to claim that the continued stability of the energy trade constitutes a security concern for both sides going forward, exacerbated by the current lack of any cohesive European policy on the matter.

Paillard preliminarily establishes that in the next twenty years natural gas will become more important as an energy source for Europe, and that Russia will predominate as the continent's supplier. With the construction of new gas-run power plants over the next two decades, by 2030 natural gas will come to represent between 22% and 29% of global energy supplies, becoming Europe's second-most-important energy source. Paillard goes on to cite the European Commission's 2008 Second Strategic Review in forecasting that Europe will remain reliant on gas imports until 2020. Of Europe's major gas suppliers, Russia is by far the largest, exporting 121 billion cubic meters of gas to EU countries in 2007. Norway – the only other European exporter – falls second at 86 billion meters, with the North Africa and Middle Eastern countries trailing far behind.

While European demand for gas is expected to increase, the European Union's domestic gas production is already declining; having peaked in 2008 for all of the EU's member countries (Norwegian output was forecast to enter a steady decline around 2011). Based on current trends, Europe will only be able to supply two-thirds of its own demand by 2015, and less than 25% by 2025.

With Europe's domestic supplies failing amidst rising demand, Paillard reasons that the future of European gas supplies depends on three new pipelines: the Russian-backed Nord Stream and South Stream pipelines, and the Turkish Nabucco pipeline. Nord Stream, to be completed in 2012, will supply 27.5 billion cubic meters (bcm) from Russia to Germany, while South Stream is projected to be completed in 2015, carrying 63 bcm to Southern Europe via the Black Sea. Nabucco, the only non-Russian of the three, is forecast to be completed in 2015, carrying 31 bcm of Azerbaijani gas from Turkey to Austria. However, Paillard reckons the Nabucco scheme to be “overly optimistic,” as it requires some degree of Iranian cooperation which is unlikely to be forthcoming, and Azerbaijan could potentially defect to the South Stream project, scuppering Nabucco in the process. Given this paucity of alternate suppliers, Paillard expects that Russia's share of the European Union's gas imports – currently around 25% – will grow rapidly over the next several years, reaching 55% by 2020.

However, Paillard goes on to assert that Russia's growing share of the European energy market is symptomatic of the crippling under-diversification of the Russian economy,

resulting in a dangerous reliance on energy exports to the West which Russia has failed to address. Paillard identifies “four realities” governing the Russian energy trade .

Energy is the only “reasonably efficient” sector of the Russian economy. Paillard cites Medvedev in September 2009, acknowledging that Russia's “habit of relying on the export of raw materials” and importing finished products has left Russia economically backwards. This leaves Russia with very few alternative revenue streams, forcing Moscow to sell at high prices.

Europe is an unavoidable partner. The European market consumes 90% of Russia's total gas exports and 60% of its crude oil, which make up only 25 and 15% of Europe's total demand, respectively. Russia presently does not have any viable alternative markets remotely equal in size to Europe. Dependence is a two-way phenomenon. “40% of Russian public money” comes from the sale of oil and gas to Europe, and at least 75% of Russian export revenues are linked to the EU's energy market in general. Without any extant alternative markets to exploit in the near-term, Moscow requires European gas revenues to preserve its own financial solubility.

Energy overshadows other concerns. Paillard believes that while the energy trade has, in the past, been “part of a game of blackmail, lies and fear” between Europe and Russia, its new status as a “question of life or death for Russian revitalization” and its importance to Europe's economic growth mean that neither side can afford to use gas supplies as leverage in other international concerns. In Paillard's estimation, Brussels and Moscow both regard issues such as human rights or the Chechen conflict as not being worth risking the energy trade over. Therefore, Russian and the European Union are inextricably bound to one another by their mutual dependence on the energy trade. Russia cannot absorb the financial consequences of interrupting the EU revenue stream, while the European Union cannot do without Russian gas supplies. Europe has few alternative suppliers, and cannot develop alternative energy sources in the near term. Russia, meanwhile, is unlikely to be able to diversify its economy or target new markets any better than it has in the past.

Having established that Russia's under-diversification is a defining factor in the European energy trade, Paillard next seeks to analyze and explain the reasons underlying the energy sector's persistent preeminence in the Russian economy. Paillard characterizes Russia's oil, mineral and gas-reliant economy of the post-Soviet era as suffering from “a form of Dutch Disease.” This fundamental weakness was laid bare following the 2008 financial crisis, but while Medvedev acknowledged the inherent problems of his country's under-diversification, Paillard does not believe Russia is interested in diversifying away from energy. Indeed, Russia's over-reliance on gas is the result of Moscow's own calculation that gas will become ever more important over the next twenty years, a calculation which prompted the Putin administration to undertake a reorganization of the oil-and-gas sector between 2003 and 2008 in order to take advantage of the ascendance of gas as an energy source.

As a consequence of this worldview, Paillard writes that the Russians took steps to gain control of all three sectors of the gas trade – upstream, transit and downstream. Control of upstream processes occurred when the Putin regime contrived to reorganize the gas sector of

the former USSR around its own state-controlled company, Gazprom, pursuing control over the entire Central Asian gas trade. Paillard asserts that Russia is actively seeking to build an OPEC-esque “gas cartel” in order to consolidate its control of the gas trade, although it has thus far shied away from making such a partnership with countries like Iran or Venezuela for fear that such unpopular regimes would compromise any such bloc's negotiating position with Europe or China.

Regarding transit, Paillard writes that Russia has attempted to acquire “leverage on [energy] transit tools in Ukraine, Central Asia, Belarus and even inside the European Union.” Nord Stream represents one of Russia's primary endeavors to expand its stake in the transit sector.

Ensuring control of downstream enterprises, Gazprom and other Russian companies have actively sought to acquire “gas distribution, storage facilities, and strategic hubs” in Europe, so as to expand its control over the far end of the gas trade. Attempts to purchase firms like the British utility Centrica and the German WINGAS are part of this scheme to deepen Moscow's control over the European trade. By gaining leverage in the aforementioned three sectors of the gas trade, Paillard believes that Moscow hopes to gain dividends in “three different fields:”

**Political Dividends:** Russia likes to use its energy supplies as leverage in international crises, including the recent ones in Georgia and Ukraine. By bullying its neighbors by means of energy supplies, Moscow hopes to preserve its sphere of influence. This does not quite gel with Paillard's earlier assertion that the “blackmail” of previous years is no longer possible due to the importance of energy supplies to both parties – one presumes that Paillard is here referring primarily to minor Eastern European countries whose revenue streams are unimportant.

**Strategic Dividends:** Paillard asserts that “Russia is still looking for a way to instigate the political separation between Europe and the United States that it could not achieve during the Cold War.” European reliance on Russia's gas could provide a means whereby Moscow may pursue that geopolitical objective. Indeed, Paillard goes on to compare Russia's use of gas in the competition for European markets in the 2000s to the USSR's use of missiles in the 1980s “to disorganize NATO and to shake up the German position in the Western alliance.” Moreover, by dividing Europe against itself, Russia strengthens its own negotiating position in the gas trade relative to what it would be were Europe acting as a single bloc.

**Economic Dividends:** Russia is conscious of its inability to produce consumer goods, and in allocating its energy revenues to “government networks, mafias or intelligence departments” it does not make much progress towards developing its industrial capacity. Paillard therefore concludes that Russia is primarily interested in using its economic gains from the energy trade to rebuild its former strength rather than developing its domestic economy.

Essentially, Paillard finds that Russia is neither willing nor able to move away from its reliance on European gas markets. The problems this creates for its economy are apparently considered a reasonable price for the dividends which Russia hopes to gain by focusing on the energy sector. Europe, on the other hand, has no alternative to dealing with Russia for at least

the next decade. Paillard goes on to recommend that the European Union should devise a coherent policy for the Russian energy trade in order to keep competition stable. In the end, Europe and Russia require one another for mutual economic growth in the coming decades.



**Richard J. Anderson. “Europe's Dependence on Russian Natural Gas: Perspectives and Recommendations for a Long-term Strategy”** (*George C. Marshall European Center for Security Studies*, (September 2008), ([http://www.marshallcenter.org/mcpublicweb/MCDocs/files/College/F\\_Publications/occPapers/occ-paper\\_19-en.pdf](http://www.marshallcenter.org/mcpublicweb/MCDocs/files/College/F_Publications/occPapers/occ-paper_19-en.pdf))

Part of the Occasional Paper Series by the George C. Marshall European Center for Security Studies, this report details the current and future energy needs of the European Union. Currently relying on Russia for approximately 38% of its imported natural gas needs, the author contends that the European Union has thus far failed to recognize the security threat posed by its increasing dependence on Russian hydrocarbons, particularly natural gas. The principal objective of this report stresses the need of the EU to immediately shift its long-term strategy to gradually wean itself from Russia and mitigate the tremendous leverage the “energy weapon” affords to the Kremlin. As is, the Union’s reliance on Russian natural gas imports is expected to reach 50% to 60% within the next two decades (not including oil), and the author makes very little effort to hide the high level of distrust and suspicion he has for the Russian government and its quasi-national oil companies. “Europe must undertake such a strategy not only because over-reliance on any one source represents unsound policy, but more importantly because domination of the European market has been a clear and calculated goal that an unreliable Russian administration has been working towards for several years.” The article outlines four major recommendations the European Union should take toward a coherent diversification strategy and “ensure Russia does not realize its goal of reasserting coercive influence through its ‘energy weapon’”: 1) the diversification of gas imports from new providers and pipelines, including the construction of a Trans Caspian Sea pipeline and increased reliance on North African pipelines; 2) the diversification of sources through greater liquefied natural gas production and infrastructure expansion; 3) the diversification of electricity sources into entirely different means of power generation, particularly increased alternate electric power generation, nuclear power and “clean coal;” and 4) investment outside the EU in power generation.

**Keith C. Smith. “Managing the Challenge of Russian Energy Policies” *Center for Strategic & International Studies*, (November 2010),**  
**([http://csis.org/files/publication/101123\\_Smith\\_ManagingChallenge\\_Web.pdf](http://csis.org/files/publication/101123_Smith_ManagingChallenge_Web.pdf))**

Following the breakup of the Soviet Union and the Warsaw Pact, the Russian government quickly realized its major foreign policy tool was “energy intimidation,” and it is a policy Russian leaders continue to use very liberally in order to impose its political agenda on its European neighbors, Keith C. Smith writes in this report for Center for Security & Strategic Studies. This is never more evident than the energy disruption policy Russia has employed during winter seasons, where former Soviet-controlled Eastern European states have been the primary targets, and victims, of Russia’s foreign policy tool. Though Western Europe is also susceptible to energy needs, it is noted that Russian leaders are considerably more selective and subtle in their dealings with Western European countries.

According to the report, Moscow’s policy of using energy resources and energy transmission systems as a coercive policy tool began as early as 1990, but increased dramatically when Vladimir Putin succeeded President Boris Yelstin. Instances in which Russia has “flexed its energy muscle” to either punish or hold neighboring states hostage are documented in detail by Smith, where Russians have repeatedly responded to rebuffed demands by substantially reducing or halting oil and gas shipments. Although these tactics of energy disruption, intimidation and threats should have galvanized greater efforts by European leaders to begin diversifying the sources of its energy imports, Smith says the lessons of past Russian leaders appears to have been lost on top West European political figures. He references the Russian-German Nord Stream project approved by the EU leadership in 2005 as a clear example, which would only added to Europe’s dependency on Russia.

Furthermore, while “financial and other more subtle methods also appear to have been used extensively by Russian officials in repeated attempts to influence the energy and security policies of several Balkan countries, the three Baltic States, Kazakhstan, and even Germany and Italy,” the article states there are growing indications that corruption and kompromat, “the threat to expose compromising information regarding a member of the country’s leadership,” have increasingly been utilized to coerce European countries outside of the former Soviet area, including the Czech Republic, Poland, and Croatia.

The CSIS publication also highlights the “muted response” and role Western government officials and courts have played to enable the behavior by Russian leaders. This is due in large to the highly centralized and crony-capitalist nature of the present system in Russia, where foreign investors and leaders “have continued vying to be seen as the ‘best friend’ of the Kremlin leadership,” since short-term interests significantly outweigh long-term implications. Smith states that although the primary burden lies with the EU organizations and its member states in convincing the Kremlin leadership to realize the superiority of the Western business model of modernization and democratization, both the EU and U.S. need to adopt similar policies and coordinated pressure to curb Russia’s coercive energy politics. One recommendation is for the European Union to adopt a common energy policy – making Russia’s ability to cause division by constantly pitting one member state against another obsolete. The implementation of a common energy market would also enable the enforcement

of EU competition and antitrust laws in regard to energy imports.

There have been a few encouraging developments recently that have the Russian government worried, the report maintains. Russia's leverage has been temporarily weakened due factors including: the decrease in world oil and gas prices following the worldwide breakdown in financial markets, substantial progress in developing unconventional gas resources in the U.S., the world-wide glut of liquefied natural gas, and the significant progress China has made in the world energy market. "The 2010–2011 period is a particularly favorable time for the West to rewrite the rules of the game in the East-West energy trade," Smith concludes.

**Anders Aslund . “Gazprom: Challenged Giant in Need of Reform,” *Russia After the Economic Crisis*, (2010), (p. 151-168),**  
**([http://www.piie.com/publications/chapters\\_preview/4976/07iie4976.pdf](http://www.piie.com/publications/chapters_preview/4976/07iie4976.pdf))**

Anders Aslund theorizes that because of its size and importance to the Russian economy , Moscow’s handling of Gazprom after the global financial crisis has a large bearing on the future of Russia. Aslund points to Gazprom’s traditional business plan of piping gas to Europe supplemented with cheap Central Asian gas as needed as inadequate in the global economy post-crisis. The competitive pricing of products has shifted: “gas prices have tumbled and decoupled from oil prices, as liquefied natural gas (LNG) and shale gas are competing with piped natural gas. Increasingly, spot markets are offering an alternative to long-term contracts.” To make matters more unsettling in the short-run for Gazprom, demand for Russian gas in Europe has all but disappeared, but Gazprom does not have the physical infrastructure to send their gas elsewhere. In the long-run Gazprom’s domestic supply of gas has peaked and is declining, while Central Asia has begun to export its gas to China rather than selling it cheaply to Gazprom. Aslund sums up Gazprom’s outdated business plan with the sentence, “Gazprom is losing out in supplies, sales, and profits but insists on building new pipelines to Europe.” He summarizes Gazprom’s traditional business strategy, looks in to how the financial crisis has challenged Gazprom and how they have responded, and then finally suggests an alternative policy for the Russian gas giant.

Gazprom draws on two strategic traditions. Formed out of a Soviet ministry (the Ministry of Gas Industry), Gazprom has remained a consolidated monopoly rather than being broken up and privatized like other ministries. A state-owned national oil and gas company, Gazprom also draws on the tradition of an OPEC company as it has grown to dominate politically and economically in Russia, though its focus is still primarily gas and has substantial private ownership. Aslund distinguishes Gazprom’s dominant features to be a massive resource endowment, a true monopoly (Gazprom has monopolies in exports, transportation, and development of new gas fields and it rations its supplies as gas prices are controlled far below market level), favorable taxation (its tax rates are much lower than the oil industry and it openly negotiates its taxes), and insider privatization.

The Soviet gas industry expanded enormously in the 1970s and 1980s as fields in West Siberia opened for development and gas output has remained relatively constant (as compared to oil outputs which have fluctuated wildly), 550 billion cubic meters in 2003-2008 was attributed to Gazprom accounting for 85% of Russia’s gas output. Gazprom’s output has actually been in decline, though this fact has been hidden in available statistics by Gazprom’s taking over of the assets of independent producers who do not have access to its pipelines. These pipelines extend into Western Europe (principally Germany and Italy) and were constructed during the Soviet era following the surge in production that accompanied the discovery of western Siberian gas fields. Exports further shifted towards Western Europe when the USSR collapsed and Russia stopped transporting gas to its satellite states at the same time as Western Europe’s gas reserves were dwindling. This trend has continued and Russia has actually become a net importer of gas from CIS as its exports have fallen from 60 billion cubic meters in 2000 to 37 billion cubic meters eight years later as imports have crept above 50 billion cubic meters. The increase in exports to Western Europe that were a

combination of Central Asian gas and Gazprom gas was incredibly profitable to Gazprom, who was able to name export prices below what was available in the European market, but above the cost of production and transportation which awarded Gazprom large arbitrage rents. While other business strategies have been considered—including the sale of LNG to the U.S., China, and Japan—no concrete plans or pipelines have materialized. Until 2008 this didn't matter, as Gazprom's worth grew at a staggering rate, especially after its stock was liberalized for free trade on the market and its worth reached \$350 billion in May 2008.

The global economic crisis, which caused oil prices to plummet in 2009, hit Gazprom very hard. As the price of oil has recovered from \$32.40 per barrel in January 2009 to \$75 per barrel in January 2010, Gazprom's market capitalization stabilized but its profits have dropped so low that it now has a net debt of over \$40 billion. As Aslund notes, recessions reveal structural weaknesses, and Gazprom may be beginning its experience of a structural crisis with ramifications in Russia's political and economic models. However the crisis is only a catalyst rather than the cause of these problems.

Aslund, citing statistics on the steep drop in Gazprom's production over the course of the last year due to two weeks of supply cut, temporarily high gas prices, and the great recession, claims that this is not a temporary trend. Gazprom's unreliability as a supplier, new competition from LNG and shale gas; changing relative prices, structural decline in the demand for gas, decreased energy intensity in Russia, Ukraine, and Belarous, and Gazprom's underperformance relative to independent producers all suggest to Aslund that this drop in production is part of a long-term trend. The first piece of evidence is that, while Russia has advertized itself as a reliable source, a study by the Swedish Defense Research Agency found that Russia had used "coercive energy policy" like supply cuts, coercive price policy, and sabotage 55 times from 1991-2006, predominantly with political or economic intentions. The majority of these have occurred against former-Soviet states such as Lithuania, Georgia, Belarus, Ukraine, and Maldivia while Western Europe has received little mistreatment, and yet all of Russia's customers are diversifying their energy supplies, thus reducing export potential for Gazprom. The second piece of evidence is that it must now compete with LNG and shale gas for customers. The shale gas supplying the U.S. has redirected LNG exports to Europe, which has in turn begun to edge out Russian gas. The IEA predicts this to be the case for 3-5 years, and for European demand in light of the downturn not to recover to 2008 levels until 2012 or 2013, thus creating excess gas on the market. The third piece of evidence is that, due to this unexpected plethora of gas on the market, world gas prices are falling. This is exacerbated for Russia by the fact that LNG presents a far cheaper option for consumers as it is traded on the spot market rather than contracted at a fixed rate for a year as Gazprom has demanded its gas be sold. Aslund remarks that, "the hard question for Gazprom is whether European gas prices have decoupled from oil prices for good, leaving Gazprom's gas overpriced." Gazprom says not, but independent consultants believe this to be a long-term phenomenon. The fourth piece of evidence Aslund cites is that after the economic crisis, the industries (heating, power energy, and process industry) upon which gas demand is founded may succumb to energy efficiency improvements. Fifthly and along the same lines, the three countries that stand to gain the most from energy savings are two of Gazprom's largest export markets—Ukraine and Belarus—Russia itself also stands to achieve large energy savings with rising energy prices. Added to this are reductions in demand that come from energy savings

and efficiency measures employed to fulfill climate obligations, and the bleak conclusion of a paper on Russia's long-term energy demand that notes Russia's gas demand will likely peak in 2010. The sixth piece of evidence that Aslund cites is that despite Gazprom's use of its monopoly power and political muscle to prevent independent producers from competing in the market using gas from middle and small sized Russian fields, these competitors are increasingly able to access the market and sell for a profit.

Aslund documents Gazprom's response to the crisis as being reluctant and ad hoc. Gazprom is currently formulating a defensive strategy to maintain old demand (at the cost of new markets) and cut output by reducing the amount of supplementary gas it buys from Central Asia and abstaining from developing fields in the Barents Sea, Northern Russia, and Eastern Siberia. Aslund points out the major inconsistency in Gazprom's strategy as its insistence on building two new pipelines: to Germany through the Baltic Sea and to Italy through the Black Sea and Balkans. The pipelines are intended to circumvent eastern European countries like Ukraine, Poland, and Belarus for political reasons, but in doing so it incurs much unnecessary cost (the line to Germany is estimated at \$15 billion for 55 billion cubic meters, while the line to Italy is estimated at \$28 billion for a capacity of 60 billion cubic meters). This choice of investment is not odd, considering that it has traditionally invested more in pipelines and acquisitions outside of gas than in development and production. In 2007 and 2008 the company changed its tune and spent 43% of its capital investment on production and a third on transportation. Aslund notes that strangely Gazprom has no comparative advantage in pipeline construction nor in the transportation of gas, and with its strategic defense plan the construction of new pipelines to a dying market is nonsensical. Aslund predicts that "eventually, Gazprom's friendly intermediaries—the big European gas companies—have little choice but to renegotiate their long-term contracts with Gazprom. The two remaining consumers—Ukraine and Belarus—can easily reduce their gas consumption the way Poland or Slovakia have done by becoming more energy efficient. Demand for Gazprom gas domestically will also decrease due to energy intensity and the increased sales of independent producers. Aslund sums it up by saying, "as a consequence of less demand, less production, lower prices, and excessive capital investment, Gazprom will be a smaller, less profitable, and less valuable company. Within five years, its supply of gas could decline by 200 billion cubic meters or about one-third, while losing domestic wealth that its gas industry could have generated, but it also means that Gazprom will cease to be a state within the state, and Russia could become a more normal and open society."

Aslund closes by proposing an alternative Russian gas policy, suggesting that the wounds exposed by the recession are a great opening for reform. The first step Aslund proposes is the separation of Gazprom from the state and its regulatory functions given to an independent body. Second, he proposes that the management be cleaned out and a new group brought in from the private sector. Third the pipeline plans should be abandoned and the company separated into production and transportation so that the pipeline system can be opened up to competitors for use (thus reducing flaring). In the longer term, Aslund suggests that domestic and CIS prices should be slowly raised to market level (still lower than European prices which include the price of transportation). Aslund says that the "combination of reduced flaring, introduction of market prices, or energy, and reduction of air pollution, which will benefit the welfare of the Russian people." Russia would be able to reduce its gas consumption, and

exploit small and medium sized fields, thus preserving their gas wealth in a more sustainable manner. Aslund also suggests that Gazprom should adopt a more flexible, decentralized, and customer-oriented business model, which necessitates the breakup of Gazprom. Once Gazprom is forced to be competitive, it will be easier to improve the transparency and governing practices of Gazprom and to negotiate with the European Union to reform both gas sectors. Specifically Aslund suggests that drafting a new legal framework for energy cooperation with Europe to replace the Energy Charter of 1994 which would allow Russia to extract rents from those using its extensive pipeline network.

**Yelena Penukhina, “Socio-Demographic Risks of the Long-Term Development of the Russian Economy,”** *Studies on Russian Economic Development*, (2010), Vol. 21 No.2 (p. 187-196), (<http://www.springerlink.com/content/u307w4207g225103/>)

In this article, Penukhina sets out to analyze the factors affecting Russian “human capital development and replenishment” and the obstacles they present to the long-term modernization of the economy. She specifically addresses four overall issues: education, public health, labor migration and the pensions system.

Penukhina begins by setting out the modernization of the Russian education system as a prerequisite for the development of an innovative economy. She identifies two main “contradictions” which must be resolved in order to successfully implement such a modernization: The need to reconcile the requirements of an information society and the demands of business, and the need to maintain fair competition between institutes of higher learning.

Penukhina identifies an information society as being characterized by, among other things, labor-scarcity, professional mobility, a high level of human capital development and societal ‘informatization’. In order to produce work in this environment, Russia must produce graduates able to “work with large data arrays, assimilate and improve practical experience, think unconventionally, work actively and creatively,” and “quickly react to a dynamic environment.” In essence, an information society-oriented education produces graduates with a “wide range of views and spiritual development,” such that the graduate can learn specific skills and competencies ‘on the job,’ as it were.

However, the business world requires that graduates should have acquired the requisite competencies before graduation, and should be able to enter a job without additional training. In other words, a business-oriented education is one geared towards producing specialists with a full set of practical skills. Therein lies Penukhina’s first contradiction – the type of graduates produced by an institution geared towards an information society are not the sort which businesses are interested in hiring.

In order to overcome this problem, Penukhina suggests reforming the school system to include “a well-coordinated process of practical training” at the outset of an education, and the establishment of university departments dedicated to put students in touch with employers in order to learn both practical skills and “the peculiarities of their work.” She also suggests that “fundamental knowledge and practical skills” could be acquired through low-paid trainee programs at major companies, and that the education system’s shift towards producing highly-skilled graduates could be mitigated by using foreign labor to fill low-skilled production positions.

According to Penukhina, several qualities peculiar to the Russian education system serve to hinder competition in higher education, mostly stemming from a lack of comprehensive standards for educational institutions. She refers to the overspecialization of many institutions into very narrow skill sets, which make it difficult to compare different institutions, or their



graduates, even in the same field. This is compounded by the proliferation of “pseudo institutions” which provide a standard of education inadequate to enrich the labor pool. Making the education market properly competitive requires the creation of a set of universal standards to which all institutions can be held.

Penukhina assesses the overall quality of the health of the Russian population as being extremely poor, despite improvements in life expectancy and disease mortality. As of 2006, average Russian life expectancy was more than a decade lower than that of most developed western nations, and even lagged behind some developing countries. This reflects the abysmal lack of investment – both public and private – in the healthcare system, which represents only .5% of Russian GDP overall (.3% from the state and .2% private). Worse yet, the primary factor in Russia’s low life expectancy rate is a high rate of mortality among men of working age. If public health were to deteriorate further, it would pose a serious risk to any prospects of long-term economic development. Penukhina specifically addresses three particular trends most responsible for the current decline: alcoholism, drug addiction and social diseases.

Per-capita consumption of alcohol in Russia rose from 10.3 liters in 2002 to 11.5 in 2007. While this is less than in certain European countries, Penukhina notes that a large part of this figure represents hard alcohol, which has the most negative effect on public health. Beside the high number of deaths stemming from alcohol consumption (75 thousand in 2007), as of 2006 there were known to be at least 2.1 million alcoholics in Russia. The spread of alcoholism would have predictable effects on the productivity of the Russian workforce. Penukhina suggests that Russia must reinforce its regulation of the alcohol market, citing the modest success of previous regulation in reducing the number of alcohol deaths between 2005 and 2007.

Drug addiction affects an even larger part of the Russian population than alcoholism, according to official statistics – an estimated 6 million Russians suffered from addiction in 2006, including nearly 2 million under the age of 24. Penukhina cites the link between drug addiction and youth mortality rates, crime, the spread of HIV and the deterioration of “intellectual and labor potential” in order to demonstrate the consequences of addiction for society. She warns that the country’s drug problem could rapidly worsen, partly due to the persistence of Russian poverty, but also as a result of unchecked immigration from Central Asia, along with the use of Russian territory to transport narcotics from the Golden Crescent to Europe and the United States. Penukhina declines to suggest measures which might combat this problem.

Penukhina refers specifically to HIV and tuberculosis as the most significant Russian health threat. Russia far outstrips other developed countries in terms of HIV rates, while coming in third behind China and Romania in tuberculosis. Since over 80% of cases of HIV infection are in the 15-30 age group, Russia’s high infection rates pose a serious demographic risk. That tuberculosis mostly affects people between 15 and 54 only compounds the problem. Failure to reduce the spread of either disease will result in the decline of the working-age population, decreased labor productivity, exacerbated social conflict and increased healthcare costs, all of which negatively affect economic growth.

Despite attributing the spread of both drug addiction and HIV/Tuberculosis in part to foreign migrants, Penukhina acknowledges that the declining Russian population creates a “pressing need for labor migrants.” She notes that the present economic crisis and high unemployment currently obscures any need for additional workers, but predicts that once the crisis has abated the manpower deficit will have to be addressed in order to achieve a decent rate of growth. Penukhina implies that foreign migration is in some ways merely a stopgap measure until sophisticated labor-saving technology can be implemented to rectify the manpower problem, but she also notes that attracting immigrants could resolve demographic imbalances, support the pension system and reduce the economic disparity between certain regions by attracting migrants to underpopulated areas.

At present, the majority of Russian immigrants – most of whom come from other Commonwealth of Independent States members – work in the construction, trade and transport industries, and, moreover, the vast majority of them are illegal. In order to solve the labor scarcity problem, Penukhina proposes that the government should establish a more open migration policy, in order to attract more skilled migrants and to decriminalize the migration sphere in general. In so doing, this would address some of the dangers of a large migrant population, such as the development of a shadow economy. However, Penukhina notes that the use of foreign labor poses the risk of declining wages and excluding native workers, as well as aggravating social tensions.

Penukhina predicts that by 2025 there will be 10 million more pensioners in Russia than in 2008, while the working population will have shrunk by 13 million. As a result of this imbalance, the pension system will have to be supported by funds from the state budget, so as not to unbearably increase the workload of the reduced working population. This in turn will sharply reduce the funds available for other public services, such as education and healthcare, carrying a “high risk of destabilizing the whole accounting system.” In response, Moscow opted to abolish its Uniform Social Tax in favor of a “contributory social insurance scheme.” Penukhina writes that this may indeed reduce the deficit and keep the pension system afloat, but notes that it will also “sharply increase” the tax burden on businesses. She proposes that to ensure the system’s survival, Russia shall have to take painful measures, including increasing the retirement age, incentivizing employment of those above retirement age, and increasing the flow of immigrants in order to reduce the pension system’s burden on those of working age.

Each of the issues Penukhina addresses pose a clear, present danger to Russia’s long-term economic development. Her solutions ultimately call for the Russian government to make a substantial investment in education and healthcare while also adopting substantial reforms in fighting drugs, policing immigration and reforming the pension system. While that may solve the problem, the author declines to address how all these problems could be addressed at once, or otherwise in what order they should be addressed.

**Anders Aslund, and Andrew Kuchins. “Chapter 6: Challenges of Demography and Health.” The Russia Balance Sheet. *The Peterson Institute for International Economics*, (April 2009), ([http://www.piie.com/publications/chapters\\_preview/4242/06iie4242.pdf](http://www.piie.com/publications/chapters_preview/4242/06iie4242.pdf))**

This chapter begins with a quick summary of facts regarding the extent of the demographic crisis in Russia, which have been well repeated in almost every work written about this topic. While all of the other BRIC countries have had steady population growth, the mortality rate in Russia has exceeded the birth rate. Russia has the greatest gender gap in the world because of the difference in life expectancy between men and women. Alcohol contributes to half of all deaths, and easy access to cheap cigarettes has facilitated extensive tobacco usage.

The authors do however mention that there has been recent improvement in birth rates and infant mortality. Annual population lost is decelerating and the death/birth ratio is declining as well. The interpretation of this potential change in trend is that several years of economic stability are finally succeeding in reversing the two decades of demographic crisis. The middle class is stronger, and women are confident enough in the future to have more children. However, this progress is uncertain, and low fertility and high morbidity continue to be major problems.

The decreasing fertility Russia is experiencing is a common phenomenon in industrial countries. However, in most countries, it is the result of women entering the workforce, industrialization, and a transition to service economies. Russia’s declining fertility is the result of a decline in quality of life in the 1990s. Russian women outlive men by a degree greater than is seen in the rest of the world (large gender gap in longevity). The life expectancy of men, on the other hand, is similar to that of Pakistan and Eritrea. The author briefly charts the relationship between economic trajectory and life expectancy between 1980 and 2000:

“The correlation between Russia’s economic trajectory and life expectancy was as expected from the mid-1980s through 2000. After a rise due to Gorbachev’s restriction on alcohol consumption, life expectancy plummeted sharply with the upheaval of the economy and society. Then as overall welfare improved slightly in the mid-1990s, so did life expectancy, until the two fell in tandem with the 1998 financial crisis. But life expectancy has not risen with the remarkable economic growth from 1999 to 2007. Instead, it has remained stagnant. Demographers remain puzzled as this contradicts the health-wealth connection that prevails in the world.”

In spite of low life expectancy, Russia’s population is aging rapidly because of the low birth rates. This will result in a shrinking workforce bearing the burden of pensions and care for an increasing aging population. This will need to be accompanied by an increase in social expenditures from 14.1% of GDP to 17.3% in 2016-2020. Of the over 2 million deaths in 2007, half (1.1 million) were due to cardiovascular disease, and 0.5 million deaths were due to trauma, accidents, or cancer. Alcohol and tobacco use is at the root of all of the leading causes of death especially in working age men. Though the per capita alcohol consumption in Russia is not startling, the number of “surrogate” alcohol products such as lighter fluid and cleaning solutions used is impressive. “The contribution of alcohol to overall mortality is estimated at

roughly 50 percent.”

The smoking prevalence in Russia is twice of that found in the United States or the United Kingdom. Prevalence is on the rise, especially in women. “Over 17 percent of Russian deaths each year are caused directly by tobacco consumption.” In contrast, infectious disease only causes a small portion of deaths. Nevertheless, HIV/AIDS has grown to be an extraordinary problem in Russia, with close to 1 million people infected. Russia also has the highest rate of tuberculosis infection in Europe and co-infection of HIV with drug resistant TB and hepatitis is a growing issue.

The previously described health and demographic trends are posed to have a devastating effect on Russia’s economy as well as its national security. The authors of this study site a World Bank report, which suggested that “If Russia decreased mortality rates from non-communicable disease and injury to EU-15 rates by 2025, its GDP would rise by 3.6 to 7.1 percent (depending on initial assumptions about future GDP growth.”

The Russian government predicts that the decline in working-age population will lead to a labor deficit of 14 million, leading to a distorted labor market. In fact, between 2002-2007, real wages grew at a rate outpacing GDP growth and productivity growth, which was attributed to a tight labor market and rising labor costs. “With increased economic growth, the demand for labor has risen, but the quality of the labor force is not rising accordingly, which has led to shortages in many categories of skilled labor and often extremely high salaries even by American standards. Companies and regions will face a choice: to raise productivity dramatically, to attract migrants, or to abandon projects.” In 2006, 32% of businesses reported a shortage of skilled labor as preventing increased output. This number increased to 35% in 2007 and 40% in 2008.

A resource-based economy such as Russia’s does not require a particularly diverse or skilled workforce. However, since resource extraction takes place in extreme climate conditions in Russia, productivity of workers in these industries is negatively impacted because of health problems. It follows that diversification of the economy will be hampered by Russia’s lack of skilled workers.

The military is also feeling the effects of health and demographic decline. By 2016, it is expected that there will only be half the number of men of conscription available as there were two decades before. Moreover, the portion of conscripts with nutritional problems, health problems, and substance abuse problems is increasing.

“Finally, there are significant negative synergies between the conscription and labor force challenges: The same limited cohort of healthy capable young men needed by the military will also be in demand both by potential employers and for higher education.”

According to the author, reducing smoking and drinking would help. Meaningful policy in these areas has been lacking. However, promising signs include Russia’s joining of the World Health Organization Framework Convention on Tobacco Control, which calls for extensive bans on tobacco advertising and sponsorship, and there are efforts underway to ban tobacco

advertising to children and teenagers and increase public awareness of the harms of cigarette smoking. Russia also passed a three-year demographic policy plan, which aims to reduce deaths by controllable causes in 2008-2010, by promoting healthy lifestyles and anti-tobacco and alcohol programs, including using financial incentives: “Smokers will, for the first time, pay higher public medical insurance premiums, and insurance will not cover injuries caused by drunkenness.” The authors do however suggest that more efforts be made in the area of alcohol policy, such as increasing vodka excise duties, which have not kept up with increases in inflation.

In many situations, Russia can potentially compensate for labor shortages by productivity gains. While the Soviet system provided a strong education in math, science, and engineering, the quality of this has declined in the last two decades. “Recent international tests of high school students put Russian students at the same not very high level as American students in math and science.” Considering the fact that Russian education must be of a higher quality in order to compensate for short supply of labor, this does not bode well.

Immigration may be the most accessible solution. “One recent study cites a need for legal immigration of one million per year—three times the average official annual flow over the last 15 years—to compensate for the shrinking working age population.” Most of the immigration into Russia is illegal, in part due to the inappropriately “complex and repressive” immigration policy. These immigrants are confined to the shadow economy and low-skilled jobs. It is also incredibly difficult for workers to move from one region of Russia to another because of poor housing markets and restrictions on legal internal migration, which restricts the potential of legal internal migration to dampen the negative effects of demographic decline.

The authors attribute the recent slight increase in birth rates to an improvement in the overall mood and socioeconomic situation because the size of government prenatal lump-sum payments and social benefits was not significant enough to have made much of difference. The decline in infant mortality is mainly due to the availability of pharmaceutical drugs post-Soviet, although the Russian government takes credit for health reforms through the Priority National Health Project (\$9 billion were set aside to improve healthcare accessibility and quality, and fund HIV/AIDS prevention and treatment in addition to other goals). The measure of success for the Russian government has been money spent—and this too has been incredibly erratically spent “often thoughtless, with resources allocated according to political expediency.” “Equipment purchases have barreled forward seemingly without analysis of medical need....Salaries for primary care providers are still insufficient to attract talented students....A recent study by the International Monetary Fund shows that countries that spend 30 to 40 percent less on health achieve health outcomes similar to Russia’s.” Moreover, no health system can accommodate for poor health habits among the population, such as binge drinking and lack of exercise, or for unhealthy environmental conditions.

Whatever the case, this slight increase is very unlikely to produce a sustained population increase because of the overall decrease in the number of women of childbearing age. Thus, the population is still expected to shrink to 135 million by 2025.

The authors conclude that health care reform alone (such as the significant effort demonstrated by the National Health Project, in spite of its flaws) cannot fix Russia's health and mortality crisis, which is primarily due to smoking and alcohol abuse.

**Timothy Frye, “Corruption and the Rule of Law,” *Eurasian Geography and Economics*, (2010), (p. 79-94),**  
**([http://www.piie.com/publications/chapters\\_preview/4976/04iie4976.pdf](http://www.piie.com/publications/chapters_preview/4976/04iie4976.pdf))**

Frye makes the claim that reducing corruption and strengthening the rule of law is one of the most daunting modernization problems facing Russia. On the technical front, Russia has not performed badly; creating incentives for public officials (both elected and appointed) to serve the public rather than their own interests through improved pay and training for members of the judicial branch and computerization of the case system. However on the political front Frye remarks that Russia has not made the effort to empower and allow to spread requisite institutions like the free press, social and nongovernmental organizations to monitor human rights violations, bureaucratic conduct, and consumer fraud. Frye concludes that fundamentally, corruption is a political issue rather than a structural, technical, or moral issue. He addresses, looking at the last decade, how the quality of governance has evolved, and surmises that corruption remains a large determining factor in the success of firms and politicians.

Frye begins by putting Russian corruption in context, comparing the country to other developing and transitioning economies. Given the level of education and wealth in Russia, its level and ranking in comparison to other corrupt countries is noteworthy. However Frye also notes that with high dependence on natural resources and its political history, its level of corruption is less surprising. While Yeltsin began reforms in the 1990s, funding was insufficient to realize much change at the local level. Putin’s reforms to criminal (2002) and civil (2003) codes carried much more weight in light of the ruble devaluation of 1998, rising oil prices, and substantial increases in funding. The result was the establishment of formal legal rules, spread of jury trials, and increasing financial independence of employees in the judicial branch from politicians. However damage to supporting institutions such as the media and non-governmental organizations as well as disregard for fundamental legal norms in property rights and high profile trials have weakened Putin’s reputation for fighting corruption.

To explore the effects of Putin’s reforms further, Frye commissioned the Levada Center to “conduct two surveys of 500 businesspeople in eight regions in 2000 and 2008...survey[ing] firms from 23 sectors of the economy.” The responses to these surveys showed that rather than proxies for corruption—taxes and legal stability—labor shortages and competition were more concerning obstacles in the business environment. However these positive changes were accompanied by complaints of corruption and cumbersome regulation. Businessmen perceived greater use of bribery at all levels of Putin’s government—the severest occurring at the lowest levels—in spite of three frequently held positive biases. Frye calls these biases the “halo-effect” in which people report different levels of satisfaction with institutional performance depending on the state of the economy when the institutions have not undergone significant change, autocratic rules makes individuals more hesitant to criticize the government, and the sample may have been biased away from firms who couldn’t stay in business in an increasingly corrupt environment such as existed in 2008.

He then questioned these people on their perception of how large the capacity of Russia's state courts of arbitration (the class of courts that deals with firm-firm conflicts and state-firm conflicts) is to protect their firm's legal interests. Frye reports that, "managers were significantly less confident in their ability to use courts against the regional government in both surveys. In 2000, 39 percent of managers expressed confidence that courts could protect their rights in a dispute with the regional government. In 2008, this figure increased to 59% of respondents." Accounting for exogenous effects on responses, Frye notes the halo effect discussed above; that as governor's power weakened, businessmen may have expected to have more legal leverage than previously; increased funding and reform beginning in 2002-03 may have enhanced court performance; firms that could not win legal battles with regional governments went out of business by 2008, biasing the selection. This makes accurate comparisons between surveys (ie across time) more challenging than making comparisons within a survey group.

However, what Frye considers most important is how these changes in confidence in protection of property rights influenced the economic behavior of firms, creating an "uneven playing field for firms." Frye looked at financial investments, capital accumulation in the last 2 years, and infrastructure projects by firms and concludes that managers who were confident in winning cases against regional governments engaged (with statistical significance) more in investment and capital accumulation, which means that restraints on regional governments fosters a better business environment. Frye finds that these results become more significant and the discrepancy between confident and unconfident firms larger when looking at perceptions of confidence in cases against the federal government. However firms who were more or less confident in the courts ability to protect their property rights against other firms did not make different investment, capital, or infrastructure decisions. Thus firms are making economic decisions based on perceptions of legal protection from the government, leading to inefficiency and an uneven playing field.

Frye then explored the value of a good relationship with the regional government in the 2008 survey and concludes that the benefits of strong political ties are substantial. Frye also makes some caveats to his analysis. The study excluded foreign firms, strategic firms in the natural resource sector, and doesn't bear directly on the state of corruption in criminal or human rights cases.

President Medvedev's rhetoric has strongly supported law enforcement, however in reality reform has been slow and contradictory according to Frye. Specifically, Frye claims that the "duality of his approach" is exemplified by Medvedev's recent decision to give the Interior Minister a year to reduce the number of policemen while raising the forces' salaries. While designed to weed out corruption, it also places much political capital in the hands of an unelected official. While Frye acknowledges that Medvedev's response to the economic crisis of increasing state ownership and control of large firms and banks may have made sense on a macroeconomic scale, he predicts that corruption will continue to dictate interactions in Russia's business environment in the short run.

Frye ends by reciting the implications of Russia's failure at reform, insisting on political changes to enforce the rule of law, and commending the improvement in its technical reform



to legal institutions over the last two decades. He offers two suggestions for leveling the playing field between the “powerful and powerless”: empowering independent business organizations that can protect their members’ interests and defend against corruption, redrawing its legal jurisdictions to coincide with its political jurisdictions such that each court deals with several political districts, and rotating judges periodically to lessen the incentives to develop relationships with political officials.

**Alexey Sidorov, Irina Alexeyeva and Elena Shklyarik. "The Ethical Environment of Russian Business," *Business Ethics Quarterly*, Vol. 10, No. 4, (2000)**

This article, written by Russian business experts, endeavors to explain how business ethics issues arise in Russia and, through the goal of describing an evolution of existing norms, reveals how Russia's history and experience under the USSR have shaped the way it thinks about and teaches business ethics. The authors' sources were as follows: national newspapers, public opinion reviews and specialized business magazines, including *Delovye Ludy*, *Expert*, and *Commersant Daily*.

Russian society can be broken down into three stages:

1. Goal Society (referring to the communist future; used to express the idea of future social harmony that was to be built after the Socialist revolution). At this stage, labor is of fundamental social and moral value, in accordance with Marxist principles.
2. Transition Society (referring to the socialist society that existed from the 1930s until 1992; understood as the period of transition from capitalism to communism and a term used to emphasize the temporal differences between the socialist stage to the communist) At this stage, Russia saw the elimination of market economy and private property. Communal labor was the stage's basis. *Economic and ethical motives were to be correlated; personal motivation had to be based on moral and patriotic priorities of the commonwealth. The elimination of private property was to lead to the personal motivation that should be ideological, non-profitable, and fixed on "the good of mankind."*
3. Antipode society (denotes capitalist developed countries)

In the early 1970s, it became evident that the Communist society that had been expected to develop by the end of the 20<sup>th</sup> century had failed.

At the end of the 1980s and beginning of the 1990s, an enormous interest grew up in Russia in the western experience in technology, economics, and politics. As a result of this interest, profitable business and entrepreneurship are now regarded as the leading forces on the way to "goal society." Agents of business get huge moral credit. It is assumed they are more skilled and experienced in market practice and will apply higher ethical standards than the leaders of the socialist economy. However, though modern Western-style institutions, individuals do exist in Russia today, they sometimes do not correspond to high moral standards. Business ethics became associated with the personal behavior of business-founders of the capitalist order and circumstances of their business success. In the early 1990s, market values were regarded as synonymous to moral values.

Ethical problems in Russian society cannot be understood without reference to history. Under the USSR, party leaders defined the goals of economic growth. Business ethics was not normative and was not socially recognized. Business behavior was not immoral or unjust; it was simply "ideological." The economic system was highly bureaucratic and personal income

was related to one's place in the bureaucratic hierarchy. Ethical problems were solved administratively and business ethics was not the subject of investigation or education.

From 1990, with the beginning of market reforms, party, state and economic elites became interested in business. The commodity exchange gave them an opportunity to recast and readjust property and funds, as the lack of resources was convenient for price manipulation. Former elites started their own businesses at the time and their new orientation led to privatization and control of the branches of the economy. *Gazprom* emerged at this time and, despite being a half-state owned enterprise, minimized state influence by delegating the right to vote at the shareholders' meeting and to dispose of state shares to its president. The same scheme was applied to *Lukoil*.

In 1992, a new period of industrial privatization began that has lasted until now. Banks and industrial leaders play the main role in this process, so property is concentrated in a small group of holders. Promotional and financial empires formed in Russia under the protection of gigantic state monopolists. This story of market reforms defines the Russian business elite, its mode of consciousness and moral norms.

Today, according to sociological research, 61% of business elites are from the former party komsomol, and industry and state bureaucracy. Big business is connected with state structures and small business is not. Big business is state-oriented but not society-oriented. 'The taste of property' leads them to the market system but not to market responsibility. They are interested in stable state partnership over the typical free market ideal of equal competition. Companies close to the government get special privileges—tax reduction or abolition. The ideal business structure in Russia is the model of big business empires controlling a branch of the economy under the protection of state elites. Technical decisions and business plans are usually ignored. Competition in the field of property readjustment is overdeveloped. Those who drift toward modern capitalism as a model are more conscious about legal and moral activity. The Congress understands the dangers of unethical business behavior. It insists on blocking the activity of unethical structures by boycotting their financial operations through banks.

An example of Russian business style – exemplifying the extra-economic methods often resorted to and the power of state officials to resist legal and ethical norms can be found in certain actions during a deposit auction in 1995. The government, under the pressure of several banks, auctioned the stocks of *Norilsk Nickel*, maker of 20% of the world's nickel. The winner would control *Norilsk*. The organizers of the auction ignored its true results and the real winners got nothing. Despite protests, Vladimir Potanin — Oneximbank president and false winner of the auction — became the First Prime Minister. Immediately, *Norilsk* began receiving state privileges.

The authors reviewed the ethical environment in Russia, arguing that the opening of the country in the 1990s created conditions in which business people are seen as highly moral, socially useful agents of change leading the country closer to the Western technologies and products that fascinate a good portion of the population. Further, the authors noted that the future of business ethics in Russia may not be so positive because of the "extremely strange organizations" in place that have vague duties and authorities. Sometimes governmental,

sometimes private, sometimes aligned with a business leader and sometimes allied to a governmental figure, and sometimes allied to a governmental figure, the uncertainty of these structures is not conducive to developing ethical norms. The authors suggest that more educational courses on business ethics and Russia's continued interaction with developed capitalist economies may resolve some of the above-described problems.

**Ian Bremmer. “The Russian Roller Coaster,” *World Policy Journal*, Vol. 20, No. 4, (Winter 2003/2004), (<http://www.worldpolicy.org/journal/articles/wpj03-4/bremmer.html>)**

Putin was an important factor in convincing investors of Russia’s trustworthiness. However, he dragged his feet when it came to political reform, undoubtedly because his country is familiar with nothing less than autocracy. Putin’s strategy was to pursue economic growth through a host of landmark legislative acts—tax, judicial and land reform among them—while keeping democracy on hold. Eager to rebuild central authority and consolidate the Russian state for the purpose of efficiently creating and implementing economic policy, Putin tried to find some workable accommodation with the oligarchs, who had embedded themselves in the policy-making process in the final years of Yeltsin’s rule.

Putin promised to let them retain their ill-gotten gains in exchange for absence from politics, a requirement that was, ultimately, not rigorously policed. Channels of political influence indeed remained open to the oligarchs. For instance, Putin retained Aleksandr Voloshin, Yeltsin’s chief of staff, who pushed through Putin’s economic reforms and dealt with the Bush administration. He also served as an intermediary between Putin and “the Family,” – holdovers from the Yeltsin era with close ties to business elite. Oligarchs adapted to a reformed Duma as well, becoming sophisticated lobbyists and using their financial resources liberally and to marked effect. Their influence over tax legislation was considerable. The economic influence of oligarchs was annoying to Putin but it generally went unchecked since he was more concerned about political challenges to his rule.

Unlike other oligarchs, who worked quietly backstage to ensure that their interests would continue to be represented in the new Duma, in 2003, the Chief of Yukos Mikhail Khodorkovsky began to provide generous direct funding for most or all of the parties likely to feature in the next Duma, particularly the two more liberal reformist, pro-market parties, Yabloko and the Union of Right Forces. This was not normal business lobbying. Even after his business partner, Platon Lebedev, was arrested for fraud and tax evasion, Khodorkovsky still did not tone down his business activities. Putin interpreted this as a challenge to his authority. He arrested Khodorkovsky on fraud, tax evasion and other charges, shaking international confidence and threatening Russia’s two-year-long stock market boom. In order to reassure the West that this was about one individual and *not* all of Russia’s business interests, Putin promoted two liberal-minded technocrats to the top of his staff: Medvedev and Kozak. With Khodorkovskys 39.5% of Yukos shares frozen by the government and the case against him unresolved, any major equity deals with foreign companies are currently out of the question. There is an antagonism between China and Russia over influence in Siberia. Economic influence is tilting toward China. However, the strongest demand for Russian energy comes from China, so the potential exists for a synergistic relationship. From Russia’s point of view, this is a region with massive hydrocarbon potential, but one that is remote from potential markets. While China wants to build a pipeline that would transport oil from Angarsk in eastern Siberia to refineries in the Chinese city of Daqing, Moscow is concerned about placing the future of Siberian exports in the hands of a single country and is therefore

considering a much larger pipeline, to the eastern port of Nakhodka, that would allow Russia to export to global markets.

The author predicts that if Russia is able to maintain its economic growth, Russians will no longer be denied the ability to make their own political and economic decisions because eventually, democracy and prosperity become mutually reinforcing and the absence of democracy becomes an obstacle to economic growth.

**Jeffrey Mankoff. "Rethinking Russia : Generational Change and the Future of U.S.-Russian Relations." *Journal of International Affairs*. (Spring/Summer 2010, 63.2 (p. 1-18), (<http://jia.sipa.columbia.edu/generational-change-and-future-us-russian-relations>))**

The Cold War ended 20 years ago and an entire generation has grown up without any memory of Soviet-American antagonism. This fact, Mankoff writes, promises to dramatically alter the American-Russian relationship, which continues to be marked by residues of distrust from the Cold War. It does not mean, however, that we can expect "smooth-sailing" in Russian-American relations once this next generation takes control of government.

To this next generation of Americans, Russia is largely an afterthought. Russia's declining power means that Russia poses much less of a security threat now than it did during the Cold War. Its rejection of Communism means that young people fed up with capitalism no longer turn to Russia as the bearer of a fairer ideology. Russia's increasing irrelevance to the next generation is summarized by the statistic that 44,626 American university students studied Russia in 1990, while only 24,845 study Russia today.

There has been no corollary downwards shift in the United States' influence on Russia, however. The United States remains the world's sole superpower and its actions, such as the war in Afghanistan, and the creation of the ballistic missile defense system in Europe, have great implications for Russia.

Further, there is no sign that Russian youth are pro-western and pro-democratic, and it is likely that the generation born in the 90's will be more viscerally hostile to the United States than the one born in the 1960's. Mankoff writes that "This [born in the 90's] generation... is notable for its support of Russia's great power ambitions, its xenophobia, and its heightened sense of political efficacy, or ability to have an impact on the larger world."

Mankoff's suggests that the era in which youth grow up strongly affect their ideologies, noting that Medvedev and his cadre of reformers were in their early twenties during perestroika and glasnost, and Medvedev is "more liberal and open to the outside world than Putin." This next generation of Russian youth grew up in a much darker time than Medvedev's generation did, when the "optimism that characterized the era of perestroika" dimmed. The Russian economy in the 1990's "shrank by a larger amount... than the American economy during the Great Depression." Hyperinflation, crime and the war in Chechnya led to widespread upheaval and unrest. The association of this era with liberalism was compounded by the droves of sometimes-corrupt Western consultants peddling privatization schemes.

The next generation in Russia seems to have accepted Putin's implicit bargain: loyalty to a "semi-authoritarian" regime in exchange for safety and economic opportunity. Today's youth is more independent-minded and entrepreneurial than preceding generations, and tend to view the oligarchs as success stories to be emulated. Russian youth are cynical about politics and politicians, however, and are far less politically active than members of other post-Soviet regimes. 70% of youth say they trust Putin, and their lack of trust towards other politician's means there is little impetus for democratization.

The Kremlin promotes a “narrow nationalism” to youth through two channels- government sponsored youth-groups and the education system. The Russian government has begun to aggressively bankroll youth movements such as Nashi. Government officials refer to Nashi as an anti-fascist movement though its actual ideology is, according to Mankoff, “ambiguous.” What is clear is that it is vigorously pro-Kremlin, embraces a vigorous nationalism that emphasizes the danger that Russia will become Western dominated, and actively works to disrupt opposition meetings. After the 2008 war with Russia, Georgia arrested Nashi activists in South Ossetia and Tbilisi who were allegedly attempting to “create a pretext for renewed Russian intervention.”

The Russian government has increasingly revised the school curriculum to downplay the evils of Stalin and to engender a sense of national pride and destiny. Emphasis is placed on the stability of Soviet rule, implicitly contrasting it with the chaos of the 90’s.

But the latest generation’s alienation from Western liberalism has more profound causes than government-sponsored youth movements or curriculum changes. A growth in nationalist sentiment is the inevitable result of the “economic meltdown” of 1998, when “foreign imports largely disappeared from the shelves” and citizens celebrated Russian-made goods. This, Mankoff asserts, contributed to the glorifications of all things Russian and led to the rejection of Western political and economic models. He cites a poll that has a plurality of Russian youths would prefer to live in a powerful and respected Russia than a “medium-sized power with a higher standard of living.”

This “fetishization of everything Russian” contributes to a “cultural superiority complex” that manifests itself against all-things non-Russian, including members of non-Russian ethnic groups within the country. The rate of racially motivated murders is high (110 in 2008, 60 in 2009) and mainstream groups or figures rarely condemn far-right groups. Polls suggest that a third of Russian youth would support the forcible eviction of migrant workers from cities. Mankoff suggests that Nashi should be seen as “the respectable alternative to the unwashed far right” and as a way of channeling the nationalism of youth in a way that will cement the Kremlin’s hold on power. “Hence,” Mankoff writes, “the development of Nashi into a strange hybrid of uniformed street brawlers and a vehicle for identifying and training new leaders.” These young leaders are trained to be entrepreneurial as well as patriotic, in keeping with the vision of the “innovation-led” economy espoused by Medvedev, and reinforced during the 2009 “Year of Youth.”

These efforts have led to an increasingly entrepreneurial youth that nonetheless has little enthusiasm for the West. A recent poll had 38 percent of Russian youth identifying the United States as an enemy. Russian youth do not appear to have any desire to return to the Soviet era, but that doesn’t mean that they will perceive the United States any more favorably, or with any less baggage, than the generation presently in power.



**Keith C. Smith. “Managing the Challenge of Russian Energy Policies” *Center for Strategic & International Studies*, (November 2010), ([http://csis.org/files/publication/101123\\_Smith\\_ManagingChallenge\\_Web.pdf](http://csis.org/files/publication/101123_Smith_ManagingChallenge_Web.pdf))**

Following the breakup of the Soviet Union and the Warsaw Pact, the Russian government quickly realized its major foreign policy tool was “energy intimidation,” and it is a policy Russian leaders continue to use very liberally in order to impose its political agenda on its European neighbors, Keith C. Smith writes in this report for Center for Security & Strategic Studies. This is never more evident than the energy disruption policy Russia has employed during winter seasons, where former Soviet-controlled Eastern European states have been the primary targets, and victims, of Russia’s foreign policy tool. Though Western Europe is also susceptible to energy needs, it is noted that Russian leaders are considerably more selective and subtle in their dealings with Western European countries.

According to the report, Moscow’s policy of using energy resources and energy transmission systems as a coercive policy tool began as early as 1990, but increased dramatically when Vladimir Putin succeeded President Boris Yelstin. Instances in which Russia has “flexed its energy muscle” to either punish or hold neighboring states hostage are documented in detail by Smith, where Russians have repeatedly responded to rebuffed demands by substantially reducing or halting oil and gas shipments. Although these tactics of energy disruption, intimidation and threats should have galvanized greater efforts by European leaders to begin diversifying the sources of its energy imports, Smith says the lessons of past Russian leaders appears to have been lost on top West European political figures. He references the Russian-German Nord Stream project approved by the EU leadership in 2005 as a clear example, which would only added to Europe’s dependency on Russia.

Furthermore, while “financial and other more subtle methods also appear to have been used extensively by Russian officials in repeated attempts to influence the energy and security policies of several Balkan countries, the three Baltic States, Kazakhstan, and even Germany and Italy,” the article states there are growing indications that corruption and kompromat, “the threat to expose compromising information regarding a member of the country’s leadership,” have increasingly been utilized to coerce European countries outside of the former Soviet area, including the Czech Republic, Poland, and Croatia.

The CSIS publication also highlights the “muted response” and role Western government officials and courts have played to enable the behavior by Russian leaders. This is due in large to the highly centralized and crony-capitalist nature of the present system in Russia, where foreign investors and leaders “have continued vying to be seen as the ‘best friend’ of the Kremlin leadership,” since short-term interests significantly outweigh long-term implications. Smith states that although the primary burden lies with the EU organizations and its member states in convincing the Kremlin leadership to realize the superiority of the Western business model of modernization and democratization, both the EU and U.S. need to adopt similar policies and coordinated pressure to curb Russia’s coercive energy politics. One recommendation is for the European Union to adopt a common energy policy – making Russia’s ability to cause division by constantly pitting one member state against another

obsolete. The implementation of a common energy market would also enable the enforcement of EU competition and antitrust laws in regard to energy imports.

There have been a few encouraging developments recently that have the Russian government worried, the report maintains. Russia's leverage has been temporarily weakened due factors including: the decrease in world oil and gas prices following the worldwide breakdown in financial markets, substantial progress in developing unconventional gas resources in the U.S., the world-wide glut of liquefied natural gas, and the significant progress China has made in the world energy market. "The 2010–2011 period is a particularly favorable time for the West to rewrite the rules of the game in the East-West energy trade."

**Andrew Kuchins. *Alternative Futures for Russia to 2017*. The Center for Strategic and International Studies, (2007), ([http://csis.org/files/media/csis/pubs/071214-russia\\_2017-web.pdf](http://csis.org/files/media/csis/pubs/071214-russia_2017-web.pdf))**

In this research for this report Andrew Kuchins organized a group of experts to help form a possible universe of possible outcomes for the Russian state The essay consists of five main parts:

- (1) “a description of Russia in June 2007,
- (2) “an analysis of key drivers for the future”
- (3) “a presentation of three future scenarios”
- (4) “key lessons and conclusions drawn from the scenarios exercise”
- (5) “Key signposts for scenario trends.”

The key points of disagreement and consensus that arose in the development of this essay are categorized into eleven points The points are as follows:

1. “Russia will not be a failed state”
2. “Russia will not be a mature democracy in 10 years”
3. Russia’s economic future looks bright while its political future is questionable
4. Russia is not a “*petrostate*”
5. Secession of Russian elements is unlikely
6. “Demographic challenges remain significant” however they should be “manageable”
7. “Nationalism and xenophobia” are on the rise and encouraged by the government
8. “Russian foreign policy will remain independent”
9. “Russian foreign policy is growing more assertive”
10. “The 2008 succession is manageable”
11. “The current stability is more fragile than it appears”

Kuchins describes Russia today as a “hybrid regime that might best be termed ‘illiberal internationalism’.” The Russian regime is “highly-centralized” with a “weak and submissive society.” Kuchins draws into question the sustainability of such a hybrid regime and further questions how it might develop in the future.

The study lists several key “drivers” of Russia’s future:

**Economic Growth, the Price of Oil and the Energy Sector-** Economic growth in the next decade will be driven by fluctuations in the price of oil, oil and power production growth, economic reform, state control, labor market stability and technological innovation.

**Political System and Leadership-** This paper argues that while the political system in Russia appears strong it is largely top-heavy and weak. A powerful leader has always been a major part of the cultural perception of the Russian government and is one that the Kremlin “nourishes.”

Demography, Health, and Social Issues- Russia's demography problems are seen largely as impediments rather than drivers as population continues to decrease. However, a growing nationalism can be seen as a future driver of Russian prosperity.

External Drivers of Russia's future- The condition of the world economy will be the most powerful driver in Russia's future, while American influence of the Russian economy remains "intact if diminished."

The report presents three possible scenarios for Russia's future, not to be read as predictions but as possible outcomes if certain "key drivers" are manipulated:

Putinism without Putin- The first scenario is predicated on the idea that Putin steps down in 2008 and exits the political sphere. Following this, Russia experiences steady economic growth with steady oil prices. This growth is only hindered when friction between the United States and China causes a global economic downturn, in which the Russian economy survives largely unscathed. The Russian public does not make large strides towards an actual democracy and are "willing to trade off perceived stability over democracy." Oil prices do not reach the levels many Russian officials hope for and these prices are frozen in 2011 for two years due the global economic downturn. Ties between China and Russia become stagnant after a slowdown in the Chinese economy. The NATO-Russian relationship grows following an anti-terrorism cooperation. This is spurred on by the movement of Salafi jihadists moving some operations into the northern Caucasus. This is considered to be an optimistic scenario primarily driven by global economic and security concerns and some minor changes in the Russian socioeconomic structure.

A Shot in the Dark... and True Dictatorship- This second scenario begins with the assassination of Vladimir Putin. Following this, silovki forces inside the Kremlin propel Vladimir Yakunin to the presidency. He gradually steer the country away from democracy, eventually extending the term of presidency to seven years. The result is a strong and nationalistic Russia. Virtually all of the former Soviet states begin to align with Russia. Growing tensions in the Middle East propelled by the U.S. withdraw from Iraq and Iranian nuclear advancement push the price of Oil up to \$150 a barrel. Moscow becomes the fifth largest financial center in the world. In an effort to preserve ties with the European Union and the United States, Russia begins to cut ties with China. Due to the growing threat from the Middle East, the United States becomes more inclined to allow Russians to claim territories in their "backyard." This scenario is presented to highlight the relative instability of the current Russian regime while also combating the notion that a wealthier Russia means a more democratic Russia.

Putinism Falls from Grace... and Democracy Rises Again- This third scenario begins with the successful succession of Vladimir Putin. However after concerns about climate change result in the eventual decrease in oil prices and a subsequent downturn in the Russian economy, Vladimir Putin is again elected president in 2012. Putin is unable to turn the economy around and a resurgence of democratic cravings begins amongst the Russian public. By 2016 a new more democratic regime enacts several economic reforms and anticorruption programs that begin to slow decline in the Russian economy. This scenario is presented to emphasize

“tipping points” that exist in Russian society and attempts to locate these points in relation to bad governance.

The author draws four main conclusions from this exercise: (1) There is a real vulnerability of the status quo in Russia with relation to internal and external drivers (2) The power of oil is the most important factor in Russia’s future (3) The role of individuals and their personalities hold great power for Russia’s future (4) Russia’s foreign policy is unlikely to take an anti-Western stance. A scenario close to the first is predicted to be most likely.

Kuchins lists nine trends for consideration:

- Growth of Russian assertiveness in multilateral institutions will continue as economic growth is sustained
- Higher oil prices will allow more politicized energy policies while lower prices will encourage market efficiency
- Expansion of state corporations will inhibit economic growth
- A growing middle class consisting of state bureaucrats will undermine a more plural political system
- Russian economic growth and political stability will encourage domestic and foreign investment
- Fast economic growth will correlate with more military spending Military spending will not likely grow above 3 percent of Russian GDP
- Arms sales abroad will continue to be a major priority for the Russian government
- The political future beyond 2008 is uncertain
- Russia will likely commit a considerable amount of resources to security in the Caucasus

Final thoughts on U.S. Policy Tools:

- Economic integration through trade and investment are the most powerful tool to influence Russia
- Russia will not likely show military aggression and maintaining strong European allies is key
- Russia will likely seek membership in multilateral organizations but this might not affect Russian behavior
- Maintaining and developing intelligence, economic and political ties is crucial
- Cooperative and security programs should be pursued for their intrinsic value to the United States, not as a means of sanctions
- Private contacts and exchange programs should be used to cultivate a positive U.S. image in Russia
- Diplomatic capabilities, language training and regional expertise are essential for understanding of and our policy towards Russia

**Andrew Kuchins, Amy Beavin, and Anna Bryndza. *Russia's 2020 Strategic Economic Goals and the Role of International Integration*. The Center for Strategic and International Studies, (2008), ([http://csis.org/files/media/csis/pubs/080731\\_kuchins\\_russia2020strat\\_web.pdf](http://csis.org/files/media/csis/pubs/080731_kuchins_russia2020strat_web.pdf)).**

This report produced by the Center for Strategic and International studies seeks to examine the “Concept of Long-Term Socioeconomic Development of the Russian Federation”, a document produced at the end of Vladimir Putin’s presidency with the intention of devising a strategy that would allow Russia to assert itself as a one of the top five economic powers in the world. The Concept paper, written by Russian Minister of Economic Development and Trade German Gref, is an update of a 1999 paper known as the “Millennium Statement.” This report assesses how the implementation of the strategies outlined in the Concept paper has affected Russia’s integration into the global economy. The report continues by examining the plausibility of the goals of the Concept. In order to determine how realistic these goals may or may not be, three questions are posited: (1) “Is the projected growth rate of GDP as a primary measure of economic performance attainable?” (2) “Is the outlined strategy to attain such economic results viable?” (3) “Can and how will the aforementioned strategy be financed?”

The report calls into question the availability of funds to finance the Concept citing claims from the Russian Minister of Finance Alexi Kudrin. Kudrin’s argument is based around a continuation of state spending while simultaneously reducing taxes. This may leave Russia without the necessary funds to finance the strategies outlined in the Concept. The report states that according to many experts, the GDP growth rates on which the Concept relies are realistic, however the strategies outlined in the Concept are “misguided.” The issue called into question is the makeup of the Russian manufacturing economy, which relies heavily on a domestic consumer market – while the Concept calls for technological and innovation and development marketed in the international market. While Vladimir Putin places a high degree of faith in the growth of Russian defense industries, this report points out that the defense trade accounts for the majority of high technology exports while only comprising a “small share of total trade.”

In terms of the viability of the goals set out in the Concept, this report concludes that while the strategies outlined may not be concrete, the goals will most likely remain the same. The report goes on to examine the overall strategy of the Concept and the three development scenarios it offers. The Concept is predicated on the idea that the Russian economy relies only on energy exports while the global economy is becoming more competitive, leaving Russia in an unstable position. The Concept outlines a strategy that would create a diversified Russian economy based on a high specialization in technology that could enable the development of “the best human capital” and the development of democracy with protections for rights and freedom.

The Concept outlines three possible scenarios. The first scenario, known as the inertia scenario, is one in which the economy will stagnate due to a lack of innovation and competitiveness of Russian goods, resulting in a decrease in GDP growth that would leave the Russian government without the funds necessary to finance the implementation of their plans for development. The second scenario involves Russia maximizing its potential in the energy

sector. This scenario also leaves the government without necessary funding due to a failure to diversify innovation beyond the energy sector. The third scenario has Russia becoming a world leader in technology and successfully integrating into a global economy, ultimately resulting in an increase in living standards. This innovation based scenario is predicated on strategies of modernization and innovation found by adopting Western technology advancements and then moving on to the development of new technology.

The report goes on to examine the role of trade in attaining the Russia's goals for economic development. The destinations of Russian exports are most likely going to shift away from the West towards Asia and the CIS, which will provide large markets for the high technology goods outlined in the Concept. While exports will shift away from the European Union, the EU will continue to comprise a large portion of Russia's imports with a particular focus on machinery. From here the report moves towards Russian integration with western powers, specifically the EU and the United States.

There are several scenarios in which Russia could integrate with the EU, one being a Free Trade Agreement. This however, would place Russian industries at a competitive disadvantage. The Concept plans for a future FTA between Russia and the EU at a time when innovation and development would allow Russian industries to be more competitive. While there is currently little economic engagement between the United States and Russia, it is likely that this will increase with the implementation of the Concept, not necessarily for trade purposes but more likely because of the power the United States wields with international organizations like the WTO, World Bank and the IMF. The Concept highlights the importance of Eurasian integration, however some question if this regional integration will simultaneously hinder Western integration. Many in the region are hesitant regarding integration and are waiting for Russia to achieve a larger degree of stability.

In recent years China and Russia have made large trading increases, however this has been comprised of a growth in imports from China and a relatively stagnant figure in exports to China. The Concept would have this trade relationship approach a balance with the implementation of innovative technological development in Russia which would allow for a growth in exports to China. This report argues that whatever means Russia chooses for economic integration, membership in the WTO should be the first priority for the Russian government if it wants to secure a place in the global economy.

Along with global integration, the Concept relies heavily on investment as one of its strategies. In the innovation-based scenario, there is a predicted growth in imports that would need to be financed by foreign investment.

This report predicts that the largest suppliers of this inward investment will be from the West, specifically the United States and the EU. While it has not been a major trend recognized in recent years, this report predicts a move towards increases in foreign mergers and acquisitions by Russian companies in the coming years.

The report offers 5 conclusions and recommendations regarding the Russian 2020 Strategic Concept: (1) An increase in competitiveness in manufacturing along with membership in the

WTO and a FTA with Europe is imperative for Russian economic success, (2) It would place less pain on Russian industries to expedite the process of trade liberalization rather than waiting until a later date, (3) The Russian government should encourage an increase in foreign investment, (4) The increase in capital should be allocated to improving transportation systems and increasing the quality of the workforce, (5) Improving political ties with the United States and Russia is necessary facilitate the growth outlined in the Concept.



**Stephen E Hanson, Philip Hanson, Juliet Johnson, Stephen K Wegren, and Peter Rutland. "Russia and the WTO: A Progress Report," *The National Bureau of Asian Research Special Report*, (March 2007), (<http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?ots591=0c54e3b3-1e9c-be1e-2c24-a6a8c7060233&size738=10&lng=en&ots627=fce62fe0-528d-4884-9cdf-283c282cf0b2&id=106576>)**

### **The WTO and Russian Politics by Stephen E. Hanson**

Hanson characterizes WTO hold-outs over Russia's bid to accession as political maneuvers by WTO members such as the U.S., the EU, and Georgia rather than as true economic disagreements. Along the same lines he sees the gains for Russia as principally political rather than economic ones, saying, "Russia's accession to the WTO might significantly boost Russia's image as a serious partner within global business circles, as well as provide some needed new dynamism to the fraying U.S.-Russian 'strategic partnership'." Hanson attributes these political disagreements to internal party politics, which have prevented the countries from engaging and which alter the political climate on a four-year cycle, and claims it is unclear whether Russia's accession is only a matter of time.

Hanson characterizes the geopolitical context in which Russia finds itself as uneasy. Citing its relationship with both the EU and NATO, Hanson says, "International regimes within which the Soviet Union formerly enjoyed high status, such as the multiple international arms control agreements to which the USSR was a signatory, have been deemphasized by the Bush administration," and that Russia has felt marginalized in the UN by recent international crises in Kosovo, Iran, and Iraq.

Hanson claims that accession is not guaranteed, "WTO membership is one of the few seemingly unattainable symbols of Russia's "arrival" as a genuine great power in the eyes of the West; yet time and again, the prospect of final accession seems to be snatched away." It is the United States and Georgia whom Hanson claims are the two largest obstacles to the consensus needed for Russia's accession to the WTO. In the case of Georgia, there are outstanding diplomatic and territorial disputes between Russia and Georgia that will make their bilateral negotiations difficult. "officially, as of January 2007, the Georgian government's WTO negotiators demand only that the Russians stop all trade outside of official Georgian checkpoints with these two regions, but this demand will be exceedingly difficult for Russia to accept, much less implement." In the case of the United States, while the ratification of the Jackson Vanik amendment does not stand in the way of Russia's WTO accession—in fact the U.S. would be in violation of its WTO membership duties to Russia—it does stand in the way of "Russia's smooth integration into the global trade negotiating framework"

### **WTO Accession and Russian Industry by Phillip Hanson**

Phillip Hanson reviews the associated fears, hopes, and likely consequences of Russia's eventual (though still not guaranteed) WTO accession for Russian manufacturing, which

constitutes one fifth of all GDP. Hanson claims that views on WTO accession are not as delineated between Russian industry and raw materials as some experts claim. In fact, some industries like the aerospace and the motor industries are being guided into the open market by the Russian government. Nonetheless, Hanson agrees with the gist of the argument, as many political and economic heavyweights in Russian industry are uncompetitive.

Hanson then launches into a discussion of Russian objectives, fear, and hopes. Similar to Stephen Hanson, he acknowledges the political flavor WTO members' reluctance to allow Russia to accede, citing Georgia, Kyrgyzstan, and Moldova as countries with smaller and less robust economies who were received relatively quickly. Hanson also says that it is clear to Russia that WTO accession will serve the Russian national interest in the long term, but short- and medium-term costs of accession depend on the way the bilateral negotiations develop, of which there are 58 for Russia. However, Hanson does recognize winners and losers in the argument for Russian accession. In particular farmers, automobile manufacturers, firms in the aerospace industry, the aluminum industry, banks, and insurance companies have all demanded government protection if foreign businesses are to be allowed a freer reign. On the other side are Russian steel and chemical firms who face anti-dumping measures abroad. Additionally, Russian consumers stand to gain from cheaper imported consumer goods, other companies from cheaper imported equipment, and everyone (in principle and in the long run) from a more competitive environment.

Estimates of the impact of the recession vary, according to the studies Hanson cites. However experts are in agreement that sectors that already have relatively high ratios of exports to output will benefit from Russia's WTO membership, including chemicals, metals, and fossil fuels (as predicted above.) The losers in the model appear to be food processing, textiles, mechanical engineering, and building materials. He also claims that Russian tariffs on imported manufactures will not fall substantially or soon based on the rates that have been negotiated thus far. Hanson concludes that WTO membership will not likely make much difference to Russia's manufacturing sector, given its deep-seated weaknesses, reminding readers that allowing Russia's WTO membership continues to be a political calculation by big players in the WTO like the United States.

### **The U.S.-Russia WTO Agreement on Financial Services by Juliet Johnson**

Johnson attributes the initial distance between existing Russian legislation and WTO norms, powerful sectoral lobbies on both sides, and radically conflicting perspectives on the likely effects of opening Russia's financial services market to foreigners. She attributes financial and service lobbies in Russia and the United States with large influence in forming each side's initial position in bilateral negotiations, which were very different and thus required much negotiation to reconcile.

Johnson then explains the prevailing fear in Russia is short to medium term; that liberalization would crush the domestic financial services sector, accelerate capital flight and leave Russian households open to previously un-experienced financial fraud and risk. In the United States on the other hand focuses on long-term benefits like best practices, technology, greater competition in the Russian market, and the stabilizing effects if the Russian economy hit a

downturn. The United States also claims that Russian households would see a large consumption gain—as much as 18%—in the medium term, using a 2005 World Bank report.

Johnson discounts Russian fears by pointing out two features of Russia's agreement. The first is that the liberalization of the financial sector will not take effect until after Russia joins the WTO, giving Russian banks more time to prepare for foreign competition. The second claim Johnson makes is that “few private Russian banks are clearly worth buying into, given the underdeveloped financial markets and the industry's often-questionable business and accounting practices”, suggesting there are barriers beyond non-WTO status that make Russia a difficult place to invest in.

### **Can Russian Agriculture Compete in the WTO? by Stephen K. Wegren**

Wegren's essay examines some of the issues surrounding Russian agriculture that made bilateral negotiations with the United States on the subject so difficult. He observes that as Russia seeks WTO membership, it also puts up trade barriers and enacts other agricultural and veterinarian protectionist policies, predominantly on meat. Wegren recognizes that “during the post-Soviet period, poultry meat has been among the most important—and most politically sensitive—food imports between the two countries” because 38/50 U.S. states produce poultry for export. Two “poultry wars” have resulted from Russian concerns, and another “poultry war” is always possible. However he does believe that both countries stand to gain from steep reductions in import tariffs that would accompany Russia's WTO accession.

Examining whether Russia's agricultural sector is now ready to compete, Wegren comes to the conclusion that despite great strides in efficiency in the post-Soviet era, that “there is significant reason to doubt that Russia is ready to compete or will be ready any time soon.” He cites shrinkage in cultivated land, the agricultural labor force, rural skilled and unskilled workers, and the decline of much of the agricultural stock of the Soviet era that have yet to be replaced, as contributors to the limited agricultural productivity of Russia. In an effort to remedy the situation, Russia's National Project earmarked 30 billion rubles over the course of 2006-2007 with the dual goal of developing the animal husbandry sector including increasing the production of animal husbandry products and stimulating the growth of small farming enterprises (personal and family plots and private farms) in addition to agricultural cooperatives. However, Wegren and the other experts he cites doubt that two years is enough time to rebuild and modernize the agricultural sector.

Wegren concludes that dislocation will harm the food processing, animal husbandry, and regional economic interests that dependent upon these two activities. However he takes the United States optimistic view in the long run in which “WTO accession and the competition that it engenders are likely to be the “push” that is needed to spur domestic private investment and governmental support.”

## **Russia and the WTO: Deal, or No Deal? by Peter Rutland**

This essay argues that the primary value of WTO entry to Russia is political rather than economic—Russia’s separate status is seen as a diplomatic snub—while given Russia’s trajectory as an energy-driven economy, the economic benefits of WTO entry are modest. Rutland says, “with the world’s tenth-largest economy, Russia is already better qualified for entry than many existing WTO members,” though both sides have sticking points. Russia’s item of concern was the application of “national standards” for veterinarian inspection of meat imports on the Russia side, while the United States desired firmer commitments to TRIPs before accession. He puts the ball in the U.S.’s court leading up to the 2006 trade negotiations, commenting that the unraveling of economic and diplomatic deals was a case of “Russia was playing hardball”, because the “United States had to act to rescue the process before Russia irrevocably withdrew, costing U.S. manufacturers and farmers billions of dollars in lost contracts.” Consistent with this attention to the precariousness of the agreement, Rutland claims that neighbors like Georgia and Poland, pushing Russia farther on TRIPs, or the tougher Democratic position on human rights issues could still sabotage accession for Russia.

Rutland then examines how WTO accession will impact the Russian economy, and ultimately comes to the conclusion that there is still no clear understanding of the costs and benefits to Russia’s accession, though the costs to producers in Russia are likely to be greater than the benefits. He quotes a Rutherford and Tarr estimate that entry would boost Russian GDP by 4.3% and consumption by 7.8% (ranging from a low of 6.2% in the Urals region to a high of 11.2% in the Northwest) and dismisses the effects of changes in the financial industry and the downward pressure on already low tariffs. He maintains that most of economic upheaval in the coming years will be the result of the growth of Russia’s oil industry: “the two main economic challenges [Russia] faces are: first, to prevent the Dutch disease—that is, appreciation of the exchange rate making Russian manufacturing and farming unable to compete with imports— and second to mitigate the sharp increase in regional and social inequality that has accompanied its oil-fired growth over the past decade. The inequality effect will likely exceed the growth effect, both in terms of economic welfare and political visibility.”

**William H. Cooper, “Russia’s Accession to the WTO,” *CRS Report for Congress*, (January 7, 2008), <http://www.nationalaglawcenter.org/assets/crs/RL31979.pdf>**

The CRS report introduces Russia’s accession to the WTO as a political necessity for former President Putin (now prime minister)—a chance to further integrate Russia’s economy into the world market, foster economic growth and development, and attract foreign investment by lowering trade barriers—and an economic opportunity for the U.S. and the EU. While the United States and Russia signed a bilateral agreement in which the United States agreed to support Russian accession on November 19, 2006, Russia still needs to gain the support of the rest of the WTO. However Cooper hints that Russia is getting more and more agitated with the delay, asserting that Russia is being asked to comply with higher standards than current WTO members, and that the WTO is not recognizing Russia’s substantial economic power.

The differences between the two nations are broadly reflective of the complaints of other WTO members (particularly the EU.). The three mentioned in the article are that energy pricing policies allow natural gas, oil, and electricity to be sold domestically at a price far below that paid by the rest of the world which cheapens domestic production of energy-intensive goods; inadequately enforced and underdeveloped intellectual property rights (IPR) protection; and large agricultural subsidies. IPR is particularly contentious.

Cooper outlines the privileges and responsibilities of WTO members, including most-favored nation treatment (MFN) for imported goods and services, national treatment of imported goods and services, transparency requirements for laws on foreign trade and investment, required lowering of trade barriers, and preferred use of tariffs over quotas. He suggests that because trade among WTO members accounts for around 90% of world trade, membership would likely be beneficial for Russia. Furthermore, Cooper points out that Putin has been able to push through much economic legislation in preparation for WTO accession which is necessary but not sufficient to achieve long-term economic growth and development. He acknowledges the following three hindrances to economic growth: domestic resistance to accession from protected industries like agriculture and raw materials producers, the depreciation of the value of Russian currency, and is the spike in oil prices that occurred in 2001. All of these make discerning economic growth difficult.

Looking closely at Russia’s foreign trade and economic policies, Cooper perceives several encouraging trends since the collapse of the USSR, though when he contextualizes these trends it is clear Russia still has much reform work to do to assure long term economic health. In terms of broad economic indicators increased imports, exports, and geographic diversity in trade with nations outside the former USSR, significantly increasing current account surpluses largely due to the rapid growth in the value of Russian exports of fossil fuels and other natural resources, and a sharp increase in FDI (though not enough given the size and needs of the Russian economy). Additional signs of movement towards WTO standards has been seen: Russia has had a floating exchange rate with minimal intervention since the fall of the Soviet Union, has lowered tariffs except in key industries, and in 1998 passed laws to provide for antidumping, countervailing, and safeguards measures against imports.

Cooper acknowledges the transition to a capitalist system has slowed the recovery process, but also emphasizes that an “inefficient banking system, the lack of private land ownership protection, the absence of adequate commercial laws, and an inefficient and corrupt government bureaucracy” in addition to loose monetary and fiscal policies early in the transition period have also played a large role in slowing growth and development across Russia. He adds that, while restructuring policies have been created, their benefit remains to be seen. Adding to this skeptical outlook, Cooper reminds that beginning in 2004 President Putin has slowed (if not halted) reform, reestablishing state control over key industries, particularly in the energy sector.

Turning to the status of Russia in the accession process, Cooper assesses each roadblock, moving from discussions of energy policy, to intellectual property rights, to agricultural exchange and finally to service provision. On energy policy, Cooper justifies Russia’s protectionism on the groups that it provides affordable heating and electricity to Russian citizens while maintaining favorable fuel rates for Russian state institutions and corporations. However an agreement on the dual energy pricing issue where Russia agreed to gradually increase domestic energy prices as part of the EU’s bilateral agreement on Russia’s accession to the WTO has been reached, assuaging much of the tension on the issue.

WTO members want Russia to both have the laws and enforcement measures in place before they accede to the WTO. Specifically, the United States argues that a 2006 amendment to the IPR laws in Russia that combines them in to one law may actually weaken rather than strengthen enforcement, and for the last decade Cooper reports that the USTR has put Russia on a special list of countries with intellectual property rights deficiencies To establish the gravity of the issue, Cooper notes that losses due to copyright piracy of U.S. products in Russia in 2006 are estimated at \$2.1 billion dollars.

Cooper chronicles a rocky history of meat trade between WTO members (including the U.S.) and Russia. In 2003 Russia violated the “standstill” principle under which countries applying for WTO membership refrain from imposing new trade restrictions during the accession process. Russia countered, however, that the restrictions protect its domestic meat producers from import surges, a right that is enjoyed by WTO members. Russian quotas on beef and poultry have also caused tension, while accusations on improper sanitary and phytosanitary conditions have flown between the United States and Russia periodically. Most recently, in 2002-2003 the United States agreed to Russian inspection of its processing and storage facilities, and experts are skeptical that other disagreements won’t crop up in the absence of Russia’s accession to the WTO.

The United States, the EU, and other advanced developed WTO members have argued that Russia needs an efficient financial services industry to promote economic growth and development and that opening the industry to foreign investment would introduce expertise and new capital that would benefit Russia in the long-run. Russian officials and business representatives on the other hand claim that their service industries—in particular their financial industries—must have government protection because otherwise they would be wiped by foreign competition. Cooper focuses on the insurance and banking markets as the most highly protected and underdeveloped of these financial industries: about 30% of the

volume of Russian banking activity is conducted by two banks, Sberbank (holds about 70% of Russian savings deposits) and Vneshtorgbank, both owned by the Central Bank of Russia.

Lastly, Cooper comments on the implications of Russia's accession for the U.S., Russia, and the rest of the world. For the United States, Russian accession would open up new markets, while WTO membership will likely improve the efficiency of the Russian economy and to raising the living standard of the average Russian citizen. The rest of the world will gain from the larger degree of stability and transparency to the international trading system that comes from economic and geographic expansion of the WTO, but the WTO will take on a higher case load and a more diverse membership will make reaching consensus more difficult.