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Russia versus the United States and Europe—or "Strategic Triangle"?

Developments in Russian Domestic and Foreign Policy, Western Responses, and Prospects for Policy Coordination

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Table of Contents

Introduction

Russia's domestic and foreign policies have again become a matter of concern in both Europe and the United States. During Putin's second term in office, as academic specialists and policy makers by now largely agree, authoritarian tendencies under the slogan of "managed democracy" have been on the rise. Its features include the absence of effective opposition to the presidential administration; manipulation of the legislature and the judiciary by the presidential apparatus; increase in the power and influence of the security services; reassertion of central control over the regions; limitation of the freedom of the media; intimidation of journalists and academic researchers; termination of military reforms; and the continuation of repression in Chechnya.

In foreign policy, the concern emanates from Putin's declared goal of re-establishing Russia as a "great power" in world affairs. This may be perceived as quite legitimate. However, one of the forms this quest has taken is Moscow's attempt to extend the reassertion of domestic controls to the post-Soviet geopolitical space or at least to hold on tooth and nail to the influence it still has—and no matter what the make-up of the regime. The manifestations of such an approach are the continuing support for the Lukashenko regime in Belarus; the ill-fated support for the both anti-Western and antidemocratic but pro-Russian presidential candidate in Ukraine; continued attacks on Latvian and Estonian minority policies; economic pressures and interference in the internal affairs of these two countries and Lithuania; the presence of Russian troops and bases in Georgia and Moldova; support for separatist regimes in Abkhazia, South Ossetia, Yavakhetia, and Transnistria; and attempts to create regional groupings in competition with the EU and NATO such as the Common Economic Space (CES) and the Organization of the Collective Security Treaty (OCST).

These developments raise the question as to whether Russia, contrary to the declared intentions of its president, is rejecting the idea of "Europeanization", turning away from European norms, and abandoning the idea of integration into Western institutions—and, if so, what consequences this may have for Western policies.

In July 2004 a working group was formed to look at these questions. Its core consisted of research analysts of the Stiftung Wissenschaft und Politik (SWP) in Berlin, the Carnegie Endowment for International Peace in Washington, D.C., and the Carnegie Moscow Center. Its stated purpose was (1) to analyze Russian domestic and foreign policies; (2) address their significance for Russia's relations with the United States and Europe; (3) evaluate current European and American reactions to developments in Russia; and (4) assess the problems and prospects for coordination of

Western policies. The corresponding papers presented here reflect the effort of two meetings, one held in Washington, D.C., in September 2004 at the Carnegie Endowment, the other in Berlin in May 2005 at the Stiftung.

The working group was part of a larger project entitled: "Diverging Views on World Order? Transatlantic Foreign Policy Discourse (TFPD) in a Globalizing World." The overarching project is made possible by a generous grant from the German Marshall Fund of the United States, an American institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe in the spirit of the post-war Marshall-Plan. The aim of the TFPD, at a time of manifest differences in US and European perceptions and policies on a number of international issues, is to engage decision-makers and opinion-leaders from both sides of the Atlantic in discussion with a view to examining the reasons for the differences and to look for ways to narrow or overcome them.

Our thanks go to the Marshall Fund for making the Russia project possible. We are also grateful to TFPD project director Jens van Scherpenberg for advice and consent; project coordinator Eugene Whitlock and the staff of both the Carnegie Endowment and the Stiftung for helping to organize the two conferences; and to Jana Dorband (SWP) and, above all, to Matthew Gibson (Carnegie Endowment) for their editorial work.

The first meeting of the working group was devoted primarily to stocktaking on a wide variety of issues, including the interaction of European, American, and Russian policies on international terrorism; the non-proliferation of weapons of mass destruction and their delivery vehicles; Iran's purported attempt at developing not only a civilian but also a military nuclear program; and divergent and common perceptions and policies on Nato and the European Union's Common Security and Defense Policy (ESDP). The consensus that emerged at the conference was that the focus of the workshop should be narrowed and that it should be directed toward the importance of three dimensions for transatlantic relations: (1) Russian domestic politics, (2) Russian policies on post-Soviet territory, and (3) Russian policies on energy, notably oil and gas.

Domestic Politics: Stability or Emerging Crisis?

Despite growing authoritarianism in Russia, the workshop agreed, Putin's second term in office has been rife with crises and failures reflective of an actual lack of control and inability to predict disadvantageous consequences of decisions. The most important examples are (1) the arrest and conviction of Mikhail *Khodorkovsky*, chief executive of the thriving Yukos oil empire, the enforced bankruptcy of the corporation, and the transfer of its major assets to state ownership; (2) the ill-conceived and counterproductive interference in the elections in *Ukraine* on behalf of Viktor Yanukovich, the representative of the "old guard"; (3) the ill-planned and poorly explained monetarization of social benefits, leading to wide-spread demonstrations in Moscow and other Russian cities; and (4) the persistent inability to achieve normalization and stabilization in *Chechnya* and

beyond in the Northern Caucasus as witnessed by the tragedy in Beslan. The system has become so highly centralized that everyone is waiting for Putin to make decisions. But this makes the management of crises ineffective. In fact, a vicious cycle can be observed: the centralization of power after crises, which constrains the ability to solve them, which in turn leads to further attempts at centralization.

There was consensus in the working group about an increase in internal conflicts in the "Putin system" and that the "stability" of that system is more apparent than real. But differences pertained to the extent and the consequences of that instability. By and large, both the workshop members of the Carnegie Endowment in Washington, D.C, and of the Moscow Center were more firm in their assessment that the Putin system had ossified beyond redemption and that its demise was more or less a foregone conclusion. The opposite view was held by most of the European participants in the workshop who argued that the regime had retained sufficient flexibility and that predictions as to the disintegration of the Putin regime were premature given that there are many weak authoritarian regimes that embody dysfunctional features but which have nevertheless endured.

Post-Soviet Space: Competitive Russian and Western Policies

As reflected in the discussion and the papers on Ukraine, Belarus, the Caucasus, and Central Asia, democratization and modernization while maintaining stability is the main challenge facing the newly independent countries of the former Soviet Union. But that process, it seems, is more helped than hindered by Putin's Russia. The president himself and large sections of the security and foreign policy establishment in Moscow still have not reconciled themselves with the loss of empire. Perceptions there are wide-spread that the post-Soviet space is essentially a Russian sphere of influence and that the country is engaged with the United States and Europe in a "zero-sum game", i.e. that the gain of one side is the loss of the other. The form which the quest for the retention or extension of control on post-Soviet space has taken is the cooperation Russia has maintained with undemocratic regimes, such as Belarus and in Central Asia; the support it has extended to separatist entities in Moldova and Georgia; and the ethnic and national conflicts it has utilized for its own purposes in Nagorno-Karabakh, Transnistria, Abkhazia, and South Ossetia.

But the net result of Russian endeavors at regaining a greater degree of influence on post-Soviet space has been quite mixed. Undoubtedly, American and European criticism of the nature of these regimes and their repressive actions, as demonstrated, for instance, by the demand for an independent inquiry into the massacres of Andijan, have allied repressive forces and regimes in Central Asia more closely with Russia. Because of its abundant resources in gas and oil and control over the pipelines, Russia has retained significant leverage, including over political developments in Ukraine. Furthermore, the United States and the EU have not been ready to

play a leading role in the Caucasus and Central Asia. Up to a point, they have been willing to work together with Russia because of concerns that Islamic extremism and fundamentalism and the terrorism associated with it may be spreading.

Yet the uncritical support for authoritarian, undemocratic and even dictatorial regimes in the medium to long term is bound to undermine the Russian position. As witnessed above all by the controversies over the elections in Ukraine, it has negatively affected Moscow's relations with the West. There is no triangular cooperation, let alone a "strategic triangle" of common purpose and policy to promote genuine stability rather than its semblance. Russian policies instead have conjured up the specter of a new diving line in Eurasia, one that runs between a "Wider Europe," comprising the EU and states closely associated with it, and a "Wider Russia" that is based on outdated and ineffective principles.

"Strategic" Significance of Russian Oil and Gas

The case for close triangular cooperation on energy is simple. Russia has regained its former Soviet position as on of the world's largest oil producers. It is already the second largest oil exporter, after Saudi Arabia. It has the largest natural gas reserves in the world by a wide margin, ahead of Iran. Oil and gas represent more than a quarter of GDP and half of export earnings. The sector has been the engine of economic growth and led the modernization of business practices since the financial collapse of 1998. Russia is in need of foreign investment in the oil and gas sector, particularly in high-risk exploration or technologically challenging development. To develop offshore Sakhalin or the Shtokman field, which will require LNG technology, the Russian government needs modern Western equipment and know-how.

Conversely, the United States and Europe are the largest oil and gas consumers in the world. They import most of their oil from increasingly politically uncertain parts of the world, not only the Middle East but also more recently unstable countries in South America and West Africa. Western oil companies need to augment existing production with new oil reserves, but are largely blocked from making equity investments in the Persian Gulf due to host government policies. There is a growing shortage of domestically produced natural gas and higher gas (and oil) prices negatively affect both the American and European economies.

Yet despite all the complementary factors and enthusiastic predictions about the emergence of "strategic energy alliances", cooperation has failed to live up to its inherent promises. Both the US-Russian and the European-Russian "energy dialogue" have borne little fruit. The Kremlin apparently sees the energy sector not just as a source of spoils and economic growth but as a lever of international political influence. Concern has thus been widespread that Moscow could use energy as a lever not only vis-à-vis weaker states on post-Soviet territory but also against EU member countries, old and new. Political considerations certainly played a role in

Putin's preference, supported by German chancellor Gerhard Schröder, for the construction of a gas pipeline under the Baltic Sea bypassing the Baltic States and Poland. Political considerations were also foremost in the decision to dismember the most innovative energy company in Russia, causing oil production to stagnate and putting the brakes on foreign direct investments. Only a revision of Russian policies is likely to change this unsatisfactory state of affairs.

How to Deal with Russia

There was consensus among the working group participants that the West does have some leverage over policies in Russia. This is because Russia wants to be a "European" power which means that its acceptance into Western dominated institutions, for instance, the G8, depends on policies that conform to European and more broadly Western norms; insulation from globalization is economically damaging; current windfall profits mean that Russia may not now be in need of finance but if modernization and diversification of the economy is to succeed, Russia needs Western know-how and access to economic processes and practices at all levels.

American and European approaches to Russia, therefore, should embody the following elements. The two Western actors should, among other things,

- *speak clearly and openly* about the risks of the current political developments in Russia and the country's policies vis-à-vis its neighboring countries for Russia's relations with the West;
- argue the case that the opportunity *costs of state capitalism* are high, including loss of economic efficiency—as the Soviet demise clearly demonstrated;
- persuade the Russian political leadership that *comprehensive reform* of the judiciary and vigorous measures against corruption must happen before there is any prospect of a major increase in foreign direct investment;
- engage in discussion about the pitfalls of supporting *undemocratic post-Soviet regimes*, including in Belarus and Uzbekistan, and make the point that it is in Russia's best interest to align itself with reformist forces in the neighboring countries;
- point out that the enhancement of political stability in neighboring countries on the basis of *democracy, a free market, the rule of law, and a lively civil society* and the solution of "frozen conflicts" are also in Russia's best interest;
- insist that the preconditions for Russian membership in *WTO* be met, that is, refuse political discounts;
- avoid *angst* about "dependence" on Russian *oil and gas* since dependency works both ways.

Berlin and Washington, D.C., October 2005
Hannes Adomeit and Anders Åslund, Working Group Leaders

Russian Domestic Politics

Russia on the Eve of Regime Change

*Nikolay Petrov**

The year 2004, the first of Putin's second term and the one when the nature of his regime became fully apparent, was marked by conspicuous government failures and increasing pressure on society.[1] Putin continued to centralize the state, reshaping relations between cities, regions, and the capital. He put greater pressure on civil society and business (most notably in the Yukos case). It was the first year of pure Putinism and the one that proved the regime was extremely ineffective.

However, Russian democracy is in a better shape than an external observer might imagine based on the events of the last few years. Mr. Putin has weakened all democratic institutions except the presidency and the last year has brought increased authoritarianism. The Freedom House evaluation accurately reflects the grim state of democracy in Russia. But there are at least three reasons to be more optimistic about the future of Russian democracy. They are the regions, which in some cases are much more democratic than the center, the youth, and the machinery of "managed democracy" (MD) itself.

Since late 2004—early 2005, with the Ukrainian Orange Revolution and the mass protest movement caused by monetization of social benefits, I am much more optimistic about the prospects for democracy in Russia. Although the glass is still half-empty and leaking, to use Michael McFaul's image, the leaking will end soon because the glass will be either repaired or replaced. The problem for the Kremlin is that without sufficient water this plastic glass (the regime) is too light to be stable and a gust of wind could topple it. Managed democracy proclaimed its transitional character from Putin's first days in power. It's unstable and very ineffective. It has always been overmanaged and became still more so as a result of the recent political reforms.

Russia's political development has recently seen two major turning points. The first came after the Georgian Rose Revolution and Putin's re-election, when the Kremlin moved to increase manageability and minimize elections. Amendments to existing laws made it impossible to hold a referendum or establish a political party without Kremlin permission. Electoral and municipal reforms eliminated gubernatorial, single-mandate Duma, and mayoral elections. The second came after the Ukrainian elections and the failed monetization of social benefits, when protesters took to the streets.

* Carnegie Moscow Center.

1 Until Dmitry Medvedev replaced Alexander Voloshin as presidential chief of staff in fall 2003 and Mikhail Fradkov replaced Mikhail Kas'yanov as prime minister in spring 2004, one could characterize the regime as a Yeltsin-Putin hybrid.

Putin's Managed Democracy

1. Putin's managed democracy is a complex, multi-layered system, which allows the authorities to circumvent popular sovereignty while maintaining the appearance of democracy. It's a triple system including control over actors, institutions and the rules of the game. The basic elements are: (1) a strong presidential system of state management along with weakening of all other institutions, including both houses of parliament, the judiciary, business, and regional elites; (2) state control over the media, which is used to mete out information in doses and shape public opinion; and (3) control over elections, which transforms them from an instrument of popular will into a means to legitimize the decisions of elites.

2. Weakened institutions can no longer fulfill their functions within the system. They give way to substitutes, which are absolutely dependent on the president and do not have an independent base. The resulting reductionist system lacks: 1) flexibility in response to a changing environment; and 2) the capacity for self-development.

3. MD-style elections are the most technically refined and considered element of the system. The electoral system includes a number of mines and booby traps.[2] The thresholds for participation are forbiddingly high and the center has the ability to select or disqualify candidates. The election commissions, responsible for enforcing the rules, tracing violations, and taking remedial steps, are controlled by the center, law enforcement agencies and the courts—all of which are under the president's thumb.

4. MD's purpose is to prevent negative results rather than provide positive ones—really, just to forestall any unacceptable options. To illustrate this point one can take the recent gubernatorial elections, where for the Kremlin victory was not necessarily connected with one particular candidate. Under MD strategy can be nonlinear and flexible, avoiding most options but leaving one or two particular possibilities. Thus experts can be mistaken when they draw conclusions based on pre-MD concepts, like the "win-loose" game.

5. Generally negative selection is cheaper than positive selection (for the managers, not for society). It is also more damaging, because it eradicates the competition instead of just providing unfair benefits to favored competitors.

2 Other potential pitfalls include: the collection and verification of signatures; candidates' reporting on their income and property; the volume and technicalities of campaign financing; and campaign rules. All this recalls the trick fountains at Petrodvorets, a palace outside Saint Petersburg. Children play in a paved area, surrounded by flowers and benches. A fountain can suddenly spring up, without warning, from one of the bricks or benches. Nobody knows when and where this will happen. All the while there is a nondescript old man watching, sitting off to the side and switching on this or that fountain from time to time. Something similar is going on with the pitfalls mentioned. The rules are such that all candidates violate them here and there. Authorities may turn a blind eye toward these violations for a while, but they are ready to punish a disagreeable candidate at any time, absolutely legally. Thus it's a matter of selective application of the law.

6. Technical-procedural side of elections and their meaning/role connected with the importance of elective offices and the influence of elections over further development of a country go together. In Russia's case the gap between the two is increasing, which makes elections far more vulnerable to general political development than to procedural improvements.

7. In conditions of more or less free voting, which do exist in a lot of regions, elections constitute a balanced system. A kind of a "law of conservation" (like Newton's second law?) tends to preserve democratic procedures and institutions, which were relatively well developed during the past decade. Accordingly MD causes negative side effects for the authorities. These include growing protest sentiment and action, which manifest themselves as absenteeism, negativism, and voting for protest forces and/or "against all."

8. The basic contradiction of MD, between predetermined election results and democratic decorum, is insoluble. It makes MD unstable and its transformation toward either management or democracy inevitable.

9. Managed democracy treats all regions the same way, despite the regions' often different reactions. Thus, there is another serious contradiction in MD—between undivided authority and rigid centralism in management and diverse social reaction, which varies along regional, urban-rural, status, ethnic, and other lines.

10. Another contradiction of the MD model inhibits function. The elite, which does the management, is split into federal and regional halves and divided along departmental lines. Different elite fragments clash with each other, each fragment concerned with demonstrating its loyalty and effectiveness rather than with accomplishing anything. Despite the increasing strength of the federal elite, which now deploys *siloviki* (men from the security services) in the regions to represent its interests, regional elites sometimes take the initiative and paralysis of the whole MD system becomes inevitable.

11. The 2003–2004 Russian elections, the first federal ones held under the mature MD model, provide a window on its general outlook and methods. However, the election did not reveal the full capabilities of the MD model because the situation was rather favorable to the ruling party. The regime did not have to use all of the mechanisms at its disposal. The general result of the test can be summarized as follows: the MD model worked well, but it wasn't pretty.

12. MD has been continuously tested in different elections and it is capable of evolution. Its feedback mechanisms work well enough to get information about how a campaign is going and react, if necessary. The MD model can be adjusted and modified during a campaign as well.

13. MD doesn't reproduce itself. It needs manual management, constant intervention from outside. Combining the disadvantages of both command and democratic systems, it needs a huge and complicated overseeing bloc. Otherwise there is strong incentive for the mid-level elite to overmanage elections and exploit opportunities for its own benefit.

Institutions	Substitutes
Government	Security Council (Politburo),
	Center for Strategic Research...
Federation Council	State Council (Gossovet)
State Duma	Public Chamber
Free Media (feedback)	Public Reception Rooms, numerous councils

Putin's Electoral Reform

As of summer 2005 Putin's second electoral reform is practically complete. The president signed the new law on electing State Duma deputies. A new set of amendments to a long list of laws related to elections has begun to move through the Duma.

The essence of this reform is to distance citizens from real participation in the electoral process and, more broadly, from any kind of governmental decision-making. It will further reduce the feedback the authorities get from the people and lead to the further centralization of the political system.

The first set of reforms revised election legislation wholesale to increase the Kremlin's control over the electoral process. Now the authorities have changed more than procedure. They have dismantled whole sections of the electoral system. The public no longer elects governors or, in the majority of instances, mayors, and there are no more single-mandate districts for the Duma.

A party now has to win at least 7 percent to make it into the Duma, and parties cannot form electoral blocs. Along with last year's changes to the law on political parties—which raised the minimum number of members to 50,000 and requires parties to have organizations in at least half of the country's regions—this change will allow the authorities to disqualify almost any political party on completely legal grounds. It has also become nearly impossible to hold a referendum, unless the government supports it.

The institution of election observation has suffered a particular heavy blow. Now, only observers from the parties participating in an election are allowed to watch the polls. Independent observers are not allowed at all. The Kremlin learned its lesson from recent color revolutions and has tightened its control over elections at all levels (where it has not eliminated them altogether).

The so-called technical improvements the authorities are making to the electoral system fall into two categories. First, the Kremlin is making it easier to disqualify undesirable candidates and parties using biased courts and election commissions beholden to the center. For example, the authorities have taken an increasingly strict approach to the signatures needed to register a candidate. This was one of the ways the authorities got rid of candidates in the past, but now it has become even easier.

Second, the Kremlin is trying to eliminate all ways that voters directly affect elections, whether by voting with their feet and staying away from

the polls or voting "against all." It is merely a matter of time before they eliminate the "against all" option, and even now, though it will still appear on ballots, it no longer functions as it once did.

There are three main myths surrounding election reform. The first is that this reform was conceived with an eye to the troublesome 2008 presidential election and that it will kick in immediately before. The next myth is that election reform will increase the Kremlin's control over political life and make democracy more manageable. Finally, the third myth is that the Kremlin is flexible and will adjust its plans as it goes, including possibly restoring certain democratic elements that had previously been eliminated.

Yet election reform will have an immediate effect, not only on gubernatorial and mayoral elections and on referenda, all of which have been practically outlawed, but also on the seemingly distant State Duma elections coming up in 2007. The elimination of single-mandate districts radically shifted the loyalties of current deputies who are hoping for re-election in these districts. They will not depend on their governor or constituents to get a Duma seat. They will depend on the Kremlin. Refusing to allow smaller parties to form blocs is also a profoundly significant move. These blocs have done very well against United Russia in regional legislative elections.

One would think that managed democracy had thus become more manageable and less democratic. The Kremlin seems to think that elections are only good for the opposition and that the fewer options available on the ballot, the better. Undoubtedly, democracy is not perfect, and direct election, as one of its most important institutions, is no exception. However, Winston Churchill's famous assertion that democracy was still better than anything humanity has managed to come up with applies not just to humanity in general, but also to the leaders in the Kremlin. They have done more than block all the channels for opposition members to take part in government decision-making. They have also plugged up all the outlets for the public to let off steam. The Kremlin is turning the political system into a pressure cooker. At the same time, the authorities continue to dismantle the last traces of the system that protects the public from the corrupt and incompetent. They keep turning up the heat underneath the cooker by instituting badly planned and badly executed reforms, with unpredictable consequences.

The re-democratization myth springs from a recent statement by the president that it may be appropriate to adjust the system of appointing regional leaders by allowing the parties that won regional legislative elections to nominate candidates for governor. The president also called for broader rights for Duma factions.

These elements of so-called political liberalism, which the president included in his annual state of the nation address, are made utterly pointless by the electoral reform. In other words, first the Kremlin will build a fence keeping undesirables out of the Duma and the regional legislatures,

and only then will the government volunteer to expand the rights of those who are already on the inside.

This would all be rather amusing, if it were not so terribly dangerous.

The president's approval rating, the only basis of political stability at the moment, continues to oscillate. It is a matter of life and death that the authorities increase the flexibility and stability of the political system by decentralizing and re-federalizing it. The government needs to re-establish communication with the public and break the giant monolith of the power vertical into three flexibly connected "power horizontals" at the federal, regional and local levels.

The Kremlin also needs to open Russia's legislatures to the political opposition at all levels in order to send the energy of social protest flowing into parliamentary channels. It needs to shore up the democratic institutions that have been undermined by five years of the Putin regime. These institutions include the representative branch of government and the electoral process. Otherwise, the risk of systemic political collapse will become too great.

However, the Kremlin continues to plod mindlessly in precisely the opposite direction. Russia's leaders keep throwing up new barriers barring opposition parties from the Duma. They have turned those elections that remain into a farce.

Gubernatorial Appointments

At the end of 2004, using the Beslan hostage crisis as pretext, the Kremlin came out against direct gubernatorial elections and in favor of gubernatorial appointment by the president. Regional legislative bodies confirmed twenty-five of Putin's nominees during the first six months of the new system. In less than in one third of cases (in eight regions), the process followed proper procedure, including searching for and announcing alternative candidates.[3] Not to mention that in all of them the president nominated the first person on the list and in 6 cases out of 8 the nominee happened to be an incumbent. In the other cases incumbent leaders asked for the president's trust without waiting until the end of their term (sometimes a year or a couple years in advance). The president bestowed his trust in each case. The number of such "initiators" is even growing. Since late March, all of the governors have been appointed in simplified fashion. On one hand this guarantees relative lack of conflict, on the other side—less transparency than ever.

3 According to the presidential decree envoys should name at least two candidates. In most cases they named only the minimum two. It was only in the Jewish autonomous region that three candidates were named and in Amur oblast that four candidates were planned. Both are Far Eastern regions. Konstantin Pulikovsky, envoy to the Far East, explained, "each candidate for a governorship should also give us a list of 12–15 people who would form the 'core' of his team in case of his appointment to the office. We are considering these candidates along with his candidacy. This work is done in cooperation with prosecutor's office and law enforcement agencies." Russian Story, May 11, 2005.

The case of Amur oblast warrants special mention. It was there, where the governor asked the president for trust at the very last moment, that the presidential envoy's office had already selected four possible candidates (including the incumbent himself, the deputy envoy, the chief federal inspector, and the military academy commander who happened to be the brother of the State Duma speaker).

Gubernatorial appointments, which began in mid-January in the Far East, the Urals and Central Russia, have by now covered all federal districts except the Northwest. Aside from the case of Koryak, one of the smallest regions, where the governor was punished demonstratively, only in two regions were governors replaced by standard procedure[4]—Saratov and Tula. In both cases the replacements were obscure technocrats from federal rather than regional structures. (One was a nuclear power plant director and the other a manager from a military-industrial complex.) In accordance with the existing scheme, the president chooses from at least two candidates offered by an envoy. In fact, however, the president nominated the envoy's first choice every time. In a few cases, when the nomination followed a different scheme, the Potemkin candidates were chief federal inspectors (Vladimir, Amur, Tula regions), mayors (Jewish AO, Khanty-Mansi AO), a regional Central Bank director (Saratov), and a Transgaz director and vice-governor (Yamal-Nenets AO).[5]

The rate of gubernatorial turnover is now lower than it used to be with direct elections.[6] But it would be a great mistake to conclude that keeping the same people in governors' offices means that the MD system doesn't work well. This is not true. The Kremlin is turning over the second and third tiers of regional officialdom, sometimes radically.[7]

The country has come to a very decisive moment, with the very survival of Putin's regime at stake. The existing political system, based on substitutes rather than on democratic institutions, is inflexible and potentially very unstable due to its high center of gravity. The regime is not only undemocratic but also extremely ineffective. These features are directly con-

4 Except for North Ossetian Alexander Dzasokhov, who resigned voluntarily and was replaced immediately Mamsurov, speaker of the regional parliament and one of Dzasokhov's people.

5 AO stands for "autonomous region."

6 Once analysts close to the Kremlin, like Vyacheslav Nikonov, explained the need to abandon direct elections and switch to gubernatorial appointments by saying that populists who can't run a region were coming to power by means of elections, and that the governors' corps should be renewed radically. There are several possible explanations for why the Kremlin prefers not to experiment with replacing regional leaders. One is a fear of possible political complications after the social protests of January-February. Another is the lack of agreement between different Kremlin groups. It's easier to compromise on an incumbent. One other possible explanation is the lower cost of an incumbent. Minting a new political figure can cost tens of millions (in dollars).

7 There are reasons to think that if in the past the Kremlin's support of incumbent governors in elections was paid back by the governors appointing Kremlin people to the Federation Council, now those Kremlin people are getting key positions in the regions, including deputy governorships in charge of finances. Cases from Sakhalin Oblast and Altai Kray support this view.

nected and the only way for the regime to survive is to improve itself by becoming more democratic. Thus MD is actually pushing the Kremlin toward democratization. That's one reason to be less pessimistic about Russia's future. Two other reasons are the regions, which in many cases look rather more democratic than the center. They have some checks and balances, competitive elections, and political pluralism. They also have more and more politically engaged youth following and even leading the emerging wave of social activism.

The Logic of Backsliding

*Lilia Shevtsova**

Last year was filled with important developments in Russia: the presidential election in March; the decision to replace a variety of subsidies and welfare benefits with cash payments; the banking crisis; centralization of power; Russia's intervention in elections in Ukraine and Abkhazia; the crushing of Yukos; friction between Russia and the West; and the stalling of economic reform. In early 2005, widespread demonstrations against the elimination of subsidies and benefits caught the regime off gaurd. All of these apparently unrelated developments point to a deepening *systemic crisis*.

The test in 2005 will be whether or not Russia begins to understand what these troubling symptoms indicate. President Vladimir Putin and his team are stubbornly constructing a system that poses an enormous threat to Russian society not least because there are currently no political alternatives or influential forces in Russia that could halt the country's slide toward social decay, collapse and the threat of dictatorship.

Putin's presidency has revealed the true nature of post-Soviet power, which in the Yeltsin years was obscured by indeterminacy. Putin's brand of autocracy demonstrates how principles ripped out of context become their opposites and how the law of unintended consequences works. In the absence of a liberal, democratic political system, elections are little more than a way to legitimize autocracy. In today's Russia this has taken the form of presidential rule. At same time, the attempt to bolster presidential autocracy by eliminating independent institutions makes it dependent on all sorts of individuals and forces that in fact have no interest in a strong regime. A modern, highly organized society can only function effectively when it manages to unite democracy (majority rule), liberalism (guaranteed individual rights and freedoms) and the republican tradition (the concept of service to society).

The 2004 presidential election legitimized Russia's new political regime, which could tentatively be described as "bureaucratic-authoritarian," a term introduced by Guillermo O'Donnell. Such regimes, which thrived in Latin America and Southeast Asia in the 1960s and 1970s, are characterized by the following factors: the personified power of the leader, who stands above society; the presence of technocrats in government who promote liberal reforms; the leader's reliance on support from the bureaucracy and the armed forces; the involvement of Western monopolies in economic development; and the depoliticization of society. Does any of this sound familiar? Efforts by some Russian experts to define Russian

* Carnegie Moscow Center.

autocracy as an "unconsolidated democracy" (Migranyan) or an "effective, functioning democracy" (Nikonov) testify either to an excessively zealous defense of the regime or to a stripped-down concept of democracy that differs little from authoritarianism.

A number of bureaucratic-authoritarian regimes have pursued an authoritarian form of industrialization, but these were attempts to modernize undeveloped, agrarian countries. Some of these regimes—notably in Chile, South Korea and Taiwan—succeeded. But in most countries, and particularly in Argentina, Peru and Venezuela, bureaucratic-authoritarian regimes only impeded modernization. Regimes of this type now seem anachronisms incapable of meeting 21st-century challenges. Take China, for example. Many in Russia view China as an authoritarian state that has successfully pursued a modernizing policy. But China today faces a difficult choice between preserving the Communist party's monopoly on power and developing an effective market economy. In order to keep its fast-growing economy running smoothly, China has begun, slowly but surely, to open up the regime. Meanwhile Russia is returning to a form of government that has already demonstrated its inadequacy.

Putin's first term began rather favorably. Perhaps it created the impression that Russia might beat the odds and a successful marriage of autocracy and market reforms was still possible. But once Putin had freed himself from his obligations to the former ruling clique, he renounced even his own early, halfhearted attempts at modernization: deregulation of the economy, expansion of administrative reform, and the battle against corruption. Putin's inability to continue the process of modernization suggests Russian autocracy had finished dismantling communism and was unprepared to play a constructive role. The Putin regime confirmed that bureaucratic-authoritarian regimes are not capable of managing post-industrial transformations. Such transformations require pluralism and competition, which are antithetical to these regimes. Confronted with a choice between authoritarianism and modernization, Putin opted for the former.

For a time it seemed that the regime was at least capable of guaranteeing social stability. But here, too, the limits of presidential autocracy have become clear. The relative stability of the period from 2000 to 2003 resulted from a number of factors: high oil prices; the public's negative assessment of the Yeltsin years, which made Putin's presidency seem like an improvement; the commitment of the political class to maintaining the status quo; and the West's policy of tolerating the Putin regime in exchange for Russian participation in the war on terror and continued energy deliveries. But that stability proved to be short-lived.

Russian society is beginning to understand how shaky that stability really was, and this has led to increased pessimism. A survey conducted by the respected Levada Center in December 2004 last year showed that 52 percent of Russians believe the country is "on the wrong path." Only 35 percent said Russia was "on the right path." In 2003 these numbers were reversed. Putin's own approval ratings reflect this trend. In January 2004,

53 percent of Russians said they "trusted" the president, but by year's end that figure had dropped to just 39 percent. People are beginning to view the "president of hope" as the "president of disappointment."

The events of 2004 unexpectedly revealed that Putin's effectiveness as a leader was largely illusory. The Beslan tragedy confirmed the failure of the Kremlin's operation in Chechnya as a means of strengthening the Russian state and enhancing public safety. The Yukos affair demonstrated the regime's disregard for private property and judicial independence. Moscow's intervention in the Ukrainian presidential election made clear that imperial interests still determine Russian foreign policy, yet the political class has proven unable to advance these interests. The replacement of subsidies and welfare benefits with cash payments came as a shock to many, including the president's own core supporters, and resulted in the first social crisis on Putin's watch.

How did the Russian leadership react to these events? By gradually dropping all pretense of liberalism and democracy. This involves more than just the president's political preferences. The logic of autocracy has kicked in, and this means that everything alien to autocracy must go. And the approach of another cycle in the self-perpetuation of the power structure necessitates control over property and putting all state resources at the leader's disposal. The hunt begins for those guilty of present and future failures—an indication that the denizens of the Kremlin are worried about losing their jobs. The regime has begun formulating the *ideology of backsliding*, attempting to explain why from this point forward Russia no longer has time for reforms and prosperity, why society must be mobilized and against whom.

At present it may seem that the president's "power vertical" will ensure the perpetuation of the regime, headed by either Putin or his successor, especially since society has put up no resistance to the expansion of the corporate-monopoly principle on which it is based. This impression could prove deceptive, however, because personified power itself creates conflicts that can potentially undermine its stability.

For starters, there is an inherent conflict in the Putin team's attempts to preserve the status quo while simultaneously redistributing the country's economic resources to its benefit, a move that will inevitably lead to a clash of various group interests. As the confiscation of Yukos demonstrates, a property fight always divides the team in power.

Second, vote-rigging discredits the electoral process, and in Russia the regime has no other source of legitimacy. Only force could prop up a regime deprived of the legitimacy conferred by elections.

Third, the push to achieve ever greater "manageability" inevitably fosters anarchy. Soviet history, as well as the history of all neo-patrimonial regimes that pursue their own interests under the guise of promoting the general welfare, bear this out.

Fourth, when all independent political entities are eliminated, the responsibility for the country's development falls entirely on the leader. The leader tries to avoid shouldering this responsibility, however. Thus the

power structure itself engenders irresponsibility. The Beslan tragedy testified to a complete lack of responsibility at all levels of power. And irresponsibility leads to the degradation of political institutions. This conserves the fragmentation of society and makes it possible for marginal or even openly criminal forces to come to power.

Fifth, the lack of public feedback and independent channels of information renders the regime inadequate to its task. The regime's inadequacy grows in proportion to the strength of the "power vertical."

Finally, the elimination of political pluralism undermines the very institution of leadership, turning the leader into a puppet manipulated by shadowy structures of his own devising. The Yeltsin regime was far more viable in this sense because it permitted a variety of political forces to compete. Yeltsin remained above the fray as a sort of referee and survived in power despite meager public support.

Even the positive aspects of the current autocracy, which once distinguished it favorably from its predecessor, are turning into their opposites. Putin's charisma is fading before our eyes. The lauded pragmatism of his political program merely concealed his lack of a guiding strategy. The consolidation of power has been achieved by intentionally preserving the fragmentation of society. The attempt to consolidate power is unlikely to prove successful, however, because the regime has been split by the fight for property. The battle with the oligarchs has only produced a more parasitic breed of oligarch. The new conservatism proclaimed by political analysts close to the Kremlin now looks more like a return to archaic forms of government, something even the Communist Party shied away from.

You would think Putin still has every reason to preserve significant pluralism in the political process. So what drives the president to carry on building his "power vertical?" A number of problems have arisen for the leadership has no solutions: its lack of a vision for Russia's future development; the ruling team's inability to cope with the sheer volume of challenges facing the country; and finally, their fear of what will become of them when they're out of power. The increase in Stalinist rhetoric coming out of the Kremlin—and the fact that Putin does not disavow this trend—signals a growing uncertainty among the ruling team regarding its prospects.

Strange as it may seem, the more the ruling team strives to secure its own political future, the more it behaves like a bunch of myopic amateurs. A lack of concern for personal reputation is typical of the current generation of Russian politicians and Kremlin spin doctors. And a presidency endowed with maximum power and minimum responsibility also reflects the logic of patronage.

Putin doesn't seem ready for full-fledged authoritarianism. And a number of factors could well hinder an attempt to move in this direction: the absence of an effective armed force that is both loyal to the president and prepared to use violence; a corrupt bureaucracy; the presence of regional and oligarchic interests out of line with those of the presidential power

vertical; a society grown accustomed to certain freedoms; the integration of Russia into international economic structures; a fear of dictatorship among a portion of the political class and the permeability of Russia's borders, which frustrates efforts to turn the country into a fortress under siege.

The presence of obstacles on the road from bureaucratic-authoritarianism to full-fledged totalitarianism may not dissuade the ruling team from moving in this direction, however. The time when the leadership could have chosen a different path has passed, so Russia may now be forced to endure the trials of a dictatorship established by those who have everything to lose, should they fall from power. But establishing a dictatorship in a society that has tasted freedom and no longer depends on the state (as 45 to 47 percent of respondents indicated in a recent poll) would involve an enormous amount of bloodshed. By comparison with such a dictatorial Russian deep freeze, the Lukashenka regime in Belarus would seem downright tropical.

Elections are the greatest test for presidential autocracy, especially when they are meant to signify a changing of the guard. The ruling team and the political class are now so obsessed with what will happen when Putin's second term comes to an end that they have neither the time nor the energy to deal with the day-to-day business of government. Given that Putin's first term in office was preceded by the start of the second Chechen war and the decimation of his chief political rivals, the Yevgeny Primakov-Yury Luzhkov clan, the new political machine is likely to do whatever it takes to remain in the Kremlin. The question is what its next step will be.

Five years in office have clearly taken their toll on Putin, however, and it's conceivable that he would be ready to hand over the reins in 2008. After completing his presidential martyrdom he could go on to become the head of a mammoth energy holding made up of Gazprom and the pearls of the oil, nuclear and other energy sectors. But Putin has become hopelessly entangled in "family" ties and obligations. The members of the president's inner circle will hardly allow him to simply walk away, leaving them to fend for themselves. The nationalization of Yukos, the scrapping of direct gubernatorial elections, the formation of a new party system, the taming of the judiciary and the creation of the public chamber are all part of a push to extend the Putin era. But what it all boils down to is the trivial, cynical vanity of petty and unprincipled people whom fate has placed in positions of power.

There are signs that the future of autocracy might not be so rosy after all. The revolutions in Georgia and Ukraine were the first mass protests in post-Soviet society. They were directed not just against bureaucratic-authoritarian regimes and clan capitalism, but also against attempts to hold onto power by rigging elections. These two former Soviet republics refused to sit back and let the ruling team steal an election. What happened in these two neighboring countries might not have been a coincidence. The revolutions against the regimes in Ukraine and Georgia may well lead to a wider revolution against the system—to a change, not just of

leadership, but of the principles upon which the state is built. In other words, monopoly rule may give way to pluralism. This tendency would be extremely dangerous for autocracy in Russia. And should it gather strength in Russia, the bureaucratic-authoritarian regime's very attempts at self-perpetuation could trigger the explosive device placed in its foundation—elections.

There is little reason to expect similar developments in Russia at this time, however. The spirit of rebellion is currently dampened by a variety of circumstances, including the high price of oil, the degradation of the political class, the great power mentality, the lack of a viable alternative to Putin, and the passivity of young people. And history shows that when there are revolutions and mass protests in Europe—from the storming of the Bastille to the Prague Spring in 1968 and the rise of Solidarity in Poland in the 1970s—the Russian-Soviet regime reacts by cracking down at home. The events in Ukraine will most likely prompt the Kremlin to follow tradition. Soviet experience suggests, however, that personified regimes—especially in relatively open societies—are short-lived. The attempt to gain total control over the political process only hastens the day when Ukrainian and Georgian revolutionary experience could be put to use in Russia. The more the regime tries to prop itself up by centralizing the power structure, the closer it comes to self-destruction.

Let me turn to the issue of key drivers that will determine future Russian developments. For starters, I would like to give a rundown of the *stabilizing* factors that will allow the system to keep going in the near future:

- There are no political alternatives to Putin (42 percent of respondents would still vote for Putin); most of the population continues to view him not only as the leader of stability but also as the leader of modernization;
- Most of the political class and big business still prefer the status quo and stability to any change;
- High oil prices and macroeconomic stabilization;
- Informal rules and "gray zones" help society survive;
- The war in Chechnya allows the Kremlin to use an enemy to consolidate society.
- The international war on terror forces the West to view Russia as an indispensable partner and acquiesce in Russian "elected monarchy."
- The Kremlin has mastered techniques for manipulating and neutralizing dissent.

Simultaneously, there is a set of *destabilizing* factors that will grow increasingly influential, including:

- Growing disparities between the super rich and the poor; growing discontent with government social policy (four in ten Russians feel that the Kremlin "does not care about social security").

- People believe that the government fails to deliver one of its key promises, political stability: 22 percent think Russia is stable, while 67 percent think the country is unstable.
- Feuds have begun within the political class. Hence Moscow Mayor Luzhkov's criticism of the Kremlin and the emergence of Mikhail Kasyanov as a possible presidential contender.
- The reimposition of direct political control over the provinces and big business has riled local elites and oligarchic groups.
- Putin's image as a competent and energetic defender against rapacious bureaucrats has been undermined by the regime's inability to reduce, let alone eliminate , corruption. Forty-two percent of respondents are concerned about corruption.
- Fear of terrorism: since the Beslan massacre, 76 percent of respondents express no faith in the government's ability to shield them from terrorism.
- Russians are concerned about the Kremlin's lack of vision and strategy: in 2005, 51 percent of respondents think Russia is on the wrong track and 38 percent believe Russia is on the right track (a year ago the numbers were exactly reversed).
- Squabbles within the ruling team have deprived Putin of his role as arbitrator.
- Low professionalism, provinciality, and the parochial interests of the ruling team;
- A return to the traditional model of rule based on the use of force and administrative resources, which could happen if the power ministries grow frustrated with the leadership.

In the era of globalization, the Internet and the growing influence of civil society and the individual, a personified regime that relies on networks of unprofessional praetorians is doomed to fail. It cannot preserve stability, let alone make the country competitive. Simply put, the current bureaucratic system has shaky foundations. In the long term it can only lead to disintegration and demodernization. The only question is what form the collision between the factors of stability and instability will take. Will this collision result in continued stagnation and the gradual degradation of the state and society, ending in the fragmentation and ultimate demise of Russia? Or will it result in a crisis that opens a new political path for Russia? The jury is still out on this question, but initial evidence suggests that Russia may continue to be vibrant and dynamic, and this points to the possibility of a crisis that could pave the way for change. In any case, it seems clear that hidden processes are underway and that the bubble could burst at any moment. The increasing nervousness of the Kremlin, the loss of its former self-assuredness, further suggests that the current appearance of calm may be deceptive.

Any number of factors could trigger a breakdown: a sharp decline in the price of oil; a split within the ruling group; housing and utilities reform; a rise in transportation and energy tariffs; a decline in living standards in Moscow; elimination of student deferments from military service; terrorist

attacks on Moscow and other major cities; expansion of the Chechen war into other North Caucasus republics; the thawing of "frozen conflicts" in the self-proclaimed Transdnestr republic, North Ossetia and Abkhazia that could involve the Soviet successor states of Moldova, Ukraine and Georgia. If several of these factors were to coincide, they could precipitate systemic collapse, the first sign of which would be the mass defection of members of the ancien regime.

Conclusion

The longer the current system in Russia is maintained, the harder it will be for the country to move beyond it. History offers any number of cases where authoritarianism has been transformed, but they all boil down to two basic scenarios: either forces from outside the system take power, or elements of the old regime cooperate with the opposition in liberalizing the system. Of the two, the second has generally been far less brutal. But it only works when society is capable of putting pressure on the regime, ensuring that the remnants of the old guard don't revert to their old ways. Liberal democracy only triumphs in a country that has not only its Viktor Yushchenko, but also its Independence Square.

In Russia, disappointment with the rise of democracy in the 1990s and with what has followed runs so deep that to this day there has been no push for a new democratic revolution. Nor is there anyone in Russia capable of rallying society to the cause. The ruling class has not yet realized that the farther the country moves in this direction, the closer it comes to a collapse that would topple even those at the very top. The realization among the rulers of a country that they can no longer rule as before has always been a major factor in regime change. It may be, therefore, that Russia will have to walk down this road until it reaches a dead-end. We can at least still hope that when Russian society and the political class realize that they have hit a wall, they won't want to walk the same road again, this time under an autocracy with blood on its hands. Everything that Russia is now going through is creating a new situation, one in which society might begin to look for a way out without waiting for the political class to see the light.

Centralization Is Central

*Eberhard Schneider**

When Vladimir Putin was elected president for the first time, he immediately took measures to restrict the autonomy of the regions and to increase their subordination to the central authorities in Moscow. Obviously Putin—in much the same way as Boris Yeltsin—is afraid that the dissolution of the Soviet Union may be followed one day by the dissolution of Russia. However, it is not understood in Moscow that the unity of such a huge country can be preserved only on the basis of genuine federal structures and principles. This means, on one hand, that the subjects of the federation must have a real chance to claim their interests and to have them taken into account in the national legislation. On the other hand, the subjects of the federation must commit themselves to the federal legal acts which have been passed on this basis.

The Federal Districts

After taking office, one of Putin's first measures was to create by decree of May 13, 2000 seven federal districts which were superimposed on the 89 federal subjects. This step was meant to stop the trend of some regions under Yeltsin to strive for political autonomy to the extent their economic strength allowed them to. Since the federal districts did not receive new competences at the expense of the regions, this measure was in accordance with the constitution.

For the supervision of the federal districts, Putin appointed representatives informally called—following Tsarist Russian tradition—general governors. Five of them came from the military or the secret service FSB, which means that they were not connected with the regional elites or the regional clans. In the meantime, Putin has replaced two of them by civilians.

In order to enhance their status, the general governors were appointed members of the Security Council. In addition, a deputy general attorney was assigned to each of them.

The duty of the seven general governors, who convene with Putin once every month to report their work, is to coordinate the work of the roughly 30 branch offices of the federal executive organs; to assist the regional executive bodies and institutions of local self-administration; to analyze the efficiency of the organs of legal protection; and to suggest to the president the suspension of legal acts of the regional executive not in accordance with federal legislation.

* Stiftung Wissenschaft und Politik (SWP), Berlin.

One important task of the governors is to provide for a unified legal space in Russia. Due to the lack of political and administrative control, it had been possible that prior to Putin's ascent to power, nineteen out of twenty-one republican constitutions adopted regulations in contradiction with the federal constitution. In his TV address on May 21, 2000, Putin stated that one fifth of all legal acts passed on the regional level were incompatible with the constitution and federal legislation.

The presidential representatives have neither sovereign decision-making power nor the authority to issue directives, and their competences are deliberately defined in very vague terms. Accordingly, their performance depends to a large extent on the individual person in office. Thus, as far as the style of executive performance is concerned, there are "politicians" on one side and "administrators" on the other.[1] In Putin's understanding, the main task of his representatives is to coordinate and not to govern. By now, the presidential representatives have succeeded in harmonizing regional law with federal law. Currently they are looking for new tasks, which they partly find in the coordination of economic policy.

Removal of Heads of the Regional executive and Dissolution of Regional Representative Bodies

In Russia conflicts between federal and regional law can be clarified and settled by appealing to the constitutional court for judicial review (article 125 of the constitution). However, if a subject of the federation disregards the decision of the constitutional court or fails to implement it, the consequences are not clearly regulated. To solve this problem, the State Duma two months later, on July 29, 2000, passed an act, introduced by Putin, on the organization of the legislative and executive organs of the federal subjects. This act provides for the dissolution of regional parliaments if the court states that

- normative legal acts passed by the legislative power of the subject of the federation are in contradiction to the constitution of the Russian Federation or to federal law;
- such acts have caused massive and severe violations of human and civil rights;
- the territorial integrity and security of Russia is threatened; or
- the "unity of the legal and economic space" of the country is endangered.

If the legislative of a federal subject fails to cancel or correct within six months the queried legal act in accordance with the court decision, and if a court states that the legislative obstructs the implementation of federal norms, the president will issue a warning to the regional parliament. If this warning has no effect for three months, the president will introduce

1 Otto Luchterhand, "Der Ausbau der föderalen Machtvertikale," in: Georg Brunner (ed.), *Der russische Föderalismus: Bilanz eines Jahrhunderts* (Münster 2004), pp. 277-278.

within one year in the State Duma a bill on the dissolution of the regional parliament, which the State Duma has to decide on within two months.

A similar procedure is in power for the removal of the president of a republic or a governor who issues normative legal acts which are incompatible with the federal constitution or federal law. According to article 85, paragraph 2 of the constitution, the president has the right to suspend the legal force of acts by the regional executive which are in contradiction to federal law or international commitments or which violate human and civil rights. The suspension remains in force until the competent court decides whether or not a violation is given.

If the president of the republic or governor refuses to implement the decision of the court within two months, or if the court is unable to decide whether or not the suspension of the respective legal norm was justified, the president issues a warning within six months after the decision of the court or after the suspension of the legal norm. If the regional leader continues to be obstinate, he will be removed from office by the president within one month after the warning. As a "compensation" the speakers of the regional parliaments were granted the right to remove mayors who sign legal acts in violation of regional law.

The implementation of all these legal possibilities is likely to last between 7 and 23 months. So far, I do not know of any case in which a president of a republic or governor or mayor has been removed or a representative body of a federal subject or municipality has been dissolved on the basis of this law.

Weakening of the Council of Federation

One week later, on August 5, 2000, the bill "On the procedure of the formation of the Council of Federation of the Federal Assembly of the Russian Federation" was passed—after some resistance—in the Council of Federation. With that bill Putin weakened the political importance of the Council. The regions are no longer represented in the Council of Federation by the presidents or governors and the speakers of the regional parliaments, but only by their deputies. However, this is not in contradiction with the constitution, which only mentions two representatives, while not giving closer specification of the persons to be delegated nor the rules of delegation.

The Council of Federation as the upper house of the parliament is the only organ of the state representing the interests of the regions on the central level. According to the new law, the representative of the executive of a federal subject in the Council of Federation is appointed by decree of the president of the republic or governor. Within three days, the head of the executive has to inform the regional parliament about the appointment, which is regarded to be confirmed unless the regional parliament rejects it within three weeks by a two third majority. It is not required that the representative of the executive must be explicitly approved by the parliament. The representative of the legislative in the Council of Federation

is nominated by the speaker of the regional parliament. But an alternative candidate can be nominated by a group of at least one third of the deputies of the regional parliament.

The governor or speaker of the parliament can withdraw the regional representatives from the Council of Federation any time. However, the governor faces the following constriction: the withdrawal of the representative of the executive can be revoked by a vote of two thirds of the deputies of the regional parliament. This means that the senators in their voting behavior have to follow the directives of the bodies who delegated them.

The new members of the Council of Federation can be subdivided into three groups: 65 leading regional officials, 45 leading federal officials and 50 representatives of the economy.[2] For the latter, membership in the Council of Federation is of particular interest, because in grants them immunity.

These new members of the Council of Federation are developing much less legislative activity than the speakers of the regional parliaments: While the senators launched 213 bills in the State Duma between early 1996 and mid-1998, that figure was only 64 between January 2001 and mid-2004.[3]

If there was an intention to copy the American system, it would have been better to have the representatives of the regions elected in the same way as the senators in the USA. The State Duma had suggested this but met with disapproval by the presidential administration and the presidents of the republics and governors.

As a compensation for the loss of membership in the Council of Federation, which deprived the governors and speakers of the regional parliaments of an instrument of participation in Moscow, Putin established for the presidents and governors the State Council, where they have an opportunity to meet the president once every three months. But the State Council is only a consultative body with little power.

Agreements on Termination

In 2001, Putin began to conclude agreements with the federal subjects on the termination of the treaties on delimitation of competences between the center and the federal subjects. These treaties had been concluded from 1994 till 1998 bilaterally between Moscow and ten republics, 36 oblasts and autonomous districts and the two federal cities on the legal basis of article 11, paragraph 3 of the constitution, which permits the conclusion of treaties on the delimitation of competences and powers.With the help of these the central government intended to impede or prevent

2 Suren Awakjan, "Struktur und Funktion des Föderationsrats im Wandel von El'cin zu Putin," in: Brunner, *Der russische Föderalismus,* p. 141.

3 Margarete Wiest, "Stärkung oder Schwächung des Demokratieprinzips? Der Föderationsrat unter Putin," in: Erich Fritz (ed.), *Rußland unter Putin: Weg ohne Demokratie oder russischer Weg zur Demokratie?* (Oberhausen 2005), p. 38.

efforts of republics—for example Tatarstan—to gain sovereignty and attempts of oblasts—for example Sverdlovsk—to increase their territory. For this purpose the government made concessions which sometimes exceeded the frame of the constitution. Most successful in their claims for greater concessions were those federal subjects which had their own resources of raw materials and a relatively strong economy. This development has been ended by Putin.

Abolition of the Election of Governors

As a consequence of the terrorist attack of Beslan in early September 2004, Putin took some trenchant measures which had been prepared already some time before. Among them is the abolition of the election of governors which was introduced by Yeltsin in 1996 in accordance with the constitution. According to the new law, the representative of the president proposes two candidates, one of whom is chosen by the president to be proposed to the regional parliament for election for governor. If the regional parliament votes against the candidate proposed by the president, a mediation process is started.

Putin wanted, on one hand, to break the rule of some regional presidents and governors who are behaving in their respective regions like tsars. At the same time the new law serves for him as an instrument to remove communist governors who regard their position as unchallengeable. On the other hand, this measure is in line with other steps taken by Putin, such as the curtailment of the power of the Council of Federation and the possibility to oust governors. On the regional level Putin wants to deprive the governors of their power basis, if they oppose the president. Essentially, all these measures are part of a power struggle between the president and the regional leaders.

Thus far, under the new provisions, one governor was removed from office by the president, and two were not confirmed. Concerning other possible victims, the following groups of governors can be distinguished:[4]

- Six governors who have strong rivals for their post.
- Fourteen governors who are facing strong internal opposition to be confirmed by Putin.
- Five governors are openly opposed by the population and the elite so that if they stay in office there is a risk of an "orange or are at odds with the Kremlin but nevertheless have a chance revolution" in their regions.
- Eight governors are considered to be a challenge to the Kremlin.
- Four governors who may have a bad reputation but are unlikely nevertheless to be removed.
- Four governors who have recently been re-elected and feel independent from the Kremlin.

4 See Mikhail Vinogradov, "Novaya skhema izbraniya gubernatorov. Pervye itogi i prognozy," in: <www.politcom.ua>, April 5, 2005.

- Twenty governors are politically neutral and could easily be challenged by rivals.
- Thirteen governors who enjoy the full confidence of the Kremlin.
- Five governors, among them president Mintimer Shaymiyev of Tatarstan, who even before the end of their term in office turned to Putin asking for his consent for their continued stay in office.

In his state of the nation message of April 25, Putin suggested to the Duma that the president propose as candidate for the post of president of a republic or governor of an *oblast'* a member of the party that won the regional election. In most cases, of course, this will be a member of the United Russia party.

To sum up, it can be stated that the new law curtailing the power position of the governors has not yet been fully implemented. The question is whether Putin is unwilling or unable to do that.

Western Theories: What Is Their Explanatory Value?

*Hans-Joachim Spanger**

Today few dispute that Putin's Russia is moving in what is widely perceived as the "wrong" direction. The underlying reasons for the shift and the regime's prospects, however, remain contentious issues. Mere recitation of facts (such as curtailing the freedom of expression, establishing a power vertical at the expense of federal checks and balances, and extending the state's grip on the economy) neither self-evidently explains the Russian trajectory nor predicts its future. At worst such recitation just illustrates the Russia we want to see. At best it serves as starting point for theories that can make sense of what we observe. Unfortunately the contentiousness of Western theories limits their explanatory value.

The following concentrates on theories of social change relevant to the Russian transition process, particularly to democratization. But two caveats should be borne in mind. Firstly, theories of social change are themselves subject to social change. Democracy, for example, has been viewed as both an engine of developmental processes and as a result of such processes. Secondly, there is scarcely a country in Europe (or the world) that has historically been so divisive as Russia. It has long been subject to stereotypes, some of which persist even today.

The Pessimistic Past: Cultural Theories and the Impediments to Change

The accent some theories place on cultural factors derives from the observation that some cultural macro-regions, such as the Islamic countries, seem immune to democratic change. They allegedly lack the necessary social capital, i. e., democracy-friendly norms and modes of behavior. Cultural factors tend to change much slower than political institutions and even social structures. Cultural theories hold that cultural change comes about in a gradual and evolutionary way, making attempts at social engineering futile. In other words the past still teaches us the most about the present—and the future.

According to the dominant variant of this argument, only Western civilization—with its emphasis on the individual, free competition, self-determination, public criticism, etc.—provides an appropriate basis for democracy. However, examples abound (in East Asia as well as in orthodox countries) that defy this categorical statement. A more moderate version identifies cultures "more or less conducive" to democracy. In *The Clash of*

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Civilizations, Samuel Huntington gives the following hierarchy (in descending order):

- Western culture (Liberalism, Protestantism)
- Latin America (Catholic)
- Japanese culture
- Slavic-orthodox culture
- Hindu culture
- African cultures
- Confucian culture
- Islamic culture.

The first three cultures fit best, the last two not at all, and the remainder are in between. Richard Pipes, who explicitly applies the cultural approach, paints Russia's somewhat indifferent position in even darker colors:

"Before examining what Russians say and think today, it is necessary to look back at Russia's past. Despite its reputation for unpredictability, Russia is a remarkably conservative nation whose mentality and behavior change slowly, if at all, over time, regardless of the regime in power."[1]

In his view, the implications for democratic change are quite negative:

"Such is Russia's cultural inheritance, the net effect of which is to make Russians, even in modern times, the least socialized or politicized people on the European continent. Twice in one century—1917 and 1991—their governments collapsed almost overnight, with people seemingly indifferent to their fate. In both cases, governments forfeited their right to exist in the eyes of Russians because they had ceased to be 'awesome.'" (p. 10)

Cultural theories tend to put Russia on a special authoritarian path in a fairly deterministic way. They cast the brief democratic interlude during Yeltsin's "Time of Troubles" as an exception to the authoritarian rule, exemplified by Putin. (Though Putin had recourse not to the allegedly familiar knout, but rather to a wave of public support. According to Pipes this is merely further proof of the undemocratic preferences of the Russian populace.) Such theories trot out the old hackneyed explanations: the separation between the catholic West and the orthodox East from early Christian times; the isolation during the Mongol occupation, which cut Russia off from humanism and the Renaissance; isolation from the Reformation, which is seen as the major driving force behind economic progress; and the *obshchina* (peasant commune), seen as a source of collectivist leanings and the separation between people and elite.

Other authors have made much the same case in very different historical circumstances:

"It is as if mysterious features existed in the character and the history of the Slavic (Russian) people that proved detrimental to the development of a civil society. (...) For more than half a century the government made efforts to initiate a civil society in Russia. Catherine II launched municipal

1 Richard Pipes, "Flight From Freedom. What Russians Think and Want," *Foreign Affairs,* Vol. 83, No. 3, 2004, p. 9.

laws based on German spirit and in line with German blueprints. However, one needs to acknowledge that this was essentially in vain, lacking the expected results. The German corporate spirit, in which those laws are rooted, is entirely alien to the Russian national character. It contradicts national traditions, social habits and the view of life of the Russian people, and I do not properly believe that it will ever take root."
—Baron August von Haxthausen, 1847

"The Russians are in general a very quarrelsome people who assail each other like dogs, with fierce, harsh words [...]. They have nothing on their tongue more often than 'son of a whore,' 'son of a bitch,' 'I fuck your mother,' to which they add 'into the grave,' and similar scandalous speech."
—Adam Olearius, 1646

In light of these statements one might wonder whether "cultural inheritance" changes not just slowly, but perhaps not at all. Cultural theories disregard the historic ruptures that have hit Russia, more than any other nation, in recent times and the economic and social change forced upon it in equally unprecedented fashion. More often than not they amount to pure stereotyping.

The Optimistic Future: Modernization Theories or Development as the Engine of Social Change

These theories put the emphasis on economic development, which purportedly entails social change. Seymour Martin Lipset captured this view in his famous quote: "The more well-to-do a nation, the greater the chances that it will sustain democracy." That notion gave rise to the equally classical causal chain of modernization theory, which begins from industrialization, urbanization, education, communication, and mobilization, culminating in democratization. Indeed the correlation is robust: the more developed a country is economically, the less likely it has a sustained authoritarian system and the more likely it has a consolidated democracy.

In the framework of his "third wave of democratization" Samuel Huntington (among others) identified an economic "transition zone" comprised of countries with per capita GDP of US$1,000–3,000. He distinguished them from poor societies unlikely to become democratic and from rich societies that are already democratic. But this idea has its shortcomings: (a) the variance of GDP per capita (in Albania it is US$360, in Slovenia US$6,500) makes it a fairly rough indicator, and (b) the broad range defies causal explanations.

Andrei Shleifer and Daniel Treisman apply both modernization theory and the idea of a transition zone, at least implicitly, in their famous *Foreign Affairs* article "A Normal Country." They call Russia "typical of countries at a similar level of economic development," whether under Yeltsin's "crony capitalism" or Putin's "managed democracy" (although these two mark the

opposite ends of the analytical spectrum, i.e., state capture versus state dominance):

"Almost all democracies in this income range are rough around the edges: their governments suffer from corruption, their judiciaries are politicized, and their press is almost never entirely free. They have high income inequality, concentrated corporate ownership, and turbulent macroeconomic performance. In all these regards, Russia is quite normal."

And Russia is not alone—thus there is no reason to question its future as a mature democracy and market economy:

"Nor are the common flaws of middle-income capitalist democracies incompatible with further economic and political progress—if they were, western Europe and the United States would never have left the nineteenth century."[2]

In political terms, modernization theories are currently popular with Western governments because they let states pursue their own interests in "strategic partnerships" while supposedly contributing to modernization and democratization, at least in the long term.

Contrary to culturalist assumptions, Putin amounts to a modernizer in the classical Petrine sense. This is by no means a Russian peculiarity, but rather reflects Alexander Gerschenkron's well-known and sometimes quite popular finding that state action from above, not simple duplication of the front-runners, is what makes laggards catch up economically. However, modernization theory only presents long-term trends and probabilities and—crucially—explains neither the failure of democracy in relatively advanced economies (such as those in the Middle East) nor the total failure of authoritarian developmental states in most parts of the Third World. Resource-rich countries, such as Russia, display structural preconditions alien to the mechanism expected by modernization theory. Such countries favor central decision making and capital concentration. They also generate rents, which provide a fertile ground for corruption, clientelism and thus authoritarianism. (See the Leonard Wantchekon finding that a 1 percent increase in resource dependence, as measured by the ratio of primary exports, corresponds to a nearly 8 percent increase in the incidence of authoritarianism.)

There is therefore a variant in which state and society play—to varying degrees—the crucial role (e.g., Barrington Moore, Dietrich Rueschemeyer). This theory emphasizes that modernization may proceed along different paths. Democracy is only one possible outcome. The result of economic development depends on five crucial factors: (a) the distribution of influence and power within the elite; (b) the economic basis and relevance of the agrarian class; (c) class coalitions; (d) the relative power of the social classes; and (e) the autonomy of the state as opposed to the dominant social classes.

2 Andrei Shleifer and Daniel Treisman, "A Normal Country," *Foreign Affairs,* Vol. 83, No. 2, 2004, pp. 20–22. See also Andrei Shleifer, *A Normal Country. Russia after Communism* (Cambridge, Mass.: Harvard University Press, 2005), most notably pp. 156–182.

The basic argument is, "No bourgeoisie, no democracy." But this is also the basic assumption of modernization theory and as far as Russia's (bleak) prospects are concerned it is not particularly innovative. Madame de Stael had already noticed in 1821 that "There is no middle class in Russia, which is a great drawback on the progress of literature and the arts; for it is generally in that class that knowledge is developed."

But the argument is not really so simple: to be the engine of economic and political progress, the middle class needs to have sufficient economic independence from the rural aristocracy (or the petro-oligarchy in the Russian case) and equally sufficient self confidence vis-à-vis the lower classes. Otherwise it may form anti-proletarian coalitions with the rent-seeking classes. The issue of state autonomy poses similar problems. An autonomous state may opt for an authoritarian system and bureaucratic rent-seeking, but autonomy may prove a necessary condition for any state to function and perform its duties. This ambiguity has given rise to fairly contradictory recipes regarding development and democratization. In light of the modernization sequence the original notion was to become fit for democracy (Jagdish Bhagwati), but the current prescription calls for the reverse: becoming fit through democracy (Amartya Sen). The latter idea holds no more water than the former, since the empirical findings on the growth-enhancing role of democracy are fairly inconclusive.

Peter Reddaway, Dmitri Glinski, and Stephen Cohen all make diagnoses in this line. They dub the result of the Russian transition "liberal market authoritarianism," a "new oligarchical-criminal order" or even a "Frankenstein's monster system."[3] This was the natural result of neglecting the inherent contradiction between democracy (based on political equality) and a market economy (producing inequality). Blindly following Western advice, Russia adopted a policy of lopsided liberalization. This turned out to be a true example of "market bolshevism" exclusively empowering the wealthy and well-connected and disempowering the democratic electorate. In their final analysis, the main culprit is the West (transitologists included) and its ill-conceived advice.

While this story makes for a cautionary tale (in light of the seemingly irresistible Western drive to proffer such advice), it does not offer a way out. Moreover, Putin hardly fits the concept since he did the opposite of what would have been expected by the above-mentioned authors (or the oligarchs who brought him to power). Obviously, the leadership of a state has much more room to manoeuvre than one would expect from these theories, which points to human agency and individual choice.

3 Peter Reddaway and Dmitri Glinski, *The Tragedy of Russia's Reforms. Market Bolshevism Against Democracy* (Washington D.C.: United States Institute of Peace, 2001), pp. 13, 15; Stephen F. Cohen, *Failed Crusade. America and the Tragedy of Post-Communist Russia* (New York, London: W. W. Norton, 2000), p. 193.

The Legacy of the Present: Agency or Engineering Change

In agency theories (e.g., Philippe Schmitter, Adam Przeworski) the focus is on the political process and political actors. The theories discussed previously are rather indifferent to the political process, its dynamics, coalition-building, and specific actions. Since the relevant actors act in an environment with a particularly high degree of uncertainty, their preferences, strategies and actions gain particular importance, creating path dependency in the strict sense of the term. This happens within the conditioning framework of structural or cultural conditions (which are not considered determinants because, in the third wave, democratization occurred in countries with vastly different conditions). Yet since many democratic transitions have not achieved their stated aims, we need explanations for deviations from the process. This points to the authoritarian deficits that characterized and impeded Russian democratization right from the beginning.

Generally a "pact" is seen as the best way to move to a consolidated democracy, since an ongoing struggle within the elite (on which these concepts tend to focus) and mass mobilization, with the concurrent polarization of society, creates the danger of defunct democracy. However, elite pacts can also act as a brake on change and can easily end up in all sorts of cronyism. These pros and cons reflect the familiar controversy between winner-take-all and proportional systems of political representation, with their respective strengths and weaknesses.

Yeltsin's 1993 bombardment of the White House is seen as the embodiment of an uncompromising leadership style, which denied any "pact transition" and culminated in super-presidentialism.[4] Cultural theories would claim Putin is a natural product of underlying Russian cultural characteristics. Modernization theories would point to the transitional character of the Putin regime. Agency theories, retroactively, come to the same conclusion. But they remain circumspect because one could easily devise alternative scenarios.

In principle and in light of their different strengths and weaknesses, the theoretical concepts enumerated above are by no means mutually exclusive, even if each claims to be a panacea. Each has heuristic value and there is a measure of complementarity among them, which suggests a multi-pronged approach could prove fruitful. This might more constructively address an individual case as complex and contradictory as Russia. Perhaps it might even get beyond Fyodor Tyuchev's pessimistic conclusion about the unfathomable nature of his country.[5]

4 On the application of these concepts, see Michael McFaul, "Russia's Unfinished Revolution." In *Political Change from Gorbachev to Putin* (Ithaca: Cornell University Press, 2001).

5 Tyuchev had mused that Russia could not be understood by reason. One could only believe in Russia.

Russian, US, and European Interaction on Post-Soviet Territory

Ukraine: Implications and Repercussions of the Orange Revolution

*Anders Åslund**

Ukraine's Orange Revolution was an exhilarating, joyful event, a classical liberal revolution for democracy and freedom. More than a million people gathered in Kyiv's winter cold. Promising freedom from fear and corruption, Viktor Yushchenko became the democratically elected president.

Political developments since Yushchenko was sworn in on January 23, 2005, may be divided into three different parts. Foreign policy has developed excellently. Domestic policy underwent true democratization, while economic policy has been little short of disastrous. Part of the explanation is that very different teams have steered the different policies. The overall problem, however, is that the government as a whole appears chaotic and disunited. The coalition that won the Orange Revolution may now be too fragmented to rule.

President Yushchenko went briefly to Moscow just after his inauguration, but otherwise his eyes have been focused on the West, especially on the European Union. Yushchenko has toured the West and been cheered and embraced all over. One of the most important agreements Ukraine has concluded is an action plan as a part of the new EU European Neighborhood Policy. Initially, Ukraine was quite upset over the European Neighborhood Policy, which did not foresee any eventual EU membership for Ukraine. But the action plan does not preclude EU membership, and it does envision a free trade agreement between the EU and Ukraine. The plan's demands on Ukraine are sensible reforms to which few would object. The EU concessions might not be very generous, but they do foresee improvements in market access and substantial exchanges in the sphere of education and science. Significantly, the EU is starting to pair state agencies in various EU countries with Ukrainian bodies, a method that provided effective assistance to the new EU member states.

NATO has emphasized its readiness to cooperate with Ukraine and raised the eventual possibility of Ukrainian membership. However NATO seems to have been a major victim of last year's election campaign, as Yanukovich's anti-NATO rhetoric turned public opinion sharply against the organization.

One of the new Ukrainian government's most immediate international ambitions is to accede to the WTO as early as this year. The international support for Ukraine's bid is considerable, but until late May Ukraine barely touched the legislation necessary for WTO accession. The government finally started pushing through a score of draft laws, but it only managed to get just over half of them through Parliament before it recessed in July.

* Carnegie Endowment for International Peace, Washington, D.C.

The question is whether the government will be able to promulgate the rest in October. Otherwise Ukraine can hardly join the WTO this year, and it is in a serious race with Russia. Whichever country manages to join the WTO first will be able to dictate trade conditions to the other, and Russia and Ukraine have many unresolved trade disputes.

Ukraine's foreign policy has shifted starkly toward the West, which is natural after Russia's backing of Viktor Yanukovich during the election campaign. Yushchenko's relationship with Russia's President Vladimir Putin is cold, and neither side appears to be interested in any major change, but no serious crisis is apparent. Ukraine has said it is only interested in the free trade provisions of the Common Economic Space (CES, formed in 2003 together with Russia, Kazakhstan and Belarus). But the CES aims for much more, including a customs union and a monetary union, like those the EU has. Since Ukraine is saying no, the CES has ended up in limbo. The most obvious impending conflict with Russia is over the price Ukraine pays for Russian natural gas. Russia has threatened to triple it to the price Central Europeans pay, but so far has not carried out the threat.

The new government has had some success with its democratizing domestic policy. It is well on the way to reforming state institutions. Alas, extraordinary administrative chaos has erupted. No fewer than 18,000 new officials were appointed within four months. The only senior official who retained his post was the prosecutor general. Meanwhile, substantial organizational changes occurred. The government abolished or merged a large number of state agencies. The number of deputy ministers in each ministry was reduced from about ten to three. As the deputy ministers formed the government's brain trust, their exclusion weakened its intellectual skills.

The Presidential Administration was renamed the Secretariat of the President, and one of the revolutionary leaders, Oleksandr Zinchenko, became its Head. Because of substantial changes in both its staff and its functions, the Secretariat took shape rather slowly. Unlike the government, the President's Secretariat underwent a major rejuvenation, accepting well-educated outsiders, typically from the academic world. While the Secretariat's formation took a while, it does appear quite reformist and competent.

The regional governors in Ukraine are appointed and Yushchenko replaced them all. In several instances, the new governors were ousted almost immediately, as their various crimes came to light. This shows how difficult it is to find officials who are both qualified and reasonably honest in pervasively corrupt Ukraine.

The breadth of the revolutionary coalition complicated the government's work. The Prime Minister formed an informal inner economic cabinet, consisting of Minister of Finance Viktor Pynzenyk and Minister of Economy Serhyi Teriokhin, both seasoned liberals and Yushchenko loyalists. The second most important group in the cabinet was actually the socialists, who obtained four portfolios, including the State Property Fund (Valentyna Semeniuk), the Ministry of Agricultural Policy (Aleksandr

Baranivskiy) and the Ministry of Interior. A third group consisted of big businessmen allied with Yushchenko: Petro Poroshenko became Secretary of the National Security and Defense Council; Yevhen Chervonenko, Ukraine's biggest trucker, became Minister of Communications and Transportation; and David Zhvanya became Minister of Emergency Situations. A fourth group of true Yushchenko loyalists focused mainly on foreign affairs: Deputy Prime Minister for European Integration Oleh Rybachuk, Minister for Foreign Affairs Borys Tarasyuk and Minister of Justice Roman Zvarych. Finally, a few industrialists were present, notably First Deputy Prime Minister Anatoly Kinakh.

If the government was excessively diverse and disorganized, the Parliament was even worse. Until fall 2004, it supported Viktor Yanukovich. It consists of about 13 loose party factions, which exchange a few parliamentarians every week. Two-thirds of the 450 deputies are reputedly dollar millionaires. Most parliamentarians are businessmen pursuing their business in Parliament. Such an amorphous and self-interested Parliament can hardly be serious about legislating reforms, and politically sensitive legislation is out of bounds until the parliamentary elections in March 2006.

Perhaps the most positive developments have occurred in the media, civil society and at the local level. People are no longer prepared to accept too much nonsense. They stand up and protest for all kinds of reasons. Local officials have found out, to their chagrin, that they can no longer get away with daylight theft. Meanwhile, the government is pursuing a much-needed administrative-territorial reform aimed at consolidating and simplifying the local authorities, democratizing them, and rendering them financially more independent from the central government. This may become one of the most important achievements of the Orange Revolution.

The economic policy, however, could hardly have been worse. Prime Minister Yulia Tymoshenko, one of the revolutionary heroes, opted surprisingly for a socialist-populist economic policy. The results have been immediate and devastating: Last year Ukraine enjoyed economic growth of 12 percent; in the first half of this year, the growth rate plunged to 4 percent. Moreover, the growth rate fell significantly every month, from 6.5 percent in January (over January 2004) to 1.1 percent in June (over June 2004). It is quite an achievement to transform an economic boom into stagnation in just six months. How did things turn so sour so fast?

The biggest blow to the economy has been the new government's foggy re-privatization plans. During the election campaign, Yushchenko advocated the renationalization of Ukraine's biggest steel mill, Kryvorizhstal, which was to be followed by a new privatization deal. The goal was to undo the sale of the mill to Ukraine's two biggest oligarchs in a sweetheart deal the previous year. The new government quickly acted to recover Kryvorizhstal, but the owners have taken the case to the European Court of Justice, where prolonged proceedings are expected.

For months top Ukrainian officials have publicly discussed how many flawed privatization deals should be reversed—the possibilities range from

29 to 3,000—and how this should be done. The government is trying to recover many enterprises through the courts, and it has drafted a broad law that could undo much of Ukraine's privatization. The dispute can be settled only by the fractious parliament, which will need months to come to a decision—if it ever decides anything.

Meanwhile, the property rights of thousands of enterprises are in limbo. In Kiev, rumors abound that oligarchs connected to the old regime are trying to sell their enterprises to Russian businessmen and preparing to flee abroad. Naturally executives are cutting off investment and economic growth is screeching to a halt.

To make matters worse, the new socialist minister of privatization opposes privatization in principle. She recently asked, "What is so bad about re-nationalization?" Tymoshenko concurred in a recent newspaper interview, saying, "The biggest enterprises, which can easily be efficiently managed, must not be privatized, and they can give the state as an owner wonderful profits." This sounds like state capitalism.

The old regime doubled pensions prior to the election, saddling Ukraine with the highest pension costs in the world as a share of national income. The new Ukrainian government has added to this excessive burden by raising minimum salaries sharply and state wages by no less than 57 percent.

To finance these and other huge social expenditures, the government is scrambling to find more revenue. A lot of discretionary tax exemptions have, sensibly, been abolished, but the overall tax pressure has risen dramatically, from 36 percent of GDP last year to probably 42 percent of GDP this year. Meanwhile, Yushchenko continues to talk about his plans for sharp tax cuts.

Incredibly, this new regime, brought to power by the middle class and small entrepreneurs, has abolished the simplified taxation that served those segments of society so well. The obvious result will be that tens of thousands of small entrepreneurs will have to close their businesses or flee into the underground economy.

Reformers have long demanded that the lawless tax police be abolished and that the tax administration be forced to obey the law. But Tymoshenko is cheering the tax police on and has declared that the performance of the regional governors will be judged by their ability to collect taxes.

Inflation has risen to 15 percent a year due to increased public expenditures, loose monetary policy and a large inherited current account surplus. The predominantly Russian oil companies operating in Ukraine have increased their prices as world market prices have risen. In response Tymoshenko imposed strict price controls on gasoline and forced the remaining state oil companies to deliver it at prices below market levels. Not surprisingly, oil supplies declined and gasoline shortages erupted. Fortunately, President Yushchenko put down his foot on May 19, ending this policy malpractice and liberalizing petrol prices.

The prime minister also started controlling the price of meat, which began to disappear from markets. The price controls were accompanied by

abuse of private producers and praise of state companies. When Yushchenko ended the gasoline price control, state interference in the meat market also ceased. The prime minister, however, did not stop her state interventions. During the summer she insisted on a minimum state procurement price for grain, maximum sale prices for grain, and the reinforcement of state trade in grain. She does not talk about reform of state monopolies but instead about their reinforcement. In an additional effort to squeeze business profits and boost state revenue, she wanted to boost railway tariffs for metals by 100 percent, but settled magnanimously for a hike of only 50 percent.

The contrast between the declarations of the Orange Revolution and government policy to date could hardly be greater. Curiously, this discrepancy continues. In an editorial on Yushchenko's first 100 days, the Kiev Post pointed out that "while Yushchenko is making grand statements abroad, the rest of the government does not seem to follow his lead."

The economic effects of these policies are evident. Investment has fallen slightly, while construction has fallen sharply. Foreign trade is doing comparatively well, indicating that the problem is domestic, even if falling prices for steel exports and rising prices for Ukraine's energy imports are aggravating the conundrum.

The official justification for these populist policies is that they are meant to boost Tymoshenko's popularity for the parliamentary elections next March. It would be sad if Ukrainians really responded to this kind of irresponsible populism. Hopefully, this is a misjudgment. Perhaps Tymoshenko is intent on winning the Eastern electorate that indicated its socialist and populist preferences by voting for Yanukovich. In that case, the natural political development would be for Yushchenko and Tymoshenko to part company. Yushchenko would then pursue a liberal, Western-oriented policy, as he has in foreign affairs, while Tymoshenko would pursue her socialist populism, as she has in economic policy. It makes little sense to maintain such a contradictory, dysfunctional coalition.

Belarus: Coping with the Effects of Color "Revolutions"

*Rainer Lindner**

Could there be a "revolution" in Belarus along the lines of the course of events in Georgia and in Ukraine? Russian Federal Security Services (FSB) Director Nikolai Patrushev has suggested that foreign intelligence services were seeking ways to overthrow the Belarusian government. The same suggestion has been made by the chief of Belarusian FSB. The governments in both Moscow and Minsk have accordingly taken measures to prevent such a development. But how successful will such measures be? And how should the United States and the EU react to them?[1]

Internal Repression, International Isolation

Belarus is now widely referred to as Europe's last dictatorship. Such a characterization is justifiable: The Lukashenko system has maintained its grip on power for more than ten years by increasing the repression of internal opponents, impeding the free exchange of information, and repeatedly criticizing neighboring states. Belarus's self-imposed isolation within Europe reached new heights in the summer months of 2005. Communication between Minsk and its EU neighbors has to all intents and purposes ceased, and Poland has recalled its ambassador from Minsk. But this is not the first serious crisis in relations between Belarus and the European Union; in 1998 Lukashenko expelled EU ambassadors from their residential complex at Drosdy. At that time, coordinated action by member states helped persuade the Belarussian leadership to back down, but in summer 2005 Brussels restricted itself to verbal criticism. At the same time, the unwieldiness of EU foreign policy generates dissatisfaction with Brussels among the governments of Belarus's European Union neighbors.

In fact, the embassies crisis is just *one* element of the diplomatic rupture between Minsk and its neighbors. Relationships with Poland and Lithuania are particularly badly affected. The diplomatic crisis and the anti-democratic developments in Belarus led the prime ministers of Poland, Lithuania, Latvia, and Ukraine to set up a working group to coordinate neighboring states' activities against the Lukashenko regime. The Community of Democratic Choice in the region between the Baltic, the Black Sea, and the Caspian Sea, which was set up at the same time at the initiative of Georgia and Ukraine, pulls no punches in its criticism of the

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1 This contribution for the May 2005 conference was revised and updated in September. For a fuller version see this author's Belarus in Self-Imposed Isolation, Stiftung Wissenschaft und Politik, Berlin, SWP-Comment, No. 44 (September 2005).

regime in Minsk. Lech Kaczyński, a promising Polish presidential candidate, has threatened his neighbor with "even more decisive action."

Fear of Revolution in Minsk

Belarus's latest round of self-isolation began with the "color revolutions" in Georgia and the Ukraine. Especially since the transition of power in neighboring Ukraine, the Belarussian leadership has reacted even more sharply than before to any sign of political criticism at home. Demonstrations—like the one on the April 26, 2005, anniversary of the Chernobyl nuclear disaster—have been broken up by force, Ukrainian sympathizers of the Belarussian opposition locked up for days, and potential opposition candidates for the 2006 presidential elections arrested.

In the eyes of the presidential administration in Minsk, the danger from abroad is currently greater than from the still structurally weak domestic opposition. Ukrainian students, Lithuanian intellectuals, and local advocacy groups of the Polish minority within the country are brand marked as the fifth column of NATO and the West. Official statements from Minsk are still permeated by Cold War rhetoric—claiming that groups working in Ukraine, Lithuania, and especially Poland want to destabilize Belarus and curry favor as lackeys of the United States. The embassies of the new EU member states have come in for particularly harsh criticism, with President Lukashenko repeatedly insulting their staff as "charlatans."

Poland, Lithuania, and Ukraine

In July 2005, the Belarussian leadership ordered the storming of the offices of the Union of Poles in Belarus (PZB) in the western Belarussian city of Grodno and had several activists arrested. With 30,000 members, the PZB is the largest association of its kind in the country. To date it has worked primarily for the interests of the approximately 400,000 Poles living in Belarus, concentrating especially on education, history, culture, religion, and language. There are currently sixteen Polish cultural centers, largely in the western part of the country that belonged to Poland until the end of the eighteenth century and between the two world wars. The archaic political culture of today's Belarus has caused the Union of Poles to undergo a process of politicization. When the PZB elected Andzelika Borys as its new leader at the end of June it became the target of a campaign of persecution led by Prosecutor-General Viktor Sheyman.

It is no secret that these repressive measures are motivated by the government's fear that Grodno could become a second Lviv and Borys a new rallying figure at least for the Poles. For a long time Minsk had emphasized that the homogeneity of Belarussian society set it apart from other post-Soviet societies racked by national and ethnic conflicts, but the events of Grodno tell a different story. The PZB has been massively prevented from

carrying out its work freely and recently split after being forced to accept a new leadership chosen by the regime.

In response to the expulsion of three Polish diplomats, Poland recalled its ambassador, Tadeusz Pawlak, and expelled Belarussian embassy staff. At the Solidarnosc anniversary celebration in Gdansk, Polish President Aleksander Kwasniewski—who has to date only held one official meeting with Lukashenko, in 1996—demanded that the Polish minority's problems in Belarus must be resolved in accordance with European standards.

Bilateral relations between Poland and Belarus are currently largely restricted to trade. Its volume in 2004 amounted to $1.2 billion, and Poland is Belarus's fourth-largest trading partner. The current crisis poses a serious threat to these ties. Smooth cooperation seems almost impossible, especially after Lukashenko accused Poland of always acting "on orders" from Washington.

The president in Minsk also suspects Lithuania of involvement in activities designed to topple his regime. Recently he spoke of "numerous bases" that were being set up in "Poland and Lithuania." The West's plans, he said, went as far as contemplating "intervention," but Belarus knew how to defend itself. "We have enough experience and we haven't forgotten our history." Lithuania has again become the place of exile for Belarussian intellectuals, the place of printing of opposition newspapers, and the place of founding of the European Humanist University recently expelled from Minsk. These developments have opened up an unbridgeable rift with the regime in Minsk and, as with Poland, relations with Lithuania have more or less been broken off.

Since the Orange Revolution, the southern neighbor Ukraine has often been cited as a cautionary example. Large parts of the Belarussian population have swallowed the propaganda that Belarus has to be saved from the "chaos" experienced by Kiev. Members of the Ukrainian opposition movement Pora have been turned back at the border, and Belarussian oppositionists stopped from traveling to Ukraine.

In order to suggest that his system is more advanced than Ukraine, Lukashenko also cites debts of $100 million that Ukraine has owed Belarus since the early 1990s for investment goods. Despite his own country's difficult relations with Belarus, President Viktor Yushchenko has offered to mediate in the conflict with Poland. In view of the potential threat Lukashenko sees in the Orange Revolution, this is rather unlikely to lead to success.

Russia: Policy in Flux

The diplomatic crisis between Belarus and Poland provoked by Minsk bears potential for wider regional conflict; in its wake the already difficult relations between Warsaw and Moscow are coming to a head. Parts of Russia's political class see Poland's attitude to Belarus as one element of a "Western crusade" that began in Georgia, moved on to Ukraine, and is now turning its attention to Belarus. One section of the Russian elite does

indeed stand wholeheartedly behind Lukashenko, but that does not apply to Vladimir Putin. The relationship between Moscow and Minsk is characterized by talk of confederation and the stationing of Russian troops and weapons in Belarus on the one side, and a latent crisis of relations on the other. Since July 2005 Russia has had no ambassador in Belarus because of statements made by the appointed ambassador, Dmitry Ayatskov, whose arrival in Minsk has been repeatedly announced and postponed. Before taking up his post, the ambassador—the former governor of Saratov, who held ambitions to succeed Boris Yeltsin in 1999—said: "It is very, very difficult to get Lukashenko down. [...] Of course he has to realize the main thing: namely, that Russia is Russia, Belarus is Belarus, Putin is Putin, and Lukashenko is Lukashenko. And he certainly should not get any big ideas that he has been in office for a long time and somebody else has to run errands for him." This outburst not only harmed relations with Belarus, it also caused further damage to Russia's international standing. After the poor figure that Russia cut during the Ukrainian elections, Ayatskov's remarks even caused irritation in Moscow. At the same time the scandal also shows that the Russian elites by no means adhere to a single line on the Lukashenko regime. The frequency of such critical statements has increased in advance of the election year.

Limitations of US and EU Policy

The US position is rather clear. Belarus has been considered part of the "axis of evil" and an "outpost of tyranny" in Eastern Europe. After protracted debate, Congress concluded that democracy in Belarus was an essential component of the Euro-Atlantic system. The "Belarus Democracy Act" was one of President Bush's first acts after re-election. Now $25 million will be allocated for Belarus to support the construction of civil society there. That sum, however, is a far cry from Germany's total of 1.5 billion Euros of state and private help to Belarus, including the "Transform" program and the support for the military forces after leaving East Germany in the early 1990s. But at present Germany's effort has been whittled down to 3 million Euros for the NGO-sector in the next three years.

The EU has not passed a much needed Belarus Democracy Act. At the moment a "Micro-Project Program Belarus" is launched by the European Commission. But this can only be the beginning of a more determined effort. EU Foreign Affairs Commissioner Benita Ferrero-Waldner has declared that the Union will use all means at its disposal to promote democracy and pluralism in Belarus but, in essence, she does not share the more activist and interventionist Polish/Baltic/Ukrainian position. Brussels, it seems, fails to recognize the negative effects that emanate from the policy differences on Belarus. These include the widening of the rift in already difficult Russo-Polish relations; reinforcement of tendencies for Warsaw, Vilnius, and Riga to drift apart from Brussels; and hindering the

development of a consensual EU neighborhood policy toward Belarus and Russia.

Recommendations for Action

As both the United States and the European Union consider democratization in Belarus essential for stability and security in Europe, they should coordinate their policies. They should also urge Putin in his capacity as chairman of the G8 to put the issue of Belarus on the G8 agenda. Furthermore, the repertoire of diplomatic protest should be exploited to the full if the conflict were to drag or even escalate—summoning the Belarussian ambassadors in the EU states and imposing economic sanctions. The EU Commission is currently weighing up such a course of action—temporarily suspending the EU's Generalized System of Preferences and the import duty exemptions that go with it—in response to neglect of workers' rights in Belarus. Sanctions would, however, not be advisable if they would harm the weak small and medium-sized business sector in Belarus. The United States and the EU, however, should continue to involve themselves in efforts to build a civil society and develop a free media sector. A critical dialogue should continue to be sought with those sections of the Belarussian elites that are open to it.

The Caucasus: Coping with the Complexities of Conflict

*Jörg Himmelreich**

The Caucasus region,[1] with its location between Europe, Central Asia and the Middle East, has been at the crossroads of human migration, military invasions and trade between Europe and the East since before the time of the Romans. This strategic geographic position is why the Caucasus has been the focus of the conflicting hegemonic aspirations of Russia, Turkey and Iran, its neighboring regional powers, throughout modern history.

With today's focus on the policy interactions between Russia, the US and Europe in the Caucasus, the following remarks can only offer a broad, but necessarily incomplete, picture, as they do not consider the continuing influence of Turkey and Iran, which must not be underestimated.

This contribution will begin with an examination of the individual foreign policies of the US, Europe and Russia with regard to the Caucasus, and will continue with recommendations for shaping their triangular relationship in this region.

USA

The US became involved in Caucasian political affairs reluctantly. During Gorbachev's glasnost and perestroika era in the late 1980s, the US focused more on achieving Soviet cooperation on arms control issues than on interfering in the "domestic affairs" of the Soviet republics. This was done in order to support Gorbachev's policy in ways that would reduce the Soviet military threat to the US.

When the Soviet Union broke apart, and the Soviet republics began to declare their independence, the US reacted rapidly, albeit defensively. By January of 1992 the US had established embassies in all of the Newly Independent States (NIS), which made it, along with Germany, Turkey and Iran, among the first countries to establish formal diplomatic relations with the Caucasian states.

The initial phase of US Caucasus policy can be characterized as cautious: financial support for the independence and territorial integrity of all states; refusal to accept Russia's security interest in what Russia calls the "near abroad;" and the demand that the regional conflicts endangering the survival of the Caucasian states fall under its exclusive political responsibility, using the UN and OSCE resolution frameworks.

In 1992 the Bush administration set up the Freedom Support Act (FSA) to provide humanitarian and economic assistance to all of the Newly

* German Marshall Fund, Berlin.

1 For the purposes of this paper, "the Caucasus" refers to the South Caucasus, consisting of Georgia, Armenia and Azerbaijan.

Independent States. The FSA was designed as an important means to assist and enable Russia to resolve the regional conflicts within the framework of the Commonwealth of Independent States (CIS). Influential Armenian-American supporters in Congress achieved the inclusion of Section 907, which prohibits US aid to Azerbaijan, except in the case of humanitarian assistance to refugees from the fighting (implying Nagorno-Karabakh) until Azeri offensive operations cease. This legislation not only further weakened the US position as a mediator in the Nagorno-Karabakh conflict, as the US was always suspected of being pro-Armenian, but it also prevented the US from providing the type of assistance to Azerbaijan that it had delivered to Georgia and Armenia.

In 1992, when it became clear that Russian peace-keeping efforts in Nagorno-Karabakh had not succeeded, the US prodded into action the so-called Minsk Group, including the United States, Russia, Germany, France, the United Kingdom, and Italy. The Minsk Group served to bind Russia into the international framework, as well as to represent the OSCE in negotiations in Nagorno-Karabakh, which since 1997 have been conducted by Russia, France and the United States, the co-chairs of the Minsk Group.

In response to Russian attempts to acquire UN approval for its unilateral peacekeeping efforts in the Abkhaz-Georgian conflict, the US supported the establishment of the Friends of Georgia group in the United Nations to assist the UN special envoy who was expressly appointed to handle the Abkhaz conflict.

After the active Russian engagement ended the hot war phase of the conflicts in Georgia, and between Armenia and Azerbaijan, US policy towards the Caucasus shifted. The pursuit of a broader set of goals replaced the formerly rather reactive and crisis-driven US policy, so by late 1994 the US had started a dialogue on economic and political reform in Armenia and Georgia. The intent was to enhance political stability and support democratization, foster market-based economic reform and the implementation of the rule of law, and to rapidly integrate these countries into international political and economic frameworks.

Shortly thereafter, energy diplomacy came to dominate the US agenda with Azerbaijan and Georgia. This started when Kazakhstan initiated a debate over the establishment of a Caspian Pipeline Consortium to construct a pipeline from Tengiz, Kazakhstan to the Russian port of Novorossiysk, which brought geopolitics onto the screen of US energy interests in the Caucasus. Early attempts to run a pipeline route via Azerbaijan and Armenia to Turkey, which were to be a springboard from which to encourage Armenia and Azerbaijan to sign a peace agreement on Nagorno-Karabakh, turned out to be a pipe dream.

When the US finally pushed through the intergovernmental agreement between Azerbaijan, Turkey and Georgia over the Baku–Tbilisi–Ceyhan (BTC) pipeline in late 1999, it had become a political decision caused by the continuing integration of Armenia under Russian influence. The US was determined to limit Russia's influence in Georgia and Azerbaijan by establishing long term Caucasian energy and political independence, cutting

out Iranian energy interests out of Azerbaijan, and undermining an Armenian-Iranian cooperation that could potentially burden Azerbaijan.

The strong Turkish pursuit of participation in the BTC pipeline fit with the US interest in strengthening US–Turkish political ties. It was a bold decision, as the viability of the pipeline depended upon uncertain amounts of energy resources in the Caspian Sea, and, because of political considerations, the chosen route was the most expensive one among a number of alternatives. In May 2005 the BTC pipeline officially opened, and is expected to contribute to an improvement in the economic conditions of Georgia and Azerbaijan.

In the wake of September 11, US policy priorities shifted toward global anti-terrorist efforts. In this context Congress changed Section 907 of the FSA, the US political and financial aid tools for Azerbaijan. The result is that the president now has the right to use waiver authority to push through US aid to Azerbaijan, subject to annual review, if he certifies that US aid supports US counter-terrorism efforts in Azerbaijan. Azerbaijan and Georgia pledged to support the US-led Operation Iraqi Freedom, with both offering the use of their airbases and their assistance in the rebuilding of Iraq.

The central US strategic interest in stabilizing the fragile states of the Caucasus is based on securing the eventual routes to the energy resources in the Caspian, as Azeri and Central Asian oil and natural gas deliveries would reduce Western energy dependence on the Middle East. In addition, US aid and conflict resolution efforts are intended to contain warfare, crime, smuggling, terrorism, and Islamic extremism arriving from the Greater Middle East region, and to bolster the independence of the states. Such enhanced US relations with the Caucasian states also serve to contain Russian and Iranian influence. Finally, the "Rose Revolution" in Georgia and the new government of President Saakashvili, both strongly supported by the US, play an important role in the attempts to legitimize Bush's global policy of regime change, and to prove the success of the global spread of democracy. President Bush's visit to Tbilisi on May 10th of this year underscored this last point significantly.

Russia

For Russia, the Caucasus has been of major military and economic importance at least since its conquest in the Russian–Turkish wars in 1774 and 1829. In the wake of the implosion of the Soviet Union and the failed August 1991 coup attempt against Gorbachev, the Soviet government was too occupied with Russian domestic developments to be able to quickly resolve the Abkhaz-Georgian and Armenian-Azeri hostilities. Moscow rapidly lost control over the region, and what remained was chaos: the departure of Russian Interior Ministry troops, the only force keeping Armenians and Azeris apart, meant war over Nagorno-Karabakh; the large-scale, uncontrolled, transfer of light and heavy weaponry from Russian military units to organized and unorganized armed forces throughout the

region; and Russia's security services and military following their own agendas independent of Moscow.

In Georgia, Russian military involvement on the side of the Abkhaz and Ossetian secessionists caused deeper distrust in Tbilisi and the West about Moscow's real intention to end these conflicts. While Armenia had no other choice but to stay through this rough period with its Russian protector, in Georgia and Azerbaijan the prevailing perception was that Russia supported their enemies in both internal and external conflicts. Russia's policy was neither active nor creative, and led to a loss of credibility in these states.

The chaotic indecisiveness of Moscow towards the South Caucasus also led to the first Chechen war of 1994–1996, the roots of which go back to the occupation of the Caucasus by imperial Russia in the mid-nineteenth century. Even today the Chechen conflict underlines the link between developments in the North and the South Caucasus.

The inconsistency and unpredictability of Russian policy in the South Caucasus in the years up to 1995 had the following fundamental consequences that continue to dominate the political situation in the region:

- In Georgia and Azerbaijan it strengthened the sense of, and search for, political and economical independence from Russia. These two countries initiated closer cooperation with each other and with Turkey, particularly in common oil and gas transportation interests and trade.
- Increasingly isolated Armenia became almost entirely independent from Russia, which precluded it from playing a more active role in Azerbaijan to help counter US activities in developing the energy sector.
- It helped the US, Turkey and Iran to increase their political and economic influence in the South Caucasus, thereby making paranoid Russian fears a reality.
- It exacerbated Russian relations with Georgia and Azerbaijan, and it failed to create a belt of friendly states along Russia's new southern frontier with the Caucasus.
- It provoked a transfer of instability from the South Caucasian regional conflicts to the North Caucasian Russian territory, thereby inflaming the Chechen wars and the ethnic tensions in other North Caucasian regions, which continue to threaten Russian domestic stability.

Beginning in 1995 under President Yeltsin, and increasingly since 2001 under President Putin, Russian foreign policy towards the Caucasus has gained new assertiveness. Russia tried to counter US BTC pipeline plans by advocating that the successful, early oil route that passed through Chechnya to Novorossiysk become the main export pipeline. (It was rendered useless after the outbreak of the second Chechen war in 1999.) Both Russia and the US view development and transportation of Caspian energy resources from a geopolitical perspective, which ensures Moscow's political interest in the Caucasus and Central Asia.

The growing US and Western influence in Georgia and Azerbaijan after the "Rose Revolution" provoked relatively unsuccessful Russian reaction. Russia began by aggravating the stabilization process in these two states

and in the region as a whole; it renewed threats against Azerbaijan and Georgia to counter support for the Chechens; it delayed the withdrawal of Russian forces from Georgia, to which Russia had agreed in the 1999 OSCE Istanbul commitments. Russia also deployed additional military equipment from Georgia to Armenia, knowing that this would increase pressure on Azerbaijan, and supported the secessionist political currents in Abkhazia and South Ossetia, ignoring the fact that this policy of sustaining the instability in the region directly fertilized the interconnected instability of the North Caucasus.

The European Union

Germany, France, the United Kingdom, and other member states of the EU established diplomatic relations with the South Caucasian states in 1992, making them among the first countries to recognize their independence. The three aforementioned European countries are also members of the Minsk Group and the Friends of Georgia, with Germany the coordinator of the latter organization. The EU delivered aid to the South Caucasian states from 1993 until 2003 in the amount of roughly one billion US dollars (the US delivered about one billion US dollars to both Georgia and Armenia in the same period). At the EU summit in Dublin in June of 2004 the South Caucasus states had been integrated into the European Neighborhood Program, the action plans of which are now being negotiated. The envisaged negotiation and implementation of EU-adjusted rules and institutions in the three South Caucasian states will take many years, and depend primarily upon the ability and willingness of the states involved to implement them.

Notwithstanding Germany's historic relations with Georgia, and the important role that former Soviet foreign minister and former president of Georgia Shevardnadze played in the process of German reunification, the role of the EU and its member states in the region is not at all comparable with that of its regional neighbors or the US EU policy towards the Caucasus is dominated largely by considerations of how these policies will affect its relations with Russia.

Major routes for arms, drugs and human trafficking pass through the Caucasus on the way to Europe. The secessionist South Ossetian region of northern Georgia is also a recovery zone for Islamic terrorists, which directly affects European stability. A sense of the geopolitical significance of the Caucasian region for energy production and transport from Caspian energy resources is not very developed within the EU, with the exception of Great Britain, due in part to BP's engagement in the BTC-pipeline.

Chto Delat'?

State building in the fragile South Caucasian states, containing Islamic terrorist activities, and fighting organized crime are interests that all three

political actors—the US, Russia and Europe—have, or should have, in common.

The existing frameworks of the Minsk Group in the Nagorno-Karabakh conflict, the UN-Friends of Georgia in Abkhazia, and the EU mission in Tbilisi (which replaced the OSCE Border Mission in South Ossetia), keep the conflicts under control, but cannot achieve a solution, primarily for reasons beyond the control of such international structures.

Because of the common interests shared by the US and Europe, the stabilization of the South Caucasus should become a more important topic on the transatlantic agenda. This would be fertile ground on which to establish transatlantic rapprochement—particularly if we speak about substance and not about improved personal relations among transatlantic leaders—as there are not many issues on the transatlantic agenda in which the interests among the partners are so nearly identical.

Russia's constructive support is crucial for the stabilization of the region, and at least when looking at the North Caucasus, stabilization is in its own fundamental interest. The recently started withdrawal of Russian troops from Georgian bases at Batumi and Akhalkalaki, which meets Russia's obligations from the 1999 Istanbul OSCE summit, may be an encouraging signal.

NATO, especially the NATO–Russia Council, could serve as the most appropriate forum for such a trilateral strategic dialogue. The NATO–Russia Council could initially establish a continuous strategic dialogue on the South Caucasus, starting, for example, with the sharing of information and strategic assessments to address organized crime and illegal trafficking. Therefore NATO has to make sure in its future concept to include non-military means. In such a situation the EU could play an instrumental moderating role in the NATO–Russia Council.

This strategic "trialogue" in the NATO–Russia Council has all the potential to enlarge its agenda to a broader trilateral response to global terrorism, and to overcome nineteenth-century, "Great Game"-like policies in the fight for energy resources.

Central Asia: A New "Great Game"?

*Uwe Halbach**

A deep and partly already violent crisis of post-Soviet autocracy brings Central Asia back into the focus of international attention. We have to identify root security risks in the region and their potential for escalation again. And one thing should be even clearer than before: Take statements of the ruling elites about danger with caution. They are confusing national or regional stability with the security and permanence of the incumbent regimes and tend to put security risks which the governments themselves are responsible for on foreign actors. The leading American journal on Central Asia dedicated its newest issue to the topic "The discourse of danger and the danger of discourse." Western actors in the region have not always been immune to this danger. I remember the appearance of a high ranking German politician in Tashkent some four or five years ago. He thanked with warm words the government for its big contribution to the defence of secularism and modernism and the deterrence of radical Islamism—obviously not knowing what secularist politics means in the Uzbek context.

Until recently radical Islamism has been identified by the ruling elites in Central Asia as their mortal foe. Since autumn 2003 the alleged "export of democratic revolutions" has been added to their perception of pivotal risks. It was here in Central Asia that the ruling elites reacted most vehemently to the shock waves send out by the "rose revolution." Uzbekistan provided the earliest example of preventive measures by introducing harsh restrictions against international NGOs. The Kazakh authorities followed taking action in particular against the Open Society Institute. It was the Kyrgyz president Akaev who reacted with the angriest rhetoric. In an article in Rossijskaya gazeta in June 2004 he compared foreign democratization policies with "Bolshevist export of revolution."

Among the triangular actors Russia remains the most involved in Central Asian affairs and should be most interested in a critical, analytical discourse of danger in the region. But in reality, the Kremlin shares with the regional power elites a strong inclination to externalize threats, to reduce them to terrorist and Islamist actors and networks and to blend out roots of insecurity which are laid by the regimes themselves. The Kremlin's story about violence in the North Caucasus is too similar to Tashkent's explanations for violence in the Fergana Valley. Look to the response in Russia to the Andizhan slaughter. In the media it was mixed. There's was split between strong criticism of atrocities and equally strong support of Karimov's hard-line approach. Officially, the Kremlin remains supportive

* Stiftung Wissenschaft und Politik (SWP), Berlin.

of the regime and has largely accepted the official Uzbek explanations. On the other side the statement of Russia's minister for foreign affairs that the Andizhan tragedy was triggered by Taliban like groups was taken by some Russian commentators as a striking example for the Kremlin's misunderstanding of the situation in Central Asia and the post-soviet space.

After the expansion of Western military presence into the post-Soviet Central Asia as a consequence of 9/11 Russia at first seemed to leave security initiatives north of Afghanistan to the West. The classical commentary then was: Better Americans in Uzbekistan than Taliban in Tatarstan (Gleb Pavlovski). Other commentaries in 2001 announced the end of the post-soviet space in regard to Russian dominance in it. It soon became clear that this expectation was premature. Russian influence in Central Asia was again growing since 2002. With geopolitical setbacks at the Caucasian and East European flanks of CIS it will continue to grow. Important objectives of Russian policy in the region are safeguarding economic interests, extending and further institutionalizing integration among member states of the CIS—within regional formats like Central Asian Cooperation Organization, which Russia joined formally last year, new Eurasian Economic Commonwealth groupings with Kazakhstan as the key partner, and the Shanghai Organization of Cooperation between Russia, Central Asia and China. Russia is interested in Central Asian republics being politically and economically viable states with friendly policies towards Russia. Fighting common threats like religious extremism, terrorism, drug trafficking is an important topic for communication in this context. The protection of the rights of Russians living in the region is a topic of domestic importance for Russian policy.

The more the regional regimes are irritated by "coloured revolutions" which they perceive as being exported from the outside the more they look at Russia as their main political partner. Highly irritated by the perspective of a "tulip revolution" the Kyrgyz president Akayev made the following statement: "Our republic can feel confident in the possibility of maintaining regional security only together with Russia. Those who do not acknowledge Russia's role in ensuring stability and security at a regional level are mistaken." Uzbekistan—once the main regional advocate for keeping distance from Russian dominated organisations—made its choice recently when Tashkent formally quitted GUUAM, which is now dominated by two "post-revolutionary" countries. Russian commentators are expecting that Tashkent could even return to the Collective Treaty Organization and join the Eurasian Commonwealth groupings. Russia and Uzbekistan are to develop a wide-ranging security cooperation though the latter will continue to insist on its independence which it stressed especially towards Russia in the 1990s. Gazprom and Lukoil went into Uzbekistan's energy sector.

But the recent violence in Uzbekistan is provoking a dilemma for Russian Central Asia policy. The Andizhan slaughter has shown that those who equated the repressiveness of the regime with its ability to maintain stability were deeply mistaken. As Igor Tobarkov noted in a recent Eurasia

Insight paper an increasing number of Russian policy makers confess that the forceful strategy pursued by Karimov is misguided, and could potentially blow up Central Asia's existing political order.

The same do Central Asia experts in the West. US-policy in the region is under growing criticism. Last year US officials have supported the Uzbek interpretation of violent events in Tashkent and Bukhara though there was a consensus among regional experts that terrorist attacks in March 2004 were more a reaction to the arbitrary and corrupt practices of the Uzbek administration than a manifestation of a transnational jihad. A Western expert, Oliver Roy, dismissed Tashkent's identification of Hizb ut Tahrir as the main root of insecurity and violence by classifying it as an "UFO"—an "unidentified fundamentalist object." US engagement with the Central Asian states after 9/11 has been misrepresented and exploited by regional governments. They are misreading signals sent by Washington that political reform is important too, hand in hand with war on terrorism. Washington continues to be a major donor of programmes to promote reform and officials argue they are doing a lot to encourage change in countries like Uzbekistan. The Declaration on the Strategic Partnership and Cooperation Framework with Uzbekistan signed with the US in March 2002 envisaged moves towards a more open society. And in June 2004 Assistant Secretary of State for Democracy, Human Rights, and Labor Lorne Craner identified the primary strategic goal of the United States in Central Asia with "the development of independent, democratic, and stable states, committed to the kind of political and economic reform that is essential to modern societies and on the path to integration to the world economy." Beside security this strategy is based on greater transparency, respect for human rights, and movement toward democratic policy, and market economy reforms are the related goals.

But these definitions of goals have been so overshadowed by the security agenda, that regional governments felt empowered to ignore them and continue with repressions and bad governance that threaten to alienate their populations. There has been a split in US Central Asia policy between the branches of administration. In March 2004 Donald Rumsfeld visited Uzbekistan and was full of praise for the support the country had given in the war on terror. At the same time the State Department issued its annual review of human rights describing Uzbekistan as one of the world's most serious abuser. Across the region power elites have become irritated by Uzbekistan's emergence as Washington's primary regional partner. The way US policy is perceived on the ground has become very important. While the US and western partners have continued to talk to regional governments about the need for political reform, there is a sense in the region—among rulers and ruled alike—that these things are of secondary importance. After the Andizhan slaughter the US-policy towards Uzbekistan is more and more under review. According to military analysts the strategic importance of the Karshi-Khanabad base, the cornerstone of the US–Uzbek alliance, is not that high as to perceive cooperation with Uzbekistan as indispensable. Some senators suggested that the administra-

tion explore alternative basing arrangements in other countries of the region to give Washington more flexibility and warned “about being too closely associated with a government that has killed hundreds of demonstrators and refused international calls for a transparent investigation.”

What about European Central Asia policy? As in the American case it certainly did not begin after 9/11. But after 9/11 new accents emerged. The focus on Afghanistan led to a review of priorities in a strategy paper of the European Commission for Central Asia in October 2002. The messages: Make support more targeted. Make poverty reduction more important. Make problems with concern for European security like drug trafficking more prominent.

So far I discussed actions and perceptions of the three actors. What about interaction? I don’t see a broad field of interaction beyond an agenda of security matters in the narrow sense of the war on terrorism. If it comes to touch the deeper roots of insecurity I miss a triangular agenda. Despite shared interest in stability north of Afghanistan Russia and the United States are unlikely to cooperate on Uzbekistan or Kyrgyzstan—the two topics which brought Central Asia back into the headlines of international reporting. But on the other side I’m not inclined to overestimate the negative aspect of interaction, that is, the so called “Great Game” in Central Asia with the focus on geopolitical confrontation. Kant and Manas—the Russian and the American military bases in Kyrgyzstan—are not in a clash.

Energy and Its “Strategic” Significance

US–Russia Energy Dialogue: Policy, Projects, or Photo Op?

*Edward C. Chow**

Presidents George Bush and Vladimir Putin continue to promise that the US–Russia energy dialogue will lead to a thriving oil and gas trade between their two countries.[1] In Washington on September 16, 2005, Putin met with representatives of ExxonMobil, ConocoPhillips, and Chevron to discuss development of the vast Shtokman gas field, with 3 trillion cubic meters of proven reserves.[2] Officials sometimes tout the possible Murmansk/Indiga pipeline project, which would provide for significant oil exports to the US. Unfortunately the prospects for both of these mega-projects are murky, at best.

The Yukos prosecution revealed that the Putin regime sees the energy sector primarily as a strategic asset and an instrument of foreign policy, and only secondarily as an economic driver. As such, in the Russian view, the energy sector must be under state control. The man who symbolized the development of a new, progressive and internationally minded business class in Russia, Mikhail Khodorkovsky, the CEO of Yukos, is sitting in a Moscow prison. Charges have been filed that attack the validity of the 1990s privatizations, despite repeated assurances from President Putin that the admittedly flawed privatization process will not be revisited. A US company may ultimately be permitted to develop the Shtokman field in exchange for a share of the US LNG market, but the Russian government's decision will be dictated by mostly political considerations. The shifting sands of Russian politics would hardly provide a firm basis for the property rights of the US firm fortunate (or unfortunate) enough to win the concession.

The present outlook for US–Russian energy cooperation stands in marked contrast to the euphoria that characterized the relationship before the Yukos affair. In September 2003 more than 250 American government officials and petroleum industry executives, headed by Commerce Secretary Don Evans and Energy Secretary Spencer Abraham, showed up in St. Petersburg for the second Commercial Energy Summit. The Americans were joined by an even larger contingent from the Russian side, also headed by the finance and energy ministers. Putin fully endorsed the policy process and cooperation in major oil and gas projects. CEOs of major Russian oil companies and state enterprises were present, as were their American counterparts. The American chairman of the newly formed company TNK-BP spoke, representing a new $8 billion investment in the

* Carnegie Endowment for International Peace, Washington, D.C.

1 Presidents Bush and Putin signed the document inaugurating the US–Russia Energy Dialogue in May 2001.

2 This is more than the current annual gas output of the entire world.

Russian oil and gas patch. Speculation was rife that ExxonMobil or ChevronTexaco was about to take a 25 percent or higher stake, worth tens of billions, in YukosSibneft.[3] The conference concluded with a banquet in a state dining room of one of Catherine the Great's palaces, followed by a spectacular fireworks display. Russia finally seemed open for business and willing to play by international rules, at least in the petroleum sector. Enthusiasm for the future of bilateral cooperation could not have been higher.

Two years later, the state has swallowed Yukos. Western energy companies have sobered up considerably since 2003, but fuzzy thinking remains prevalent among US officials. Perhaps lulled by Putin's assurances that Yukos was an isolated case, they have overlooked the implications of his increasingly authoritarian and statist policies, particularly in the energy sector. Putin has jeopardized the foundation of Russia's recent natural resource boom—secure property rights under the rule of law, which lead for a time to reinvestment of Russian capital and the introduction of Western managerial and technological methods. Net capital inflows, which only began in 2003, have given way to renewed capital flight.

Mega-projects such as the Murmansk/Indiga pipeline and the Shtokman LNG export project remain far from realization. The likelihood of a major infusion of international capital at a time when the Russian private sector's independent management of oil and gas assets is questioned seems remote. Special commissions have been formed to investigate the performance of Russian and Western companies like ExxonMobil and Shell under existing petroleum licenses, just as major investment decisions are being made.

The enthusiasm of autumn 2003 has been replaced by the cold wind of an early Russian winter. Whither American policy? Should the US reassess energy cooperation with Russia and rethink the means to its policy goals?

The Fundamentals

The case for the development of US–Russia energy relations is very simple. Russia has regained its former Soviet position as on of the world's largest oil producers. It is already the second largest oil exporter, after Saudi Arabia. It has the largest natural gas reserves in the world by a wide margin, ahead of Iran. Oil and gas represent more than a quarter of GDP and half of export earnings. The sector has been the engine of economic growth and led the modernization of business practices since the financial collapse of 1998. Prior to the Yukos case, it had begun to attract significant foreign direct investment.

The US is the largest oil and gas consumer in the world. It imports well over half the oil it consumes from increasingly politically uncertain parts of the world, not only the Middle East but also more recently unstable

3 Yukos' acquisition of Sibneft collapsed as a result of the tax fraud and other charges leveled against it.

countries in South America and West Africa. American oil companies need to augment existing production with new oil reserves, but are largely blocked from making equity investments in the Persian Gulf, which has the most abundant and economically viable petroleum resources, due to host government policies. There is a growing shortage of domestically produced natural gas and higher gas prices negatively affect the US economy.

Both countries have strong geopolitical and economic interests in fostering oil and gas diversity. The US search for diverse sources is a good fit with Russia's search for markets. Energy cooperation seems like a good complement to cooperation on the global war against terrorism.

Moreover, Russia is in need of foreign investment in the oil and gas sector, particularly in high-risk exploration or technologically challenging development. To develop offshore Sakhalin or the Shtokman field, which will require LNG technology, the Russian government needs Western capital and expertise. The easy steps for reviving production to previous levels have been taken, including the use of Western contractors for modern seismic interpretation, drilling and reservoir management technology. Sustaining production growth now requires providing suitable business conditions for significant domestic and international investments. By international standards, the Russian oil and gas patch remains woefully underdeveloped relative to its resource base, especially in transportation, i.e., oil and gas pipelines. American oil companies have both the means and the interest to invest.

The convergence of corporate and government interests would be appealing to most administrations, and certainly to one that traces its roots to Midland, Texas. Without energy, the bilateral economic dialogue may be reduced to the seemingly implacable challenges posed by chickens, the Jackson-Vanik amendment, WTO accession, and democratization.

Happy Marriage or Hype?

At the same time, policymakers should not burden US–Russia energy relations with inflated expectations that conflict with economic reality.

No amount of success in promoting energy cooperation with Russia will fundamentally improve US oil supply vulnerability. Three-quarters of known world oil reserves are in the OPEC countries. Two-thirds of the reserves, and much of the economically extractable oil, are in the Persian Gulf. Oil is a largely fungible commodity traded in a worldwide market under short-term contracts.

Certainly incremental production from Russia or Alaska, or any other non-OPEC (and particularly non-Middle Eastern) sources is important in extending the time when the last incremental barrel must come from the Persian Gulf. This moderates the monopoly power of the OPEC cartel, whose uneven management of production policy has led to volatility in pricing and big increases in non-OPEC production worldwide over the past two decades. Increases in oil production outside the Middle East continue

today in the Caspian, from deep-water reserves off West Africa and in the Gulf of Mexico, from Canadian tar sands and in the Venezuelan Orinoco Belt. With 5 percent of total world oil reserves, Russia is important but no more so than these other areas.

Russia cannot replace Saudi Arabia or other major producers in the Persian Gulf. With a reserve/production ratio of approximately 30 years, Russia cannot be compared to Persian Gulf producers with a ratio of 70, 80 or over 100 years. Russia is a price taker, not a price setter, in an energy market dominated by OPEC.

Under a best-case scenario, if the Murmansk/Indiga pipeline were completed and/or the US received some of the production from Sakhalin, Russian exports to the US might grow according to the following scenario.

Table
Russian Oil on the US Market

	2000	*2020*
Net Imports	462	737
Imports from the Russian Federation	0.39	100
Russian market share (in percent)	0.084416	13.56852

Oil unit is million metric tons.

Sources: Net imports data from the US Energy Information Administration. 2000 Russia imports data from UN Comtrade.

But the likelihood of such a best-case scenario is comparatively small. In January 2005 the heads of Lukoil and Transneft said they no longer consider the Murmansk route economically feasible.[4] The Indiga route raises difficulties because that port is icebound for several months of the year. Moreover Transneft is focused on the Daqing/Nakhodka pipeline at the moment and seems reluctant to undertake two such major efforts simultaneously. More generally, the Russian state does not regard the US as one of its most important future energy markets. The government's *Russian Energy Strategy Through 2020* devotes a whole page to European and CIS markets before arriving at one paragraph on the US market. The strategy says the US "may become a long-term market for sales of Russian oil production and American capital may become a source of investment in the growth of the Russian oil industry and its export transit infrastructure."[5] The document indicates the US market is a relatively low priority, behind not only European and CIS, but also Asian markets.

Even if the Murmansk/Indiga or Sakhalin projects come to fruition, the process will take years and provide only around 13percent of US imports. While such diversification is desirable for both economic and security reasons, it will not reduce overall US import dependence or vulnerability

4 "Major Russian Oil and Natural Gas Pipeline Projects," <http://www.eia.doe.gov/emeu/cabs/russia_pipelines.html>.

5 *Russian Energy Strategy Through 2020 (Energeticheskaya strategiya Rossii na period do 2020 goda).* p. 55, <http://www.mte.gov.ru/files/103/1354.strategy.pdf>.

to oil price fluctuations. A serious supply disruption in the Persian Gulf would have the same impact on world oil markets and US oil supply and prices whether significant volumes of Russian oil reach US shores or not. This was demonstrated in 2002 when temporary disturbances limited Venezuelan and Nigerian oil exports. Even if every barrel of Russia's current 8.5 million total daily production were to be exported to the US, leaving nothing for domestic consumption, it still would not satisfy current US import needs of 11 million barrels of oil per day. What's more, we are treaty-bound to share in the pain of any major supply interruption by allocating available supply with other International Energy Agency countries. As long as the US is so import-dependent, it is destined to suffer through the vicissitudes of global oil markets along with the rest of the world.

Russia is much more of a titan in gas, where it accounts for 25 percent of world exports and 25 percent of proven reserves.[6] The prospects for Russia–US cooperation on gas are somewhat better, but the *Russian Energy Strategy* mentions gas exports to the US only in passing, calling it a future market.[7] Moreover the development of trade in LNG would not fundamentally alter the US market. The US is far less import-dependent in gas than in oil, importing approximately 15percent of the amount it consumes annually.[8] Most of this comes by pipeline from Canada, with LNG accounting for only a tiny fraction of imports. Some experts believe the share of LNG could grow to near 25percent over the next twenty years. After a meeting with Gazprom officials in May 2004, Deputy Secretary of Energy Kyle McSlarrow called Russia and the US an "obvious fit" in the gas business, forecasting that US LNG imports could reach 143 million tons per year by 2025.[9] But this is far from certain. The prospect of Russian LNG reaching US shores is equally uncertain, even if a US firm develops the Shtokman field. Several other countries, including Angola, Norway, and Egypt, could deliver LNG more cheaply and are interested in the US market. One executive with a major oil firm remarked of Russian LNG, "There's a risk of flavor of the monthism about all this."[10]

Policy Reform or Project Promotion?

Policies that remove structural impediments to balanced growth are far more likely than government-selected projects to produce and sustain long-term economic growth.

First of all, governments are universally bad at picking projects and the bigger the project, the bigger their mistakes. This is not just true of Soviet-style command economies. In the energy sector, one only need only recall

6 International Energy Agency, *World Energy Outlook 2004,* p. 285.

7 *Russian Energy Strategy Through 2020*, p. 55.

8 "Natural Gas Imports, Exports, and Net Imports 1949–2004," <http://www.eia.doe.gov/emeu/aer/txt/ptb0603.html>.

9 "Russia: Dash for Liquefied Gas," *Petroleum Economist,* July 2004.

10 Ibid.

the US synthetic fuels (e.g., shale oil) fiasco in the 1980s and the ongoing debate in the US Congress on ethanol subsidies.

Subsidizing energy consumption or inefficient industry in a transitional economy may be understandable policy or at least good politics. However, such policies also distort the market, encourage the arbitrary exercise of bureaucratic power, invite abuse of political control, promote corrupt business practices and dampen sound investment—as is evident throughout the Russian petroleum industry. Reform is a continual journey in a dynamic market economy, not a terminal destination at times of temporarily favorable external economic conditions, such as high world oil prices. This is where the US can truly help advance the cause of economic reform in Russia. Today it is easy to forget today that in the 1970s the US energy sector was a maze of over-regulation and distortion of market signals, with price controls on gasoline retail margins, oil import quotas, crude oil entitlements, a bias toward small refiners, differential pricing between "old" gas and "new" gas, all designed to "protect" the consumer and small domestic producers. Price controls removed competition from retail marketing, which led to subsidized wasteful investment and consumption. The result was high prices and gasoline lines during the two global oil crises. Deregulation did not start until the Carter and Reagan administrations, within living memory of many still in the US government. The specter of high consumer prices was also raised in the late 1970s and early 1980s, but never materialized. Instead retail energy prices stabilized at a lower level after decontrol, and energy efficiency improved after price distortions were removed. Many lessons from the US experience may apply to Russia today.

Sharing evolving US regulatory experience with Russian colleagues who face similar challenges can be an important and useful contribution to economic partnership. This is far better than preaching to them on what laws to pass in order to attract American investment, such as the decade-long futile effort on production sharing agreement (PSA) legislation. The Murmansk project and LNG exports are fine to talk about if they advance the reform agenda, but not if they are a replacement for reform or, even worse, diversionary devices to delay reform indefinitely.

Politics and Power

It appears to be more appealing to government leaders to discuss projects like Murmansk or Russian natural gas exports to the US, even though mega-projects like these take many years to come to fruition. Not only do such projects fail to promote structural reform, they divert attention from the economic policies of the Russian state and the attendant risks for foreign investors.

Putin has sought to portray the Yukos prosecution as a one-time purge. Some Western observers have characterized it as a simple theft, part of a transition from "Yeltsin oligarchs" to "Putin oligarchs." This narrative implies the Yukos affair was a flawed episode for an economy firmly on the

market path. Even if this were the case, it would cast a significant pall over property rights and the rule of law in Russia.

But this comparatively sunny story misses the true significance of Yukos. The Yukos case illuminated a fundamental shift in the state's attitude toward the economy. The state now sees the energy sector not just as a source of spoils and economic growth, but as a lever of international political power. If the Yukos affair had really been merely a struggle over property, a very different scenario might have played out. Perhaps Yukos would have gone to a more regime-friendly oligarch, like Vladimir Potanin or Oleg Deripaska, with a sizeable portion of the profits kicked back to the regime. Officials might have permitted private pipelines or expanded the Transneft system in order to increase their own opportunities for rent-seeking.

Instead the government dismembered the most innovative energy company in Russia, torpedoing FDI and causing production to stagnate. While Kremlin decision makers may be receiving distorted information these days, they could not have failed to foresee these consequences. They decided, however, that state control over the energy sector was worth the inevitable price in lost rents and lost growth. Since then the Russian government has publicly rejected the concept of privately owned and controlled trunk oil pipelines and the idea of breaking up the Gazprom monopoly in natural gas. Indeed it has positioned Gazprom as a power not only in gas but in oil, contriving to put both Yuganskneftegaz and Sibneft in its hands.[11] Together these firms account for approximately 30 percent of Russian oil production.

Why has the state adopted such a course? The answers would be difficult to divine even with a roomful of Kremlinologists, a Ouija board and a magic 8-ball. Perhaps Russian energy policy reflects the persistent fortress mentality inherited from the USSR and exacerbated by the recent "color revolutions" in the CIS. Perhaps the bureaucracy is simply strengthening its own position and preventing the emergence of alternative centers of power. Whatever its motivations, the state has opted to destroy the most promising sector of the Russian economy.

This takes us back to the former head of Yukos, Mikhail Khodorkovsky, who now sits in a Moscow prison. As long as a country's economy is based on the exploitation of oil and gas resources, it will favor a highly centralized political system where a few men hold the power to reward state-owned concessions and guarantee investment conditions.

Left to its own devices, the petroleum industry, which by its very nature routinely takes multi-billion dollar investment risks, would support central authority overruling local authority or civil society in Santa Barbara County, California or Jefferson Parish, Louisiana, as well as in the delta of Nigeria, Lake Maracaibo in Venezuela, or Western Siberia and Sakhalin. Mr. Khodorkovsky was the beneficiary of such centralized power

11 Yuganskneftegaz was Yukos' largest oil-producing unit. Sibneft was the property of oligarch Roman Abramovich.

at the beginning of privatization in Russia. He is now a victim of the same type of power. There is no guarantee Western firms will not one day find themselves in an analogous position. Suppose for a moment the Kremlin allows a Western firm to develop the Shtokman field. Without secure property rights rooted in a consistently applied system of law, that firm will be running a tremendous risk. For who is to say the Kremlin won't again put security before economic growth? Perhaps the risks are worth it, given the profits involved, but Western companies should not labor under any gauzy illusions about the Russian business environment.

Whether that environment, and the state that has fostered it, will change remains an open question. The answer will depend largely on the choices made by the Russian state and the Russian people over the coming years. Russia's G8 chairmanship provides a unique opportunity for Bush and other Western leaders to move beyond photo opportunities and influence these choices. If the countries of the economic G7 want to see a more democratic, transparent Russia, devoted to the rule of law, they would do well to promote not specious mega-projects, but rather structural reform and reduced government intervention in the energy sector. President Putin has made his choice. Now the rest of the world must choose either to play by his rules or to give him a reason to change them.

Russia and the Energy Supply of Europe

*Roland Götz**

In discussing the energy relations between Europe and Russia, the forecasts of the EU as well as that of the Russian Energy Strategy may serve as starting points.[1] The Russian Energy Strategy for the period until 2020, approved by the Russian government in 2003, replaces a similar document from 1995.[2] However, the new Energy Strategy is more than just a projection of current trends. Although it does not have a binding character, it is meant to set the course for Russia's energy policy and to serve as a guideline of the administration's energy policy in the foreseeable future. The Strategy proceeds from certain assumptions concerning the development of the world economy and the Russian economy until 2020. An "optimistic" scenario presumes that, due to far-reaching reforms and a favourable external economic environment and in particular growth of the world economy by 3.5 percent per annum, the gross domestic product (GDP) of Russia will triple by 2020. A moderate scenario assumes that the world economy will grow by 2.5 percent per annum and that Russian GDP will double by that year. The optimistic scenario presumes an annual economic growth in Russia of 6.2 percent in the period 2000–2020, which can certainly be considered to be too high.[3] Assumptions concerning the price of energy sources are more convincing in the optimistic scenario than in the moderate. The following analysis is based on the *optimistic* scenario of the Russian Energy Strategy. It implies a relatively large amount of production of energy and correspondingly large exports and outlines the maximum contribution of the Russian energy sector to the long-term energy supply of Europe. As will be seen during the following discussion, Russia will remain the main energy supplier of Europe until 2020, but in the course of time more and more European energy imports must come from other supplier countries.

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1 For the purposes of this contribution, "Europe" is defined as the European Union extended to about 30 members but excluding CIS countries.

2 *Energeticheskaya strategiya Rossii na period do 2020 goda (Energy Strategy of Russia until 2020)*, approved by the Russian government August 28, 2003, <http://www.mte.gov.ru/files/103/1354.strategy.pdf>.

3 The main reason for this scepticism is the low Russian investment rate, which turned out to be less than 20 percent in the first years of the millennium, i.e. only about half of what is necessary for a sustainable growth of 5–6 percent. The Russian Energy Strategy presupposes that the investment rate will not rise substantially until 2010 and will reach 25 percent of GDP only in the decade 2010–2020.

Europe and Russian Oil

According to the Russian Energy Strategy of 2003, the volume of oil exports, which stood at 145 million tons in 2000, will increase to more than 300 million tons in 2020. However, exports to Europe in that period are to increase only by little more than 30 million tons, that is, from 127.5 million to 160 million tons or 1.1 percent per annum. An increase of the same scope is expected for the exports to the CIS countries, whereas oil exports to other countries like the United States and China, which have been low so far, will rise to about 100 million tons in 2010. Thus, the increase of Russian oil exports will clearly shift from west to east. Accordingly, the Energy Strategy expects the highest increase rates of oil exports from Eastern Siberia.

Table 1
Export of Fossil Fuels 2000–2020 According to the Russian Energy Strategy 2003

	2000	*2020*	*Difference 2000–2020*
Oil (million tons): Total	145	303	158
CIS-States	17	50	33
Europe*	128	160	33
China/South East Asia/USA	1	93	93
Natural gas (billion m^3): Total	194	281	87
CIS-States	60	50	–10
Europe*	134	165	31
China/South East Asia/USA**	0	66	66

Discrepancies in the sums total are due to rounding.

* Europe in the Streategy's definition pertains to Western and Eastern Europe including Turkey but excluding the CIS states.

** Partially liquid gas.

Source: Energeticheskaya strategiya Rossii na period do 2020 goda [Russia's Energy Strategy for the Period Until 2020], approved 28.8.2003, <http://www.mte.gov.ru/files/103/1354.strategy.pdf>.

According to the forecasts of the US Energy Information Administration (EIA) and the European Commission, the European requirement for oil imports in the period 2000–2020 will increase by about 180 million tons under the premise of a moderate growth of oil consumption; this is caused both by an increase in consumption and by a parallel oil production decrease in Europe.[4] According to current plans and forecasts, Russia will

4 The US Energy Information Administration (EIA), an independent statistical department within the US Department of Energy, regularly publishes data about energy consumption in world regions and individual states in its International Energy Outlook, the May 2003 issue of which is here referred to; see <http://www.eia.doe.gov/oiaf/ieo/index.html>. In the reference case of an average growth of production and energy consumption in the EU-30 area, the requirement of additional oil imports is 179 million tons, in the case of low economic growth 75 million tons, and in the case of high growth

contribute to this increase of imports only by less than 20 percent. Consequently, more than 80 percent of additional import requirements of Europe must be covered from other world regions.[5] However, for Europe (EU-30) Russia will remain the most important individual oil supplier, though its share will slightly decrease from 30 to 27 percent.[6]

Table 2
Russian Oil on the European Market

	2000	*2020*	*Increase 2000–2020*
Net imports of EU-30 (million t)	428	>600	~180
of which imports from Russia (million t)	128	160	~30
Russian share (percent)	30	27	17

Sources of the primary dates: Energy Information Administration (EIA), *International Energy Outlook 2003*, May 2003; European Commission, Directorate-General for Energy and Transport, *European Energy and Transport Trends to 2030*, Paris 2003.

While 88 percent of the Russian oil exports went to Europe in 2000, this share will be reduced by 2020 to approximately 50 percent according to the forecast of the Energy Strategy. In contrast, the share of the USA and the Far East, which in 2000 amounted to no more than 3 percent, will be one third or even more by 2020.[7] Thus the Russian Energy Strategy expects a diversification of the Russian oil exports, which, from the Russian point of view, will contribute to reducing the dependence on a small number of importing countries.

Europe and Russian Gas

There has been a rapidly increasing demand of natural gas in Europe. This is due to the European intention for ecological reasons to substitute coal and oil by "clean" natural gas (reduction in the emission of carbon dioxide) but also an expanding gas supply network. While EU-30 oil imports are likely to increase in the period between 2000 and 2020 approximately by 40 percent, gas imports will increase (medium economic growth scenario) by more than 200 percent—in the low growth scenario by 150 percent (EIA forecast). This is a result of both an increase of gas consumption by 50–75 percent and a stagnation or decrease of Europe's own gas production. The widening gap between increasing consumption and decreasing production

324 million tons. See also European Commission, Directorate-General for Energy and Transport, *European Energy and Transport Trends 2030*, Paris 2003, Appendix 2, p. 152, <http://europa.eu.int/comm/dgs/energy_transport/figures/trends_2030/ index_en.htm>.

5 For the forecast of international trade flows through 2025 see EIA, *International Energy Outlook 2003*, Table 14, p. 42, <http://www.eia.doe.gov/oiaf/ieo/index.html>.

6 The share of 30 percent or 27 percent respectively refers to the case of an average growth of consumption in EU-30 and, moreover, to the optimistic scenario of the Russian Energy Strategy.

7 The share of the CIS countries in Russian oil exports is likely to be approximately 10 percent in the period 2000–2020.

of gas and the attendant dramatic jump in projected European gas imports by approximately 300 billion m³ far exceeds Russia's intentions and potential.

But what *are* the Russian plans for the gas supply of the European market? While the overall volume of Russian gas exports is to increase between 2000 and 2020 by 87 billion m³, that is, 45 percent, exports to the extended European Union will rise only by 31 billion m³ or 23 percent.[8] Thus, according to the Russian Energy Strategy, the intended increase of Russian gas production will predominantly be used for exports into regions outside Europe. This corresponds to the fact that the increase of gas production is expected not in Western Russia but in Eastern Siberia and the Far East, from where gas can be transported either onshore or—in the form of LNG—by ship to South East Asia and the United States. An analogous shift to the East is also expected for the increase of oil production.

Table 3
Russian Natural Gas on the European Market

	2000	*2020*	*Increase 2000–2020*
Net imports of EU-30, total (billion m³)	200	500	~300
among this, imports from Russia (billion m³)	134	165	~30
Russian share (percent)	67	33	10

Sources of the primary dates: Energy Information Administration (EIA), *International Energy Outlook 2003*, May 2003; European Commission, Directorate-General for Energy and Transport, *European Energy and Transport Trends to 2030*, Paris 2003.

While in 2000 about 70 percent of the European (EU-30) gas imports came from Russia, this share will be only 50 percent in 2010 and less than 30 percent in 2020. The remaining deficit of 70 percent will then have to be covered by multiple supplier countries. Although no precise forecasts are possible for the time after 2010, Europe will find itself compelled to import gas increasingly—partly in the form of liquefied gas—from North Africa, the Middle East, and Central Asia.

While the slight decrease in the share of Russian oil in European imports is not a cause for concern, the foreseeable marked decrease of the share of Russian natural gas in European imports raises some questions: How to satisfy in future Europe's additional demand of natural gas? Liquified natural gas is one option. Furthermore, as pipeline deliveries are economically efficient below a distance of 4 000–5 000 km, pipeline suppliers could be Northern Africa, the Middle East, or the Caspian region. Algeria, next to Russia the main external supplier of Europe, will probably be able to raise its deliveries from approximately 60 to 120 billion m³ by

8 By 2020 Russia plans to deliver to the CIS countries about 10 billion m³ less than in 2000. One should, however, not be too strict with these figures since the Energy Strategy only provides a rough orientation.

2020—provided that new fields like the Salah region in the Sahara are opened up and new export pipelines to Europe will be built. In this case, Algeria could achieve an increase in its gas deliveries to Europe twice large as that which Russia has envisaged in its Energy Strategy. Libya, too, by using the new Green Stream pipeline, will be able to raise its so far quite low volume of exports of one billion m^3 to 30-40 billion m^3. Future gas exports from Egypt to Europe will flow via the Jordan pipeline to Turkey and in addition can be raised by the realization of liquefied natural gas (LNG) projects and reach a possible volume of 30 billion m^3 in 2020. Nigerian gas deliveries to Europe can be transported only in the form of LNG because transportation via Algeria is too expensive. Other supplies to Europe, which are at present insignificant but likely to increase in the future, could be Trinidad and Venezuela as well as the Middle East (excluding Iran). According to these assumptions, gas supplies of Europe from these regions will by 2020 have increased by approximately 250 billion m^3, compared with 2000, which means that North Africa, the Middle East, and the Caspian region all together will deliver more natural gas to Europe than Russia.

Iran will presumably become—next to Algeria—a main supplier of gas if its super giant field South Pars is connected to the European gas infrastructure; this, however, could be the case only after 2015. Beginning in 2020, 60–100 billion m^3 can be delivered from Iran to Europe and from 2025 approximately 150 billion m^3. Turkey will presumably become an important transit country for natural gas from the Middle East, Iran, and the Caspian region.[9] Apart from the pipelines which will have to be combined to a network, it will be necessary to build storage stations and gas liquefaction plants in various places of the extra-European gas compound network. If deliveries from North Africa and the Middle East including Iran will indeed increase as described above, a shortage of gas in Europe is unlikely to emerge. But this presupposes relative political stability in the respective regions.

The Political Dimension of Russian Oil and Gas

In some European countries, Germany being one notable example, there has been concern that the relatively high share of Russian oil and gas in consumption established some kind of dangerous "dependency." The concern, however, lacks justification. With oil imports one cannot generally speak of critical dependence on any one country since that commodity is available to anyone who can pay the market price. Natural gas, as long as pipelines are needed to carry it, could be a different matter. But transport by pipeline makes suppliers and buyers fundamentally dependent on one another as long as both have limited access to alternative markets. As a result, neither supplier nor consumer countries really have much leeway

9 See Conference on Natural Gas Transit and Storage in Southeast Europe—An Opportunity to Diversity European Gas Supply?, Istanbul, May 31–June 1, 2002.

for “turning off the gas.” In addition, liquefied natural gas (LNG) is gaining an increasing share of a gradually expanding world market in natural gas, thus further weakening the alleged “dependency” of gas importing countries on certain suppliers.

How Should We Deal with Russia?

Interests versus Interests in US Policy towards Russia

*Andrew C. Kuchins**

In the past year we have increasingly heard that a growing clash between "values" and "interests" is creating dilemmas for European and American policy toward Russia. According to this argument, the erosion of democratic institutions and the reassertion of state control over strategic economic sectors raise questions about Russia's commitment to becoming a market democracy closely aligned with Western interests. In addition, many critics of Russian behavior assert that Russia's aggressive meddling in the internal affairs of its neighbors reflects neo-imperial tendencies that violate acceptable modern Western "values" or norms of international behavior.

I agree with some elements of this analysis, but defining the problem as a conflict between "values" and "interests" is unhelpful, even counterproductive. One of my favorite books in graduate school was *The Twenty-Year Crisis,* by E. H. Carr. Carr took a skeptical view of arguments about international relations that were cast in idealistic or moralizing rhetoric, especially when they were advanced by the British government. In most cases, he found that behind the morals to which various policies were ascribed lay the hard-boiled interests of the British Empire. In the case of Russia, the problem is not a clash between values and interests, but rather *a clash between interests*.

Values have become a code word for describing Russia's perceived domestic deficiencies in democracy, rule of law, transparent market competition, etc. These deficiencies are real, but casting them as departures from our values diminishes the persuasiveness of our arguments for Russian officials and policymakers.

Why do we promote democracy and democratic institutions in the first place? Out of our moral compunctions about universal suffrage? Call me a cynic, but I do not really think so. We practice and promote democracy because it works better *and* it serves our interests. Churchill famously said that democracy is not a very good form of government but it is better than all the alternatives that have been tried. Why does it work better? First, in a system with working democratic institutions, you are likely to have a more effective policymaking process, albeit a rather messy one. The old adage about policy and sausage-making applies here: the process may not look attractive, but the results are effective or in the latter case, tasty. Policy is more likely carefully vetted, alternative views more likely considered through an independent parliament, press, etc. The increasing dysfunction in Russian policymaking can be partially attributed to the

* Carnegie Moscow Center.

weakening of institutions like the Duma, Federation Council, regional governorships, independent national TV, and others.

Second, democratic states tend not to go to war with other democracies. This is not an iron-clad law—such things don't exist in social science—but there is preponderant evidence supporting this hypothesis.

Third, as the experience of political and economic transition has suggested over the last 15 years, countries with strong democratic institutions tend to experience not only economic growth, but economic growth that does not disproportionately favor elites. So democracy correlates strongly with peace and economic growth. For Americans, to argue against this is like arguing against mom and apple pie. US policy toward post-Soviet Russia has always been premised on the view that a successful transformation into a market democracy will greatly reduce the likelihood of a major 21st century threat to US security interests from Eurasia. Is that a value or an interest? In my view, it is clearly the latter.

When we talk to the Russians we create a PR problem by couching the policy dilemma as a clash between values and interests. First, nobody likes to be informed their values are inferior—even, and especially, if it is true. We come off sounding extremely condescending, especially when everything in our own house is not in order. Don't throw stones when you live in a glass house. And sure enough, when President Bush tries this tack with his friend Vladimir, he gets lectures about the Electoral College, Florida voting machines, how Yukos is Enron and the like. The discussion does not really go anywhere.

More seriously though, in the Russian periphery or post-Soviet space (whatever we now want to call areas that were formerly part of the Soviet Union), let's recall that the Clinton administration's policy of "democratic enlargement"—a most unfortunate phrase that recalls, well, I'll leave it to your imagination—and what for the Bush Administration has now become, at least rhetorically, a crusade for democracy and freedom, have been aimed at expanding US influence in the region. Western countries have employed both bilateral and multilateral means, such as the EU and NATO, to this end.

In sum, we promote democracy and open markets not only because we strongly believe that these forms of political-economic organization will lead to greater prosperity, better governance and more benign foreign policy—contentions that social science research broadly supports—but also because we, Europeans and Americans, are likely to have more influence in these states through political, economic, and security ties. (This is certainly not always the case, but there is strong correlation.) We do this because it is in our interests in a variety of ways. And sometimes, in some of those ways, our interests will bump up against those of Russia. This was most obvious in Ukraine late last year. The Russian government, rightly or wrongly, decided that a Yushchenko victory was not in their interests. They decided, rightly or wrongly, that a Yanukovich victory would result in greater Russian influence economically and politically in Ukraine. Does that decision reflect a "values gap?" Perhaps, but talking in terms of a

"values gap" creates a lot of heat while shedding little light. In other words, it creates considerable controversy, polarizes positions, and makes it more difficult to bridge the gap between interests.

When we look at Russia and many other countries with less than perfect records in human rights, democratic institutions, rule of law, etc., the policy dilemma we face is this: how hard are we ready to push our interests in promoting those things? If we push harder, will those things come at the expense of other interests, be they security, economic, or other? In the case of Russia we too often think that pursuing interests on the first set of issues must come at the expense of the economic and security interests. This is probably not the case with Russia. Is Russian cooperation on nonproliferation and counterterrorism dependent on or closely correlated with our policy on democracy promotion (or lack thereof) in Russia and other post-Soviet states? Probably not. The Russians work with us on those issues because it is in *their* interest. There are limits, of course. If we were to openly declare that our principle policy interest in Russia was to promote revolution or a coup d'etat, then yes, that would obviously be counterproductive for our other interests in Russia.

Let me make two broader historical points in conclusion. The first relates to Russia's supposed newly aggressive neo-imperialism. It is true that Russia's behavior on its periphery, in Georgia, Ukraine, Belarus, Central Asia, or elsewhere, often runs counter to the interests of the US, Europe, and the states in question. But to jump to the conclusion that this is evidence of a new Russian neo-imperialism badly distorts history. Today Russia confronts a historical trend, now about twenty years old, of geopolitical decline, or imperial decline if you like. Western influence continues to expand into territories previously dominated, at least since the Second World War, by Moscow. NATO and EU expansion are only the most obvious developments. I say this not to excuse Russian policies that should not be excused, but to provide a better framework for understanding and perhaps talking with our Russian counterparts. Our European colleagues, many of whom have experienced the wrenching psychology and sometimes dysfunctional policy of imperial decline, are likely to be more sensitive to this than the sometimes brash hegemon in Washington.

The debate about values and interests could also benefit from historical perspective. Such debate has intensified during the leadership of Vladimir Putin, especially because of the erosion of already weak democratic institutions and the Yukos affair. Let's just talk about democracy in Russia. If we are comparing Russia today with Russia of 2000, yes I would agree that there has been some backsliding—but I would also caution against overstating the degree of backsliding. Look at 1996 presidential election. Were not "administrative resources" probably more important for Yeltsin's victory (in January 1996 his popularity rating was less than 5 percent) than for Putin's victories in either 2000 or 2004? But the more important point is that if we take a longer historical view, for example going back twenty years to the onset of Perestroika, then our conclusion about the development of democracy and pluralism in Russia is very different. Russia has

made extraordinary progress toward pluralism and democracy. Yes, there have been some setbacks in the last few years, but we should remember the Leninist saying about two steps forward and one step back. We are in the midst of the one step back. It is difficult to predict when and how Russia will take two steps forward again, but I am confident that it will sooner or later.

The Specific Character of EU–Russia Relations

Katrin Bastian / Rolf Schuette***

Comparing EU–Russia relations with those between the US and Russia, three elements stand out:

- The geographical element: Proximity
- The institutional element: A dense legal framework and dialogue structure
- The cultural element: The EU's search for "common European values."[1]

Geographical Proximity

The EU and its member states not only share a long and often difficult history with Russia but also immediate geographical proximity. After EU enlargement, five member states (Estonia, Finland, Latvia, Lithuania, and Poland) have direct land borders with Russia, and three others (Denmark, Germany, and Sweden) are Russia's neighbours across the Baltic Sea. As is most evident in questions over the Russian exclave of Kaliningrad, this proximity creates both opportunities for cooperation and the danger of friction. In any case, the two partners cannot ignore each other.

Geographical proximity and historical ties are responsible for the long list of topics discussed in the bilateral dialogue. In particular, this is true for the close economic cooperation, including the indispensable role of the EU as Russia's largest trade and investment partner for the modernization of the Russian economy and the importance of Russian energy exports for both the EU and Russia. In view of evident opportunities, both sides have an equally strong interest in further developing cooperation in this field and in the extension of infrastructure networks, as well as in scientific, technological and cultural exchange.

In principle, similar interests and geographical proximity also suggest cooperation against environmental hazards, battling organized crime, trafficking in drugs and illegal migration on the one hand, and facilitating travel and the exchange of people in both directions on the other. In the political field, cooperation seems indispensable for creating durable security and stability in the common neighbourhood by solving regional

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1 For a detailed analysis of EU-Russia relations see Rolf Schuette, *EU–Russia Relations: Interests and Values—A European Perspective* (Washington D.C.: Carnegie Endowment for International Peace, 2004; Carnegie Papers No. 54); and Katrin Bastian, *Die Europäische Union und Russland. Multilaterale und bilaterale Dimensionen in der europäischen Aussenpolitik* (Ph.D. Dissertation, Berlin: Humboldt University, 2005).

and frozen conflicts or untenable domestic situations, in particular in Moldova/Transdnistria, the Transcaucasus, and Belarus.

However, in many of these fields, the EU easily finds itself in what the Russian side sees as a *demandeur* position. Against the background of old thinking in terms of zero-sum games and *chasse gardée*, Russia often demands a "price" for complying with international standards or even for doing things that are evidently in its own interest. This was the case when the EU asked Russia to respect its OSCE obligations, to ratify the Kyoto Protocol on Climate Change, and to cooperate effectively in the elimination of nuclear waste and other serious environmental hazards or to conclude a readmission agreement before liberalizing travel regimes.

Conversely, Russia finds itself in a kind of *demandeur* position regarding questions such as its membership in the WTO and its integration into the world economy, the transit of people and goods to and from Kaliningrad and the improvement of the general situation in and around the enclave, the facilitation and eventual abolishment of EU visa requirements for Russian citizens, or the situation of the Russian-speaking minorities in the Baltic states.

Yet progress in solving even long-standing issues can be made when the political will is there on both sides. Such was the case when the Russian State Duma (on October 22, 2004) and the Federation Council (on October 27, 2004), ratified the Kyoto Protocol on Climate Change and the Protocol on the extension of the PCA to the new EU member states. Both are issues of highest importance for EU–Russia relations. At the same time, the Duma adopted a statement outlining a number of outstanding issues in this relationship, including Russian requests concerning the transit of goods to and from Kaliningrad and visa-free Kaliningrad travel by high-speed train, as well as the rights of ethnic minorities in Latvia and Estonia.

Both the uncontroversial and the more difficult issues on the bilateral agenda are primarily a result of geographical proximity. As such, they cannot be ignored and will not disappear from the agenda even if the questions involved might not be solved easily or in the short run. They can be ignored for a while but will eventually return to the dialogue. While the European Union and Russia are highly interdependent in all these matters, none of them plays an important role in United States-Russia relations.

A Dense Legal Framework and Dialogue Structure

The great number of documents adopted jointly by the EU and Russia, or by the two partners individually, have created a wide and growing agenda. Every EU Presidency, every EU–Russia Summit, the Commission, and the Council Secretariat have sought to add substance to the bilateral agenda, if possible by a new initiative. Member states have made an additional contribution to this process of agenda-setting through their own initiatives. As an example, the concept of the "four common spaces" between the EU and Russia arose from an initial joint proposal by France and Germany. These are: (a) the Common Economic Space, (b) the Common Space of External

Security, (c) the Common Space of Freedom, Security, and Justice, and (d) the Common Space of Research and Education, including cultural aspects.

In essence, the logic of EU foreign policy-making vis-à-vis Russia and other third states can be seen as a kind of export of the EU's internal *acquis communautaire*. Thus, step by step, the Russian Federation will be integrated into a "Common Economic Space," including the adoption of the four fundamental freedoms of the internal market (free movement of goods, capital, services and people). The projected EU–Russia "Common Space of Freedom, Security, and Justice" is another example of extending EU internal programmes (the so-called Tampere Process) to third states.

This approach has created a dense legal and institutional framework as reflected in the dialogue structures of the EU–Russia Partnership and Cooperation Agreement (PCA). By virtue of the wide range of topics which are covered by the PCA (and the four common spaces), European officials and their Russian counterparts regularly meet on at least four different administrative levels and with even higher annual frequency than in the EU–US dialogue.

The proliferation of institutions stands out as another peculiarity in EU–Russia cooperation when compared with the US–Russia relationship. This has to do with the complex institutional setup of the European Union itself. EU policy towards Russia is drafted by many different actors: The Council, the Commission, the European Parliament and the individual EU member states. As a result, the EU has shown a tendency to establish additional institutions which were not originally intended by the PCA, for example the two "High Level Groups" on the energy dialogue and on the Common Economic Space. Only recently, the EU has begun to streamline its dialogue with Russia, for example by reforming the EU–Russia Cooperation Council (now called the Permanent Partnership Council).

The EU's Search for "Common European Values"

Reference to common European values has been a central feature of EU–Russia documents, agreements and declarations. Even though the EU never laid out the "European" character of these values (as compared with their universal status), it is quite obvious that the EU, without saying so explicitly, expected or at least hoped for more commitment to those values from Russia (and other European countries) than from partners on other continents. The growing disappointment with President Putin's domestic policies is understandable only against the background of such high expectations.

Why do EU leaders expect Russia to subscribe to values such as the rule of law, democracy, respect for human rights and free media? The answer lies partly in the analysis given above. Both the social dimension of geographical proximity and the institutional project of extending the EU's legal framework to Russia explain why the European Union is looking for common values to be shared with the Russian leadership and population.

First: Against the background of geographical proximity, cultural ties, and a shared (though not common) history on the European continent, the EU ascribes to Russia a much stronger disposition to share its continental values than to countries in Africa or Asia. Furthermore, European heads of state and government have not forgotten Gorbachev's and Yeltsin's wish to make Russia a member of the "House of Europe."

Second: The Partnership and Cooperation Agreement, or indeed the concept of common spaces, implies common institutions. However, they are an embodiment of *European* values and reflect European political culture, but not necessarily Russian political culture. In other words: The EU tries to project its own historical experience onto the Russian Federation, i.e. peaceful cooperation through an evolutionary process of institutional integration. Since institutions are always carriers of "values" at the same time as they are expressions of interests, rules and regulations, it should not be surprising to see the EU expect those values from Russia, the most important neighbour in the European House.

But the study of EU–Russia relations shows that the European demand for Russian adherence to common values is only of relative importance to the EU. The EU has not always been consistent in raising this issue with the Russian leadership. Furthermore, the EU's normative power seems to be relatively weak when it is projected towards a big and important partner country like Russia. In such cases, shared interests may easily prevail over common values. Russia sees itself as an indispensable and independent world power—and it is largely perceived as such by the European Union. Thus, it can be assumed that even if the current trend towards autocracy in Russian domestic politics continues, the EU is likely to continue its policy of dialogue and defining common interests rather than risk a serious deterioration of bilateral relations.

On the other hand, a feel for "common European values" is not completely absent on the Russian side. At least in official statements, e.g. at EU–Russia Summits, President Putin usually adopts the European rhetoric of shared values. Even if his administration often seems to act to the contrary, he pays lip-service to the EU vocabulary. In the long run, this may not be irrelevant. Although the EU and Russia may fail to agree entirely on the importance of such values and their concrete meaning, continuous reference to the rule of law, respect for human rights, democratic reform and freedom of expression as an exercise in good European conduct may have positive long-term effects. This process might be enhanced by making clear to the Russian leadership that full respect for Russia as an equal partner in the family of world democracies will only be possible if Russia shares European values not only in words, but also in its domestic and foreign policies.

Conclusion

This contribution has identified three elements that characterize EU–Russia relations: geographical proximity, a dense legal and institutional

framework, and the EU's search for common European values. Together, they describe the essence of EU–Russia cooperation. These factors are much less relevant or even absent in the US–Russia interface. Cooperation between Washington and Moscow is much more determined by the historical legacy of two antagonistic super-powers, and by geographical distance. Security issues—both in their traditional and in their current definitions—are of much greater importance in the dialogue between Washington and Moscow. Furthermore, both the US and Russia display a more realist and interest-driven understanding of international cooperation than the EU.

In contrast, the EU's policy towards Russia is motivated not only by the historical legacy of continental Europe, but also by cultural heritage. Consequently, the mechanisms of EU foreign policy-making tend to combine shared interests and common values within joint institutions. This has been the recipe for European integration since the 1950s and it seems to be the rationale of EU foreign policy, too. This observation also helps to explain why the European Union has constantly demanded that Russia subscribe to common values. However, Russia's willingness to adopt the European logic of joint institutions—as the expression of shared interests and common values—largely depends on the perception of its own interests. Therefore, the EU cannot always expect to be successful in prompting Russia to follow its European modes of cooperation. What it can hope for, though, are the socializing effects of continuous dialogue and exchange, and the long-term effects of public statements recognizing common sets of principles and values.

Prospects for Coordination of Western Policies

*Heinrich Vogel**

In the relationship between Russia and the West, the conventional perceptions are still pretty much intact on both sides. While the leadership in Moscow claims to favour democracy, most observers agree that Russia's political elites have settled for an authoritarian system with ambiguous implications for foreign relations. Until the Bratislava summit in March 2005 the leaders of the G7 stuck to a ritual of praising democratic change and economic stabilisation in Russia and, above all, cooperation in the global fight against terror. The consensus on political trends in Russia can still be described in two statements: (1) They may not be exactly democratic but at least they have not turned back to communism and (2) the inadvertent growth of the middle class will save freedom and democracy, at least in the long run.

Visions for the relationship with Russia are similar among the G7, but they are far from coordinated, let alone united. Complex issues of long-term relevance for Western security are kept out of sight in favour of well staged summitry. The personalization of foreign relations, rhetoric about common values, and the inflationary use of the label "strategic" obscure tacit Western reservations. They also disguise the intra-Western competition for a potentially huge market, which carries much more weight than does the posing.

Déjà vu

In this environment Russian foreign policy has been highly effective. The ruling *siloviki* (members of the security services) in Moscow are boasting of democratic progress (adapted to Russian traditions) and the stabilisation of state and economy as a warrant for future cooperation. Putin enjoys his seat on the bandwagon of the international war against terror, which offers the perfect *passe-par-tout* for all kinds of "antiterrorist" operations and "vertical" corrections of the Yeltsin constitution. He redecorated the ideals of a strong state and "dictatorship of law" as part and parcel of the Russian way and compatible with European standards—at least those from some earlier stages of history.

The proven instruments of Soviet diplomacy in defense of repressive practices at home have been reactivated: complaints about "intervention in internal affairs," "double standards," and "Russia bashing." The controversial circumstances of the presidential elections in Florida and the scandal of Abu Ghraib have made welcome public relations tools. Russian

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claims of "vast resources" of energy and highly competitive science and technology serve as powerful appetizers for Western businesses, even if closer analyses suggest caveats with regard to costs, accessibility, and the life-cycles of resources or technological benchmarks.

Above all, Russian foreign policy managed to trigger the competitive reflexes of Western governments who still adhere to the practice of seeking privileged access to the Kremlin, thus politicizing economic relations in the style of East-West trade circa 1970. The approbation of benevolent heads of state, signalled by demonstrative bear hugs with Putin, may be as helpful as holding hands with Saudi princes for finalizing one or another big deal for Western corporations. But it may also, as an unintended consequence, endorse reactionary business practices, and it is bound to harden the notorious political structures of petro-states. Finally, the acquiescence of Western governments in highly questionable and counterproductive policies in the Caucasus and highly visible authoritarian tendencies in Moscow looks like tacit acceptance. It is this combination of Russian window-dressing *à la* Potemkin, coupled with Western wishful thinking, that presents considerable risks.

The Unwelcome Scenario

"Project 2008," the transfer of presidential power, will be a watershed for future developments in the Russian political system. The following scenario—not even the worst case in a broader spectrum of alternative futures—cannot be discarded altogether: This election will be managed along the lines tested by the Kremlin's political consultants in 2000. Central control over the national media, fine-tuned legislation choking any attempt at organizing political dissent, let alone opposition, and a compliant judiciary for creating the legalistic smoke screen, are all in place. The growing discontent of large parts of the electorate with reforms of the pension and health systems and communal services can be quashed with appeals to patriotism. If necessary, well-timed terror-alerts can create a helpful atmosphere of fear.

This setting offers no plausible incentive for the ruling junta to risk free and fair elections, even if one subscribes to the school of thought that sees Russia as a "normal country" (whatever that is when it comes to elections). Long-term and responsible planning in foreign and security policy will never exclude future developments that run counter to the world of wishful thinking. If the above scenario contains only a whiff of realism, Western governments will have to envisage the possibility of less predictable and less cooperative relations with Russia.

Western Leverage

It is by no means irrelevant which political system evolves under the guise of specific "Russian traditions," and the options are limited. This calls for a

careful assessment of Western leverage, which can be derived from two very basic considerations:

- Any future leadership in Moscow will be struggling with painful time-lags between political decisions to promote structural reforms (which are technically easy) and the economic results of growth, employment, and modernization, which are hard to ascertain. These lags tend to be the longer the more bureaucratic and corrupt the political system is. The pressure of the pent-up expectations of Russian citizens and consumers, the "political transaction costs" of overcentralization, can be offset only for a limited time by acts of symbolic policy (e.g. glamour events with the recognition of Russia as a "Global Actor"). The patience of Russian society can not be taken for granted and Western standards of legitimacy would make a powerful argument for any new democratic movement.
- The political risk implicit in European energy imports also applies to Russia, which depends on the revenues from energy exports. However, the potential for controlling this dependence by diversification of imports, domestic production, and technological progress is greater in the economies of the West than in Russia. The competitive advantage is obvious.

This logic of "mutually assured dependency" (the political dimension of interdependence) implies a world of rational choices. In this world, the structural deficiencies of the Russian economy and its integration and interdependence with the international community restrict Moscow's ability to be uncooperative or engage in spoilsport behavior in international crisis management. By the same token, calls for directly linking political demands to issues of economic cooperation are way off the mark and the charge of "trading accommodation over Chechnya for gas" carries no weight because it ignores the limitations of Western political leverage.

»Realpolitik« versus Values

But this is not the final word. Russian power elites are status seekers; they need recognition, approval, and the semblance of normalcy in international relations to compensate for the loss of credibility at home, as the impotence of the Kremlin's alleged omnipotence becomes clearer. In this political dimension calling a spade a spade—in the right place and at the right time—can make a tremendous difference, and this tool is not constrained by the controversy over *realpolitik* versus values. Western leaders, first of all the German Chancellor, constantly forsook this tool in favour of public demonstrations of personal friendship, thus losing not only moral credibility but also sway in the formation of a new Russian political system. Contemporary Russian society is in motion, searching for ideals, models, and standards, and it must not be surrendered to the manipulation of a political elite that still worships the antiquated idols of the strong state and the great power.

Thus far the chance to inspire Russian society with the advantages of pluralism, balance of power, and the rule of law has been missed. Instead, Western diplomacy tends to duck the issues of the Russian military's criminal acts in Chechnya, unfair and rigged elections, a deficient legal system, an inadequate judiciary, and pervasive corruption, claiming that a discrete private dialogue with the Russian president (who may not have the necessary control to correct all these scandals and problems) holds better prospects.

It was always naïve to assume the direct impact of publicly stated disagreement with Russian/Soviet political malpractice. Yet, as the joint press conference of presidents Bush and Putin at the Bratislava summit showed, style makes a difference and there is a way to keep the balance between pragmatism and faithfulness to Western values. The power of public diplomacy is not confined to the high ground of moral standards, trust, and legitimacy because (a) there is no way to lure indispensable foreign direct investment into Russia without reforms of the judiciary and consistent action against corruption, (b) there are no free lunches, i.e. no rebates on membership in WTO or the G8, (c) the opportunity costs of authoritarian state capitalism are high, and (d) exporting energy is no strategy for modernization.

These arguments of "enlightened realism" have a very relevant audience among new entrepreneurs and the younger generations in Russia. Not to make these points publicly time and again, or even to endorse the scandalous activities of the Russian authorities (as Berlusconi and Schröder did) is negligent. Concentrating on the short-term agenda and calling this "strategic" because the promised deals are big is even counterproductive.

There is no better way of gaining influence on Russian politics than to support the emancipation of Russian society with information about Western standards for the rule of law and the best-practice models of open societies. Direct sponsorship of democratic activists should not be ruled out, even at the risk of drawing the wrath of the reactionaries in Moscow. It would, however, be advisable not to overrate recent experiences with "colored revolutions" in Georgia and Ukraine. Grass-roots organisations are by no means immune to governmental infiltration and foreign funding tends to undermine their authenticity and political drive.

Critical Substance

Diplomats will have to promote their own agenda: (a) Keeping the proven multilateral instruments of dialogue and intervention (monitoring under the OSCE and screening by the Council of Europe) alive and kicking and (b) activating the existing mechanisms of multilateralism (e.g. the EU–Russia Roadmap). Despite its current internal troubles, the European Union remains capable of global bargaining with enough specific weight to shape international regimes from trade to environment, land mines, and the standards of criminal justice. In the medium and long run, there is no way

to ignore these normative systems, not for Russia, not even for the US. The EU's status as a "normative great power" is intact.

Supporting democracy in Russia remains difficult and it becomes impractical without concerted efforts to protect the substance of democracy at home. The political consultants of all countries are united already in common disdain for the electorates of their respective countries. If the very basis of democracy—legitimacy and trust—corrodes further, if the democratic process continues to be confused with power management, if efforts to secure an eternal grip on power by scrapping constitutional checks and balances are tolerated, and if international treaties and mechanisms under the UN are considered irrelevant—then the project of bringing liberty and democracy to Russia will be in serious trouble, because we are not only going to lose Russia. We are going to lose our own standards.

Abbreviations

BTC	Baku–Tbilisi–Ceyhan
CEO	Chief Executive Officer
CES	Common Economic Space
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
EIA	Energy Information Administration
EU	European Union
FDI	Foreign Direct Investment
FSA	Freedom Support Act
FSB	Federal Security Services
G7	Group of Seven
G8	Group of Eight
GDP	Gross Domestic Product
GUUAM	Georgia, Ukraine, Uzbekistan, Aserbaidschan, Moldova
LNG	Liquefied Natural Gas
MD	Managed Democracy
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
NIS	Newly Independent States
TFPD	Transatlantic Foreign Policy Discourse in a Globalizing World
OPEC	Organization of the Petroleum Exporting Countries
OSCE	Organization for Security and Cooperation in Europe
PCA	Partnership and Cooperation Agreement
UN	United Nations
WTO	World Trade Orgnization