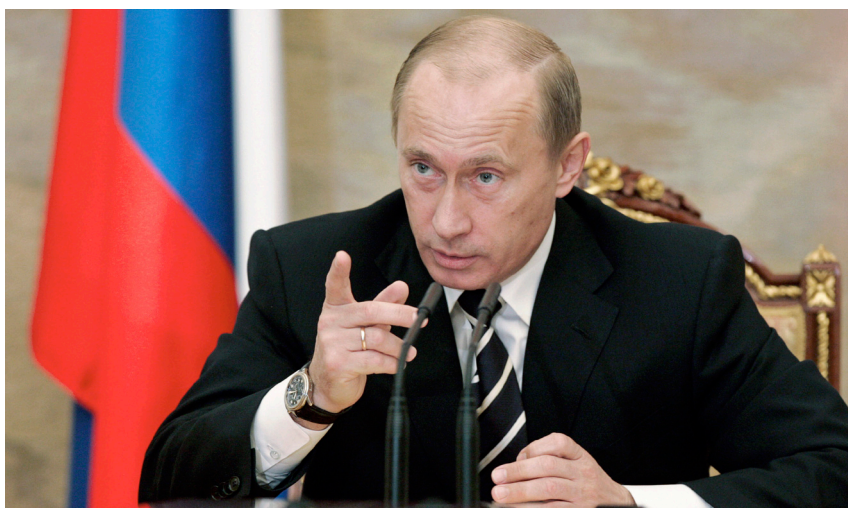


RUSSIA IS NOT BREAKING WITH THE WEST

Relations between Russia and the West have deteriorated. In key areas of international security, Russia is increasingly distancing itself from Europe and the US. Russia's display of newfound confidence is based on the booming oil business. At the same time, Moscow benefits from the crisis of US global power after Iraq. However, Russia's power rests on a fragile basis. Its options for influencing international affairs remain limited. Despite its claim to Great Power status and its tougher rhetoric, Russia is interested in maintaining stable relations with the West. Russia is rumbling, but it is not breaking with the West.



President Putin at a cabinet meeting in the Kremlin, 12 March 2007

Reuters / Itar-Tass

Russia is seeking to reassert itself as an independent Great Power. With regard to a number of important security policy questions, Moscow is increasingly distancing itself – sometimes in shrill tones – from the West. In his speech at the Munich Security Conference on 10 February 2007, Russian President Vladimir Putin sharply criticized NATO's eastward expansion and described it as a "serious provocative factor" undermining security in Europe. Putin has also repeatedly condemned US plans to station a missile defense shield in Poland and the Czech Republic, and even threatened that Russia would aim its missiles at new European targets and abrogate the Conventional Forces in Europe Treaty unless the US backed off from its plans.

Another contentious issue is Kosovo. Moscow intends to veto the Western countries'

plans for autonomy for the Serbian province in the UN Security Council. On the Iran question, which has also been subject to longstanding and controversial debates, the Russian government did finally agree in March 2007 to support the UN resolution tightening sanctions and seems to now be reconsidering the continuation of its support for the Iranian nuclear energy program that it helped to establish. At the same time, however, Russia is selling Tehran high-grade military technology, including air defense missiles, as well as supplying weapons and other military equipment to other states criticized by the West, including Venezuela and Syria.

Russia's neighbors in particular are feeling Moscow's increasing pressure. In autumn 2006, Moscow imposed economic sanctions against Georgia and expelled several

thousand Georgian migrant workers from Russia. Moscow has intermittently shut down gas supplies to Ukraine and Belarus in order to secure higher energy prices. At the same time, Russia also reminded the Europeans of how dependent they are on Russian energy.

Oil as a power base

Russia's behavior on the global stage underlines the country's claim to a role as an independent center of power. Russia's vision is that of a multipolar world order where Russia, together with other powers such as China, India, and the EU, forms a counterweight to the US. This vision is not at all new, but was formulated as early as the mid-1990s by then-foreign minister Yevgeny Primakov as an antithesis to the country's Western orientation and the concept of a "Common European House". However, the chances of attaining this goal are more favorable today than during Primakov's tenure.

This is due to three key factors: First of all, the high price of oil has strengthened Russia's economic basis. The income generated by Russian oil exports was US\$14 billion in 1999, but subsequently increased in incremental steps. Between July 2005 and June 2006, Russia already accrued US\$140 billion from oil sales. This sum allowed Moscow to pay back a large part of the debts it had accumulated in the West during the 1990s. Furthermore, Russia has so far transferred more than US\$90 billion to the Russian Federation's Stabilization Fund, where Moscow manages the surplus income generated from oil sales.

The country has also built up gold and foreign currency reserves of US\$356 billion, making it the world's third-largest holder of such reserves.

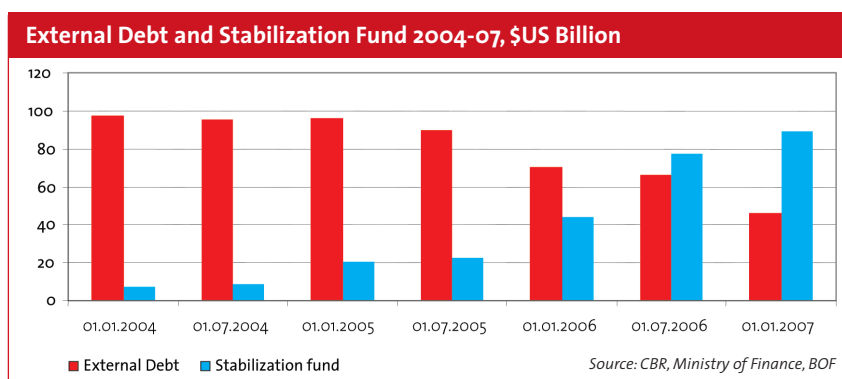
US weakness is Russia's strength

Secondly, the expansion of Russia's foreign policy maneuvering space is also due to shifts in the international power constellation caused by the decline of US capacity to exercise global "hegemony". The failure of US post-invasion policy in Iraq has not only demonstrated the limitations of US power, but has also heavily damaged Washington's international prestige. While Putin had backed Washington after the 11 September 2001 attacks and assured President Bush of his support in the campaign against international terrorism, Moscow is now keeping its distance.

Today, for example, Moscow is trying to present itself as an alternative to the US in Central Asia – after the Kremlin had announced as recently as 2002 that the stationing of US forces in the region was also in Russia's interest. Besides reinvigorating economic relations with the Central Asian states, Russia also aims for closer cooperation in security policy. It has established its own (though relatively small) military base at Kant, near the Kyrgyz capital Bishkek. At the same time, it seeks to enhance its influence in Asia via the so far little effective Shanghai Cooperation Organization, the members of which include the four Central Asian states of Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan, in addition to Russia and China.

Centralization and nationalism

Third, Russia's confident appearance in foreign policy should also be seen in the context of changes in the domestic arena. Unlike during the 1990s, Russia today is fairly stable politically. The power of the executive has been consolidated, the president enjoys high rates of popularity among the population, the political opposition is small in numbers and violently suppressed, and the media is subject to strict state control. The reestablishment of the "power vertical" has also facilitated greater centralization in foreign policy. The most important foreign policy decisions are made today by a small group of people around Putin. Although the Kremlin no longer needs to take into account criticism from a recalcitrant parliament or independent media, the government still aims for consensus in the policies it pursues. To this end, Putin mainly exploits patriotism and emphasizes



Russian national interests. The negative potential of this phenomenon can be seen at the domestic level in growing xenophobia and the mobilization of right-wing extremists, and at the foreign policy level in the bullying of its smaller neighbors. A recent case in point is the vehement Russian response to Estonia's decision in late April 2007 to move a memorial for the war dead of the Red Army from the city center of Tallinn to a war cemetery.

A fragile Great Power

Russia's growing assertiveness and the Kremlin's increasingly tough rhetoric occasionally give rise to discomfort or even fears in the West about a new Cold War. However, the basis of Russian power remains fragile for the foreseeable future. As far as economic power is concerned, Russia today ranges in the same league as countries such as Mexico, Brazil, or the Netherlands. The Russian gross domestic product per capita is nominally only about 16 per cent of that of the US. While Russia has immense natural resources and holds about five per cent of known global oil reserves as well as 30 per cent of natural gas reserves, this wealth of resources also distorts the true state of the country's economy. Even though Russians today are better off on average than during the Yeltsin years, the revenue from the oil business is unevenly distributed benefiting only a small group of Russian society. The oil wealth also favors corruption and impedes the emergence of entrepreneurial innovations. Important structural reforms in other economic sectors are blocked, and domestic industrial production is neglected in favor of foreign imports. While Russia's economy has registered growth rates of around six per cent for the past eight years, it is slanted towards the export of raw materials and thus lacks a solid foundation. Also, Russia's dependence on its energy supplies means that it is dependent on Europe continuing to purchase them. Russia has much less sovereignty

than the Kremlin claims because it must be part of the global economic system in order to survive.

In military terms, Russia has only limited options for power projection. While Russia still has a considerable nuclear arsenal at its disposal, the Armed Forces are in a deplorable condition. Even though military expenditures are increasing and Russia plans to invest US\$189 billion for modernizing the military until 2015, these efforts must be seen against the massive deterioration of the armed forces during the 1990s, which Russia is still far from having come to terms with. Russia is spending about US\$30 billion annually on defense in real terms and under current conversion rates (US\$58 billion under purchasing power parity, PPP), which amounts to only six per cent of the US defense budget.

Finally, the looming demographic crisis must also be taken into consideration. If the current trends continue, Russia – whose population has shrunk by about five million since 1989 – will lose another ten million citizens by the year 2016. Most studies expect that under current conditions, Russia's population will decline to about 100 million by the year 2050 (today: 142 million). The decreasing number of young workers and the increasing number of retirees will inhibit economic development. Serious shortages will also be encountered in the recruitment of military conscripts: As early as 2008, there will not be enough 18-year-olds to fill the required contingent of 700,000 conscripts; by 2015, that number will have been further reduced to about 250,000 recruits.

Limited international influence

Russia's options for shaping the course of international affairs are limited. Its seat in the UN Security Council makes Russia an international veto power; this is not, however, sufficient to shape the direction of international politics in a creative manner.

Despite ostentatiously adopting positions that are opposed to those of Washington, Moscow ultimately acknowledges the US as the most important factor in the international system, and its first choice of strategic partnership continues to be the US.

In that sense, Russian foreign policy is still very much reactive. Despite the recent row over US plans to establish parts of its strategic missile defense system in Poland and the Czech Republic, Russia will be careful to avoid a fundamental confrontation with the superpower. The leaders of the Kremlin know only too well that global challenges such as Muslim militant extremism or the proliferation of weapons of mass destruction equally affect Russian and Western security interests. It is, therefore, unsurprising that Moscow has recently moved closer to the US and European position in the matter of Iran's alleged nuclear weapons program. Putin's suggestion at the G-8 summit in early June 2007 that the US and Russia could use jointly a Russian radar facility in Azerbaijan for missile defense can be interpreted as an attempt to deescalate the situation with Washington, even though this idea is improbable to meet the US requirements for an effective shield. Finally, Moscow is also likely to adapt to the Western position on the creation of an independent Kosovo, since Russia seems to have no concrete interests in Kosovo except annoying the West.

In its relations with Europe, Russia's behavior is also ultimately determined by pragmatism. On the one hand, Europe depends heavily on Russian natural gas deliveries and therefore on stable relations with Russia. On the other hand, the Russian side is aware that the "energy weapon" can hardly be used as a viable tool for applying political pressure. Moscow recognizes that Europe is more important for Russia than Russia is for Europe. Europe is Russia's most lucrative market and its most important trading partner. The main part of Russia's infrastructure for exporting energy is geared towards the European market. The prospect of increased deliveries to China is at best a longer-term perspective. The European export market is of enormous importance in particular for Russian gas monopolist Gazprom. Gas sales on the world market are important for equalizing losses in the heavily subsidized domestic gas market. Just as Europe strives for stable power supplies, Russia is also dependent on a stable European market for its sales.

Russia and selected Western countries in comparison					
	Russia	US	France	UK	Germany
Population in millions	142	299	61	60	83
GDP per capita in US\$ (PPP)	12,186	44,244	32,474	34,586	29,888
Defense spending in 2005, in millions US\$ (PPP)	58,000	495,300	53,128	51,696	38,044
Defense spending in 2005, as percentage of GDP	3.7	4.0	2.5	2.3	1.4
Armed forces size in 2007, in thousands	1027	1506	255	191	246

Source: *The Economist* (Country Briefings); IISS Military Balance 2007

Dominance in the post-Soviet space

Russia's increase in power is most strongly felt today in the post-Soviet space. Although this region has developed in highly divergent directions since 1991, Russia continues to be of great importance for its neighbors as an economic and political center of gravity. Dependencies continue to exist particularly in the area of energy. For example, nearly all of the exported Central Asian gas passes westwards through Russian pipelines. Other countries such as Belarus, Ukraine, Georgia, or Armenia are strongly dependent on Russian energy imports. Furthermore, Russia continues to be an important trading partner for many countries and is the destination of millions of migrant and seasonal workers, especially from the Southern Caucasus and Central Asia. However, the limitations of Russian power can be seen here as well. For example, Moscow's preferred candidate failed to win a victory in the Ukrainian presidential elections in late 2004. In Georgia, too, Moscow has failed to achieve regime change despite economic sanctions and massive price hikes for its gas deliveries. If anything, President Mikheil Saakashvili has won further support among the population. Despite the sanctions, the Georgian economy has not collapsed, but can boast of growth rates of between six and eight per cent.

Interested in stable relations with the West

Russia obviously continues to struggle with the loss of the Soviet empire. Despite all the saber-rattling, the country today remains introverted and mainly pursues such foreign policy interests as can generate economic and political benefits – or at least do not involve costs. Thus, Russia is interested in intensifying relations with its neighbors, but not in subsidizing any integration projects. This is why it raised energy prices not only for Western-oriented states such as Ukraine and Geor-

gia, but also for Russia's closest allies, such as Belarus. In military terms, Russia has also instituted a pullback. It has dissolved most of its military bases outside of the country since the dissolution of the USSR. Today, large numbers of Russian troops are stationed only at military bases in Armenia and Tajikistan. Furthermore, small contingents of Russian forces are stationed in Moldova, Abkhazia, and South Ossetia. Moscow intends to close down its military bases in Georgia by 2008. Russia has only established a single new military base – in Kyrgyzstan – since 1991, but due to its moderate dimensions, the importance of this installation is mainly symbolic.

There is no new conflict in the offing between Moscow and the West. However, it will hardly be possible to avoid an increasing rivalry and rhetorical acrimony. It is important that the West face Russia with a united stance and clear language when it comes to the state of Russian democracy and respecting human rights. Anything less would send a wrong signal to Moscow. However, it would be just as wrong to turn away from Russia. The main principle should remain cooperation and engagement, not confrontation. Rapprochement must be fostered wherever possible, especially in those areas where common interests exist today – as is already the case in the sphere of energy.

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