

ALTERNATIVE FUTURES FOR RUSSIA TO 2017

A Report of the Russia and Eurasia Program
Center for Strategic and International Studies



Author
Andrew C. Kuchins

Foreword
Charles Ryan



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About the Author

Foreword

Charles Ryan

As the following report clearly indicates, there is no consensus among Western analysts on the question: “Whither Russia?” Consensus eludes us because we do not agree on the baseline assumptions for analysis. Thus, it is not surprising that views are so divergent, regarding the range and likelihood of various scenarios for Russia’s political and economic development. What the authors here have done is achieve common ground on the drivers of future change and, allowing for disagreement on the relative weighting of these drivers, articulate the spectrum of outcomes.

An indication of the current gap in understanding is that Russia and the United States cannot even agree on something basic, such as the end of the Cold War. Americans view the fall of the Berlin wall and the ensuing collapse of the Soviet Union as a great victory. The vast majority of Russians also are very happy Soviet oppression ended, although Western analysts see the telltale signs of its reemergence. Russians are enjoying their new freedom immensely—consuming, traveling, and expressing themselves freely. (As an aside, the residents of many a European resort town think they may be enjoying themselves too much and expressing themselves too freely.) Nonetheless, President Vladimir Putin, whose popularity rating among these same Russians hovers around 75 percent, has called the collapse of the Soviet Union a tragedy. These popular freedoms derive from an event their popular president deems a nightmare.

I recently attended an investor conference in St. Petersburg where former secretary of state Madeline Albright gave the keynote speech. She reflected on the challenge of “devolving” the power of a defeated foe, the Soviet Union, but a foe not defeated by force of arms. Russia still denies that the fall of the Soviet Union was a defeat. And recently in the Kremlin, Putin honored two spies, one British and one American, posthumously. For many on both sides of the U.S.-Russia relationship, the Cold War is not yet history.

I moved to Moscow in August 1991 to witness the end of this war. I joined the Merchant Banking team of the newly formed European Bank for Reconstruction

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and Development (EBRD), created to support market reforms in Eastern Europe and the former Soviet Union. My private agenda was to witness the end of the Soviet Union and to be ringside for the revolution. At the time, I felt this would take about 18 months.

I still live in Moscow, nearly 16 years later, and I continue to marvel at how Western experts, including myself, have consistently failed to predict the future course of Russia.

When Andrew Kuchins asked me to write a foreword to this publication, he reminded me of our dinner at Café Pushkin in Moscow last spring. He asked me what had changed the most since I moved to Moscow. Looking around the glittering restaurant, surrounded by affluent Russians happily enjoying the fine cuisine, I concluded that “dinner” was the answer.

EBRD’s office was in the former COMECON building, next to the Russian White House. I used to finish work at 8:00 p.m. The city was dark, the streets were empty, and I had limited options for dinner. There were almost no restaurants open at that time of night. And if they were open, I am not sure they would have had anything to feed me. The 1992 version of a convenience store in Moscow was a line of elderly women standing next to Kiev Railway Station. The line stretched for over 100 yards, and each woman had a thing to sell. Literally, they each had a thing, as in an egg, a stalk of celery, or a bottle of ketchup. My routine was to walk the line, survey their wares, and then retrace my steps collecting the ingredients for my dinner.

Today, on the very site where I bought a stalk of celery from a Russian babushka on a dark November evening in 1992, stands the Europa Mall. Europa is a massive and modern shopping mall built around a seven-story atrium, where Western and Russian stores sell fancy underwear, luggage, haute couture. Europa also offers Muscovites the menus of over 30 cafés and restaurants. The commercial and gastronomic success of the mall is accompanied by some historical ironies, darker than the night I went shopping in 1992. It is the place where the victims of Stalin’s collectivization were concentrated as they disembarked from trains, attempting to flee famine in Ukraine. The underpass at this same location is where an American businessman, Paul Tatum, mired in a dispute with his Russian partners, was murdered in 1996.

The Western business community looks at the current situation and sees grounds for optimism. The Europa Mall is a monument to the market economy in twenty-first-century Russia. Political analysts, while acknowledging the vibrant economy, spend more time pondering the darker moments.

Russia’s political and economic development since the collapse of the Soviet Union has been as implausible as my path over the same period and as unpredictable as the course of commerce on the eastern side of Kiev Railway Station.

Today is the right time to assess possible scenarios in Russia over the next 10 years. I think it is a good time, in part because the current views are so divergent. The difference between the assessments of business people like me and

policymakers is particularly striking. The environment for analysis is also muddied by political cycles in both countries. But the political transitions in both the United States and Russia will have an impact on our relationship.

The business community will continue to focus on Russia's incredible economic potential. Furthermore, our exposure to Russia's new generation of business leaders is very encouraging. These young Russians are patriotic and have been exposed to the West. Many currently work for Western multinationals or have studied at U.S. universities. We cannot reconcile the aspirations of this generation with the predictions of gloom based on the sins of their forefathers.

The political community is focused on the negative political trends, including state domination of the media and restricted political competition. They see echoes of Russia's turbulent past and worry about the negative consequences for our shared future.

No report could bridge the gap between these two visions of Russia's future. However this publication is a reflection of the best current thinking on what is possible in Russia over the next 10 years, for better or for worse. Bearing in mind the previous poor history of prediction regarding Russia, I am sure there will be surprises. I hope the gap between the optimistic scenarios and the ensuing reality is not as large as the one between babushkas selling food in a line by the railroad station and the current tacky splendor of the Europa Mall.

Preface

The inspiration for this study has deep roots going back to my undergraduate days at Amherst College in the late 1970s. The more proximate spark was the sense arriving back in Washington in 2006, after two and a half years based in Moscow directing the Carnegie Moscow Center, that discussion of Russia in U.S. policy circles was coming unhinged, as perceptions of contemporary Russia were clouded by old stereotypes and inadequate appreciation of change.

I am grateful to the Center for Strategic and International Studies and its president, John Hamre, for providing the ideal environment to think hard about the complexities and seeming contradictions of Russia, how its development may unfold, and what those scenarios may mean for U.S. interests. I want to thank the Ryan Charitable Trust for the generous support that made this study possible. I was fortunate to become close friends with its trustees, Charles Ryan and Caren Lambert, during my stay in Moscow, and I am also grateful to Charles for our many lively conversations about Russia and U.S. foreign policy, as well as his writing such an elegant and insightful foreword to this report.

I want to thank the members of the Russia 2017 Working Group, which met several times during the spring/summer of 2007—Anders Åslund, Ed Chow, Toby Gati, Thomas Graham, Nikolas Gvosdev, Henry Hale, Sarah Mendelson, Lilia Shevtsova, Dmitri Trenin, Judyth Twigg, and Cory Welt—for their very insightful contributions, comments, and criticisms. This process greatly benefitted from a set of memos prepared by working group members Anders Åslund, Thomas Graham, Henry Hale, Sarah Mendelson, and Cory Welt. These memos, written in spring 2007, were so interesting and well done that we have published them virtually as is in the appendix to this report. Thanks also go to Masha Lipman for her helpful suggestions and critical reading of a draft of the report. The report would never have been completed without the extraordinary management and tenacious research by CSIS research associate Amy Beavin and CSIS intern Hilary Drew. “Hurrah” to them and also to James Dunton and the crack CSIS publications team.

While I hope readers find some illumination in this report, we have only scratched the surface of the eternally vexing question “Whither Russia.” I look forward to reconvening and expanding our team for more rigorous examination of the many drivers that contribute to Russia’s future, not only because it is intellectually captivating, but because it will remain for a very long time to come a key factor in the successful pursuit of U.S. national interests.

Alternative Futures for Russia to 2017

Andrew C. Kuchins

Yogi Berra once famously said “Predicting is hard, especially the future.” When it comes to Russia, prediction has proven to be a particularly perilous endeavor. For the last 20 years, not only have we failed to predict what has happened, but we have failed to seriously consider the *possibility* of what did happen. If we go back to 1999, the year after the financial crash, no one anywhere suggested the possibility of Russia’s nominal dollar GDP growing by a factor of more than five or incomes increasing in Russia by a factor of four in less than 10 years or the Russian stock market becoming the world’s hottest. But it happened. And if we had engaged in this exercise in 1987, anyone who suggested that the USSR was on the verge of being consigned to the dustbin of history and that there would be tanks firing on the parliament building in Moscow within 10 years would have been exiled to the lunatic fringe. But history has shown us repeatedly that what one day may seem totally improbable, in a short time may just happen in Russia. One needs a broad imagination to envision Russia’s future 10 years hence and the potential for discontinuities in its trajectory, a trajectory that for the last few decades has been extraordinarily nonlinear.

The challenge is even greater today because there seems to be so little agreement about present-day Russia. In fact, never have views in the West been so polarized as today. We would like to have 20/20 clarity on the subject, but depending on what we look at and to whom we speak, we might conclude that Vladimir Putin’s Russia is like a *Tale of Two Cities*, if not more so. Russia is a huge country with extraordinary regional differentiation. Increasingly, large parts of big cities, especially Moscow and St. Petersburg, look like the first world, while much of provincial Russia is third world, and parts of the Northern Caucasus resemble a failed state. Like other large emerging market countries, including China and Brazil, aggregate numbers only tell part of the story.

Perhaps a better analogy here is the problem of the blind man and the elephant. Those more interested in economic and financial developments may be impressed with the robust growth of the Putin years and the virtual macroeconomic revolution that has transformed Russia from an economic basket

case dependent on the beneficence of international aid agencies to an emerging market powerhouse. Those more interested in democracy, civil society, human rights, market competition, and balanced growth will reach far less rosy conclusions about the impact of Putin's leadership, and they will tend to emphasize the uncertainty and potential instability of the current Russian system.

If you cannot agree about the baseline, how can you possibly find consensus on likely alternative scenarios? You cannot, but that has not been the goal of this project. Nor is predicting the future. Rather, the goal here is to suggest the universe of possibilities and likely alternative scenarios for Russia's future to the year 2017. What are the key drivers of those scenarios and how might they interact?

In order to put together this mosaic of possible Russian futures, the author organized in spring 2007 a working group of leading experts with diverse perspectives and expertise on the most salient drivers of Russian futures. We met several times over a period of two months, and the memos they produced, as well as their contributions to the discussions, greatly helped to inform this essay. This essay will proceed with the following:

- a description of Russia in June 2007;
- an analysis of key drivers for the future;
- a presentation of three future scenarios;
- some key lessons and conclusions drawn from the scenarios exercise; and
- key signposts for scenario trends.

In addition to the report itself, we have also published the five background memos written by working group members Anders Aslund, Thomas Graham, Henry Hale, Sarah Mendelson, and Cory Welt.

Significant Points of Group Consensus and Disagreement

- *Russia will not be a failed state.* While there was one significant dissenter, who emphasized that this possibility should not be discounted, overall the working group thought this scenario so unlikely that it was discarded.
- *Russia will not be a mature democracy in 10 years.* The working group agreed that Russia could possibly become a more plural political system. But the group also thought it extremely unlikely that democracy could emerge in 10 years time, especially as the current trend lines are going in the opposite direction.
- *While stable economic growth is not guaranteed, Russia's economic future in the near term looks relatively bright. By comparison, Russia's political future is far more uncertain.* State capacity and institutions generally remain weak, and the current political stability has a fragile foundation. In Russia's weakly institutionalized system, personalities and personal interests play an unusually large role in policymaking.

- *Russia's economy is too diversified to describe it as a "petrostate."* But the working group agreed that the price of oil is the most important driver of Russia's future.
- *Russia's territorial integrity over the next 10 years is secure.* Socioeconomic, political, and security challenges for Moscow will be greatest in the Northern Caucasus, but secession appears unlikely.
- *Demographic challenges remain significant, but they should be manageable.* However, the shrinking population will put additional strain on an already tight labor market, increasing the likelihood of labor unrest. Increasing migration of Asian and Muslim workers will also add to social tensions.
- *Nationalism and xenophobia are growing with the encouragement of the Kremlin.* There were differing views within the working group, however, about the extent to which this presents a threat to ethnic minorities within Russia, as well as its likely impact on Russian foreign policy.
- *Russian foreign policy will remain independent and promote Russia's great power status in a multipolar world.* While the working group essentially characterized Putin's foreign policy as pragmatic, there were differing views about how growing nationalism and xenophobia may color Russia's interests and policies in the future. Group members expressed concern about growing anti-Americanism in Russian society and the Kremlin's role in promoting it, but there was no consensus on whether Russian policy toward the United States was adequately insulated from this trend. There was near consensus within the group that while Russian foreign policy was not likely to become pro-American, neither was it likely to become anti-American. Most working group members also agreed that growing security challenges from the Greater Middle East would most likely drive U.S. and Russian security policy closer together.
- *Russian foreign policy is growing more assertive as economic recovery gathers momentum.* However, there were differing views in the group as to what extent Russia was becoming a revisionist power, while at least one group member saw Russia increasingly playing the role of multilateral spoiler.
- *The 2008 succession is manageable, and the most likely outcome is for Putin to step down in favor of his selected successor.* While opinions varied about the likelihood that Putin would stay on as president beyond 2008, the working group agreed that chances for this outcome were at least 10 percent, with upper-range probabilities estimated as high as 40 percent by several group members. The group also differed over the importance of whether Putin steps down for Russia's future. Two or three years ago, it is likely that such a group would have placed greater importance on Putin leaving office for Russia's future as a democracy, and this probably reflects the degree to which prospects for democracy in the near term have dimmed.
- *The current stability is more fragile than it appears.* Its vulnerability to internal and external shocks will be elucidated in this paper and especially in

the section on scenarios. There was also consensus within the working group about the danger of excessively linear thinking on Russia's future.

Russia Today

Russia today is a hybrid regime that might best be termed “illiberal internationalism,” although neither word is fully accurate and requires considerable qualification. From being a weakly institutionalized, fragile, and in many ways distorted proto-democracy in the 1990s, Russia under Vladimir Putin has moved back in the direction of a highly centralized authoritarianism, which has characterized the state for most of its 1,000-year history. But it is an authoritarian state where the consent of the governed is essential. Given the experience of the 1990s and the Kremlin's propaganda emphasizing this period as one of chaos, economic collapse, and international humiliation, the Russian people have no great enthusiasm for democracy and remain politically apathetic in light of the extraordinary economic recovery and improvement in lifestyles for so many over the last eight years. The emergent, highly centralized government, combined with a weak and submissive society, is the hallmark of traditional Russian paternalism.

The Kremlin naturally pays a great deal of attention to managing the “consent of the governed” through a series of implicit bargains that promote political apathy and shape public opinion. In fact, what differentiates the current Russian authoritarianism from its Soviet and Tsarist predecessors is its relative softness and prosperity. So while political life and national TV are heavily managed by the state, Russians enjoy greater freedom to get rich, to openly practice their religion, to travel, and to connect with the outside world via electronic media than at anytime in Russia's long history. From a domestic standpoint, Russia is illiberal politically, but liberal economically, especially outside the “strategic” sectors of the economy.

At the individual, business, and state levels, Russia has never been as internationalist (by this I mean integrated or engaged with the world outside Russia) as it is today. This is clear from the individual's ability to travel and interact globally, business's capacity to attract foreign capital and invest abroad, and the Russian state's efforts to become more active and assertive both on a bilateral basis and in engaging with more international financial, political, and security institutions. Russia may not desire complete integration with the West, as seemed to be the goal just after the collapse of the Soviet Union, but it clearly seeks greater participation in shaping that integration, rather than simply accepting the terms of others. After a period of about 10 years when Russia's power and influence were at historic lows, today's Russia is rapidly reasserting its authority and influence over a wide variety of issues and institutions and reveling in its new-found sovereignty. Putin's image of restoring Russia as a great power on the world stage that is feared and respected is an important part of the Kremlin's psychological deliverables.

The predominance of the intelligence services and mentality is a core feature of Putin's Russia that marks a major and critical discontinuity from not only the 1990s but all of Soviet and Russian history. During the Soviet period, the Communist Party provided the glue holding the system together. During the 1990s, there was no central organizing institution or ideology. Now, with Putin, it is "former" KGB professionals who dominate the Russian ruling elite. This is a special kind of brotherhood, a mafia-like culture in which only a few can be trusted. The working culture is secretive and nontransparent. Most of those in the ruling elite were recruited during Yuri Andropov's tenure as head of the KGB from 1967 to 1982 when he very consciously tried to recruit the "best and the brightest." This is not to say that all those trained in the KGB think or act monolithically, but it is very instructive to understand the mentality of Putin's inner circle. Most of his highest-level appointments and closest advisers have this background: Sergei and Viktor Ivanov, Igor Sechin, Vladimir Yakunin, Sergei Chemezov, Sergei Naryshkin, Mikhail Fradkov, and others. Mainly because of the trust factor, it is hard to imagine that Putin would transfer power to someone outside this circle.

That Russia is a hybrid regime should not surprise us only 15 years after the collapse of the Soviet Union. The vexing question is how sustainable is this system, and if it is not, how will it develop. There are many different views on this question, but before we turn to more detailed descriptions of potential scenarios, it is important to look first at the core drivers shaping Russian futures.

Drivers of Russia's Future

Economic Growth, the Price of Oil, and the Energy Sector

The price of oil has probably been the most significant driver of Russian realities since the first oil shock in 1973. High oil prices have been correlated with faster growth, a less pluralistic political system, and more assertive foreign policy for the past 35 years (under Leonid Brezhnev and Vladimir Putin), while low oil prices have been correlated with slower growth, a more plural political system, and stronger pro-Western foreign policy orientation (under Mikhail Gorbachev and Boris Yeltsin). The correlation is not one to one, of course, but it has been powerful. Since the world will be living in a hydrocarbon-dominated economy at least through 2017, we should expect the significance of oil prices to endure for the period of this analysis.

Certainly the dramatic increase in oil prices since 2003 has diminished the initial momentum for the structural economic reforms of the first Putin administration. It would be wrong, however, simply to categorize Russia as a petro-state with a nondiversified economy. Microeconomic enterprise restructuring has also contributed to the Russian economic boom, and other sectors of the economy not related to natural commodities, including consumer goods, construction, and telecommunications, are experiencing tremendous growth. In fact, Russian economic growth in the first quarter of 2007 exceeded

that of 2006 despite the drop in revenue from oil exports. Non-oil/gas generated revenues are assuming a higher profile in the Russian economy.

But while diversification of the Russian economy is taking place, much still depends on the trickle-down effect of petro-dollars. In recent years, an avalanche of money from oil and gas exports has hit the Russian economy, bringing about a virtual macroeconomic revolution. Since Putin became president seven years ago, Russian foreign currency reserves have increased by a factor of 20 to more than \$430 billion, or approximately 40 percent of GDP. An oil stabilization fund, modeled on Norway's, was established in 2004, and it has reached a level of more than \$130 billion or 10 percent of GDP (although there are questions about oversight of the funds). Budget surpluses are riding at more than 7 percent of GDP. GDP has been growing at 7 percent per year, but if you account for ruble appreciation and calculate in nominal dollar figures, the annual rate of GDP growth is closer to 25 percent. This extraordinary pace will slow as the ruble reaches full value, but if nominal dollar GDP growth continues at a 15 percent rate over the next 10 years, we will be looking at an economy of nearly \$5 trillion in 2017. It is not only entirely possible, but likely, that Russia will be the largest economy in Europe by 2017.

Calculating the effect of a rise or fall in the oil price is not straightforward, but economists estimate that the rise in oil prices has accounted for 25 to 40 percent of Russian growth in recent years. A more straightforward calculation can be made about oil export revenues and GDP. Today a \$10 drop in the world oil price would result in a loss of about \$30 billion in export revenues annually, or about 3 percent of GDP. Currently the Russian budget balances with an oil price of about \$37 per barrel (price for Urals blend, which runs about 15 to 20 percent less in price than Brent crude). The price of oil is not expected to fall below that level before 2009, but after that, predictions become fuzzy. That the oil price will rise and fall is a virtual law of the industry, since supply is inelastic due to long lead times required to increase production, while demand is more elastic with a time lag.

The Putin government has been extraordinarily responsible in managing macroeconomic policy. It has been so conservative that it may have over-learned the lessons of the 1998 financial crash. But avoiding the preconditions for a crash in the future has been the bedrock of the approach. Government expenditures have significantly increased, but at a slower pace than revenues. For the most part, the Putin team has avoided large expenditures on infrastructure (although future Russian growth will require more, given the decrepit state of much of Russia's infrastructure), and despite all the public relations about the national projects on health, education, housing, and agriculture, expenditures for social welfare and their measurable impact have been quite modest. The government now tries to portray itself as populist, but it is doing so without actually expending the resources necessary to improve social welfare. This Soviet-style paternalism without Soviet-like benefits may later cost the government popularity and/or credibility as people's expectations about benefits and services rise with state wealth.

The Putin team has also been quite sensitive to how much of the government's legitimacy and popularity derives from growing prosperity. High economic growth rates in his first term were due more to the effect of devaluation of the ruble, enterprise restructuring, and economic reform than to oil price growth. With the exponential increase in the price of oil, beginning in 2003 and particularly after the botched attempt at social benefit reforms in early 2005, further structural economic reform dropped off the Putin administration's agenda. It is possible that renewed attention to economic reform, leading to greater efficiencies and growth in productivity, can compensate for a future decline in the oil price, provided it is a gradual decline.

Other positive factors for the Russian economy include the high education level of the population, where nearly two-thirds of young people are going on to undergraduate and postgraduate education. Russia is increasingly attracting higher levels of foreign investment (albeit much is Russian money coming back home), thanks to very high profit levels. Currently, investment is running at about 20 percent of GDP; this figure probably needs to be higher, but it does correspond to U.S. and Western European standards. Finally, after stagnant growth throughout the 1990s, the number of officially registered enterprises and private entrepreneurs is increasing at the rapid pace of 7 percent per year. This growth is particularly important because recent survey research suggests that the self-employed in Russia tend to be more liberal and pro-Western than the middle class at large.

While there are certainly many positive signs in the Russian economy today, diminished growth in oil production and stagnant growth in gas production have led many analysts to wonder whether Putin's policy of increasing state control in the energy and other sectors is actually choking rather than feeding the goose that lays the golden egg. The situation in the gas sector is particularly dire and the effects of gas production shortfalls are already evident. So far Central Asian imports have compensated for stagnant growth and, to a lesser extent, so has substitution of fuel oil and coal in the power generation sector. The power generation sector is the most vulnerable link, and already in large cities such as Moscow it is increasingly difficult for new buildings and enterprises to get connected to the grid. Green field development in both the oil and gas industries will require high-risk and massive investment in the coming decade, but it is virtually too late to see much of the fruit of investments before 2017 since the projects have not yet begun and will require long lead times. The Russian government has ambitious plans for increasing the share of civilian nuclear power in power generation, but building these plants also takes time. The near-term answer to the domestic energy crunch will be increasing efficiency. Low gas prices have provided little incentive to increase efficiency, but prices are rising and are projected to reach European levels by 2011–2012. But thus far, plans to increase prices for electricity usage do not match the pace of gas price growth, which will put further pressure on the power generation sector.

Concern about over reliance on Russian gas has become a common topic of discussion in European policy circles, particularly since the Russia-Ukraine gas

dispute at the end of 2005. Russia and Gazprom effectively use their leverage with European consumers as long as Europe proves incapable of mustering a unified energy policy. European import demand will grow over the next 10 years as domestic production declines. European consumers may be able to stem the pace of increased reliance on Russian and Russian-controlled sources, but given the economic and political obstacles and long lead times necessary to develop new infrastructure, we should expect that Europe will remain highly dependent (30-plus percent) on Russian sources. We should also expect that Russia will do everything possible to meet its contractual obligations to Europe by controlling Central Asian sources, notably Turkmenistan, and/or allowing greater shortfalls for Russian domestic consumers.

The Russian state has increasingly shifted the great profits, but also the risks, of the oil business from the private sector to the state through renationalization of oil companies and assets. This could work as long as oil prices remain high, but in effect state policy is reducing competition and the incentive for market efficiency. The experience of the international oil industry suggests that state-controlled companies usually prefer rent extraction over volume growth and market efficiency. When they do invest, state-controlled companies often choose the wrong target, since they are more concerned about control than maximizing profit. The big question now is to what extent state companies will effectively manage their assets, especially if oil prices do not continue to rise. There is little incentive to reform when prices are high and reform is not necessary for profits. Given the long time necessary for major investment projects to mature, prudent management does not wait until a price drop to seek volume growth. State encroachment in other “strategic” sectors of the economy outside of energy is growing rapidly, as many other lucrative assets are being grabbed by newly formed state corporations. The Putin government justifies creation of giant state companies to make Russia’s firms more competitive, but many analysts view this phenomenon not only as making Russian industry less competitive but simply as a fig leaf for massive expropriations by members of Putin’s inner circle.

Corruption remains a major drag on the Russian economy, although its costs are difficult to calculate. Russia continues to lag behind in corruption indices in comparison with other countries of similar income level. Confidence in the court system has increased in cases of private companies/individuals against other private companies/individuals, but there is less confidence of getting a fair hearing if you are bringing a case against a state entity, particularly if it is a high-profile case concerning a “strategic” sector of the economy. The definition of what is considered “strategic” has also consistently expanded in recent years, although it is unclear how far this trend will go. Most likely the economic performance of state-dominated enterprises will have some impact as long as the state remains ready to sacrifice some degree of efficiency in order to ensure greater control and access to rents, but we do not know how much efficiency loss the system will tolerate.

Labor unrest has not played a large role in Russia since the collapse of the Soviet Union. Recall that in the late Soviet period and the late Tsarist period,

strikes had a major political impact. Looking forward, significant growth in labor unrest due to poor working and socioeconomic conditions could cripple sectors of the Russian economy. The labor market is very tight and getting tighter because of the demographic decline. If oil workers were to strike in western Siberia, for example, the government would be forced to take quick action to address their demands, and this could provide an example for other unhappy workers.

Russia's capacity to innovate in science and technology will affect the degree of diversification, competitiveness, and growth of the economy, as well as its ability to project military power. Russia's relative strengths in mathematics and some fundamental sciences have the potential to raise its competitiveness in a number of fields of commercial and military high technology, and the government is allocating more resources in this direction with nanotechnology emerging as a high priority. The government has also made adding more value domestically to its natural commodity exports—be it refined oil as opposed to crude, or processed wood products instead of logs—a priority.

In short, key drivers of sustained Russian economic growth in the decade ahead include the price of oil and its rate of decline or increase, oil/gas production and power generation growth, macroeconomic policy, economic reform policy, the state of rule of law and corruption, the degree of stability in the labor market, and scientific and technological innovation.

Political System and Leadership

After a brief period of weakly institutionalized and highly kleptocratic democracy, the Russian political system has reverted to a more familiar type, brilliantly described by the historian Richard Pipes as patrimonial authoritarianism. In its current incarnation under Vladimir Putin, all political institutions outside the Kremlin's centralized authority are weak: weak parliament, weak political parties, weak legal system, weak regional governments, weak civil society, etc. When the Kremlin's coffers are full, as they are today, it is able to buy and/or intimidate all other potential competitors and appear strong, just as Putin's government does now. But such systems are inherently unstable and vulnerable to internal and external shocks. Less than three years ago after a terrible succession of terrorist acts, a foreign policy fiasco in Ukraine, and a bungled social welfare reform effort, the Kremlin appeared weak and on the defensive. While the image projected today is far stronger, the reality is that the system remains brittle and top heavy.

Another feature of such systems is increased instability and tension before and after leadership transitions. Sturdy and transparent processes for transition of power are absent, and uncertainty is often correlated with a more bellicose foreign policy, as was the case with the late Stalin period and the onset of the Cold War, as well as the late Brezhnev period and the collapse of détente. All of these features are evident as Putin's tenure is scheduled to end in the spring of 2008. The interests of the ruler are to maintain as much uncertainty as possible until the last moment, because in such systems, as one analyst wryly put it, "there are no lame ducks, only dead ducks." The current situation is ironically more risky in

some ways than the Yeltsin transition. There was no question that Yeltsin would step down; the main question was when and whether he would be able to designate his successor before ill health or a coup took that decision away from him. What Putin apparently seeks—to step down while maintaining considerable political influence more informally, like a Deng Xiaoping or Lee Kuan Yew—has no precedent in Russia’s 1,000-year history. Leaders who have left the Kremlin alive, and there have not been many, have had virtually no political influence after leaving office.

The other feature to keep in mind with Russia’s traditional patrimonial authoritarian system—or any highly centralized political system with weak institutions outside of the executive branch—is that it is highly dependent on the personality of the leader. Russian history is populated by an inordinate number of strong and powerful figures who virtually dominated their eras: Ivan the Terrible, Peter the Great, Catherine the Great, Stalin, and others. Likewise, it is hard to imagine key events in Russian history without accounting for the essential role of the leaders involved. Would the Russian Revolution have happened if someone other than the weak and incompetent Nicholas II had been tsar? Would the Soviet Union have collapsed as it did without the personal conflict between Gorbachev and Yeltsin?

Another important political driver of Russia’s future is the relationship between central and regional authority. With weak institutions and political patronage as the main currency of power, there is a constant tug of war between Moscow and the vast and diverse regions of Russia. Shortly after assuming the presidency in 2000, Vladimir Putin asserted that “centralized power is in Russia’s DNA.” Certainly the perceived need for a strong leader, or *vozhd’*, is a popular belief in Russian political culture and one that Kremlin propaganda regularly nourishes.

Civil society, mass media, and the capacity and motivation for independent social mobilization can also be important drivers of Russia’s political system in the next decade. These factors all played major roles in the revolutionary period of the late 1980s and early 1990s. The Putin government has systematically sought, with considerable success, to control and intimidate these factors, but this could change. The rapid growth of access to telecommunications technologies, first and foremost the Internet, could empower greater independence among all these factors. Currently about 20 percent of the Russian population uses the Internet regularly, and this marks a nearly seven-fold increase since 2000. Russian is also the fastest growing language used on the Internet over this period. Cell phone ownership is now close to 100 percent, and this could also facilitate social mobilization.

Demography, Health, and Social Issues

Russia’s health and demographic issues have attracted a great deal of international attention, but it is probably best to regard them as constraints rather than drivers of Russia’s future. Barring a dramatic increase in the birth rate (which no one anticipates), a decline in the Russian population is inevitable because of the low

birth rate of the 1990s, combined with the current high death rate. Immigration can help alleviate the drop, but it is unlikely to reach the levels (nearly 1 million per year) necessary to offset the decline. This issue may not, however, be as important as many have believed, since it is possible to be an economically successful country with a low population density. The larger issue for Russia is quality, not quantity.

The military is the one place that may be seriously affected by demographic trends. For instance, in 2016–2017 Russia will likely have only 650,000 18-year-old men from which to maintain the current size of the Russian army, which currently requires 750,000 new conscripts. The greatest impact will come at the end of the time period in question, since if all young men are drafted, they will have to defer higher education and/or entering the labor force, which means a deferral of the skills and productivity benefiting the Russian economy. However, many countries have faced similar difficulties and found solutions, and Russia will likely learn to manage with a leaner military structure, which is better suited for the kinds of threats Russia will face in the near future.

The most pressing health concern for Russia is noncommunicable disease, as about 70 percent of the population dies from cardiovascular disease—which directly causes more than 50 percent of the Russian death rate—lung disease, and cancer. The biggest problem is working-age men, since they are the ones whose premature death impacts the Russian labor force the most. The main factor is alcohol, although smoking (65 percent of Russian men and 30 percent of Russian women smoke) is also important. It is also possible that the quality of the Russian labor force will be adversely affected in the coming decade because of child health issues. There is not a great deal of empirical evidence from which to draw clear conclusions, but the tumult of the 1990s led to worsening health conditions for children in Russia, and this may have severe consequences when these children grow up and enter the labor force as unhealthy adults. The human health capital of the country has seriously degraded, but only time will tell how much of a problem this will be for the future.

Concerns about HIV/AIDS in Russia have been somewhat overblown, and a full-fledged crisis on the scale of sub-Saharan Africa now appears unlikely. While it is an important social issue and indeed a major problem, since 1 million are currently infected, the trajectory of the disease is not likely to bring significant economic/political damage, since it has not and does not appear likely to migrate from mainly affecting those on the margins of society to those who contribute more positively from an economic and political standpoint.

Regional socioeconomic differentiation continues to grow, and we expect that trend to continue. Currently the Russian Gini coefficient, which measures income disparity, is relatively high at 41 but still below the U.S. rate of 45. While the Soviet Union was a strongly uniform society, the Russian Federation is far more diverse, which could lead to increased social tensions. Richer areas like Moscow, St. Petersburg, and energy regions in western Siberia enjoy living standards near those of Europe, whereas areas like the northern Caucasus and rural regions of the country are very poor, with incomes closer to \$100 per month. In effect, the

Russian government has tried to create a paternalistic Soviet-like state but without the social benefits of the Soviet Union. The national projects have been described as “swamp pits of nepotism and corruption,” and even legal spending appears largely wasted.

More positively, the growing prosperity of the majority of the Russian population leads some analysts to more optimistic conclusions about the impact a growing middle class will have in promoting a more pluralistic political system over time, initially through the demand for the rule of law to protect their property more reliably. During the Putin years, however, we have seen a very disparate development in that Russians are becoming richer while the state becomes more authoritarian and centralized. This phenomenon seems to run counter to modernization theory, but perhaps Russia’s somewhat anomalous development can be explained by the lingering impact of the 1990s, leading Russians today to prefer stability and prosperity over democracy. Russia’s economic structure and high dependency on oil/gas exports also creates the “petro-state” effect that supports concentrated wealth and centralized political power in cases where democratic institutions were not well established before the development of the petro-economy. Today the Russian economy maintains features of an oligarchy or chaebol-like structure, but if current trends continue, the oligarchic dominance of the Russian economy will erode as other sectors, perhaps initially driven by oil-revenue-generated growth, develop as we see today. But there is a powerful contradiction in that more and more members of the new Russian middle class are state bureaucrats, who thrive because of their state employment. Such a “middle class” cannot be expected to hold the government accountable nor serve as a driver for political change.

Another social issue is rising Russian nationalism combined with the changing national demographic balance, specifically the increase of Russia’s Muslim population. Russian Muslims tend to have higher birth rates, and immigrants to Russia tend to come from neighboring Muslim countries. That gap, however, is shrinking at the moment as Muslim fertility rates have remained constant and Slavic rates have increased. But for the majority of the Russian Muslim population, which is located outside of the more volatile northern Caucasus, discrimination and ethnic tensions are not a great problem. Russian Muslim culture in the Volga region is very secular, and there is a great deal of intermarriage between Muslims and Slavs. The fragmentation of the Russian Federation, which many analysts warned of in the 1990s, seems unlikely although the poverty and political and ethnic volatility in the northern Caucasus is likely to grow. Managing the problem could become significantly more challenging if Salafi jihadists turn greater attention to the area, as they did during the Chechen wars.

Rising nationalism and xenophobia in Russia have raised concern from the United States to Europe to China. The increasing frequency of racist attacks, murders, and violence is particularly worrisome given that larger numbers of Muslim and Asian (mainly Chinese) migrants will likely be needed to address growing labor shortages in the years ahead. Certainly this seamy side of Russian

society is not new, but the role played by the Russian government and media to stimulate and seek to manipulate some of this behavior is a feature of Putin's Russia that we did not see in the 1990s. When government opposition figures lead marches, they are often met violently with heavy-handed security forces, but this is rarely the case with nationalist and skinhead groups. The government's goal is obviously to create a sense of threats, both at home and abroad, that could weaken and destroy Russia. For example, the government-supported youth group *Nashi*, with its combination of militarism and a nationalistic ideology strongly reminiscent of fascist forebears around the world, is growing. According to a 2007 CSIS study led by Sarah Mendelson and Ted Gerber, its membership has increased by 13 percent per year for the past three years.

This brings us to the trend of growing anti-American sentiments, including among the younger generation and emerging new middle class. According to the above-cited CSIS survey, young Russians view the United States as a greater threat than China or Iran. It is not clear to what extent anti-Americanism grows as a result of certain U.S. policies or actions rather than being more widely directed at American society itself. The Russian public has reacted negatively to the war in Kosovo, NATO expansion, and to a lesser extent the Iraq War. The difference today is that Russian national TV, the principal source of information about the outside world for the Russian population, actively promotes a negative image of the United States. In September 2006 at a Valdai Discussion Club meeting with President Putin I told him that, after watching Russian TV regularly for the two and a half years I lived in Moscow, if that were my only source of information I would conclude that the United States was the enemy and Russia wanted an alliance with China. When I asked him why this was the case, he did not deny that anti-American images regularly appeared on Russian TV but disingenuously said they reflect Russian public opinion. To some extent that is true, but clearly Russian TV is cultivating that image on orders from the Kremlin, even if only indirectly.

External Drivers of Russian Futures

The state of the global economy is the most important external driver for Russia's future. In the 1930s, Stalin's Soviet Union grew rapidly amidst a global depression; that could not happen today because Russia is far too integrated into the world economy and is a "price-taker" rather than a "price-setter," even on oil and gas sales. If we experience a major recession or even more serious economic downturn in the next decade, Russia will be adversely affected. As noted above, the oil price is probably the most powerful driver of Russia's economic success. If the demand for oil, gas, metals, forest products, etc. remains high because of broad global growth among developed and developing economies, Russia will be very well placed in the years ahead. However, even with long-term demand growth, commodity price cycles persist.

Russia may be far more integrated into the world economy than ever, but it is also far more independent thanks to the macroeconomic revolution of the last nine years. The Russians bitterly joke that during the 1990s their federal budget had to

be approved by a mid-level IMF bureaucrat and that their “foreign policy was made in Washington.” Certainly this degree of economic and political leverage is somewhat exaggerated, but whatever leverage the United States had with Russia has virtually disappeared, as a kind of “hyper-sovereignty” holds forth in Russian political circles. The current Russian obsession with sovereignty may well pass as the bitter memory of the 1990s recedes, but certainly Russian self-perception as a great power in an increasingly multipolar world will not.

While part of Russian confidence is a natural result of the country’s dramatic economic recovery, it is also a reflection of America’s relative weakness and Europe’s lack of political unity. Russian analyst Dmitri Trenin pithily summed up the sources of Moscow’s confidence at a recent Washington seminar saying, “Russia is up, America is down, and Europe is out.” Unlike a decade ago, Russia’s future will be far more reliant on domestic developments and decisions in Russia. We probably overestimated our capacity to influence Russian development even in the 1990s, but now the United States probably has close to no capability to “do good” in Russia, while our capacity to “do harm,” be it directly or indirectly, remains intact if diminished.

Alternative Scenarios for Russia to 2017

The following scenarios are not designed to be predictive; rather, they are illustrative of how greater or lesser change in the key drivers described above may affect outcomes. Some readers may object to the almost fanciful use of certain details. This does not just reflect the imagination of the author; it more importantly illustrates the consensus of our working group that history is highly contingent and virtually nothing is inevitable. Large economic, social, geographic, political, and other forces may increase the likelihood of certain outcomes, but those outcomes are virtually always influenced by the roles of individuals and unexpected events. Put differently, there are often *tipping points* that push the likely or even the unexpected outcome to become a reality, but it is usually only in retrospect, and not always even then, that we see what the tipping point was. With that, we can now examine the following three scenarios of Russia to the year 2017.

Putinism without Putin

As he repeatedly promised, Vladimir Putin stepped down as president of Russia in 2008, and his hand-picked successor and long-time KGB colleague Sergei Naryshkin handily won the election in March 2008. The presidential election was preceded by an overwhelming victory for United Russia in the parliamentary elections with Putin’s popularity deployed effectively by having him head the ticket. United Russia won more than 70 percent of the vote, with only the Communist Party also making it into the Duma with 12 percent. Putin was named to the board of several large Russian companies, including Gazprom where he chaired the board, but his most lucrative position was on the board of a new multibillion dollar hedge fund established with start-up capital from Oleg

Deripaska, Roman Abramovich, and some other oligarchs who reportedly staked Putin to a 25 percent equity position.

While many observers suggested the new setup looked more like the collective leadership model of the early Khrushchev or Brezhnev years, Naryshkin's authority grew and Putin slid more into the political background, taking a higher profile over time in the world of big business and finance and returning to the public eye as honorary chair of the 2014 Sochi Olympics. The essentially hybrid nature of the regime more or less endured for this period, although the political system became a bit more pluralistic, with the Duma taking on greater independence and the media, notably Russian TV, becoming more interesting and independent, primarily in response to increasing competition from the Internet. Still, Russian politics maintained much of the stage-managed features of the past 10 years, and great nervousness arose among the Russian elites in the two years before the next major transition, the elections in 2016 when Naryshkin was scheduled to step down. In 2016, former Putin Kremlin aide and prime minister Igor Shuvalov was elected as president. The wily Vladislav Surkov had in effect been able to manage two successions, from Putin to Naryshkin and again from Naryshkin to Shuvalov, while ensuring the leading role for the United Russia Party. Russia's newly enriched baby boom generation held onto political and economic power for more than 20 years, from Putin through Shuvalov, with far less cabinet change than during the wild ride under Boris Yeltsin in the 1990s.

This long period of stability and growth, virtually unprecedented in Russian history, was facilitated principally by two factors. First, economic growth continued to average from 4 to 7 percent with oil prices varying from \$30 to \$70 per barrel over the period and diversification of the economy continuing. The most worrisome issue for the Russians and the world economy was the growing friction between China and the United States over the enormous trade deficit and U.S. demands for revaluation of the Chinese currency. The United States finally in 2010 under the Hillary Clinton administration and Democratic-controlled Congress imposed tough trade sanctions against the Chinese. The ensuing jitters in international markets and slowdown in Chinese growth sent the world economy into its deepest recession since World War II. Oil prices more than halved, from \$90 to \$40 per barrel, and remained there for about four years. But the Russian economy proved more resilient than many expected as the Naryshkin-Shuvalov government responded by taking measures to improve the banking system and modestly address corruption problems, which helped promote small enterprise growth. The growth rate dropped from 7 to 4 percent for several years, but fell no further and then recovered in 2014 with a modest increase in the oil price but a stronger and broader economic foundation.

The second factor remained the relative political apathy of the Russian population, which was willing to trade off perceived stability over democracy, leaving the idea of an emerging middle class being the avant-garde of democracy still looking more like a theory than a reality. The Russian population's first priority was to acquire and enjoy the trappings of wealth and prosperity. The population's growing demands for enhanced social welfare led the government to

address the challenges in health, education, and housing. What had basically served as public relations projects for Dmitri Medvedev's public profile in 2005 over time acquired genuine content. Some new programs involving public-private partnerships to promote low- and middle-income housing actually had some success in a few regions that served as models for others. The Duma gained more credibility with a bold and imaginative antismoking campaign in 2009 led by United Russia member Nikolai Gerasimenko, a doctor and former smoker himself.

An area in which the government did not move as aggressively as announced in 2006–2007 was raising gas prices to European levels by 2011. Price increases did average more than 10 percent annually until 2011 when the government froze the prices for two years, partly because world gas prices fell in response to falling oil prices, but more because of concern about social unrest due to rising energy costs and inflation, as well as caution in the wake of the global recession that set in during 2010. But by passing legislation to promote the access of independent gas and oil companies to the Gazprom-controlled pipeline, the Duma averted a gas crisis in 2011. Independent gas production increased, and oil companies responded by flaring far less gas, giving a production bump overall for several years. Russia was able to maintain its gas-import relationship with Turkmenistan, but beginning in 2009 the Turkmen began to allow more international oil company involvement in boosting domestic production, and in 2011, discussions among a Turkmen-Russian-U.S.-European consortium to build a trans-Caspian pipeline revived after lying dormant for four years.

The momentum behind growing ties with China abated in 2010 with the slowdown of the Chinese economy and resulting slower demand growth for natural commodities from Russia. The NATO-Russia relationship, however, unexpectedly began to improve, initially facilitated by U.S.-Turkey-Russia antiterrorism cooperation. With a modest stabilization in Iraq, the global Salafi jihadists again geographically diversified their operations including taking more active measures in the northern Caucasus. Terrorist acts and lawlessness again increased, culminating in the kidnapping and beheading of Chechen leader Ramzan Kadyrov in 2010. Increased concern about the stability of the northern Caucasus and Central Asia, due to the return of the Taliban to leadership in Afghanistan, brought on a revival of cooperation and extensive intelligence sharing between Russian and NATO forces. Russia, NATO, and local forces agreed to cooperation and joint basing in Azerbaijan, Kyrgyzstan, and Uzbekistan to contain the growing regional terrorist threat. For the first time, in 2010 NATO and the Shanghai Cooperation Organization (SCO) engaged in joint military exercises in Tajikistan. This cooperation gave the U.S.-NATO-Russian security relationship some very positive momentum, for the first time building elements of trust between the political-military elites. Zero-sum thinking about the region subsided, and genuine security cooperation in the interests of addressing common threats gave greater hope to success in maintaining regional stability and promoting development.

All in all, this is quite an optimistic scenario for Russia's future, including its ties with the West. The major drivers will be the global economic and security challenges combined with continued change in Russia's socioeconomic structure. Social change does not result in firmly establishing democracy or achieving great progress on the anticorruption front, but there are some hopeful signs that over time the quantitative changes will result in real qualitative differences in governance, perhaps in the following decade (2017–2027). The key in this scenario to maintaining stability is holding in check major shocks from internal or external drivers.

If we speculate about what a “Putinism with Putin” scenario might look like, whether he stays on in 2008 or returns in 2012, this author would conclude that the scenario would not change all that much. Putin's staying on or returning would be a sign of the fragility and brittleness of the system and would likely inspire more corruption from the ruling elites, but other domestic and external factors described above would be more influential in the future development of the Russian political-economic system and its international orientation.

The fundamental characteristic of the Putin leadership team is pragmatism. Absent major shocks to the system and given Russian society's general acquiescence to the status quo, we should expect that a Putinesque leadership (even if Putin himself is not politically active) would strive to “muddle upwards” and avoid “muddling downwards” as did Brezhnev's Soviet Union. When the oil price began to take off in 2003, the leadership was offered more latitude to avoid painful reforms and still achieve robust growth. The series of terrorist attacks in the late summer of 2004 followed by the “colored revolutions” brought about an internal crackdown from Putin, but I am skeptical that was necessarily preordained. While it would probably be best for the evolution of the Russian political system for Putin to continue the precedent of stepping down and allowing for elections, I am hesitant to ascribe this factor a deeply fundamental importance.

A Shot in the Dark...and True Dictatorship

Russia and the world were stunned by the assassination of Vladimir Putin as he walked out of a midnight mass at the Christ the Savior Cathedral in Moscow on January 7, 2008. Rumors flew about a Chechen-ordered hit, possibly involving support from exiled oligarch Boris Berezovsky, but like so many high-profile Russian murders, the Putin killing was never solved. Acting president and former prime minister Viktor Zubkov disappeared from public view for more than a week, apparently suffering a small heart attack, although many believed it was a nervous breakdown. An atmosphere of chaos overtook the country; the Russian stock market plunged, losing 40 percent of its value in the week following, and as the number of strikes and demonstrations around the country mounted, martial law was declared on January 20. Zubkov reappeared visibly shaken, but it was obvious that the assassination had greatly empowered the *siloviki* faction in the Kremlin, and figures including Igor Sechin, Viktor Ivanov, and Nikolai Patrushev appeared often on Russian TV, with Ivanov taking over as chief of the

presidential administration and running the regular cabinet meetings usually with Zubkov's absence.

What looked to be a fairly smooth transition to longtime Putin colleague Sergei Naryshkin taking over as president with Dmitri Medvedev stepping into the prime minister position was disrupted by the killing of Putin. The *siloviki* were never happy with these plans, but with Putin around their efforts to stymie them had been fruitless. Now with Putin gone, they moved quickly to mobilize support for the candidacy of Russian railroad magnate Vladimir Yakunin, whose campaign had been marginalized because of lack of access to TV. But beginning in late January, despite frigid temperatures causing brownouts around the country, Yakunin took off on a several week "whistle-stop" railroad tour of Russia that was widely covered on the national TV news. The *Pravoslavny Chekist* [literally the Russian Orthodox KGB man] projected the air of a real Russian strong man who could restore order to the country in this moment of instability, and he won the election by a wide margin.

One of his first orders as president was to suppress a strike of oil workers in Surgut that left dozens killed but resulted in the cowed workers returning to their jobs. After this event, he used the justification of an emergency situation to disband the Duma and assume leadership of the newly reconstituted United Russia Party, which was renamed Glory to Russia. Both the party and its growing youth movement, *Nashi*, overtly appealed to fascist and nationalist sentiments as the slogan "Russia for Russians" appeared in massive billboards in all of Russia's largest cities, competing with cigarette, alcohol, and automobile ads. In 2009, Yakunin embarked on a very high-profile Chinese-like anticorruption campaign, using two cases in particular, against former Moscow mayor Yuri Luzhkov and St. Petersburg governor Valentina Matvienko to demonstrate his seriousness to Russian elites. Each was condemned to death for embezzling billions of dollars. The anticorruption campaign also served the purpose of purging the Russian political elite of key figures unwilling to pledge 100 percent loyalty to the new Russian strongman.

While the Yakunin administration unabashedly destroyed whatever was left of Russian democratic institutions, he maintained many features of Russia's liberal economy and continued to strongly encourage Russian business and capital to acquire assets abroad. He also allowed international energy companies and banks to work actively in Russia. As he was already a wealthy man when he became president, he was personally incorruptible and demanded the same from his administration. He relied on a curious combination of a highly religious, nationalist intelligence network with the most innovative and cutting-edge technologies to investigate wrong doing and maintain order within his administration. He was a true believer in Russia's innate greatness, and the system he developed to some extent was modeled on Lee Kuan Yew's Singapore, despite the vast differences between Russia as a huge continental power and the Asian city-state. By 2017, the Russian economy in nominal dollar terms was larger than \$6 trillion, and the ruble traded at 10 for the dollar and the euro. As a world financial center, Moscow had become the fifth-largest in the world, behind only

London, New York, Hong Kong, and Tokyo, and was rated the most expensive city in the world.

But the contrast between rich and poor in Russian urban centers and the countryside, as well as even within the cities themselves, had become far starker. Several cities had established internal checkpoints as a means to bring greater separation to the haves and have-nots, who increasingly could be correlated with Russians and non-Russians. Guest workers from the Caucasus, Central Asia, and China were strictly quarantined and not allowed to hold ownership in any business. As Yakunin's anticorruption campaign gained steam, these new regulations were more effectively enforced. Against most expectations, the press and TV under the Yakunin administration became more open, and the profession of investigative journalism made a strong comeback, as the Kremlin realized that journalists could play a very useful role in exposing corruption. A number of leading journalists had initially been recruited for the intelligence services then reassigned to journalism after 2010. Many voices in the West howled about the close links between the intelligence services and the press, but Yakunin nonchalantly brushed off this and other criticism by quoting Deng Xiaoping: "It doesn't matter whether the cat is white or black; what matters is how it catches mice."

Growing security challenges in the international environment had a major impact on Russia and Yakunin's leadership. With large U.S. troop withdrawals from Iraq in early 2009, leaving only 40,000 U.S. troops in Kurdistan and around Baghdad, civil conflict in Iraq grew. There were increasing battles on the Iranian border between Iranian-supported Shia and a combination of Sunni Baathists and elements of al Qaeda. The growth in terrorist acts against Tehran grew, and in 2011 Iran successfully tested a nuclear weapon. Increasingly bellicose rhetoric from Tehran directed against Baghdad sent oil prices sky rocketing from the already unprecedented level of \$110 per barrel in 2010 to close to \$150 per barrel in 2012. While global growth suffered, the Russian economy grew by over 10 percent from 2012 to 2015. Yakunin had extended the term of president to seven years, and he was reelected with 95 percent of the popular vote in 2015.

Russian foreign policy was not particularly "anti-Western," despite the renaissance of Russian nationalism. But it acquired more of a flavor of ruthlessly brutal pragmatism, which made Putin's foreign policy pale by comparison. Particularly in the post-Soviet space, the notion of "win-win" solutions remained alien to the Russian mentality when it came to consolidation of regional energy resources. Russian secret services sparked a coup in Turkmenistan in 2009, and the new leadership "invited" Russian forces to bring stability, as well as to ensure the continued gas flow to Russia. In 2011, a sick and fearful Nursultan Nazarbaev proposed a confederal union for Kazakhstan and Russia, while Ilham Aliiev, fearful of both Tehran and the Kremlin, proposed a similar relationship for Azerbaijan and Russia. The resulting four-nation energy grouping, awkwardly called "RazKazT" and initially derisively referred to by Washington as "RATZ," emerged as a major force competing and collaborating with OPEC on the oil

market and cooperating to manage relations with its Asian and European clients on the gas market.

Again, despite the domestic crackdown, Moscow's ties with Washington actually strengthened somewhat and became more predictable. From Moscow's standpoint, greater instability to its south and the fallout in the northern and southern Caucasus, as well as in Central Asia, accentuated the value of a cooperative security relationship with Washington to help manage the instability. Moscow was also driven to hedge against China by keeping its ties with Washington and Europe reasonably strong. Successive Democratic and Republican administrations in Washington, while they found many features of the new Russia odious, welcomed the heightened stability and improved business environment resulting from the anticorruption campaign. Washington resigned itself to the failure of its 20-year effort to slow Russia's reconsolidation of the more valuable pieces of the former Soviet Union. And in order to prevent the growing Islamic jihadist movement from making further inroads that could bring the global economy and the international system to its knees, Washington became more inclined to give the Russians what they wanted in their "backyard" and to work more closely with Moscow.

The "colored revolutions" in Georgia and Ukraine of 2003 and 2004 were a distant memory, as Belarus confederated with Russia, and all of the post-Soviet states (excepting the Baltics and Georgia) closely aligned with Russia in the Collective Security Treaty Organization. But the common threat of instability in the "Greater Middle East" from Kabul to Cairo, a threat that reached into the Caucasus, Central Asia, and the Russian Federation itself, led to a great deal of security cooperation among NATO, the CSTO, and the SCO in a way similar to the earlier scenario.

The purpose of this scenario is several-fold. Principally, it is designed to contest a number of conventional wisdoms, the two main ones being that a richer Russia will be more democratic and/or that a less democratic Russia will be categorically opposed to U.S. interests. It also highlights the fragile quality of Russia's current stability, as one shot in the dark propels Russia in a direction that is both very different from today yet remains fairly pragmatic in how it adjusts to major changes in external drivers beyond its and our control. This is a strong and confident Russia that is ruthlessly pragmatic in managing its politics, economy, and foreign policy. It is dynamic, rich, and not at all democratic. It breaks virtually all the stereotypes that dominated thinking about Russia in Washington for the first 15 years after the collapse of the Soviet Union.

Putinism Falls from Grace...and Democracy Rises Again

Despite considerable anxiety, Putin's Kremlin managed the 2008 succession effectively, and former deputy prime minister Sergei Ivanov was elected president against a pathetic and sycophantic group of candidates. With the exception of increasing power outages in Moscow and various regions of Russia during the historically hot summer of 2008, the Ivanov administration got under way fairly smoothly. But the summer of 2008 brought some unexpected political effects in

the U.S. presidential race. The combination of further scientific evidence virtually proving the causal link between greenhouse gases and climate change and the record heat in much of the United States, including 15 successive days over 110 degrees in Washington, D.C., and New York City, suddenly propelled climate change to the top of the political agenda, resulting in the landslide election of Al Gore as president and an unlikely coalition of Democrats and fundamentalist Christian Republicans devoted to promoting a new energy policy for the United States. Oil prices began to fall in the second half of 2009 and by 2011 had stabilized at about \$20 per barrel.

By 2010, the Russian budget was thrown into deficit, and the Russian growth rate plummeted to 2 percent that year before going negative in subsequent years. More worrisome, however, was the inability of the Ivanov administration to mount an effective policy response. An increasingly violent northern Caucasus and resurgence in terrorist attacks in Moscow and other large Russian cities unsettled the Russian population as well as international investors, and by 2011 the Russian stock market was only 40 percent of its late 2007 high. Corruption combined with increasing government incompetence led to strong support for returning Vladimir Putin to power in 2012. Although Putin had become a very wealthy man because of the stake in the hedge fund he managed—with the assistance of insider trading tips from his former government and business colleagues—the image of Russia rising and again being respected in the world dominates Russian memories of him, and he answered the call and was elected president again in 2012.

But just as lucky as he was to preside over Russia from 2000 to 2008 during a period of historically high oil prices, his tenure beginning in 2012 was littered with misfortune and growing unrest. The combination of economic weakness, governmental incompetence, and corruption had already greatly weakened Russia's influence with its near neighbors. Turkmenistan refused in 2013 to sell Russia gas at below market rates, and Kazakhstan and Azerbaijan increasingly came under the sway of U.S. and European companies that brought management and technical expertise to develop their energy resources. The Turkmen turnabout exposed Gazprom's failures to invest adequately in new greenfields, and Russian gas production began to fall at the rate of 5 to 10 percent per year resulting in continuous power failures in Russia and even occasional failures to meet European contracts. During the 2009–2010 period, Europe lost a great deal of confidence in Russia's capacity to meet its energy commitments and began to invest in alternative suppliers, as well as its capacity to receive liquid natural gas (LNG). These new supplies began to come on line in 2015 making the Europeans less dependent on Russian supplies. Putin's second honeymoon was over by 2013 as popular dissatisfaction began to manifest itself in an epidemic of strikes and public demonstrations. A further blow to Russian confidence came with an epidemic of multi-drug-resistant TB that caused several large Siberian cities to be virtually quarantined in 2014. The final blow to Russian public confidence came with the revelation that the Russian minister of finance had managed to steal the last \$25 billion that remained in the Russian Stabilization Fund through a byzantine and insidiously ingenious plot involving Swiss and American banks. By

2015, it was painfully obvious that Putin's luck had run out and that his administration was financially and morally bankrupt.

But just as Russia looked to be on the precipice of total disaster, a very strange and unexpected thing happened. Two old liberal warriors and political enemies from the 1990s, Boris Nemtsov and Grigorii Yavlinsky, emerged from the political wilderness in Russia's new "Time of Troubles" and for the first time formed a united liberal front to carry the 2016 presidential election, which turned out to be the freest and fairest in Russian history. Their reemergence in politics was sparked by a massive Internet campaign that mobilized a number of large civil society groups to take to the streets en masse around the country. Russians had tired of their failed experiment with "managed democracy" and hungered for the real thing, and the Kremlin was too weak to prevent it. Perhaps the strangest part of the whole story was the reemergence of fallen oligarch Mikhail Khodorkovsky, who was released from prison in 2016 and returned to public life a grizzled and withered shadow of his former young and vigorous self. Somehow with the help of American and British banking interests, he had managed to hide some of his fortune from the Russian authorities and used several hundred million dollars to bankroll the campaign of Nemtsov for president in 2016. The Nemtsov administration and the liberal-dominated Duma embarked on an extensive economic reform and anticorruption agenda that already was helping to restore international confidence in Russia and turn around the falling economic growth rate. After a 25-year roller coaster from the bottom to the top and back to the bottom, Russian citizens had a faint hope that a more sustainable and prosperous future awaited them.

One comment about this scenario is the role of tipping points. The Russian population is legendary for its historical patience with bad governance and mistreatment by political authorities. But we also know their patience is not infinite, and historically, large social movements have mobilized to threaten and in some cases overthrow existing orders. The problem is that predicting when and how a tipping point will emerge is almost impossible. In this scenario, it is a concatenation of events and incompetence that finally overcomes apathy and motivates change.

Some Tentative Conclusions from the Scenario Exercise

Despite very different trajectories and outcomes, the second and third scenarios share a common feature: the vulnerability of the status quo to discontinuous internal and external events. The first scenario offered the most linear development and hews most closely to today's status quo. What is significant is that even in this fairly stable development scenario, Russia may be somewhat more pluralistic by 2017 but not truly democratic. Frankly, it is hard to imagine how a mature democracy could emerge in Russia in the next 10 years; after 20 years of relatively stable growth and continuity perhaps, but not in 10. It is only a series of unfortunate events in the third scenario that opens the door for a democratic breakthrough to emerge in the end, almost like a *deus ex machina*. But a democratic ending under such conditions of instability is only slightly more

likely than a failed state emerging from a similarly destabilizing scenario. On this point there was strong consensus in the working group; only through a truly dangerous process of what the economist Joseph Schumpeter called “creative destruction” was the emergence of real democracy in Russia in 10 years possible.

The second conclusion is that the price of oil is the most powerful driver of Russia’s future for the next 10 years. A fairly stable oil price was an essential factor in the near status quo first scenario, while a dramatically higher price colored the second scenario of virtual dictatorship. And a much lower oil price and its broader socioeconomic impact was the main catalyst behind the instability scenario, which could break either toward a failed state or a new attempt at building a liberal democracy in Russia.

The third conclusion from the scenario exercise confirms that the role of individuals and their personalities, backgrounds, and predilections matters a great deal in Russia. In the second scenario it is the removal of one person, Vladimir Putin, from the scene that sets Russia down the path toward dictatorship, an outcome that is supported by the personality of Yakunin and his strong leadership along with the oil price jump. A comment related to this point is that state capacity matters a lot. In the first two scenarios, the state was competent enough to manage domestic and external affairs. In the third scenario, a series of crises exposed the Ivanov and Putin administrations as not only corrupt, but more importantly incompetent—an affordable luxury when the calf is fat, but an intolerable combination during lean times.

The final conclusion, and this may only be implicit in the scenarios, is that Russia’s foreign policy is very unlikely to take a deeply anti-Western turn that reruns the Cold War. In fact, the more likely outcome is that the United States and Russia will find greater common interests in the security area, which will drive them to closer cooperation in the coming decade. There are two main reasons for this: (1) The Russians learned some tough lessons about over-extending and over-militarizing themselves during the Cold War that they are unlikely to repeat; and (2) Instability on its southern border will continue to be Russia’s greatest security challenge in the next decade, and striking an anti-U.S. position will not help address that problem. On the contrary, the gravest threat to both Russians and Americans will remain the growing strength of international jihadists and the increasing probability that they may undertake a number of catastrophic acts of terrorism against our territories and interests.

Undoubtedly the reader is asking, “What is the most likely scenario?” Now I feel like my older colleagues who, when asked this question 25 years ago, typically responded with status quo and continuity scenarios that turned out to be dead wrong. In their defense, it is very hard to predict discontinuity. My Sovietologist mentors identified tensions and vulnerabilities in the Soviet system, but in the early 1980s, nobody in the mainstream or the “establishment” predicted imminent collapse. The consensus was that the Soviet Union would somehow “muddle through.” Concerning the next 10 years, I would say that something like the first scenario, which is fairly stable and ends in a positive place, is the most likely outcome. In support of this conclusion is the fact that most Russian people

desire a future that is far more stable and predictable than the last 20 years they have seen. My main caveat about this, however—and this is the principal lesson we should have learned studying and living through the run-up to the collapse of the Berlin Wall, demise of the Soviet Union, and end of the Cold War—is that what looks stable today is very much subject to external and internal shocks that can upset an apparently clear trajectory.

Trends to Watch: Signposts for which Scenario May Emerge

As Russia's wealth grows, so will its influence in countries on its borders, especially those of the former Soviet Union. Russia's first priority is expanding influence with economic power. Russian interest in cooperation with NATO and/or expanding the capabilities of the Collective Security Treaty Organization will be an important signpost for regional security. The extent to which Russian behavior is based on zero-sum thinking is both a driver and a result of the broader U.S.-Russia and Europe-Russia relationships. Russian interest in cooperation with the United States in nonproliferation, countering illicit financial behavior, and antiterrorist activity will likely increase if the perception of threats to Russia grows. Russian interest will also be contingent to some extent on the broader U.S.-Russia relationship.

- We should expect the trend of growing Russian assertiveness in multilateral institutions to continue as economic recovery and growth are sustained. As noted at the outset, the character of Russian assertiveness is debatable.
- Higher oil prices allow for a more politicized energy policy, while lower prices and/or less Russian production encourages more market efficiency.
- Continued expansion of “state corporations” in the economy will constrain growth.
- A middle class that is increasingly composed of state bureaucrats will undermine development of a more plural political system.
- Continued rapid Russian economic growth and political stability encourage domestic and foreign investment, as opposed to capital flight.
- Faster economic growth will correlate with more military modernization, but we do not expect military spending to become significantly greater than 3 percent of Russian GDP. Significant growth to 5 percent or more of GDP would entail major budgetary reallocations and would be a signpost of an important shift in the regime's priorities.
- Arms sales abroad will continue to be major government priority.
- The succession in 2008 should be manageable but not very democratic. Beyond 2008 the political future is quite uncertain.
- Since the northern Caucasus is the most volatile and vulnerable region of Russia, Moscow will allocate considerable resources to ensure security. Hosting the Winter Olympics in Sochi in 2014 will increase Moscow's

investments in the region and likely contribute to better relations with Georgia as well.

Final Thoughts on U.S. Policy Tools

- Economic integration through trade and mutual investment will be the most powerful tool to promote greater Russian integration and increased economic efficiency.
- Since Russia will be very reluctant to use military means to expand its influence, our economic, political, and diplomatic tools will be far more important in deterring aggressive Russian behavior. As the 2004 Ukrainian presidential election illustrated, maintaining a unified approach with our European allies is especially important.
- Russia will continue to seek membership and influence in international institutions, but we should not consider this as a trade-off or concession in expectation of better behavior abroad or internally.
- Given Russia's highly nontransparent political culture, maintaining intelligence ties and cultivating relationships with a wide variety of political and economic elites will be important. In a culture with weak institutions, strong personal ties play a relatively more important role.
- We should not expect that security and other cooperative programs can be used to encourage or sanction Russian behavior. These programs should be pursued for their intrinsic value in promoting U.S. interests.
- The primary goal of increased private contacts and exchange programs between Russians and Americans should be the deepening of personal relationships and enhancement of the U.S. image in Russia rather than shaping Russia's long-term development.
- Diplomatic capabilities, language training, and regional expertise are essential for our understanding of and policy toward Russia. Fluency in Russian provides incalculable payoffs in understanding and networks.

Epilogue

This report went to press two weeks before the Russian parliamentary elections and three and one-half months before the presidential election in early March 2008. The report was drafted in June/July, and I have only changed small details of the scenarios section to accommodate for changes in the Russian government that took place in September. With the passage of a few months, there is only one thought I would like to add to the preceding report.

While there is little question that the outcome of the parliamentary elections will be a smashing majority for the United Russia Party, with possibly only the Communist Party of the Russian Federation making the 7 percent bar for representation in the next Duma, there is little or no clarity about the next president of the federation. The only person who appears to be running anything

that looks like a political campaign is Vladimir Putin, and the pressure for him to remain president seems to grow daily. The chances for a near-term scenario of what I call “Putinism with Putin” certainly appear greater today than even the 40 percent probability I attached to that outcome six months ago.

The point I want to make, however, is that the importance of whether or not Putin steps down has increased. If he decides to stay, I think the consequences for the development of the Russian political system are greater than they seemed only a few months ago. If Putin walks away from the presidency (and I attach a very low probability to the scenario of him becoming prime minister), that allows much more potential for the Russian political system to develop in a more plural way more rapidly. Again, we are unlikely to see real democracy soon, but there would be greater hope that the trend could turn back in that direction. If he remains sitting in the Kremlin as Russia’s leader, the authoritarian entrenchment or stagnation of the political system would appear to be a more long-term proposition.

The Russian Economy Facing 2017

Anders Åslund

The key to understanding today's Russian elite is the country's rising economic strength. Its economic performance under President Vladimir Putin has been nothing but stellar. Its GDP in current dollars has quintupled in only seven years from \$200 billion in 1999 to more than \$1.2 trillion in 2007, that is, an average growth in U.S. dollars of no less than 25 percent per year. In real terms, however, the economy has grown by 6.7 percent a year. The Russian ruling class is acutely aware of its ashes-to-riches story and suffers from a state of hubris.

Russia's economic growth has not arisen by chance. It relies on sound foundations. First, by 1998, Russia had achieved a critical mass of markets and private enterprise. The tardy market reforms that were initiated in 1992 had finally become sufficiently complete to deliver economic growth. The market economy has been established for good and can only be somewhat tampered with.

Second, the financial crash in 1998 delivered an extraordinary shock to the whole society. It cleansed the economy like a catharsis, making it politically possible to eliminate Russia's chronic budget deficit of some 9 percent of GDP. Ever since, Russia's budget has been in surplus. In 2005 and 2006, its budget surplus amounted to 7.5 percent of GDP. The current account surplus has averaged 10 percent of GDP for eight years, and the public foreign debt has dwindled from 100 percent of GDP in 1999 to only 4 percent. Russia's international reserves have reached \$450 billion, the third-largest in the world after China and Japan. In addition, Russia has established a stabilization fund of currently \$145 billion. The profound Russian insight is that a macroeconomic crisis must never again be allowed. Even if both current account and budget surpluses decline substantially in 2007 and the next few years, Russia is likely to maintain a responsible macroeconomic policy for years to come.

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Third, the Russian government and elite are focused on the need to maintain a real economic growth rate of about 7 percent a year. After macroeconomic stability, this appears the most important economic goal of Putin and the Russian government.

Simultaneously, very low international world oil prices started surging toward the stratosphere. In early 1999, Russia was set for massive growth, while lucky Putin assumed power one year later. He was simply handed a silver spoon for his mouth. Yet, he has not lost his economic focus. Sensibly, Putin has persistently focused on high growth and macroeconomic stability. He undertook major economic reforms during his first three years in office. A new tax code was adopted, with lower and fewer taxes, notably a flat income tax of 13 percent. The civil code was completed, and a new customs code was also passed, as well as a substantial judicial reform. Putin was close to reaching his goal of Russia acceding to the World Trade Organization (WTO) in 2003.

In 2003, however, Russia's economic policy changed. This shift is connected with several events that may be seen as related. Fundamentally, the world oil price just continued rising, making Russia's economic growth more or less automatic, so why struggle with hard reforms when you do not have to? In October 2003, Putin had Mikhail Khodorkovsky, the main owner of Yukos, Russia's most profitable company, arrested. Whether the main reason was that Putin considered Khodorkovsky too political and independent or that his associates aspired to seize Yukos through lawless taxation, this act left Putin's tax reform and judicial reform in tatters and severely undermined property rights.

Since 2003, Putin's main economic policy has been renationalization. According to the European Bank for Reconstruction and Development, the share of GDP originating in the private sector has shrunk from 70 percent for many years to 65 percent in 2006. Successful private companies have been more or less forced to sell to inefficient state-dominated companies. Putin and his KGB friends from St. Petersburg sit on all this wealth, mostly in the name of the state, and by controlling the security organs, they safeguard this wealth for themselves. The state oil company Rosneft gobbled up most of Yukos. Gazprom is cheaply buying up oil, gas, and power companies, reinforcing its monopoly. It boosts its profitability through price increases, while its production is stagnant. The Russian banking system is stifled by inefficient state banks, and Vneshtorgbank, which is neither very profitable nor transparent, is buying banks like crazy. The Kremlin shows little interest in anything but the incomes of and from the state-dominated companies they govern. Not surprisingly, while corruption is falling in most postcommunist countries, it is rising in Russia.

As a consequence of renationalization, Russia's investment ratio stays at a moderate 20 percent of GDP, and industrial growth sank from 8 percent per year to only 4 percent per year in 2005 and 2006. Still, the macroeconomic indicators improved further and growth stayed the same, although it was increasingly driven by the domestic usage of oil revenues in the form of domestic consumption, retail trade, housing, and banking. Poverty is declining with rising personal incomes.

A plausible interpretation is that Putin and his top officials behave as badly as the fortuitous economic situation allows, but if economic growth were to weaken, they would dust off their many reform plans and improve economic policy to boost output growth. This means that Russia's economic and other policies are likely to deteriorate as long as no shock changes its policies.

Most Likely Growth Scenario

Regardless of deteriorating economic policies, the foundation is strong enough to warrant a prediction that high growth is likely to continue. For the last five years, Russia's GDP has grown by an average of no less than 25 percent per year in current dollars. According to Goldman Sachs, Russia is set to become the fifth-largest economy in the world, overtaking Germany in two decades, and the oil boom may catapult Russia there in only a decade. A plausible growth rate is 5.5 percent per year, which means that Russia's GDP would rise to the UK or French level by 2017.

Possible Shocks

Considering Russia's solid macroeconomic policy and focus on economic growth, this growth rate does not really appear to be in danger. Yet, two shocks appear plausible in the medium term. One is obvious: a decline in the world oil price. It would likely result in better economic policies: more reform, an end to renationalization, and possibly even new privatization.

The other possible shock is a domestic disruption in one of the state monopolies. The most plausible one might be a disruption in Russia's supply of natural gas: Gazprom, as a profit-maximizing monopolist, has an interest in boosting the domestic price of gas by any means, and then, scarcity of gas is a useful argument. Still, a gas shortage could be taken care of through price hikes. For the rest, it is very difficult to see any shock that could seriously disrupt the Russian economy. To too great an extent, it appears to be on autopilot. After all, the rest of the post-Soviet region has been growing by an average of 9 percent per year for years, so Russia is a laggard rather than a leader.

Growth Drivers

The caricature of the Russian economy is that it is only an energy economy. However, energy contributes merely 9 percent of GDP, but that share is depressed by artificially low domestic energy prices. A doubling of this share would give a more realistic picture. In 2006, oil and gas contributed 63 percent of Russia's exports and about 50 percent of total state revenues. At present, energy production is hardly rising, and the forecast is that energy prices are peaking out. Growth is coming from other parts of the economy, primarily retail trade, construction, and finance, but also manufacturing. Many underlying economic variables are far more positive than generally understood. By and large, Russia is recovering from the shock of the collapse of communism and reestablishing itself as a substantial

economy in the world. In addition, it is rising as one of the BRIC economies (i.e., Brazil, Russia, India, and China).

One impressive driver is higher education. No less than two-thirds of Russia's college-age youth now attend universities, according to UNESCO. The quality of higher education is often poor, but the sheer enrollment reflects the ambition of young Russians to join the middle class and the modern world.

Another driver is high profits. According to Russia's official statistics, gross enterprise profits amounted to a whopping 43 percent of GDP in 2000 and to 37 percent of GDP in 2005. These high profits facilitate productive investment in profitable enterprises. Although rising, wages remain a surprisingly small share of GDP.

A third driver is remonetization. Last year, Russia's money supply amounted to only 32 percent of GDP, as compared with almost 80 percent in the European Union. Russia can double its money supply in the medium term as its economy is being normalized. That means a massive demand for investment, which will drive growth.

Russia's investment ratio is often commented on negatively, but after all, it is 20 percent of GDP, and the trend is rising. Moreover, Russia still possesses ample physical capital that is underutilized, so this level of investment might suffice in most industries (the exception being state-owned energy and infrastructure—gas, railways, and pipelines).

A final driver is the swift increase in the number of enterprises. According to official Russian statistics, the number of officially registered firms increases steadily by slightly over 7 percent per year, and Russia now has 5 million officially registered enterprises. In addition, Russia has some 4 million officially registered individual entrepreneurs, leaving it with an impressive total of 9 million registered enterprises, which is about the same ratio of enterprises to inhabitants as in Western Europe.

Some other indicators are not very inspiring. Economic reform does not appear likely until Russia is shaken by some political or economic shock. None of the big malfunctioning public systems—education, health care, or military—has been reformed, and the regime could not care less. It just throws money at problems. Life expectancy for men remains stuck at 59 years of age because of unabated alcoholism. The murder rate was high under Yeltsin, but it is even higher today. The same is true of the traffic death rate.

Russia has become an ugly petro-state, and the political risks are greater than understood. Nobody can know what political system Russia will have in one year's time. The aggressive renationalization aggravates corporate governance and economic efficiency. The tension between arbitrary centralized politics and a market economy based on private enterprise is not reconcilable. Something has to give.

Signposts

One of the few issues that is undetermined at present in the Russian economy is if or when Russia will join the WTO. Right now, accession does not appear likely in the immediate future, though President Putin could engineer it, and Russia might turn its back on the WTO altogether.

Another signpost is Russia's relationship with the European Union. At present, most development of mutual relations is on hold, and it is up to Russia to do away with a number of embargoes against individual EU members in order to accomplish that. Caught in growth fetishism, Putin is instead turning to China and to some extent to India, although China is potentially the greatest strategic threat, given Russia's sparse population especially in the Far East in Siberia.

The big sign of a change in economic policy would be whether the current trend toward nationalization of—especially, but not only—the energy sector has stopped and turned to privatization.

The last two years have seen a rise in corruption in Russia. This is a serious economic and political issue that is usually a battle cry of any reform or opposition. Any serious attempt to combat high-level corruption would be an important sign of policy change.

Thinking about Russia's Future

Thomas Graham

Factors and Drivers

Looking out over the next 10 years, in broad terms there will be three factors that determine the type of challenge and opportunity Russia will pose for the United States. Within each of these factors, there will be several drivers of developments.

1. Economic growth: What resource base will Russia have to pursue its goals?
 - Mastery of new technology
 - Macroeconomic policy
 - Management skills
 - Energy efficiency
 - Infrastructure
2. State capacity: How effectively can the state mobilize resources for national purposes?
 - Cadre development
 - Organization
 - Ideology
 - Legitimacy
3. Foreign environment: What challenges will Russia face from abroad?
 - Global economic development
 - Shifting geopolitical balance
 - Transnational threats (e.g., proliferation, terrorism, pandemic diseases)

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The Current Situation

The Economy

- Robust growth for the past several years (6 to 7 percent on average). Driver of growth initially high oil prices (and undervalued ruble), more recently domestic demand has helped drive growth, and investment could be on the verge of becoming an important factor behind growth
- Technological lag, particularly in information and telecommunications
- Stable macroeconomic environment, able management of large influx of petrodollars
- Corporate governance, management skills improving but still lagging far behind world-class standards; growing state role, particularly in “strategic” sectors, raises concerns about governance and management of key enterprises
- Inefficient use of energy
- Inadequate infrastructure. Economic growth built on old Soviet infrastructure; current need to renew infrastructure, create new productive capacity

State Capacity

- Traditional Russian patrimonial state; power/property intertwined; power centralized; and personalized, pervasive corruption
- Inadequate cadre, the most able are employed in the commercial sector, not in government
- Bureaucracy has grown substantially, now larger than during the Soviet period, corrupt
- No dominant ideology to mobilize population, although some recent flirtation with nationalism, derzhavnost'
- Traditional popular respect for power; population politically passive; little a-systemic opposition

International Environment

- World is entering a period of great upheaval, equilibrium of Cold War and immediate post-Cold War world has broken down, no new equilibrium in sight
- Global economy currently robust, but imbalances are growing; international economic institutions face difficulties in dealing with new environment; rise of China, India straining resource markets
- Geopolitical dynamism is shifting from Europe to East Asia/Pacific; the U.S. margin of superiority is narrowing, although the United States remains dominant power

- Transnational threats growing, proliferation of weapons of mass destruction growing concern with no adequate mechanisms to deal with it, mega-terrorism mounting threat with turmoil in the Muslim world.

Scenarios for Russia

Strong, Pragmatic, Risk-averse Russia

Russia successfully deals with the economic challenges it faces over the next decade, and robust economic growth continues. Historically high energy prices continue to fuel growth, but domestic consumption and investment are also significant growth factors. The Russian government continues to manage fiscal and monetary policy ably to ensure macroeconomic stability. The government pursues an industrial policy focused on high technology that, while perhaps less efficient than a market-led approach, rebuilds Russia's aerospace sector into a global competitor, raises Russia's profile as a supplier of nuclear power, and makes moderate advances in communication and information technologies. The government supports a massive infrastructure renewal program that improves the road system, ports, and airports, thereby helping to integrate the domestic economy and to integrate Russia as a whole into the global economy. The government, in partnership with the private sector, builds up the Internet and telecommunications infrastructure, although Russia continues to lag behind the United States and Europe. Russia joins the World Trade Organization (WTO), Organization for Economic Co-operation and Development (OECD), International Energy Agency (IEA), or their successors.

The political system remains unchanged in basic outline, vacillating slightly between a more open and a more closed system. Vladimir Putin smoothly hands power over to his designated successor and slowly fades as the new president consolidates power. Putin's successor serves for eight years and repeats Putin's smooth transfer of power in 2016. The consumer class continues to grow but fails to transform into a politically conscious middle class along Western lines. United Russia and Just Russia emerge as the main two political parties; some competition develops, but it remains circumscribed. Nationalism/patriotism remains a moderate force.

Global turmoil continues but with a radical change in the level of violence. The European Union's foreign and security policy remains weak and inconsistent, conflict continues in the Middle East, and China becomes a more dominant actor in East Asia. Iran and one or two other countries along Russia's periphery develop nuclear weapons. The United States maintains forward deployment of its military forces in Europe, the Middle East, and East Asia, including bases in Central Asia. Russian foreign policy remains risk averse. The success in economic reconstruction enhances Russia's soft power; its development model is particularly appealing to nondemocratic societies to its south, but it also exercises a certain attraction on Central/East European countries (e.g., Ukraine, Belarus, Slovakia, Romania). Relations with the United States continue to deteriorate for a

couple of years, but Russia shows interest in improving relations as concerns about instability and proliferation along its borders mount after 2010.

Weak, Nationalist, Defensive Russia

Russia fails to deal successfully with the major economic challenges as oil/gas prices drop below \$30 per barrel after 2010. Industrial policy is marred by ineptitude and corruption. Infrastructure continues to break down, marked by periodic catastrophic industrial accidents. Economic growth slows to 2 to 4 percent per annum, and the economy could be contracting by 2017. Labor unrest grows, but strikes remain regional. Russian foreign trade contracts, foreign direct investment in Russia drops sharply, and massive capital flight returns.

The political system remains the same in basic outline but becomes more closed and nationalistic. Putin transfers power smoothly to his designated successor in 2008, but that successor engineers changes in the constitution ending term limits and stays on for a third term in 2016. Because of corruption and declining resources, the country is poorly administered, and growing nationalism fuels greater anxiety and unrest in the nonethnic Russian regions, particularly in the North Caucasus. Security of nuclear sites erodes significantly.

The world remains in great turmoil, with changes and challenges similar to those in the first scenario. Islamic extremist forces increase their presence in the Islamic regions of Russia, and there are a few major terrorist attacks in Moscow and other large Russian cities by 2017. Russian relations with the United States continue to deteriorate, as the United States grows more concerned about the security of nuclear sites in Russia and builds up its presence in regions along Russia's borders.

Strong, Open, Patriotic, Risk-averse Russia

As in the first, under this scenario, Russia deals successfully with the economic challenges it faces, but it does so by pushing liberal reforms and securing property rights. The state's role in the economy diminishes, although the state continues to play a large role in the energy sector, and it is a major force behind infrastructure renewal. The result is robust economic growth, perhaps even more robust than in the first scenario.

The political system also opens up. Putin designates his successor, who serves two terms, but the presidential election in 2016 is truly competitive, with the leading candidates coming from United Russia and Just Russia, which have developed into real (centrist) political parties with significant policy differences and different constituencies. Through the help of modern communication and information technology, the consuming class slowly transforms into a middle class in the Western sense and demands a greater role in the political system, genuine competition, and greater government accountability. Nationalism emerges as a major force, with Russian patriotism playing a role similar to that played by American patriotism in the United States. There is much talk of "Russian exceptionalism."

As in the other scenarios, the world remains in great turmoil, with similar problems and similar changes in geopolitical weight. Russia still pursues a risk-averse foreign policy. Its successful economic development enhances its soft power, particularly with respect to its neighbors in Europe, but this complicates relations with countries to its south and east that are wary of opening up their own political systems. Russia acts like France in its relations with the United States.

Discontinuities

As Andrew Kuchins rightly noted in his paper, over the past two to three decades we have been consistently surprised by developments in Russia. We have rejected the idea that Russia could become a “failed state” within the 10-year timeframe for this exercise, and that might be the correct judgment. That said, who predicted in 1981 that the Soviet Union would break up in 10 years, and who in the fall of 1998 predicted the Russia we see today? What did we miss in those earlier periods that led to an unforeseen or discontinuous development? In the 1980s, we failed to recognize how brittle the system was—the extent to which pervasive corruption and cynicism precluded the government’s understanding of the unfolding challenge it was facing, eroded its sense that it had a right to rule the Soviet Union, and sapped it of its will to resist as the pressures mounted toward the end of the decade. In the late 1990s, we underestimated the rapidity with which power could be recentralized in the Kremlin once the economy began to grow, and we overlooked the possibility of sustained high oil and gas prices and the boost that would give to the Russian economy. What might we be missing today?

One candidate is communication and information technology that for the first time holds the opportunity of rapidly overcoming the vast distances that have acted as a barrier to the formation of horizontal ties and truly national movements outside of government control. The same technology also provides access to the outside world, which the government cannot drastically limit without jeopardizing the country’s economic growth. It is certainly thinkable that at some point in the next decade the Russian government could face a severe crisis, and social forces organized by these new technologies could compel a significant change in how the country is governed. Whether Russia moved in a more democratic or authoritarian direction, or collapsed, as a consequence would depend on the nature of the social forces at play.

U.S. Policy Tools

The United States has few policy tools to influence domestic political developments in Russia. Exchange programs can have a positive impact over time, but the short-term results will not be dramatic. Efforts to support civil society, if misguided, could provide a pretext for a further narrowing of the political space, as is the case now, but they would not be the fundamental cause. In any event, our efforts to work inside Russia have greater potential to do harm than good because we do not have a deep understanding of Russia and the

processes at work there (something that is true for most other, non-Western countries). “Do no harm” should be the guiding principle for U.S. efforts in this regard. Less could turn out to be more in the long run.

On economic matters, the United States has more influence. It can facilitate Russia’s entry into rules-based institutions like the WTO or Western-oriented institutions like the OECD and IEA. It can affect the level of U.S.-Russia commercial ties by adopting policies that facilitate or complicate efforts by Russian companies to invest in the United States and gain access to U.S. capital markets. Efforts to develop alternative fuels could over time blunt Russia’s ability to use energy as a geopolitical tool and persuade Russia to be more cooperative in the pursuit of energy security, but the greatest impact is likely to come after the end point for this exercise (2017).

U.S. support for regional security and economic institutions can have an impact on Russia and U.S.-Russia relations. Support for institutions that have little compelling reason for existence except to counter Russian influence (such as GUAM—Georgia, Ukraine, Azerbaijan, Moldova) will have a negative impact on U.S.-Russia relations, as will the refusal to recognize as legitimate institutional arrangements that Russia constructs that are not anti-U.S. in design and in which other countries participate on a voluntary basis (such as the CSTO—Collective Security Treaty Organization). Effective institutions along Russia’s borders can have a positive impact. In this regard, the consolidation of the EU and NATO is more likely to have a positive impact on Russian behavior than the expansion of either into former Soviet space. The regions to Russia’s south and east are under-institutionalized. Efforts to build institutions with Russia and countries of the region could have a positive impact—in terms of regulating geopolitical competition and providing a framework for increased trade—but only if we accept that we will not be able to dominate such institutions and that, for a host of reasons, these institutions cannot become the functional equivalents of NATO and the EU.

Nonproliferation and nuclear energy provide an opportunity for mutually beneficial interaction because U.S. and Russian interests overlap to a great extent and the two countries can approach one another as more or less equals and act together as global leaders. (This is something we are already doing, but there is room for much greater efforts on these issues, if other aspects of the deteriorating relationship do not interfere.) But differing assessments of the urgency of dealing with proliferation threats and disagreements over the designation of terrorist groups could damage U.S.-Russia relations. The damage could be significant, as differing views of the Chechen fighters demonstrated. Russia ultimately concluded that the United States was supporting Chechen terrorists to block Russia’s revival. Similarly, should Iran develop nuclear weapons, sharp arguments over responsibility for that development could undermine good relations and erode cooperation on nonproliferation.

Military and intelligence tools are indispensable to dealing with Russia—and can be used to constrain anti-U.S. behavior. The danger is that we overreact, exaggerating the threat and acting in ways that provoke an overreaction on the

Russian side. Cooperative military and intelligence activities help build trust over time, but these work only when the cooperation is nonpoliticized and focused on concrete tasks.

Thoughts on Domestic Drivers

Henry E. Hale

Assumptions, Framework, and the Status Quo in Russia

In considering future scenarios in Russia, this analysis focuses primarily on four dimensions that are of direct relevance to U.S. security: economy, democracy, domestic political stability, and foreign policy. Economically, Russia can be a good trading partner with a developed market economy or an unbalanced raw materials exporter with an incentive to disrupt vital economic flows for political gain. A deeply democratic Russia will ultimately be a more predictable partner that is better integrated into the international system, while an autocratic Russia will be more subject to the whims of individual dictators. Democracy and autocracy are not the only alternatives, of course. Some research has suggested that “hybrid regimes” (those combining democratic and autocratic elements yet not necessarily moving to democracy or autocracy) are systematically more volatile, more warlike, and less stable than either democratic or autocratic regimes. Instability in the post-Soviet space has involved everything from revolution to civil war to widespread violence against ethnic minorities or foreign nationals to de facto state breakup—all scenarios that are worrisome regarding Russia given its size, arsenal of weapons of mass destruction (WMDs), importance as an energy supplier to Europe, and “ethnic links” with its neighbors. In terms of calculated foreign policy, a wide range of possibilities are conceivable. Russia could commit to joining the developed Western world as a testy but generally nonaggressive partner (“a big France”) or it could adopt a highly aggressive policy in an effort to reestablish itself as a great power through alliances with rogue states and deliberate efforts to undermine U.S. initiatives—or something in between.

In considering possible future scenarios, it is important to avoid thinking only in terms of equilibrium outcomes and linear developments (“trajectories”). While

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one can point to some highly stable equilibria (e.g., pervasive clientelism at the intersection of state and economy) and some essentially linear processes of change (e.g., economic development), some important developments in post-Soviet politics can also be seen as cyclical (e.g., periodic succession crises induced by what I have elsewhere called the “patronal presidential” system of government in many of these countries). When assessing what Russia will look like in 2017, then, the following analysis attempts not only to paint a picture of that particular year and visible “trends” in Russia, but to assess where that year lies in important cyclical processes that may be at work and to evaluate the proximity of that year to potential breaking points that could lead to radically different outcomes. Naturally, it is also important to think in terms not of certain futures, but of probabilities. Here the focus is on the most likely outcomes in the preliminary judgment advanced by this author for the purposes of further discussion.

The Russian status quo (in terms of the four key dimensions of economy, democracy, stability, and foreign policy, described above) is thus best characterized not as an equilibrium, but as a mix of particular equilibria, linear processes, cyclical processes, contingent situations, and potential breaking points. It is important to translate this into a concrete four-dimensional characterization of where Russia is now since this provides the foundation for assessing likely Russian futures.

Economically, Russia is flush with energy income and shows signs that the economy is also developing in a more robust manner. There is broad consensus among the most powerful elite (including those most likely to be future leaders) on combining a strong market focus for the economy as a whole with a strong state role in “strategic assets” (the “commanding heights”) like the energy sector and the military-industrial complex and with state leadership in the effort to diversify the economy (such as the emergent focus on nanotechnology). These fundamental views on the economy appear to be a rather stable equilibrium, unlikely to change dramatically in 10 years without a major economic or political shock.

In terms of political regime, Russia is a hybrid with a patronal presidency at its core: a directly elected president wields enormous formal and informal powers relative to other branches of power. When the incumbent is in place, such systems appear highly stable because the president has such great power to punish any elite who defect. This has enabled Putin to rein in both the business elite and the regional bosses who had run their own political machines essentially unhindered during the transitional period of the 1990s. When an incumbent is weakened (for example, through a major drop in popularity that undermines legitimacy—the Kuchma scenario) or otherwise expected to leave office (as with the ailing Yeltsin in 1999), centrifugal forces within the elite become enormous since the incumbent risks becoming a lame duck at the same time that the stakes of the succession are extremely high for all elites. Indeed, it is quite common for winners in succession struggles, seeking to establish their independence, to remove those who helped them get into power (e.g., Putin’s fallout with Boris Berezovsky, Gurbanguly

Berdymukhammedov's firing of Akmurad Rejepov, Ilham Aliev's prosecution of Farhad Aliev, etc.), and the most powerful elite groups are aware of the dangers that could befall them should they themselves not directly control the presidency. Russia's steady slide toward authoritarianism and away from true federalism can be seen largely as preemptive measures designed to counteract the centrifugal pressures of the long-anticipated succession at the end of Putin's second term in 2008. The ability of incumbents to control succession processes, though, hinges greatly on the personal legitimacy (generally reflected in measurable popularity) of the incumbent president. Thus, while the unpopular Kuchma, Akaev, and Shevardnadze were unable to manage their successions effectively and lost control over both business and regional elites, the much more popular Putin is in a much stronger position to do so. While he has been attempting to institutionalize this control, these are mainly band-aid measures since they do not eliminate the core source of the centrifugal forces: the patronal presidential system. Thus the "status quo" domestic politics scenario for the next 10 years would be a successfully managed succession after Putin, followed by two four-year terms of a relatively popular new president presiding over a highly centralized and moderately repressive polity with some real political competition allowed among pro-presidential forces, followed by a new outbreak of succession tensions (and reactive crackdowns) as 2016 approaches.

When discussing "instability," this analysis has in mind not a high *potential* for unpredictable or disruptive events but instead the *actual observance* of disruptive events in the domestic political arena. From this perspective, the Russian status quo reflects a high degree of stability. Separatist activism has been all but eliminated, a process visible even in Chechnya. Talk of Russia's impending collapse, fairly common in the 1990s, has all but disappeared. Russia's other regions no longer flout federal law and do not undermine central economic policy on a regular basis. No major ideological cleavages deeply divide the population, which generally supports the president. Anti-system rallies are able to turn out only a few thousand people at a time, maximum. The main manifestation of instability in the status quo is the rising visibility of hate crimes, especially racist or xenophobic murders and assaults. One can make a strong argument, though, that these are deliberately tolerated and perhaps actively supported on a low level by incumbent authorities as a way of promoting elite unity as the succession approaches. The power of conflict itself to generate group solidarity is well established and not lost on politicians the world over, who are commonly found to manipulate it explicitly for this purpose. This explains the otherwise strange phenomenon by which local authorities can locate and detain democratic activists before they even get near a protest site, yet somehow racists and xenophobes are rarely arrested and are able to rally in force in prominent locations. Periodic crackdowns serve to keep these elements in check and to set up the desired portrait of the state as the defender against extremism and instability. What we see, then, is arguably *managed instability* of particular types (chauvinist), used as a political tool, especially during moments of succession. While it is a dangerous game, the state *under the status quo* retains the power to quash it before it gets out of control.

In foreign policy, the status quo involves some of the same pressures to engage in managed instability. Incumbent authorities have incentive to foster low-level international conflicts that can raise the costs of elite defection and thus promote elite unity, especially prior to a moment of succession. Putin's bravado in standing up to the West at Munich and the nearly hysterical disputes with Georgia and Estonia all serve this purpose (at least partly). At the same time, just as Russia's leadership has no incentive to let domestic instability get out of control, so does Putin have little interest in actually undermining Russia's relations with the West. A Russian leader with other views could decide otherwise, but Putin has consistently demonstrated a belief that the most promising path for Russian recovery is through economic integration with the world's developed economies (i.e., "the West") and that Russia and the West do in fact share many common security interests—for example, the "war on terrorism." Public opinion polls suggest that the potential for visceral anti-Americanism has long been high in Russia and that Putin has intentionally forgone the opportunity to dramatically stoke it for political gain. Studies of elite attitudes also indicate that Russia's foreign policy elite has tended to be much less pro-Western than either Putin or Yeltsin. Thus Russia's foreign policy status quo might be described as "moderate," whereby the president plays up real differences—as with NATO expansion, missile defense, and the Commonwealth of Independent States (CIS)—for both foreign and domestic policy purposes, while also seeking to keep tensions to a low burn, a manageable level.

Likeliest Alternative Scenarios for 2017

While possible alternative scenarios are infinite, even when considering only four main dimensions of variation, the focus here is on those where reasonably probable outcomes on the different dimensions are particularly likely to *cluster*, producing something we might identify as a likely scenario.

Before turning to the scenarios themselves, it is useful to begin with a discussion of key drivers. This is because the scenarios are derived from the analysis of which underlying factors are most likely to change during the next decade, producing a deviation from the status quo. Some underlying factors represent highly stable equilibria that are unlikely to change even with a major shock over the course of a mere decade. The most important of these is probably the system of patron-client relations (and attendant corruption) that pervades Russia, though one might also include physical geography, demographics, and the structure of Russia's economy (though some limited change here is possible in 10 years).

The factors that are most likely to drive a shift from the status quo scenario in the next decade, it is suggested here, are the state of the economy, political institutions, leadership (its convictions and competence), and the international environment. Since the latter factor is the one on which the United States has the most influence, it will be treated at the end of this thought piece in a discussion of the likely effects of different U.S. policies on Russia's future. Finally, of course, we must consider the possibility of radical shocks that could disrupt cycles, linear

processes, or equilibria. While some of these are perhaps unpredictable, it is important at least to consider what impact foreseeable shocks might have. Considering these drivers, four “most probable” scenarios (clusters of outcomes on the four different dimensions over the course of a decade) emerge as alternatives to the status quo in the 2007–2017 period.

Putinism Lite (10 percent)

The formal and informal institutional core of the system remains the same as in 2007: Russia is a hybrid regime with a patronal presidential system. The leader, however, is more democratically inclined and less suspicious of Western (and specifically U.S.) intentions than under the status quo—the foreign policy would be much more French-like than Soviet-like. Such a leader would wield the massive power of the presidency, and so would have the actual ability to realize (and promote domestically) a more Western-oriented foreign policy, a relaxation of the most severe repressive elements at home, and a restoration some elements of federalism. State management of the media and selective repression (this time, repressing “fascist extremists” more than democrats), however, would be a key part of this shift from the status quo. The state would severely sanction those who step over the “bounds” within which limited political contestation is tolerated, including in the 2012 and 2016 national election cycles. Stability would remain high, though the state would be more open to protest and public negotiation with regional interests. For this scenario to be plausible, the economy would need to continue to grow (perceptibly to the population), and the president would have to display great skill in consolidating power and sustaining high personal popularity. The “lite” elements would likely not emerge until at least 2009–2010, when the new president will have had a chance to sideline rivals from the Putin period. While economic growth would likely build a greater constituency for actual democracy, this effect will not be very important by 2017. Russia’s future after the 2016 presidential succession would depend heavily on whether the post-Putin president actively anoints an heir who shares his/her views and skills.

Revenge of the Chekists (10 percent)

A number of possible developments cluster into an outcome that involves a new Russian authoritarianism (decisively eliminating the last vestiges of real political competition), a more aggressive foreign policy relative to the West, and continued flareups of nationalism against uncooperative CIS nations and associated minorities in Russia. One set of paths to this outcome involves sustained, robust economic growth: Either Putin is succeeded by someone who is ideologically inclined to pursue such policies and uses such conflictual policies to sustain legitimacy, or Putin decides to amend the Constitution so as to remain in office after a major conflict or terrorist attack (especially one in which both internal and Western groups can plausibly be portrayed as to blame). Alternatively, the disappearance of economic growth or a major conflict or terrorist attack that occurs after the 2008 succession could push Putin’s heir, whatever his or her values, to pursue such a policy as the easiest way to remain in power while sustaining domestic legitimacy in the face of great internal pressures. The version

involving economic growth is the least “bad” for the West since at least some groundwork for future liberalization would be being laid, though the effects would not likely be felt by 2017 (this sub-scenario might be called Putinism Hard). Without economic growth, a vicious cycle is probable: Aggressive foreign and domestic policy makes economic recovery less likely, which in turn reinforces political incentives for generating or exacerbating new crises. As of 2017, though, these sub-scenarios look virtually the same.

Building Volatility (15 percent)

A number of reasonably probable configurations also produce a cluster involving greater political liberalization and contestation, low economic growth, aggressive and nationalist foreign policy, and worrying domestic political instability. The most likely involves Putin’s successor suffering a collapse of economic growth or proving otherwise unable to sustain personal popularity, even with resort to aggressive foreign policy and possibly mismanaged attempts at managed instability. S/he will likely be able to win reelection in 2012 on the basis of managed instability (in both foreign and domestic policy) and repression, but by 2015 strong centrifugal pressures are likely to emerge as elites seek to mobilize widespread dissatisfaction (some of them being dissatisfied themselves) for the 2016 succession. The years 2015 to 2016 are would be highly volatile, involving all manner of political contestation and subterfuge with no one force able to quash the other. This is likely to involve appeals to provincial elites, leading to a new round of separatist pressures and regionalist demands despite the fact that governors are no longer elected. The outcome of the 2016 struggle could lead Russia in any number of directions for 2017 and afterward—from outright dictatorship (if incumbents or opposition hardliners win) to something resembling a democratic breakthrough if a stalemate (or an incumbent anticipating defeat) produces a compromise system of checks and balances (crucially involving a shift of significant power from president to parliament) as the most promising way out, with the opposition (most likely insider elites, not grassroots democrats) gaining control of one of the major branches of power. Continued instability and volatility is also a great possibility after 2016 in this scenario. The year 2017 would thus represent less an equilibrium scenario than a moment of great uncertainty, pregnant with multiple diverse outcomes. A less likely version of this general scenario has some of this taking place much earlier, during the Putin succession of 2007–2008. This could occur if this succession is bungled or if a shock (especially an economic one) occurs that is not plausibly (to domestic audiences) blamed on internal or Western enemies, but that radically discredits either Putin or his designated, preferred successor(s). Low economic growth after this would lead to continued volatility until a breaking point is reached.

A Soothing Scenario (10 percent)

Russia continues to experience high economic growth, (crucially) patronal presidentialism is ended, and a true balance of power among branches is introduced through one of two paths. One is a botched 2007–2008 succession, with intra-elite competition breaking out into public politics and resulting in a

compromise whereby the stakes of the struggle are reduced by transferring power from the presidency to other institutions, such as the parliament. Another path involves Putin deciding not to leave the political scene after departing the presidency, instead somehow securely installing himself in a post with some real power to be a check on the new president (e.g., head of a megacorporation, United Russia leader, prime minister, Duma speaker, Federation Council chair, or chair of the Constitutional Court). While this could lead to China-style authoritarianism, it is more likely that the new president would seek to free himself from Putin's strings and that the result would be at least two competing centers of power, which in turn would create a "krysha" for at least some opposition and incentives to mobilize competing points of view, albeit at first largely through the methods of machine politics rather than real democracy. Economic growth will likely reinforce interests in peaceful cooperation with the West, which could offset the temptation to mobilize nationalism and chauvinism in the domestic political competition, with the net result being a moderate foreign policy with different viewpoints being articulated and with alternation being possible. The use of managed instability would be likely to continue at first. Since the different sides will have an interest in mobilizing popular support as a weapon in their struggle, a genuine anticorruption drive becomes thinkable. Elections in 2012 and especially 2016, after nearly a decade of more growth, are likely to be actually contested affairs, with the latter standing a serious chance of representing a democratic breakthrough.

Signposts

Key developments to watch for that would signal a significantly increased probability of one of the aforementioned deviations from the status quo include the following.

- *Putin stays on as president after the scheduled end of his second term.* This would be a strong signal that Russia is moving toward a Revenge of the Chekists scenario for 2007–2017. Such a Putin move is primarily likely to happen only if Russia experiences a crisis of the sort likely to push Russia in this direction even without Putin. This move would also seriously undermine what little credibility Putin still has with the West as someone who still ultimately sees Russia's brightest future as a democracy, thereby causing further deterioration and mistrust in relations with Western countries.
- *Shift of significant power from the presidential post to another institution (i.e., the end of the patronal presidential system).* This would mean that Russia's movement toward autocracy is highly likely to end, though its future movement could be either to the Building Volatility or Soothing Scenario. The former is most likely if: (a) economic growth ends; and (b) the new distribution of power is poorly designed and dysfunctional. The latter is more probable if economic growth continues.
- *A sharp drop in presidential popularity.* If sustained, this signals the likely onset of either the Revenge of the Chekists or Building Volatility. The former

is more likely if it is Putin whose power drops and if he stays in power after his second term (these two possibilities could well be linked), or if his successor abandons patronal presidentialism and institutes a full-fledged dictatorship. The latter is more likely if it happens on the watch of Putin's successor before any attempts by that successor to introduce full-fledged dictatorship.

- *Sharp drop in economic growth or clear inability to diversify the economy and spread wealth.* This would be likely to reduce presidential popularity and thus signals the probability of developments just mentioned.
- *Putin occupies a major influential post after leaving the presidency.* This could signal that the Revenge of the Chekists could materialize, but only if he proves successful in the long-shot attempt to forge a Deng-like outcome. More likely, if we see Putin occupy such a post, it would be the Soothing Scenario.
- *Who occupies presidency after Putin's second term ends, if other than Putin.* Someone with a more liberal and economics-oriented reputation and background, without the KGB pedigree, makes the Putin Lite scenario possible, though its realization will depend on the successor sustaining the level of political skill demonstrated by Putin's team and the good fortune of a strong economy, which is probably essential to sustaining popularity in the face of limited domestic and foreign policy liberalization. Someone with a silovik background or an ideological/religious conservative is more likely to introduce a scenario like Revenge of the Chekists, though we cannot rule out a "Nixon goes to China" outcome (though this is extremely hard to predict) and this person's ability to avoid a Building Volatility scenario will depend on his or her ability to sustain economic growth and personal popularity.

U.S. Influence

If we limit ourselves to only 10 years ahead, the driver that U.S. policy can most directly influence relative to the status quo, at least in a way that is unlikely to have unintended negative effects, is the international environment. Direct attempts to foster democratization are unlikely to have significant effects within a 10-year period, though long-term programs like educational exchanges and opportunities for professionals in both countries to travel and meet each other are likely to have large effects by promoting mutual understanding over the course of a generation. On the Russian economy, to the extent the United States has influence on the Russian economy, U.S. interests lie strongly in promoting continued Russian economic development and diversification since this best lays the basis for nonaggressive foreign policy and long-run democratization. Any attempt to promote one Russian politician over the other is fraught with risk and likely to backfire given the likelihood of leaks or plausible suspicions being made public. Since the United States is itself a major part of the international environment, it is there that its legitimate influence is likely to be strongest during a 10-year period like 2007–2017. There are several avenues by which U.S. policy

can promote the Soothing Scenario or Putin Lite, while reducing the likelihood of Building Volatility and Revenge of the Chekists.

- *Maintaining strong economic relations with Russia, avoiding the temptation to punish Russia economically for political misdeeds.* Positive Russian political developments (the Soothing and Putin Lite scenarios) are more likely to occur when the economy is doing well and when ties to the West are robust than the other way around.
- *Genuinely welcoming Russia into major international institutions, where Russia genuinely meets the necessary criteria, and seriously considering new security and other institutions that can incorporate Russia rather than isolate it.* This can undermine the credibility and attractiveness of the Revenge of the Chekists scenario and can reduce the likelihood of the worst outcomes in Building Volatility.
- *Sternly condemning racist and xenophobic elements in Russia, including statements made by Russian officials and politicians.* This will raise the cost of using managed instability in a way that tolerates intolerance and tacitly victimizes minorities in Russia, a process that is not only abhorrent in its own right but that could have disastrous large-scale consequences should it get out of hand, as is possible in the Building Volatility scenario.
- *Calling a spade a spade when it comes to democracy in Russia, especially when it comes to international institutions that require democratic standards, and doing the same with other countries, including those in the CIS and those with which the United States is deeply involved, such as Iraq and Afghanistan.* This would give more credibility to any Russian president who is favorably disposed to the Putin Lite scenario as opposed to Revenge of the Chekists.
- *Serious cooperation to reduce the likelihood of a terrorist attack in Russia that could put it on the path to Revenge of the Chekists or Building Volatility.* If this cooperation is serious and substantial, it could be viewed positively by silovik groups who genuinely seek to avoid such attacks and would thus help reduce innate hostility to the West.
- *At the most general level: Strong steps to disassociate the United States from previous U.S. policies and actions (both foreign and domestic) that have had deleterious effects on U.S. credibility and reputation and that have raised the credibility of Russian politicians who promote scenarios like Revenge of the Chekists or that have made scenarios like Building Volatility more likely.*

There may be some tension between these suggestions, but the thrust of them should at least serve for facilitating further discussion.

Three Alternative Scenarios^{*}

Sarah E. Mendelson

A Constant: The Battle of Liberal Internationalists and Illiberal Nationalists

Since at least 1975, in Soviet and in Russian politics, networks of individuals with radically different orientations have struggled over whether and how to embed the country in a Western framework. Echoing nineteenth century ideological battles, but conducted in a dramatically different and increasingly globalized context, liberal internationalists inside and outside the Soviet Union, beginning with the Helsinki process, worked with increasing intensity to bring Russia into the larger Euro-Atlantic community. After the collapse of the Soviet Union, these networks deepened, cutting across almost every sector, indeed almost every issue involving the state and society.

Also since the mid 1970s, the competing network, the illiberal nationalists, over several generations, have either shared disdain or fully rejected the ideal of the internationalized Russia. By the mid 1990s, they may have dined at fashionable tables in New York, London, or Hong Kong, and enjoyed access to tremendous resources, but the illiberal nationalists were bound by a vision of a strong, hyper-sovereign state. They shared an allergy to the porous nature of the modern state and a dislike of foreign influence. For them, the West is a corrupt, a-cultural place, perhaps pleasant to visit, but inoculation remains a requirement.

From 1975 through the late 1990s, the liberal internationalist tide rose gradually, helped enormously by Mikhail Gorbachev, and then peaked in the Yeltsin years. Since the late 1990s, a central issue emboldening the illiberal networks has involved shoring up the weakened Russian state (creating a vertical

* Portions of this piece appear in Sarah E. Mendelson, “Dreaming of a Democratic Russia,” *American Scholar* 77, no. 1 (Winter 2008): 35–43.

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power structure), and this has been used effectively in rolling back or attempting to manage the internationalists. Many inside and outside Russia, and especially those in the business community, welcomed the sober strengthening of the “vertical” after the boozy Yeltsin years.

The battle of these (admittedly caricatured) networks will carry on through the next decade. Below are three scenarios in which the balance of power continues to shift: in *Putin Redux*, we find a slightly worse set of circumstances than currently exist. The ability to maintain the status quo or a slightly more authoritarian status quo seems limited, however, as the illiberal nationalist network is increasingly emboldened and empowered. In *Chekist UnChecked*, the illiberal nationalists experience an almost total (though temporary) victory, not unlike the reverse of the Yeltsin years. Then in *Flip Back West*, the illiberal nationalist paradigm collapses, driven by some combination of the failure of the Chekists to respond to multiple structural crises within Russia and perhaps the collapse of the petro dollar.

Putin Redux (75 percent through 2009; 10 percent through 2017)

The government continues to use the theme of “the collapse of the Soviet Union as the greatest geopolitical catastrophe of the twentieth century” as an organizing principle and unifying theme along with the sister theme of the United States and the West constituting a threat. Most government policies play up the theme of the new Russia standing up to the West. In fact, few important international decisions occur without Russia at the table.

After either Putin extends his reign, or he successfully passes power to a like-minded successor, public political space shrinks steadily inside Russia but at the tempo of the bureaucracy and not in a CNN-friendly, dramatic fashion. By 2010, the amount of all foreign assistance for civil society drops to about \$5 million total for work on health, the environment, and human rights. All assistance that could be construed as affecting the electoral process was ended back in 2007, when the National Democratic Institute (NDI), the International Republican Institute (IRI), and a series of other organizations were thrown out of the country. Human Rights Watch is able to celebrate a 20th year in Russia in 2015. Its work is closely monitored by the government, and occasionally its personnel are harassed. It could be shut down by the Kremlin at any moment. Most of its work is centered on bringing attention to the condition of the Committee of Soldiers’ Mothers, which has been largely shut down by 2010; in this way, the Russian government solved two problems in one. Local human rights organizations such as Memorial barely exist, but the reasons are complex and stem from a combination of insufficient assistance, a demographic crisis within the community, and a relentlessly hostile political climate.

The nationalist, xenophobic sentiment has been encouraged by the Kremlin, but government investment in the north Caucasus that occurred in the 2008–2010 period to stave off dramatic economic stratification and Islamic radicalization went a long way toward reducing tensions. Ramzan Kadyrov’s assassination in

late 2007 left a temporary leadership gap in the region, but the separatists never again got a foothold.

Police abuse continues to be a constant threat to the citizenry. In some regions in the Far East and parts of Siberia, local authorities secretly worry that law enforcement has become so embedded with organized crime that these regions no longer function.

The reform of the educational system and reduction in the number of institutions that provide draft deferral has meant that the pool of draft age applicants grows larger. The reforms coupled with the crackdown on the Committee of Soldiers' Mothers have meant that this nongovernmental organization (NGO) serviced only about a third of youths and their families in avoiding the draft compared to the 1990s. Government surveys conducted after the crackdown show that few Russians have ever heard of this organization, in contrast with strong majorities in the last decade.

Major state investment from gas and oil revenue goes not into army personnel but into defense related research and development beginning in 2008. Late in that year, after the U.S. presidential elections, all programs related to Cooperative Threat Reduction and Department of Energy-funded programs on safe dismantlement and storage of fissile materials come to an end by decree of the Russian government.

Television, the Internet, and radio, as well as newspapers, are mostly under government control. A few newspapers and radio stations are permitted to function, but there is a steady round of tax inspection and occasional periods when they are shut down for no clear reason. By 2010, the Kremlin realized, however, that corruption had begun to threaten severely economic growth and together with the international business community have begun to implement measures to demand better law enforcement efforts. On occasion, they allow the use of government media for such efforts. They are hampered, however, by the dearth of investigative reporters.

Health and demographic issues continue to plague Russia and restrict its ability to grow. The government failure to address decent working conditions for women of child bearing years continues to mean that women are fired from jobs when they get pregnant or simply forgo having children out of economic necessity.

Chekists UnChecked (5 percent before 2009; 60 percent from 2009 to 2015; 10 percent beyond 2015)

The trends toward nationalism and xenophobia go much farther faster than Putin's Kremlin had initially intended when it began a fairly concerted campaign around 2007 to portray the West, and the United States in particular, as the enemy. Russia is by no means North Korea, but it has adopted in earnest and in great depth the hyper-sovereign position begun in the late Putin years. There are two ways in which this scenario has come to pass: Putin extends his stay in power and hunkers

down, or after 2008, his successor is unable to consolidate power and is challenged by the far right in late 2009.

In this scenario, the government has imposed greatly restricted movement of all foreigners inside Russia. Closed cities have returned. The problem of illegal migration has all but ended. The economy has suffered, however, since the size (and quality) of the labor force continues to decline dramatically. Russia has made special arrangements with neighboring states for registered guest worker programs. That said, corruption has spiraled of late, and many regions of Russia have guest worker populations that live in dire conditions, bordering on modern-day slavery. Occasional reports of riots or murders of officials in regions with large numbers of guest workers are noted. The policies adopted in spring 2007 making it illegal for non-Russians, even those legally registered, to sell food in markets have gradually spread to all sectors. The high-end fashion boutiques in Moscow and St. Petersburg are regularly inspected by tax police and the federal security service (FSB) seeking bribes but also to make sure that the buyers for the stores are of Russian citizenship. Western activists have attempted a boycott campaign of those Western brands that continue to sell in Russia, but the effort has not been successful.

Largely as a result of its domestic policies relating to ethnicity, however, and in a combination of opting out and being forced out, Russia withdraws from the Organization for Security and Co-operation in Europe (OSCE), the Council of Europe (COE), and the G-8. Membership in the World Trade Organization (WTO) remains unchallenged after having joined in 2008.

The government puts enormous amounts of money into research and development for new weapons technology. Little is known about precisely which weapons systems have been developed, but experts believe they include a new generation of nuclear weapons, as well as programs for use in cyber warfare. While Russia signed on to the treaty that regulates the Internet and any activity relating to government functioning, the Western intelligence community believes it is in noncompliance. Weapons sales, including of nuclear weapons, to rogue states have also been traced to Russia.

The human rights movement has literally died out: the older generation has passed away, and there are no young activists to replace them. Civil society is almost totally dominated by government-affiliated NGOs. The youth movement *Nashi* and its hipper spin-off *Svoi* have each experienced 13 to 15 percent growth every year for the last 10 years: there is now virtually no young Russian that does not have some contact with the movement. Only a small portion of *Nashi* activists embrace the nationalist rhetoric—most see it as a jobs program. But school supervisors have lists of who goes to meetings, concerts, and rallies and who fails to show up. The majority of party and NGO activists from the 1990s are living in exile in Europe or the United States. The government confiscated the names of those locals who had helped Memorial in its work in the north Caucasus back in 2010; most are under arrest or have disappeared.

Fed up with foreign assistance and the presence of organizations that the government did not have sufficient control over, the Russian government also has

adopted in 2010 a law making it illegal for foreign assistance of any kind to go to a Russian-registered NGO and making it illegal for NGOs that have a formal tax registration status outside Russia to work inside Russia. The public disdain for assistance, following years of a relentless campaign by the Kremlin, meant this withdrawal met no opposition inside Russia. But this absence of response did not mean societal needs were being met.

In the southern federal district, the government has failed to respond to mounting poverty and unemployment rates that have grown to be five times the national rate. The efforts by Western donors in 2007–2009 were too few and too late. Moreover, when the last U.S. troops finally withdrew from Iraq in 2010, the Salafi jihadists turned their attention back to local conflicts, including in the north Caucasus. By that point, local government was so corrupt that networks of jihadists found it fairly easy, under the guise of (rather high-quality) charity work, to infiltrate the region. The local population was relieved to have social services provided. Anti-Western sentiment in the region has continued to grow (not surprisingly) but has shifted from Soviet nostalgia to jihadist sentiment. Conceptions of the West in the minds of these young people include Russian authorities. By 2014, the 10th anniversary of Beslan, the combination of corruption and failed social services has radicalized many local youths. Plans for a major terrorist event in Russia's largest cities were under way. No reputable counterterrorism agency in the Euro-Atlantic community trusts working with the Russian government by this point, although based on a secret U.S.-EU agreement, the Germans continue to maintain ties. Contact is, however, mainly symbolic.

Flip Back West (2 percent before 2015; 30 percent after 2015)

There is the possibility that Russia will turn, some time around 2015, back toward the West after an approximately 10-year period of steady, gradual retreat, increased corruption, and declining infrastructure. The authorities' all out celebration in March 2013 of the 60th anniversary of Stalin's death has helped stimulate discontent within the elite, who felt the illiberal nationalists had gone too far. The government has grown increasingly isolated from the population and miscalculated the degree to which Stalin could still be used as a rallying point. (Only about 200 veterans from World War II were alive in Russia.) Additionally, key members of the elite have rejected the authoritarian approach to terrorist threats emanating from the north Caucasus.

Simply put, by 2014, the Chekist government has proven unable to handle the multiple crises in Russia. A combination of mass public health disasters and catastrophic failure of physical infrastructure has left the growing middle class restless and demanding of more effective and responsive government. The simultaneous collapse of apartment buildings that were built in the 2007 period, a series of air disasters involving the new Russian-made equivalent of the Boeing 727, and terrorist attacks on civilians have led to a sense of deep crisis. Some members of the elite are also furious at the isolationist position Russia has found itself in: relations with rogue states are much better than with Europe.

The middle class, who have amassed wealth, have grown tired of a corrupt, insular government that is antimodern and isolationist, and business leaders in 2014 are exploring a quiet revolt with the help of some insiders who have also begun to realize the depth of Russia's problems.

U.S. Influence and Policy

U.S. influence on the internal processes of Russia will remain marginal under all three scenarios, but if U.S. soft power continues to decline despite the change in administration in 2009, then it will be almost nonexistent. Russia, together with China, could increasingly “set the table” on human rights issues in ways that favor hyper-sovereign interpretations of international legal frameworks and noncompliance by states concerning human rights.

In the near term, one possible way to increase whatever marginal influence exists is to change how U.S. assistance strategies are derived. The new guiding principle for assistance should, as much as possible, be to shape programs around local needs and desires. In the case of Russia, this might mean work on health, the environment, education, and human rights (unless they are all shut down as in the middle scenario in 2010). Listening to and honoring the views of the Russian public can help make U.S. taxpayer dollars more effective. At the moment, a handful of individuals in Washington have control over funds that have on occasion gone to political groups with marginal support in Russia. This approach has been detrimental to U.S. interests and leaves Russian human rights defenders vulnerable to the criticism by Putin and others that foreign assistance is designed to get civil society closer to foreigners than to the local population.

Contacts between the United States and Russia need to be multiplied. A more engaged strategy will help avoid the over personalization of presidential politics that marked both the Clinton and Bush administrations. The new approach should support concrete cooperation between different parts of societies (mayors, legislators, university presidents) on a range of issues of common concern—for example, public health, counterterrorism, youth alienation, or even urban decay—where stakeholders may share best practices. At government levels, the contact should be broadened beyond the White House. In recent years, U.S. congressional contacts with the Russian Duma and Federation Council have all but dropped off and need to be restored—not because these are important centers of power in Russia but because there is widespread misperception of Congress's relationship with the White House and this is another ingredient feeding misperceptions.

The U.S. government should plan for the very real possibility that U.S. programs involving the national labs and fissile materials are entirely shut down.

Russia and its Post-Soviet Neighbors

Cory Welt

The Status Quo

In 2007, Russia's relations with its post-Soviet neighbors are marked by at least four characteristics. First, a much clearer association has emerged between notions of pro-Western and anti-Russian orientation; states are either embracing an exclusively pro-Western policy and consequently alienating Russia, or finding it increasingly less viable to maintain multidirectional foreign policies. This is beginning to put pressure on fence-sitters, such as Armenia, Ukraine, and Moldova, to move more clearly into one or the other camp. Relatedly, Russia has begun to respond dramatically to slights from the states it perceives have dismissed Russian interests entirely in favor of the West (i.e., Georgia in 2006, Estonia in 2007). Russia's responses to such slights appear to be driven less by an effort to correct their perceived adversaries' behavior or to influence their orientations than by the desire to punish them and to deter other states from pursuing similar courses.

At the same time, Russia's relations with its neighbors are not universally antagonistic. Russia has effectively positioned itself as a champion of many neighbors' state (or, more accurately, regime) interests, in contrast to the West's perceived promotion of destabilizing "color revolutions." It has also risen to the challenge of Western energy and security competition in Central Asia in particular by reviving a notion of state partnership, rather than neocolonialism, which is well-received by local leaderships and societies. In addition, restrained (if increased) engagement on the part of the United States and Europe, due to a combination of limited enthusiasm for NATO expansion into Eastern Europe and the Caucasus, uneasiness in intensifying relations with autocratic regimes from Belarus to Uzbekistan, and a reluctance to unduly rock relations with Russia on matters deemed of secondary importance, has encouraged several states to remain within or move closer to Russia's orbit.

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Hence, we can speak of two broad trends in Russian relations with its post-Soviet neighbors. A number of its neighbors wish to maintain and even strengthen security, economic, and at least informal political partnerships with Russia, while others seek partnership at most in the economics sphere and even then in uninstitutionalized form. Russia, in turn, responds positively to the former camp and quite negatively to the second.

A status quo scenario over the next 10 years would assume Russia's semi-productive relations with the former camp, with limited advances in deepening security and economic partnerships, and increasing if sporadic tension with the latter camp, the members of which in turn try not to upset Russia unduly and to maintain elements of a multidirectional foreign policy.

Alternative Scenarios

Beyond the status quo, the following scenarios still take as a baseline the above "correlation of interests": a set of states (though not necessarily a fixed set) that wish to deepen their security and economic relations with Russia and a set of states that seek to keep institutionalized relations to a minimum. All scenarios also presume, over the next decade, a limited Russian capacity to persuade states inclined against security and economic partnerships to reverse their course. It likewise presumes a willingness among several states, chiefly in Central Asia, to continue to deepen existing partnerships, chiefly via the Collective Security Treaty Organization (CSTO) and the Eurasian Economic Community (EURASEC). The four scenarios selected vary largely depending on (a) Russian policy in light of its limited capacity to promote partnerships with countries that do not seek them (e.g., policies of vindictiveness, soft power, or strategic pressure), and (b) continued Russian capacity to promote deeper partnerships with friendly states (higher or lower).

Internal drivers of these variables are outside the scope of this paper, unfortunately, but they are bound to relate to major ones including economic development, political leadership, and institutional capacity. External drivers that are taken into consideration include: (a) the availability of alternatives to close partnership with Russia (including NATO expansion, intensified EU engagement, and as-of-yet underdeveloped economic or security linkages to southern Asia) that can have the dual effect of limiting Russian capacity to promote partnerships while increasing Russian will to do so; and (b) the security benefits to Russia's neighbors of cooperation with Russia, often linked to authoritarian concerns for regime survival and/or the presence of threats that supersede the threat of Russian domination (e.g., radical Islam).

Friends and Foes: The Grand Realignment

This scenario extends from the trend visible in 2006–2007. It assumes a reasonably status quo, if increasingly anti-Western, Russia, which is surrounded by two sorts of neighbors: those that seek to maintain and deepen economic and

security partnerships with Russia and those that seek neutrality or membership in NATO and, more broadly, deeper ties with European states.

Together with this particular correlation of interests, this scenario also presumes that Russia has recognized the existence of constraints in winning or forcing over the latter group of states in the short term. Distinguishing this scenario from the next is how Russia has reacted to these constraints: by drawing a firm line between “friends,” with which it has continued to develop institutional linkages, and “foes,” with which it has minimized relations to the greatest degree possible, including trade and transportation embargoes.

In this scenario, relations with friends are civil, with Russia settling into a role of a “big brother” that is mildly domineering but has gotten accustomed to making displays and gestures of partnership for its less-powerful allies. The CSTO (in close coordination with the Shanghai Cooperation Organization) and EURASEC have continued to thicken as a military alliance and economic community. Most likely, the four common Central Asian member states of both institutions will be the same—Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan—with Turkmenistan a member as well. This scenario keeps open whether the CSTO and EURASEC will have consolidated along this Russia–Central Asian axis or maintained a more broadly Eurasian face with, chiefly, Belarusian and Armenian participation.¹

A benefit to this deepened partnership is that it has dampened some of the antimigrant fervor of the mid-2000s. Labor migrants from Central Asia will either be quietly tolerated, or Russia will have concluded agreements in the context of EURASEC providing for legal alien employment for citizens of member states.

On the other side are Russia’s foes, which it has given up as lost. Whether or not they are in the European Union and/or NATO, Russia’s foes have not become the target of efforts at reestablishing influence but at minimizing relations and, above all, preventing the accrual of any benefit from interaction with Russia. These may constitute full trade and transportation embargoes, such as those imposed on Georgia in 2006, but they could also include targeted barriers to trade and transportation, labor restrictions, as well as the maintenance or introduction of European energy prices. They may also be accompanied by the kind of xenophobia that marked Russian-Georgian and Russian-Estonian relations in

¹ This question has two components, one realistic and one speculative. The realistic component involves Belarus and Armenia, which are both CSTO members; Belarus is also a EURASEC member, while Armenia is not. In this scenario, both countries are likely to remain CSTO members, while the pace of institutionalization will also encourage Armenia to join EURASEC. Still, internal developments in Belarus and Armenia, as well as changes in their own external environments, could lead to a slowdown in partnership, with both eventually ending up on the other side of the divide. The speculative issue is whether any of the states that have been less enthusiastic on partnership with Russia—Azerbaijan, Ukraine, Moldova, and even Georgia—will have reversed course. In this scenario, Russia will have made it increasingly difficult for its neighbors to remain on the fence. Azerbaijan, Moldova, and Ukraine will either have thrown in their lot with Russia, or they, like Georgia, will find themselves increasingly subject to restrictions on trade, transportation, and labor.

2006–2007, but this will likely have surged at the start of each rupture in relations rather than maintained constant intensity.

Together with the consolidation of the CSTO and EURASEC has been the successful establishment of a regional energy cartel. In addition to most of Central Asia's western-bound hydrocarbons continuing to go to, or pass through, Russia, gas-exporting states have agreed to common prices for their gas exports and, in the post-Soviet neighborhood, to keeping prices for friends lower than the European prices set for foes.

In this scenario, internal systems of governance and the alignments of Russia's neighbors will generally reinforce each other, though not always. Those who are friends of Russia will find the evolution of Russia's domestic political system a model for their own systems of governance, while fence-sitters that wish to uphold authoritarian political systems will slide toward partnership with Russia, which will be more tolerant of such. Conversely, those that accept a liberalized political system will likely pursue membership or increased partnership with NATO and the EU. While unlikely, some states, such as Kyrgyzstan and even Ukraine, could conceivably evolve toward a more liberal politics while accepting high levels of partnership with Russia through CSTO and EURASEC, as a result of either the strength of a domestic pro-Russian orientation and/or the absence of preferable options.

The only blurring of the thick line between friends and foes is with regard to the territorial conflicts in the Caucasus and Moldova. Russia will have entrenched its military and political position in Transnistria, Abkhazia, and South Ossetia, possibly unilaterally recognizing the independence of some or all these territories. Russia's position on Nagorno-Karabagh, if it remains unresolved, will have tracked Armenian and Azerbaijani alignment, supportive of whichever side is a friend, more active in settlement if both are friends and not much of a player if neither are friends.

Friends and Neighbors: A Civil Realignment

This scenario is based on the same correlation of interests and Russian recognition of constraints in promoting partnerships with reluctant neighbors. This scenario differs from Friends and Foes, however, in the policy Russia adopts in reaction to those constraints. In this scenario, Russia adopts a longer-view, non-zero-sum approach to relations with those neighbors that do not choose to pursue deepened partnerships. It cooperates with neighbors that are not members of the CSTO and EURASEC, even those that have become NATO members. Through a combination of "soft power" strategies and rising benefits from trade and investment, it continues seeking to persuade non-NATO members to sign on to the CSTO and non-EURASEC members (including those who have joined NATO) to join that organization. Such persuasion could include a return to more "friendly" gas pricing for neighbors, though at a higher price than Russia charges CSTO and EURASEC members. Xenophobia may continue to exist but at the margins of society and not as an element of state policy.

In this scenario, Russia's relations with its friends are similar to those in the last scenario, though they are characterized by a greater Russian acceptance of its friends' "multidirectional" foreign policies. In this regard, for example, a trans-Caspian route for Kazakh and Turkmen gas is more likely to have gained hard-won Russian consent, even if with coordinated pricing for exported gas. The CSTO and EURASEC have not become total models of integration—they still do not encompass all major security and economic aspects of their members' relations with each other or with neighboring states. The Shanghai Cooperation Organization (SCO) continues to evolve on a separate track, and partnership with NATO also proceeds apace.

On unresolved conflicts, Russia will have accepted the need to move forward on conflict resolution in Abkhazia, South Ossetia, and Transnistria. The Transnistrian conflict will have either been resolved already, with Transnistria united federally to Moldova, or considerable progress will have been made on preparing for a solution. Russian military troops will have been withdrawn from Transnistria or become part of an agreement-based international presence. The South Ossetian conflict may also have been resolved or will be following closely behind Transnistria, in particular with the establishment of an international monitoring force and possibly customs control at the Russian–South Ossetian border. The Abkhazian conflict is unlikely to have been resolved, but with Russia's encouragement Abkhazia and Georgia will have held regular talks and implemented a number of confidence-building measures, including freer transit across their de facto border. Russia will continue to serve as mediator in the Karabakh conflict, but only with limited influence unless it counts both Armenia and Azerbaijan as friends.

With Friends Like These...: The Russian Bully

This scenario is based on the same correlation of interests, but it is centered on a Russia that adopts an almost exclusively negative perception of relations with its neighbors. It recognizes constraints in promoting partnership with its foes but believes these can be overcome through pressure. It believes that its friends' loyalties are up for question, but it also assumes they have no choice but to maintain their pro-Russian orientations.

In this scenario, Russia actively meddles in the internal political life of its foes, with the ultimate aim of regime change in favor of leaderships more inclined to deeper partnerships with Russia. This could imply similar trade, transport, and labor restrictions against foes, as in the first scenario—albeit coupled with more substantial intelligence operations and efforts at internal destabilization, including the cultivation of internal allies, promotion of ethnic conflicts, energy cutoffs, and assassination attempts. At the same time, these policies might also be intermittent, in order to provide hints that stability is correlated to a change of foreign policy course. As a result of such a strategy, interest in NATO expansion has been deterred, and at least some of Russia's foes have reentered its orbit. Needless to say, Russia has successfully prolonged the standoffs over the unresolved conflicts.

As for its friends, Russia seeks to pursue integration by pushing through desired goals, while evincing little interest in the concerns and aspirations of its partners. It responds to hesitation and disagreement with mild or informal trade, transport, and labor restrictions, threats of such restrictions, or hints of withdrawal of political support against internal opponents. As such, institutionalization proceeds more fitfully than in the first two scenarios, and paper agreements on integration far outnumber actual developments.

Energy cooperation with its friends has also developed fitfully. Russia has successfully increased oil and gas transit within its territory, though alternative routes have developed or continue to be in discussion despite Russian objections. Russia continues to maintain a substantial differential between sale and purchase prices of gas. Debates over routes and prices are frequent and vocal.

Russia's Decline: The Failure of Eurasian Integration

This scenario centers on a Russia that has lost the capacity to act as a magnet for its friends and is equally incapable of pressuring its foes to return to the fold. While this scenario does not exclude the bullying tactics of the last scenario, these have little effect on Russia's foes, due to a combination of shoddy implementation and the latter's increased capacity to withstand pressure. Thanks to low energy prices, economic mismanagement, and elite and popular disillusionment with the fruits of a reassertive Russian strategy in the region, Russia itself lacks the strength and possibly the will to return its foes to its orbit. At the same time, NATO expansion has moved forward, and even the EU has successfully reasserted itself in its eastern neighborhood, whether via a new vision of expansion or innovative multitiered models of partnership. Though territorial conflicts remain unresolved, the framework for their resolution has steadily crept away from dominant Russian oversight to a decidedly European context.

At the same time, Russia has retained its lack of interest in accommodating the needs and interests of its friends and also continues to suffer from popular xenophobia directed against immigrants from the south. Through their own economic growth and gravitational pull from other neighbors, be they European for the western states or China, India, and/or Iran in Central Asia, Russia's friends continue to retain institutional links to Russia they deem useful, though many agreements continue to languish on paper, and two or more members of the CSTO and EURASEC have already defected.

In energy, multiple routes have developed or are under discussion. Exporters have procured steadily higher prices from Russia for their gas and competitive rates for transit.

U.S. Policy

U.S. policy over the next decade may be based on the following assumptions: (a) the attraction to several of Russia's neighbors of deepening partnerships with Russia; (b) the strong desire of others of its neighbors to maintain, at best, economic ties; and (c) the disruption of this broad correlation of interests only by

major shocks, including a dramatic ramping down of Western engagement in the region or overt and undifferentiated Russian imperialism across the post-Soviet space. If this is correct, it means that U.S. policy should be based on promoting, as best it can, the development of the civil realignment as in the Friends and Neighbors scenario.

This suggests at least three aims for U.S. policy in the region. In order of increasing difficulty, the first aim would be to view positively those processes of voluntary regional alliance and integration that benefit member states, have social legitimacy, and do not pose fundamental threats to U.S. interests. A corollary of this aim (somewhat more difficult) is to provide states that are “on the fence” with regard to relations with Russia—namely Ukraine, Moldova, and Armenia—the time and opportunity to determine for themselves their longer-term positions.

The second, and more difficult, aim is to promote the ability of those of Russia’s neighbors who do not wish to pursue closer partnership with Russia to withstand Russian pressures, in part by promoting steadily increasing Western engagement, which could include NATO membership, intensified interaction with the EU, and/or new forms of engagement.

The third, and by far most difficult, aim is to find ways to get Russia to view the “loss” of some of its neighbors neither as a harbinger of the demise of its regional integration project entirely nor of its global prestige and power more generally.

About the Author

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