

Russia's Unfinished Transition^α
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January 2006^γ

I will address three sets of questions. First, which way is Russia going? What is the direction of the country's internal development? My short answer is that Russia is going less *our* way, increasingly *its own* way (a Third Way, one might say), and that Russia is also at risk of *losing* its way.

Second, what does Russia's path mean for its neighborhood and for Eurasian security? Here my short answer is that while Russia remains relatively weak, it seems to be entering a new phase of activism, a post-imperial resurgence, largely due to its energy wealth.

Third, what does it all mean for the US and EU, for the Transatlantic community? How much should we be concerned and what should be done? The short answer is that there is a great deal at stake and that Russia's path is important to our security interests, but that our leverage is decreasing. So the challenge is for us is to do more with less by being more focused, more resolute, and better coordinated.

Russia's Path

Over the past 15-20 years, Russia has been undergoing a dynamic transition, but after all these years the transition remains substantially unfinished. Indeed, these days things seem to be both more dynamic and also less finished, more troubled.

In our assessment it is necessary to keep historical perspective. I am reminded that in 1767 Catherine the Great issued a famous decree with the outline of a constitution for Russia. The first article was succinct and remarkable: "Russia is a European state." This was an impressive vision, a magnificent dream for a daughter of the Enlightenment. The decree was left unimplemented; because of various distractions including domestic rebellions and foreign wars, Catherine's constitution never came to being. It shows that Russia and its leaders have been aspiring – and disappointing – for a long time.

But, more to the point, if we look at the last 15-20 years since Gorbachev, the headline story about Russia is positive, remarkable, and unexpected. It is primarily a story of catastrophes avoided. Consider for example what could have gone wrong in 1989 (when the Berlin Wall came down), in 1991 (during the KGB coup and the dissolution of the USSR), in 1993 (during the stand-off with parliament), in 1996 (when communism tried to make a comeback), and in

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^γ These notes are based on speeches given at IFRI in Paris in November 2005 and at the Danish Parliament and the Danish Foreign Affairs Society in Copenhagen in December 2005.

1998 (when Russia plunged into a financial crisis).

Of course, it is true that avoiding the negative is not the same as achieving the positive. Nevertheless, the Russia we see today is far better than many possible, plausible Russias – and Russia seemed to be on a path toward global if not European integration.

Indeed, much depends the distance of the camera focus. Looking at the last two or three years, many worrisome trends come into view. Many critical observers would say that Russia under President Vladimir Putin has steered sharply away from its earlier European direction and is pursuing a Third Way. On this path, Russia could end up as a non-modern, non-democratic corrupt oil state with a serious post-imperial hangover.

There is no question that this is a time of deep contradictions, tensions, and divergences in Russia's political-economic development.

We see a substantial divergence between the quantity and quality of Russia's development. There is a gap between Russia's macroeconomic output and its microeconomic and political input. In a sense, Russia is the world's most successful failing state.

On one hand, Russia's economic performance has been impressive in many respects, with steady real GDP growth since 1999. Russia is booming today thanks in large measure to its oil and gas exports. Oil may be a curse, as some economists say, but oil is also real and so is Russia's boom. As of end 2005, central bank reserves stand at \$175 billion, of which almost \$50 billion is in a strategic stabilization fund. Despite still high capital flight, the fossil fuel exports windfall has led to significant "trickle down" benefits throughout the economy. Living standards are recovering and the middle class is growing. This is a real Russia and it ranks among the important global emerging markets. Goldman Sachs includes Russia among the "BRICs", the four leading emerging markets (with Brazil, India and China) likely to enter the G-7 in GDP terms in the next two decades based on conservative econometric assumptions.

But, on the other hand, there is another, starkly different image of Russia. There is a Russia that looks like the new "Sick Man of Europe" (if it is Europe at all). Judging by demographics and epidemiology, it is almost literally a sick country. Russia has a short-lived, disease-ridden, shrinking population. It is beset with environmental problems. This is a Russia of an overly strong central state but desperately weak institutions of governance, rule of law, and property rights. This is a Russia of rampant corruption and low civic consciousness. Russia appears to be drifting away from an open society: indeed, civil society is at risk of being re-nationalized. The media are chilled, the political parties have been neutered, and a crude nationalism is on the rise.

This darker Russia is one whose future is unclear in part precisely because it has had so much trouble coming to grips with its history, with the legacy of Stalinism and the Gulag. For Russia to become a normal country, it must deal with its darkly abnormal past. Russia's development is about both tangible and intangible things, and the latter could prove more decisive. Russia is struggling with a national identity crisis and has yet to purge its demons.

The question is whether and how these competing Russias will be reconciled.

The Putin Enigma

This ambiguous and ambivalent picture of Russia brings me to what might be called the Putin Enigma: who is he, what are his intentions, what does he stand for?

In late 1999 as Putin was being promoted, first to prime minister, then to acting president of Russia, my boss President Bill Clinton asked us to try to answer these questions about Putin. Putin's rise was quick and surprising, and his record was thin. My best guess at the time was that Putin had three possible identities: an "empty suit" (relatively inexperienced), a Chekist (experienced in the wrong ways and beholden to the security services), or a young modernizer (pragmatic and open to new ideas).

What is so striking about Putin is that five years later it is still not entirely clear which image of the Russian president is most accurate. There is ample evidence to support each view. In a sense, his track record suggests an amalgam of all three identities – almost like the Brothers Karamazov.

I must emphasize that Russia is a big country -- much bigger than Putin. We must avoid over-personalizing the analysis. Nevertheless, Putin is a central perhaps pivotal figure, and a hard one to interpret.

During his years in the Kremlin, Putin appears to have morphed from Putin One, a pragmatic if erratic modernizer, into Putin Two, a retrograde muddler whose faults are somewhat mitigated, or at least masked, by the oil and gas boom. In other words, Putin started better than expected and has deteriorated in ways that tend to confirm early fears. This strange transformation only intensifies the fundamental questions about Putin's "true" nature. Why the shift? Is he irredeemably wicked, woefully pliable, or just plain mediocre? Could he morph again? Could a better Putin Three lie ahead?

So far, on balance, the best that can be said about Putin's leadership is that he seems to want modern results, but he uses non-modern methods. And methods matter for modernity. Putin may be pragmatic, but he has cultivated what could be called a pragmatism of low expectations. Very low expectations.

Putin's annus horribilis was mid-2004 to mid-2005. His policies looked adrift. Broadly speaking, there were three big strikes:

- Political-economy. The Yukos debacle deepened highlighting the authoritarian tendency, social benefits reform was mishandled, the rest of the structural reform program was all but suspended, and creeping re-nationalization became the order of the day in the strategic sectors.
- Homeland security. The security situation in the Northern Caucasus, from Beslan to

Nalchik, deteriorated.

- Foreign policy. “People power” seemed to be erupting across Eurasia – the Rose revolution in Georgia, the Orange revolution in Ukraine, the regime change in the Kyrgyz Republic. In each case, Russia’s conduct resembled a paranoid response and suggested bad intelligence, bad motives, and bad implementation.

It was a dismal performance. Putin’s political longevity was suddenly in doubt – with speculation about imminent regime change from above by *siloviki* or from below by *babushki* -- and Russia’s international image suffered. Putin grew isolated from his erstwhile partner George W. Bush. The low point was the testy press conference after their bilateral meeting in February 2005 at Bratislava. What had happened to the Vladimir Putin who brilliantly called his American counterpart on September 12, 2001, seeming to understand the direction of history?

Since mid-2005, Putin has arguably recovered and stabilized somewhat. Rumors of his demise have abated. Putin enjoyed constructive meetings with Bush in Washington (September) and at APEC summit in Pusan (November). Putin even achieved a rare public relations victory when the US reversed its opposition to the Russian proposal to resolve the stand-off regarding Iran’s nuclear program. But the overall improvement has been due largely to external factors, for example, the continued oil and gas export windfall, the mounting internal problems of the Bush Administration, the perceived weakness of the EU, and the profound difficulties of the Yushchenko government.

Yet Russia’s fundamental weaknesses and contradictions are still there. Indeed, the Kremlin has begun to act with renewed confidence if not swagger and arrogance. Evidence of the latest reversion to retrograde trends includes passage of a new law regulating/restricting NGOs and the badly mismanaged gas negotiations with Ukraine. The former revealed the depth of Russia’s mistrust of its own citizens and its xenophobia concerning international influences. The latter episode is yet another example of neighborhood bullying. (One could add other negative developments: the harassment of Kasyanov, Kasparov and other critics; the capricious exclusion of the nationalist Rodina party from the local Moscow ballot; the resignation of reformer Andrei Illarionov as Kremlin economic adviser; etc.)

In the year ahead, as Russia enters its Duma and presidential election cycle, all eyes will be on the question of succession. Will Putin succeed himself, or will he find his own Putin? The promotion of Dmitrii Medvedev and Sergei Ivanov has raised speculation about candidates. Of course, the choice may not be his alone to make, as powerful interest groups including the *siloviki* and oligarchs strive to perpetuate the profitable system. Or could “people power”, either ultra-nationalist or liberal-populist, emerge in Russia?

The Neighborhood

Post-Soviet Russia remains a relatively weak power on the world stage, beset with long-term internal problems, but also enjoying a surge of confidence due to the oil boom. Russia’s ability to project power and influence globally is low, though it has key relationships with Iran and

DPRK. Regionally in the FSU, it has much more influence, but the Kremlin tends to use “passive aggressive” and “soft power” methods (economic leverage, energy supply, “political technologies”, etc.) for negative rather than constructive purposes.

In a sense, Russia is playing Black on the chessboard: it is a spoiler and plays mostly to hinder others and to minimize its own damage. Since 1991, but especially under Putin, the Kremlin has been interested in reversing the decline of Russia’s influence and minimizing the influence of outside powers (US, EU, China) in its neighborhood. Of course, Russia has legitimate concerns about frail and/or failing states on its periphery (e.g., Georgia, Moldova, Belarus), but perversely it has often been engaged in helping them fail (e.g., perpetuation of “frozen conflicts”).

One must not underestimate the depth of Russia’s post-imperial hangover. (To be sure, it is hard to be an ex-empire, as the Habsburg, Ottoman, and even British empires well illustrate.) Putin committed more than a Freudian slip when he bemoaned the collapse of the USSR as “the greatest tragedy of the twentieth century.”

Today’s Kremlin is jealous of both the US and China, in different ways. Post-9/11, armed with grandiose and rather militarist rhetoric (“global war on terror”, etc), the US – already the world’s economic superpower -- is unabashedly acting like the world’s gendarme. Russians believe in “hard power”, and they can only envy America’s technological capacities and political readiness to use them. The Kremlin mindset is quite comfortable with Bush’s imperial presidency and its muscular message that might makes right when you are convinced of your own righteousness.

The Kremlin leadership also looks over its shoulders at the Middle Kingdom. Through sheer productivity, China has managed to define its own path, to defy external criticism and to resist external conditionality. For a considerable period of time, it has married post-ideological authoritarianism with market-driven economic success. China stands for a Third Way -- globalization on its own terms, globalization with Chinese characteristics, one might say – and this is very appealing to Russia (and other emerging markets).

Russia would not mind spreading its own Third Way – managed democracy with oligarchic markets – as an alternative to de-stabilizing “color revolutions” around the neighborhood.

The oil and gas windfall has perhaps given the Russian imperial instinct a new lease on life – Russia has come into some new wealth. Russia has a strategic asset and is looking for ways to extract political advantage from it. However, as the latest Gazprom episode with Ukraine demonstrates, energy diplomacy and leverage has its limits. Overplaying its hand, the Kremlin has issued a warning but also achieved a public relations disaster. Markets entail mutuality and trust: one way or another, beggar-thy-neighbor is not a long-term strategy. The collateral consequences in Europe – where end-users began to question Russia’s reliability as a supplier -- made this point even more clear.

What Russia’s imperial resurgence will mean varies for each country in the neighborhood. As Tolstoy wrote, each unhappy family is unhappy in its own way: the color revolutions, the oriental despotisms, the post-conflict countries. In the coming period, there will be regional

litmus tests for Russia, including the elections in Ukraine (March 2006), Belarus (April 2006?), and the negotiations on "frozen conflicts" in Georgia, Nagorno-Karabakh, and Transdnistria/Moldova.

This brings us back to the fundamental dichotomy. Either Russia is a modernizing country working for deeper Eurasian integration, or it is not. Russia cannot have it both ways forever.

What Is To Be Done?

How much does all of this matter to the US and Europe? What should we do about Russia? Put simply: the security stakes are enormous, the tools at our disposal are increasingly modest, and the challenge of designing an effective strategy has never been greater.

If Russia were doomed to be eternally weak, we might be able to ignore it. But it's not, and we can't. We must care about the disposition of fissile materials and other WMD materials. We must care about proliferation risks (Iran, DPRK); about the militant Islamist threat; about stability, political-economic development, and human rights across Eurasia. We are interested in regional fossil fuel supplies. For all of these reasons, we cannot afford to ignore Russia. It matters to our national security interests what path Russia chooses.

The West is not monolithic. The US and EU have symmetrical but not identical interests vis-à-vis Russia. This is largely due to geography and history. We may sometimes see trade-offs between objectives differently.

Furthermore, the US and the EU are themselves not monolithic. Differences of opinion within the US and within Europe may be as great as difference across the Atlantic.

Europe. Let me make a few basic observations about Europe's internal dynamics. First, the EU itself is experiencing a crisis of confidence and identity at the institutional level (e.g., the constitutional referendum). Russia perceives this weakness. Second, and related, it is not clear whether EU-Brussels foreign policy or individual states' foreign policy take precedence. Russia knows how to play the game of *divisa et impera*. (So does the US, by the way.) Third, again based on geography and history, there is a significant gap between "old Europe" and "new Europe" with respect to perceptions of Russia. The new members generally view the old ones as too tolerant and compliant; the latter view the former as too viscerally Russophobic. There is some merit in both views. Taken together, these gaps and divergences suggest that Europe is struggling for policy focus. Whether pivotal elections in core Europe, starting with the Merkel transition, will bring new clarity and stronger leadership is an open question.

The US: The Four Schools. American attitudes toward Russia are complex, fluid, and possibly incoherent. At its worst, US policy toward Russia looks like the hybrid -- or perhaps merely the arithmetic average -- of contradictory approaches. In part this is due to competing "schools" of foreign policy, with different sets of assumptions about what is desirable and what is possible. Broadly speaking, the schools are: globalist, neo-conservative, pragmatist, and traditional realist. (The schools are general and apply to Russia, to China, and to most major foreign policy

challenges.)

The four schools are distinct but also cousins in interesting ways. The globalists and neocons are united in being transformists. They want to transform Russia (and China), but they differ sharply on the appropriate tools and the right balance between carrots and sticks. The pragmatists and realists are far more willing to "let Russia be Russia," preferring to focus on core security interests. The pragmatists, like the globalists, are concerned about bilateral relationships ("strategic partnership") and favor engagement strategies. The realists, like the neocons, are far more ready to call a spade a spade and to use confrontational approaches.

Each school has more than a grain of truth in its favor. No single school is necessarily right for all times and all circumstances. For example, the realist school may tend to make more sense in periods of continuity (Cold War?), whereas it seems far less well suited to periods of dynamic change (today?). Knowing which school is right, in what measure and when, requires wisdom.

The see-saws of Russia policy under Clinton (globalist rhetoric, mostly pragmatic implementation, with a few neocon time-outs) and Bush (started as realist, now alternating between neocon and pragmatist) illustrate the inherent difficulties of dealing with Russia but not necessarily our wisdom in doing so.

So, in short, the joint US-EU challenge is one of integral calculus with respect to objectives and strategies. In doing the calculus, we must be particularly tough-minded and realistic about one thing: the limited policy tools available. Our rhetoric should be managed accordingly. Substituting hype, whether positive or negative, for our inability to influence outcomes in Russia achieves little, and usually undermines our credibility.

Declining Leverage

The real problem is that our collective leverage has been on the decline since the 1990s.

1. Financial conditionality. Gone are the days of big IMF and World Bank programs and the associated policy conditionality. Russia has systematically de-leveraged itself in terms of repaying IMF/WB loans and buying back its Paris Club debt.
2. Trade. Russia is interested in WTO membership, and there is clearly scope here for standard technical policy conditionality. The question is whether Russia's partners are willing to politicize the WTO accession and make broader political linkages (in effect sanctions).
3. Group of Eight. Russia values the G-8 for its political prestige. (Note: Russia has been successfully excluded from the Group of Seven finance club.) Clinton, Blair and Chirac favored Russia's early inclusion under Yeltsin, "leading the market" and putting status before standards. After all, this was supposed to be a club of advanced industrial democracies. Now we pay the price... The Kremlin has just taken up the presidency of the G-8 for the first time. The G-8 Summit in St. Petersburg in July

2006 will provide a test and an opportunity. It will test both the G-7 and Russia: will Russia show that it merits inclusion, that it has made the right strategic choice? If not, will the G-7 have the courage to say so? The opportunity here is to work with the Kremlin to forge a constructive and substantive agenda for this summit. ("Global energy security", which only gives Russia leverage, and "the war on terrorism", which is a metaphor out of control, are not good candidates. Resolving "frozen conflicts" would be a more meaningful and constructive agenda item, especially since Russia holds the key to resolving many of these conflicts.)

4. **Other Memberships.** The NATO-Russia relationship is non-productive. The EU relationship is remote.
5. **Leadership Suasion.** There is little evidence that bilateral summit meetings have been well used to influence Putin's choices on critical issues. Of course, it takes two to tango. On one hand, Putin is not Yeltsin. On the other, the US and European leaders have hardly been the most capable interlocutors. It was encouraging that Bush raised concerns about the NGO law issue at the Pusan meeting. The report card on the Yukos debacle and Khodorkovsky's persecution was less impressive. (By contrast, Clinton-Blair-Schroeder insisted on Gusinsky's release in 2000.) To be sure, the double standards between Russia and China do not help our case. That said, China is not a member of the G-8, while Russia is.
6. **Guerrilla Strategies.** There are a few long-term avenues of influence that merit attention. First, capital discipline, meaning the interest of an emerging market in attracting foreign investment. The trouble here is that Russia main foreign direct investment targets relate to strategic industries such as oil with inelastic appetites (the level of interest is not closely related to the hospitality of the business climate). Second, support for civil society and people-to-people exchanges with Russia. This is the great strength of our democracies and we must tap it. Finally, we must continue to actively support open societies and integration in Russia's neighborhood.

Conclusion

In view of Russia's uncertain path and its ambivalence; given the high stakes, the risks and our shared interests; in view of the limited scope of our influence; and mindful of our other major foreign policy preoccupations and global demands on our diplomatic resources -- the US and EU must critically review, update, and re-focus our approaches toward Russia. We must work to coordinate these approaches to maximize our impact. We must find ways to do more with less. This will demand more clarity, a bolder vision, and more discipline than we have seen recently. It is late in the game, but not too late for us to make an important difference.