



## **EXECUTIVE SUMMARY**

Round table on

# **The Future Role of Russia in World Politics**

11 May 2007

Konschthaus beim Engel, Luxembourg

## **Introduction**

The Luxembourg Institute for European and International Studies (LIES), the Russian Centre for International Scientific and Cultural Cooperation and the Association for Euro-Atlantic Cooperation in Moscow convened a one-day conference on "The Future Role of Russia in World Politics" on 11 May 2007 in Luxembourg. This conference was initiated by Anatoly Blinov and organised with the support of the Business Association Luxembourg-Russie and the Luxembourg Ministry for Culture, Higher Education and Research.

More than twenty years after the inception of Perestroika and fifteen years after independence, Russia's place in the international system is still uncertain. Stripped of its former status as a global superpower, contemporary Russia seems to oscillate between passive isolationism and geopolitical expansionism. The aim of this conference was to conduct a vigorous debate and a lively exchange of views that could produce fresh ideas on the future role of Russia in world politics. More than twenty participants from Russia, Western and Central Europe took part in the discussions, including Ruslan Grinberg, Sergey Markov, Marek Menkiszak, Juri Menschikov, Alexander Rahr, Sergey Rogov, Yury Rubinsky, Lothar Rühl, Ivan Safranchuk, Robert Skidelsky and Andrey Vorobyov. The discussions were led by Armand Clesse (programme and list of participants in Appendix).



In the course of four sessions and on the basis of introductory remarks, the participants addressed a number of key questions and themes: first, the post-Cold War status of Russia in the international political arena; second, the possibility of a new arms race; third, Russia's current relations with the EU, the CIS and the shared "near abroad"; fourth, the rationale and the prospects of Russia's energy policy; finally, different future scenarios for Russia's role in world politics.

## I. Russia as a strategic actor: military capabilities and political ambitions

The first part of the discussions focused on the contemporary geopolitical constellation and Russia's positing in international relations. A number of questions framed the debates. How can we make sense of the current debates, controversies and rifts? Have the USA and Russia abandoned arms control and are they engaging in a renewed arms race? Are we witnessing the beginning of a New Cold War that opposes Russia and its post-Soviet supporters such as Belarus and Kazakhstan, on the one hand, and the USA and its allies in (new) Europe, on the other hand? To what extent is the international system moving away from multilateralism towards unilateralism? Is the world heading for a clash of cultures and civilisations or for a more traditional strategic power game? The discussions featured four topics: the perception and self-perception of Russia; the breakdown of arms control; a new arms race; a second Cold War and Western policy towards Russia.

### A. The perception and self-perception of Russia

The first topic was the perception and self-perception of Russia. According to some participants, the western perception is that Russia lost the Cold War and that it is currently reconstructing its identity on the basis of Soviet symbols, especially the victory over Nazi Germany. By contrast, the West is on the side of all those countries that were formerly occupied by the USSR and that reject the Soviet legacy. As such, the West and its new eastern allies will counter the Russian strategy of rebuilding its status as a superpower. Instead, the expectation is that Russia will eventually join the family of democratic and capitalistic countries.

Other participants described the Russian self-perception as a country that refuses to be treated as a defeated nation and a second-rate power. In this, Russia rejects the dominant consensus that the West prevailed over the USSR and that this victory gives it the right to press ahead with unilateral measures such as NATO expansion and EU enlargement. In consequence, Russia demands equal treatment as an equal partner in international affairs.

### B. The breakdown of arms control

The second topic concerned the possible breakdown of arms control. Sergey Rogov argued that the current absence of effective arms control constitutes a *déjà vu*. Indeed, after the end of the Cold War, the USA, having lost peer power, rejected unilateral concessions because there was no symmetric threat from Russia or any other power. Ultimately, this led the USA to

abandon the ABM Treaty in 2001. At present, arms control seems more unlikely than at any point since 1972. 2009 will see the expiry of START 1, and START 2 was already dead before it came into force. Similarly, the Strategic Offensive Reductions Treaty, which President Bush and President Putin signed in 2002, will expire in 2012. So far, the Strategic Offensive Reductions Treaty means little more than reducing the nuclear arsenal to the magic number of between 1,700 and 2,200 warheads. But no one knows how or when this will be achieved. And since there are no meaningful Russian-American negotiations on the follow-up, it becomes obvious that within the next two or five years, there will be no more strategic arms control, neither defensive weapons limitations nor offensive weapons limitations. In addition, by 2012, there will be no limits on short-range or long-range weapons. Likewise, in relation to the presence of conventional forces in Europe, the treaty on Conventional Forces in Europe (CFE) does not limit Russia or NATO.

Lothar Rühl contended that there seems to be a common commitment to reduce nuclear weapons by 2012. President Putin's real aim is to reduce Russia's arsenal further to 1,200 to 1,400, an objective shared by President Bush (a promise on record since 2004). So at least on this matter, there is convergence. Moreover, Russia's current re-armament and the upgrading of its conventional armed forces were entirely to be expected. Nonetheless, there are serious limits to Russia's ability to attack Europe. Indeed, NATO air force could neutralise the entire infrastructure that is needed to transport Russian forces from East to West in the first hour of any campaign. This is why it was important to keep the air force out of negotiations on arms control, thus giving NATO an unassailable advantage. As long as the rebuilding and upgrading remains within the ceilings of the CFE treaty, Russia will modernise its armed forces without upsetting the overall balance.

Yury Rubinsky put these efforts of modernisation into perspective, explaining that Russia's military budget is rising at twice or more the rate of GDP growth because Russia is still dealing with the Soviet legacy whilst also attempting to upgrade its army. The Russian Federation inherited from the USSR perhaps the largest military machine in the world: more than 3 million soldiers, 60,000 tanks, etc. Subsequently, Russia reduced the size of its armed forces by a factor of about 3, but without changing the structure, making reforms both expensive and inefficient. In consequence, since 2000 President Putin has launched a more wide-ranging structural reform. However, the social situation is so bad that the morale of army is very low and life in the army remains violent and dangerous (extreme forms of bullying, high rates of suicide, etc.).

### C. A new arms race? The US anti-missile shield and the future of arms control

Following this exchange, the discussions turned to the third topic – the danger of a new arms race, especially in relation to the proposed anti-missile shield, and the possibility of arms control. Some participants such as Sergey Markov described the US project to set up an anti-ballistic missile defence as a continuation of the neo-conservative policy of unilateralism and pre-emption. Yet at the same time, the forward anti-ballistic missile system is technologically very weak and underdeveloped. In the next 10 year, US interceptors are likely to missile incoming missiles from North Korea or Iran.



But the crucial point according to Sergey Rogov is to recognise the trajectory of missiles and interceptors. Maps are misleading because they give the impression that the earth is flat. But because the earth is a globe, virtually all missiles aimed at the USA by so-called “rogue states” would at some point fly over Russian territory. If ever North Korea were capable of launching a missile aimed at the USA, the trajectory would include the maritime provinces of Kamchatka and Chukotka in Russia’s Far East. Assuming the current technological level, the Russian radar system would not be able to distinguish between an American interceptor and an American intercontinental ballistic missile (ICBM) armed with nuclear warheads. Thus, if the Russian anti-ICBM (also armed with nuclear warheads) were to hit the US interceptor, there would be nuclear debris on Russian territory; if Russia missed, then the US interceptor would reach as far as the Urals because these interceptors have no self-destruct mechanism.

Likewise, if the anti-missile system were based in Poland and if Iran fired off a three-stage nuclear missile against the USA, the trajectory would include the Northern Caucasus, the Ukraine and Belarus. If, by chance, the USA managed to intercept the Iranian missile, the nuclear debris would fall near Chernobyl. Or it would once again hit the Urals. The only successful and effective anti-missile defence would need to deploy kinetic technology and develop Kinetic Energy Interceptors (KEIs) in order to strike much earlier, not mid-course but instead at the boost phase.

More fundamentally, the logic of mutually assured destruction (MAD) that governed the Cold War system of maximum deterrence remains intact. What has changed is that both sides have smaller number of missiles: 5,000 nuclear warheads instead of 12,000 and 1,000 missiles instead of 2,000. However, Russia is prepared at any moment to fight a nuclear war with the USA and NATO, and the USA and NATO are prepared at any moment to fight a nuclear war with Russia. That is why unilateral actions, whenever the USA simply presents Russia with a *fait accompli*, are perceived by the Russian military and by experts as something that can evolve into a very serious threat.

Lothar Rühl sharply disagreed with this conclusion, arguing that President Putin’s speech at the 43<sup>rd</sup> Munich Security Conference on 17 February 2007 was blown out of all proportions by the media and that in essence the Russian position was no different from what it had been before. Putin’s opposition to the proposed US anti-missile shield is well known and the relationship between Russia and the West has been deteriorating for some time. More importantly, there are many reasons to doubt the usefulness of this US initiative. First, the Americans so far simply lack the necessary technology to make an anti-missile shield effective. Second, any such shield would require the revision or abrogation of the ABM Treaty – a matter for bilateral relations between the USA and Russia. Third, the strategic landscape will not be changed, not least because at present the anti-missile shield would not add significantly to the defence against any long-range North Korean missiles or short-range missiles from the wider Middle East

Crucially, far from constituting an escalation of tensions between East and West, the project of creating an anti-missile shield should be viewed as an attempt to put down a marker and stake a claim to a future US strategic presence, both in Central and Eastern Europe and beyond. The forward defence capability in Poland and the Czech Republic is intended to complement the central missile defence capability in Alaska and California. This anti-missile system is not as such directed against Russia. The reason why the current Polish and the

Czech leadership are in favour of hosting the shield is because they can demonstrate their support for a future US forward deployed strategic capability. In reality, from a strategic rather than an ideological point of view, the best place in Europe would be either Turkey, Crete, Cyprus or even better the Ukraine and Southern Russia, including the Caucasus. But this would of course require Russian agreement and involvement.

The real problem for Europe is whether the shield will provide a proper defence against missile systems with variable trajectories and whether the same missile launcher can deploy a missile with a variable range. Only such a system would be genuinely new and effective. At present, only the Russian Topol-M ICBMs seem to have this sort of capability. So the fundamental challenge for the USA is to build a missile defence that will be safe, reliable and effective against any missile capabilities around the periphery of Europe, mainly the Middle East and Central Asia.

Given the current tensions between Russia and the West, the question of arms control has only become more important. Some participants such as Sergey Rogov argued that any form of arms control is better than an open-ended arms race. But there is at present no vision about how to save the existing arms control regime because the global constellation of power does not favour disarmament. Even if Russia and the USA could once more agree, what about China, India and other emerging powers? There is thus a need for a multilateral framework that includes all the major military powers, chief of all the USA, which is by far the single biggest defence spender, followed by China. Such a framework must put an end to an unlimited arms race.

Other participants, including Lothar Rühl, agreed with this objective but wondered whether a global multilateral framework is realistic. Instead, they advocated a different strategy: first, to move past confrontational statements and to enhance US-Russia and EU-NATO cooperation by reviving the NATO-Russia Council. Second, to try and control the growing anarchy and nuclear proliferation by devising a Euro-Atlantic common strategic partnership and thus treating Russia as a positive partner, not a threat or an enemy.

#### D. Towards a new Cold War? Should the West adopt a policy of containment or engagement vis-à-vis Russia?

The discussion on the spectre of a new arms race raised questions about whether the West and Russia are heading for a new Cold War and what policy to adopt in response to this danger. Sergey Rogov argued that the current dialogical confrontation and the incipient arms race recall Nikita Khrushchev's 'Who will bury whom?'. Even though no war ever is inevitable, crises have occurred for tactical and short-term reasons which could have profound and long-term consequences, including armed conflict. However, one major difference between now and the Cold War is that this is no ideological struggle. This is so because Russia has no distinct ideology: slogans such as 'sovereign democracy' do not amount to a fully-fledged ideological system. But one growing tendency on both sides is the claim that Russian values and Western values are incompatible and that over time this could give rise to an ideological conflict. A second Cold War could be imminent unless and until there are serious negotiations. Absent any ideological confrontation, a geopolitical contest for global influence and power could also entail conflict. The Cold War was uniquely dangerous because it was

waged on both an ideological and a geopolitical level. Tensions on these two levels could set in motion a dangerous dynamic. The bilateral approach that was in place in the 1990s is dead. The unipolar vision has failed. And a multilateral framework is so far inexistent.

Robert Skidelsky offered a different analysis of the current situation. The real question is why the end of the ideological conflict that dominated the Cold War did not produce a peaceful international community. One main reason is that Francis Fukuyama's vision was primarily American and did not take into account cultural diversity. Thus, the thesis of 'the end of history' was quickly replaced by Samuel Huntington's 'clash of civilizations'. In some sense, the East-West ideological confrontation superseded and masked many other sources of conflict that erupted after 1989, especially between rival cultures – a problem that will continue to prevail in the future. Already in the early 1990s, there were intense debates about whether Russia is more European or more Asian. The persistence of cultural differences would seem to preclude an inevitable move towards a single international community.

So according to Robert Skidelsky, the challenge for the foreseeable future is how other cultures and civilisations can be brought together into a negotiated multilateral system. Such a system is needed to achieve a certain degree of global stability. The rise of China has vastly increased the importance and complexity of this challenge: are Chinese values compatible with Western values? What are Chinese values? And how can China find its place within a new international system? In short, the current tension between East and West is not the beginning of a new ideological conflict of the kind of the Cold War, but the recognition that the world does not just consist of billions of people waiting to be Americanised. It is not simply a question of applying to join a club with rules already laid out. It is actually taking part in the making of the rules that will determine whether there will be universal anarchy or global order. These discussions concluded the first part of the conference on Russia as a strategic actor.

## II. The relations of Russia with the countries of the former Soviet Union and the former Warsaw Treaty Organisation

In the second part, the conference focused on Russia's relations with the former Soviet republic and satellites. The following conceptual questions informed the debate: is Iraq leading to a self-weakening of America's own power and what are the implications for Russia? Is a unipolar or a multipolar system better equipped to deal with some of the fundamental challenges, including climate change? What can Russia contribute to the international system, what power and influence does it have, only hard or also soft power? Is Russia's ambition to become once more a fully-fledged superpower? What kind of Russia is in the best interest of the West? A weak one? This debate prolonged the earlier reflections on the strategic role of Russia and centred on three issues: first, Russia's foreign policy vis-à-vis the USA and its allies in Europe and Central Asia; second, Russia's approach to the Soviet legacy; third, Russia's limited power and Western foreign policy mistakes in the shared "near-abroad".

### A. Russia's foreign policy vis-à-vis the USA and its allies

Sergey Markov claimed that when the bipolar world disappeared, the USA built a unipolar system in order to extend its hegemony across the globe. After Iraq, this system is in utter crisis. The neo-conservative experiment of converting the Middle East to democracy by military force has been an unmitigated disaster. Seen in this light, the current arms race was in part triggered by a growing US threat to the rest of the world. As a result, Russia has adopted a policy of containing US global domination because American unipolarity has provoked wars and indiscriminate violence. Russia's opposition to the war in Iraq was not anti-American but pro-American, as it was an honest attempt to help the USA find its right place in the world.

Marek Menkiszak vehemently disagreed with this account, contending that Russia's foreign policy is opportunistic and based on double standards. First, Russia under Putin is exploiting the relative weakness of the USA and divisions within Western Europe in order to thwart the legitimate rights and interests of America and its allies. Second, the new Russia – once more a great power, a consolidated Russia – demands respect and a more important position in international affairs, a position that reflects its ambitions and new capabilities based on its energy resources. As a result, the newly consolidated and empowered Russia pursues its own strategic and political interests that partly clash with those of the USA and its allies: to stop NATO enlargement to the CIS area, to prevent the missile defence deployment, to force the USA to prolong the START I treaty, to put an end to the militarisation of space. In addition, Russia also pushes on some smaller issues, e.g. forcing the West to accept the military presence of Russian troops in Transnistria and Abkhazia for an indefinite period.

In general, Russia's objective in pursuit of its propaganda offensive is, so Marek Menkiszak claimed, to intimidate Europe and to create a psychological atmosphere similar to that at the beginning of the 1980s, when a number of Western European countries were opposed to the US strategy of deploying Pershing and cruise missile. These trends are partly driven and exacerbated by internal Russian political motivations, not least attempts by several people in the top Russian political circles to create an atmosphere of besieged fortress, to create an atmosphere of a new Cold War and thereby possibly to persuade Putin to stay on as President or maybe to help to create another scenario. Judging from the reactions in Paris and Berlin, the Russian policy of intimidating and scaring the Europeans seems to have been at least partly effective.

However, this view was also challenged. It was argued by Ivan Safranchuk that the Central and Eastern European position is inconsistent because Poland and the Czech Republic claim that the US anti-missile system is not directed against Russia; yet at the same time, they both share the American analysis that Putin's Russia uses tools of blackmail and intimidation and they both lobby for a tougher EU policy towards the current Russian President. The justification for their pro-American stance is that NATO is in crisis and that EU cannot offer them any security guarantees, so there is only the USA left as a guarantor of peace and stability. Taken to its extreme, this position simultaneously assumes and denies that Russia constitutes the greatest threat and should be treated as the worst enemy.

In response, Marek Menkiszak contended that there is no simple equivalence between Russia and the West because Russia is applying double standards across the board: first, it divides the world in general and the EU in particular into friend and foe and deals with the former while ignoring and demonising the latter; second, Russia has repeatedly complained about the treatment of its minorities abroad (especially in the Baltic States), whilst discriminating



against ethnic minorities at home (especially Caucasians). This issue raised further questions and led to a discussion on the legacy of the Soviet Union and relations with the post-Soviet space.

### B. Russia's approach to the Soviet legacy and the post-Soviet space

Marek Menkiszak also spoke about Russia's use of the Soviet legacy in order to justify its supremacist stance vis-à-vis its recalcitrant neighbours, above all the Baltic States, Georgia and the Ukraine. For instance, Russia is politicising the issue of memorials to the Red Army and using it as a political weapon against regimes that are critical towards Moscow. These regimes are thus portrayed as hostile and Russophobic. Moreover, Russia is neglecting its own population in Turkmenistan where conditions are dire and incomparably worse than in the Baltic States or anywhere else in the West.

Sergey Markov rejected this version of events and contended that the war monuments are a symbol of the Russian presence in world history and that those who remove them want to deny Russia any importance. Unless the political masters intervene, these wars of symbols will continue and significantly harm bilateral relations. More fundamentally, the Russian policy vis-à-vis the post-Soviet space cannot be reduced to intimidation and blackmail. On the contrary, this policy is clear and based on the principle of shared interest and mutual benefits. First, Russia works for maximum cooperation with the former Soviet republics and satellites. Second, Russia defends the classical freedoms, including freedom of trade, capital and people.

Third, Russia is opposed to the systematic discrimination against Russian minorities and their culture, above all the Baltic violation of basic human rights in the name of 'reforming education'. Fourth, Russia believes that democracy is grounded in the idea that the legitimate interests of the majority are reflected in the action of representative government. If this is so, then the Ukraine should not join NATO. Finally, both the Russian leadership and the indigenous population feel deceived and betrayed by Washington, Brussels, and national capitals in Europe. This is what drives Russian interference in internal politics, in an attempt to correct the growing anti-Russian bias. Indeed, Poland has actively sought to be a kind of 'frontline' state in the struggle against the renewed Russian threat, in exchange for firm security guarantees and 'special relations' with the USA (at least as close as US-UK and US-Israeli relations).

### C. Russia's limited power and Western foreign policy mistakes in the shared 'near-abroad'

The preceding two topics raised questions about Russia's effective leverage and the role of the West in the post-Soviet space. Robert Skidelsky pointed to the severe limits of Russia's geopolitical power and its foreign policy influence, arguing that it relies almost exclusively on its energy resources. As such, Russia lacks both the soft power that is necessary to build and maintain political alliances and the hard power to challenge US hegemony. Indeed, the unipolar moment is not over because the USA has much more ability to project both soft and hard power. Its soft power is much more attractive than Russia's and Russian hard power is linked to the oil price which is cyclical and could suddenly collapse. It was also added that

Russia's self-assertiveness based on energy resources is both counterproductive and shortsighted because the assumption is that world prices will last: if they do not, then Russian leaders will face instability at home and loss of influence abroad.

However, Sergey Rogov preferred to speak of the collapse of the unipolar world in terms of the US strategy of unilateralism and pre-emption, for the USA no longer controls the rules of the game. Even though America remains the only superpower, it will have to change its tactics in the short-term and its strategy in the long-term because other countries refuse to accept the 'principles' that govern US foreign policy. Indeed, North Korea ignored the threat of force and went ahead with its nuclear programme until the USA conceded and accepted to hold direct bilateral negotiations (with the help of its Chinese comrades).

But Lothar Rühl acknowledged that the Western policy towards Russia has been fraught with strategic errors. While it is true to say that President Clinton mentioned the possibility of NATO membership for the Ukraine and Georgia, NATO itself and America's European allies were never properly consulted about the eastern expansion of the North-Atlantic alliance. Washington saw this as political discourse, whereas the Ukraine and Georgia viewed it as a promise (backed by Poland). This constitutes a major problem and a grave error for NATO and for East-West relations because no democracy has an automatic or inherent right to NATO membership. In some sense, NATO has become the victim of its own propaganda. The rationale of NATO was to provide collective defence guarantees, but it was most certainly not designed as an instrument to spread freedom. Democracy is a matter for the EU. Thus, there is now a good opportunity to put an end to the rhetorical contest between Moscow and Brussels/Washington and to determine the limits of NATO. Concretely, this means a total stop on NATO expansion and a renewed strategic partnership with Russia that is substantive and not merely political show.

Alexander Rahr remarked that the EU's policy towards the post-Soviet space is based on three pillars: first, the strategic partnership with Russia; second, the direct neighbourhood policy plus the Ukraine, Georgia and Moldova; third, Central Asia. The only pillar, which has been successful, is the third one because Central Asian countries now feel that they are being taken seriously again by the EU. The first two have failed. The second one is so far a failure because the Ukrainians shot themselves in the foot by creating such a serious crisis where foreign policy is paralysed and they don't have any substantive relation with the European Union. As for the first pillar – the partnership with Russia – eastern enlargement in general and the veto of certain countries in particular has put a brake on negotiations on a new Partnership and Cooperation Agreement. If the current tensions on Russia between 'old Europe' and 'new Europe' persist, then the European Union is split in the same way as it was on Iraq in 2003. Whereas Germany, France, the UK and the Benelux have been conducting a policy of reconciliation with Russia in the past fifteen years and want a strategic partnership with Russia, the new EU member-states mistrust this choice and want an EU-wide policy of containment vis-à-vis Russia.

According to Ruslan Grinberg, Russia has a love-hatred relation with the West. After embracing the Western model in the 1990s, the pendulum is at the moment swinging back towards hatred. Concomitantly, we are seeing the rise of conservative thinking and anti-Western posturing. The West's perception of Russia has always been characterised by a simultaneous attitude of curiosity and fear: after 1989 and 1991 the former dominated, but

since 2004 the latter has re-emerged. Whilst it is clear that Russia is not democratising and in fact distancing itself from the West, it is equally clear that US and EU policy in the shared 'near-abroad', NATO expansion and the deployment of the anti-missile system are all counter-productive.

### III. Russia as an economic actor: the politics of energy

The third part of the conference proceedings analysed Russia's economic weight in international affairs, in particular the role of its abundant energy resources. Economic prosperity as a result of higher oil prices might have a positive impact on the political evolution, including the process of democratisation, but it could also bolster Russia's self-confidence and tendency to reassert its interests. Thus it is crucial to look beyond the details of the energy sector to wider questions of political economy. Other topics of discussion included Russia's demographic situation, in particular ageing and life expectancy, the importance of education and growing regional disparities.

#### A. Structural problems of the Russian economy

According to Ruslan Grinberg, the Russian economy is growing without developing. Broadly speaking, there are two schools of thinking on economic growth and development in the Russian political elite. The first school is dominant and claims that Russia's economic record over the last seven years is outstanding: high GDP growth rates, substantial exchange reserves, strong average income growth, a modernised infrastructure, an improved investment climate and a reduced tax burden for business. In addition, so the argument goes, the Russian state has cut welfare expenditure (as a proportion of GDP) by 'monetarising' social security and benefits. Other sectors such as science, culture and education will be reformed along similar lines: for instance, more students are expected in future to contribute towards the costs of their university studies.

The second school of thinking says that the country cannot rely exclusively on the invisible hand of the market and on its own energy riches. Compared with Soviet times, the structure of the Russian economy has considerably deteriorated, such that the country's exports are not competitive, except for 12 or 13 commodities. Consequently, Russia urgently needs a structural policy and an industrial policy. With the growing revenue from gas and oil sales, Russia has the means to achieve the industrial development priorities it has set itself. The problem is that the Putin administration has set up a 'stabilisation fund' for future generations. But the well being of future generations is dependent on a proper structural policy now. Unfortunately, the rest of the world is primarily interested in Russia's energy resources and therefore foreign demand for oil and gas sustains the current policy of growth without development.

Moreover, having adopted a rightist and ultraliberal approach to economics, Russia has adopted a dubious concept of economic freedom that preserves and perpetuates the 'primitivisation' of Russia's economy and the 'de-intellectualisation' of labour. These are now the two main structural problems that afflict Russia. Traditionally, Russia has had an outstanding higher education system, especially in the area of engineering and natural

sciences. But the focus on energy has hampered an effective policy of diversification and investment in high-tech sectors. Moreover, in its dealings with the Ukraine and Belarus, Russia made two fundamental mistakes. First, in the case of the Ukraine, it was right to raise prices to world market levels because the Ukraine had decided to adopt a free-market policy, but the increase was far too sudden and undermined friendly relations with Kiev, not least because the Ukrainian population blamed the Kremlin for the price hike, not its own new leaders. Second, Russia still pursues the dream of a Eurasian economic community, including a customs union, but a free trade zone that includes other countries like the Ukraine seems unrealistic. By dealing differently with different countries, Russia has undermined both its own credibility and the case for pan-Eurasian cooperation.

### B. Russia's 'oil curse' and its consequences

In the second part of the discussions on Russia's role as an economic actor, it was argued by Robert Skidelsky that the current energy bonanza has had positive short-term effects but that Russia risks facing a veritable 'oil curse' with potentially disastrous long-term consequences. At present, Russia has a single-track economy: energy (oil and gas) make up 40% of GDP; energy and minerals constitute 60% of all exports and 40% of total government revenue; primary commodities represent 80% of the entire value of the stock market, making Russia in 2007 more dependent on energy than at any point during the Soviet Union. Undoubtedly, this has had huge short-term benefits. In particular, Russia survived the shock therapy of the 1990s and has once more become a sovereign country, debt-free and awash with foreign currency.

However, Russia must confront the risks of an 'oil curse' and six concomitant defects. First, the volatility of commodity prices is much higher than that of industrial prices, making the Russian economy vulnerable to fluctuations in energy prices. Second, Russia is faced with the phenomenon of 'Dutch disease', i.e. a rising exchange rate that will make virtually all non-energy sectors uncompetitive. Third, Russia's economy is becoming increasingly politicised and there is an ensuing struggle over the rents that accrue from its energy-driven national patrimony. Fourth, natural resource abundance diverts attention from wealth creation to fighting over distribution. Fifth, abundant energy resources and high prices decrease the demand for democracy because revenues from energy sales constitute by far the highest percentage of total state revenue. Finally, a firm control over the national territory becomes even more important and has significant implications for foreign, security and defence policy.

According to Robert Skidelsky, Russia faces at least three serious consequences. First, it is highly vulnerable to energy prices fluctuations: if the price of crude oil were to fall from the current levels of around US \$70 to US \$45, lower government revenue could adversely affect the stock market and thus the economy as a whole. Second, the Kremlin's patrimonial attitude towards national resources engenders a growing hostility towards foreign investment that is desperately needed both in the energy sectors and in other sectors. Third, the competitiveness of the Russian economy is threatened by the 15-20% appreciation of the Russian Rouble against the US Dollar since 2000, thus putting a brake on exports and growth.

However, other participants such as Sergey Rogov disagreed with this scenario. They objected to the idea that natural resource abundance is somehow by itself a burden on the rest of the economy, and they pointed to positive examples such as Norway, Canada and Australia.

Moreover, they argued that Russia has a number of structural advantages compared with other economies, not least a much lower government expenditure as a share of GDP and also lower social security and welfare expenditure as a share of GDP than most western countries. Finally, they blamed the adoption of western-style neo-liberalism by the Russian political elite for the lack of diversification and the increasingly monolithic structure of Russia's economy. This led to an intense debate about where Russia has gone wrong and about what is needed to correct the current economic evolution.

### C. The most pressing economic challenges

There was wide agreement among the participants that natural resources are not in themselves a curse. What is decisive is who controls revenue and how it is distributed. It was argued by Sergey Rogov that there will always be a dialectical contradiction between producers and consumers of oil and it is very difficult to find the right balance. But it is clear that Russia has missed an unprecedented opportunity to put the energy bonanza to productive use. Over the last seven years, Russia has received about US \$1 trillion in revenue from oil and gas production. US \$300 billion were used to service the combined Soviet and Russian foreign debt burden. Another US \$300 billion went into the stabilisation fund and the Central Bank coffers. The remaining US \$400 billion went to Russian (and foreign) oil companies, 10% of which was invested in the energy infrastructure. So out of US \$1 trillion, only US \$40 billion have been used for investment – as one participant said, ‘this is more than a crime, this is a mistake’. Moreover, oligarchs enriched themselves and their clans at the expense of the country, plundering its natural resources and taking their fortune abroad. Government spending is still tainted with corruption and bureaucratic inefficiency. Thus, Russia faces the twin challenge of modernising its obsolete infrastructure and fighting rampant public and private corruption.

But there was disagreement on the role of foreign direct investment in Russian's economic development. Some argued that Russia was right to acquire control over its gas and oil sector because these are strategic assets which are indispensable to state sovereignty. Accordingly, Russia needs more foreign investment in non-energy sectors, and President Putin's agenda is to exchange energy for foreign technology. Indeed, others remarked that Russia could buy foreign technology for cash, whilst denying foreign companies excessive influence and ownership. But yet others contended that the Russian energy sector is extremely inefficient and requires much higher productivity if Russia is to enjoy the fruits of its natural resources abundance. In order to raise productivity, Russia cannot simply buy foreign technology but needs foreign investment in order to get the know-how it requires to develop existing fields and explore new fields. Foreign investment is possible without surrendering total control and conceding majority ownership.

There was also disagreement on the importance of democracy and economic development. Some participants like Robert Skidelsky argued that the natural resource curse can be avoided by having good governance. Norway and Australia are examples of how an incorruptible system of government and public administration can make excellent use of oil and gas revenues. Others like Ivan Safranchuk contended that a strong state involvement in the economy necessarily limits the scope of democracy. Moreover, foreign direct investment does not require democracy but instead stability, thus favouring a strong state and restricted

democracy. Yet others remarked that autocratic regimes do not come in one shape or form but that there is a wide range of such regimes, from Kuwait where most people partake of the national wealth to Nigeria where only the top 10% benefit. This discussion concluded with a widely shared observation that Russia's infrastructure is obsolete and that modernised infrastructure is absolutely crucial for economic growth and social development, leading to a discussion about diversification.

#### D. Diversification and other options

Many participants agreed with the suggestion that Russia should build a non-oil economy, based on skills and human capital. In diversifying its economic structure, the country could exploit its human capital in general and its scientific and technical expertise in particular. Only a generation or so ago, Russia was one of the most advanced countries as far as the quality of labour was concerned. Today the quality of labour is deteriorating, the industrial basis is disintegrating and the research excellence is disappearing. Receipts from oil and gas sales should be used almost exclusively to invest in a knowledge-based economy and to finance developments in knowledge-based sectors. If Russia can achieve this, it could once more become a global power, but if it fails, it will soon or later become a larger Venezuela.

Gerhard Ambrosi argued that in the 1990s Russia had the option of adopting the Chinese model of economic development. What is interesting about the Chinese option is that the Chinese leadership did away with central planning. Nevertheless the Chinese put in place a number of joint ventures with foreign companies that brought foreign technology to China without surrendering control. So China saw a decentralisation of economic activity from the state to other, smaller units. In addition, what would have been very important for Russia and still is crucial now is to develop the sector of small- and medium-sized businesses. Thus, the challenge for Russia is to devise either sub-state structures for investment or policies aimed at strengthening small- and medium-sized enterprises.

Finally, the debates touched on the question of Russia's membership in the World Trade Organisation (WTO) and the current tensions between Russia and the EU over the Energy Charter. In fact, as Alexander Rahr remarked, these two issues are closely linked because both involve the acceptance and application of common rules. If Russia really wants to enter the globalised world through the WTO mechanisms, then it must accept the rules of the game. Likewise, the existing members of the WTO will have to accept Russia as an equal partner with the same rights as everyone else. At the moment, neither seems to be on offer. But some participants were more optimistic. In the case of the Energy Charter, Russia has so far refused to sign the existing proposal, and for good reason, because many provisions were written in the 1990s from the perspective of energy consumers in the West. However, as part of the ongoing negotiations on a new Partnership and Cooperation Agreement (PCA) between the EU and Russia, there are attempts to devise a new Energy Charter which takes into account not only the interest of the consumer countries but also the rights of the producer countries (Russia, Kazakhstan and Turkmenistan) as well as the rights and responsibilities of the transit countries like Ukraine and Belarus.

Other were less sanguine, arguing that both Russia's objectives and methods are alarming. In addition to seizing control at home by expropriating national and foreign companies, Russia is

pursuing an increasingly aggressive policy abroad, said Marek Menkiszak. The advancement of Gazprom, especially over the last year in Europe, undermines the European Commission policy of liberalising the energy market. Gazprom is a state monopoly which controls all the chains from the extraction to transport and delivery. It has already created a number of asymmetrical relationships with European states. Moreover, Russia is using energy as a tool to wage psychological warfare, threatening to withhold supply from Europe and to redirect its resources to Asia. Russia has already punished several EU members, including the Baltic States and Poland, but also former Soviet republics such as the Ukraine, Armenia and Belarus. Finally, in 2003 it was President Putin himself who said that Gazprom is one of the most important levers in Russian foreign policy.

But this account was questioned by Robert Skidelsky who pointed out that in practice, there are hierarchies and that big powers have *de facto* rights over small(er) powers: e.g. Finland's policy vis-à-vis the Soviet Union was circumspect and thereby stabilised the situation. By contrast, Georgia was wrong to challenge Russia and thus let itself be instrumentalised as a pawn in a great geopolitical game between the Washington and Moscow.

#### IV. The future status of Russia in world politics

The final part of the conference discussions focused on some of the future strategic challenges and options for Russia. The main question that framed these discussions was whether Russia's influence will further diminish or whether it will move up in the hierarchy of global powers.

It was widely agreed that within a multipolar global security system, Russia has an important and irreplaceable role to play, both for Asia as well as for Europe. Lothar Rühl went as far as saying that whilst Russia is a Eurasian continental power, it is also European, perhaps in geopolitical terms dominantly so. Thus a European project is required that goes well beyond the current arrangement. But the public discourse at present is not helpful at all, especially in some corners of Russia and parts of Central and Eastern Europe. In this respect, the former Chancellor Gerhard Schröder will go down in history as an important statesman because of his strategic decision and long-term political investment in order to bring about an irreversible cooperation with Russia. Perhaps after 2007 a new vision for EU-Russia relations is possible, by focusing on technology, the strategic exchange of resources and knowledge-based economic sectors. As for NATO, a new approach is also needed. Since 1991, the reforms of Euro-Atlantic security system included Russia, culminating in the creation of the NATO-Russia Council and US-Russian cooperation. Now and in future, NATO must be seen as part of the foundation of European security but the continuous eastward expansion of NATO will inevitably lead to conflicts with Russia. This process should be stopped and reversed: Romania, Bulgaria and Baltic States should not have been included. At present, it is imperative to draw a line and not to include the Ukraine or any Caucasian country. And it is equally vital to re-activate the old vision of a Euro-Atlantic security and defence community.

Other participants were less upbeat. Some warned that the current escalation of tensions might lead to a situation where the Duma elections in December 2007 and the presidential elections in March 2008 will be held in an increasingly hostile context and that the new Duma and the new President will be elected on an anti-Western ticket. Moreover, it seems that Russia and

the USA will only come together on security, defence and foreign policy issues if and when there is a common enemy or a shared threat – the opportunity that arose in the immediate aftermath of 9/11 and the liberation of Afghanistan from the Taliban has now been lost. Marek Menkiszak stressed the importance of history and argued that the ‘troubled history’ between Russia and some its neighbours such as Poland makes any political breakthrough difficult. As a result, in the short run relations are likely to be fraught with difficulties. In the long run, a political reconciliation is possible if Russia decides to join the West and embraces western values.

Ivan Safranchuk disagreed with this conclusion and contended that Russia will continue to pursue a pragmatic policy, both domestically and internationally. As such, contemporary Russia differs from the Soviet Union which – independently of its other motives – had some sort of altruistic vision aimed not only at maximising national interests but also improving world affairs. Indeed, it is pragmatism and not ideology that drives Russian’s policy towards its neighbours. The Russian Federation is becoming an increasingly important regional player in Eastern Europe, the Caucasus and Central Asia. But globally, Russia remains trapped in the ‘Primakov Doctrine’, i.e. the idea that Russia should stick to international law and that the Russian mission in the world should be to make sure that other powers are bound by international law. This doctrine emerged in the 1990s and made sense insofar as Russia could influence and shape international law, thus protecting its vital interests. Now that international law is under threat, this doctrine does not serve Russian interests well. That is why Russia has already adopted a form of liberal imperialism vis-à-vis some its immediate neighbours.

Coupled with its renewed regional power, Russia is increasingly disillusioned by the West and Europe and is therefore looking to the East for strategic partnership. Indeed, during his two terms in office, Putin has made enormous efforts to establish new relationships with the EU. His aim was not to join the EU and to adopt the *acquis communautaire* but instead to create a form of engagement and irreversible interdependence with Europe. Having invested so much foreign policy capital into this project, the Russian leadership under Putin has concluded that expectations have by far exceeded action and results. After the collapse of the Constitution, the EU does seem to be ready for what Russia was offering. Thus, relations have been put on hold, while Russia reconfigures its relations with Central Asia and the Caucasus. The risk is that the next Russian President may not be as pro-European as the current President and that EU-Russia relations may not reach once more the level of a strategic partnership.

Finally, there was agreement that over the next 20 years or so, Russia will participate in the club of major players (Europe, the Middle East, Central Asia, the Far East) and that it will be involved in all the key international questions, including arms control, nuclear proliferation and energy security. Russia may even climb one or two steps in hierarchy, but it will not recover the status and rank of a global superpower. Moreover, Russia and the international community must confront and address a number of problems. First, a new system of arms control involving major players is impossible without Russia. Second, a new non-proliferation regime. Third, if the USA fails in Iraq and NATO in Afghanistan, then Russia’s help will be needed to pacify these areas. Fourth, a strategy to achieve energy security. Finally, reforming the UN Security Council. Solutions to these problems are more likely with Russia because Russia is a vital power and has interest in addressing such and similar challenges.



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*Concluding reflections*

In conclusion, it was said that at the official level there are no fresh ideas to escape from the current impasse and reconfigure the prevailing trend towards confrontation. Russia lacks an ideology, a political system and an economic model that would allow it to develop in line with its own culture and traditions. It does not know whether its place is in the West or the East, or how to bridge the gap between them. The USA under President Bush is both unwilling and unable to offer a new grand bargain that includes effective arms control. The EU is deeply divided on Russia, between those who support a strong strategic partnership and those who defend a policy of containment vis-à-vis Moscow. Thus the West lacks a coherent project or policy: with, without or against Russia?

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July 2007

The Luxembourg Institute for European and International Studies,  
the Russian Center for International Scientific and Cultural Cooperation at the Russian Ministry of Foreign  
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*with the support of the Business Association Luxembourg-Russie and the  
Luxembourg Ministry for Culture, Higher Education and Research*

**Round table**

**The future role of Russia in world politics**

*11 May 2007*

*Konschthaus beim Engel, 1 rue de la Loge, Luxembourg*

**PROGRAMME**

- 09.00-09.15 Welcome by **Armand Clesse**, Director of the Luxembourg Institute for European and International Studies, and **Anatoly Blinov**, Representative for Luxembourg of the Russian Center for International Scientific and Cultural Cooperation at the Russian Ministry of Foreign Affairs
- 09.15-10.45 **I. Russia as a strategic actor: military capabilities and political ambitions**
- The rise of the Russian defence budget. A new arms race ahead?
  - President Putin's speech at the 43<sup>rd</sup> Munich security conference on the 10<sup>th</sup> February 2007: Russia as leader of a global opposition against America?
  - Missile Defence sites in Eastern Europe from Russian, European and American perspective.
- 11.00-12.30 **II. The relations of Russia with the countries of the former Soviet Union and the former Warsaw Treaty Organisation**
- Independent nations vs. Russia's natural sphere of influence?
  - The 'post-revolutionary' state in Ukraine, Belarus and the Transcaucasian Republics.
  - Russian minorities in states of the former Soviet Union.
- 14.00-15.15 **III. Russia as an economic actor: the politics of energy**
- Energy resources as a means for political leverage.
  - The European energy security strategy.
  - The 'pipeline war' between Russia, Poland and Germany.
- 15.30-16.45 **IV. The future status of Russia**
- Russia's conception of the United Nations (cf. President Putin's speech at Munich).
  - Russia – a Eurasian regional or a global power?
  - The role of the Commonwealth of Independent States from Russia's perspective.
- 16.45-17.15 **Wrapping up the discussions by Adrian Pabst**

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Round table

## **The future role of Russia in world politics**

11 May 2007

Konschthaus beim Engel, 1 rue de la Loge, Luxembourg

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