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PROSPECTS FOR THE RUSSIAN FEDERATION

Half-Day Roundtable Seminar Summary

Putin's Second Term

Regime Type and Regime Strategies

- *Professor Richard Sakwa, University of Kent at Canterbury*

Putin's Political Agenda

- *Dr Lilia Shevtsova, Carnegie Moscow Center*

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- *Professor Philip Hanson, CREES University of Birmingham; REP, RIIA*

Towards a New Russian Foreign Policy

- *Dr Bobo Lo, Russia and Eurasia Programme, RIIA*

REGIME TYPE AND REGIME STRATEGIES

Richard Sakwa

Regime Type

- Democracy can be seen as consolidated when the rules are definite and the possible outcomes are indefinite. In Russia the situation is reversed; the rules are indefinite and the outcomes are definite.
- Linz and Stepan argue that transition to democracy is over when democracy has become the "only game in town". In Russia, however, democracy is not the only game in town. Hirst suggested stable, non-democratic regimes could also be considered legitimate. The vast majority of the Russian people consider Putin's regime legitimate. The question therefore is: what sort of system is emerging in Russia, and what will be the framework in which policy is made? Many 'transitologists' use adjectives (illiberal, managed etc.) to characterise the Russian type of democracy.
- A formal constitution does not guarantee a constitutional system. In historical perspective, it is possible to view the tsarist regime after 1906 as sham-constitutionalist, the Soviet Union as pseudo-constitutionalist and the current system as proto-constitutionalist.
- Russia is a constitutional state with an administrative regime that subverts legality and accountability, but preserves the outward forms of constitutionalism.
- Sociological approaches (e. g. Kryshtanovskaya and White) focus on elite continuity.
- Displaced sovereignty: government assumes an independent political existence, problems of accountability

Michael Mann: Semi-authoritarian incorporation, ie limited civic activity is accepted, but the scope actors have is very constrained; pluralism but not polyarchy (as understood by Dahl)

Regime strategies

- *Semi-authoritarian bureaucratic incorporation*: goes back to a term coined by Michael Mann. This strategy pursued by the administrative regime comes close to the concept of 'managed democracy', which is, however, undertheorised. Its characteristics include a high degree of elite continuity from Soviet times and the neutralisation of the autonomy of other social and political actors.
 - *Jacobin republicanism*: A strategy of neo-Jacobin republican state-building. The aim is to achieve equal and universal citizenship and to undermine the privileges of over-mighty social actors. The latter are not to be destroyed but to be incorporated into the state.
 - *The liberal model*: The strategy favoured by Yeltsin. It could also be called anarcho-liberalism. It failed to achieve a convincing model of social integration.
 - *The conservative nationalist model*: resembles the Second Reich in Germany. National consolidation rather than state consolidation
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- The predominance of regime-type parties is a matter of concern, as is the strength of the administrative regime itself. Only when the administrative regime is brought under the control of law, the constitution and within the ambit of political accountability can Russia be considered to have achieved democratic consolidation.
 - Democratic consolidation would be accompanied by a shift in strategies of integration from semi-authoritarian bureaucratic incorporation towards a model of liberal (rather than the current Jacobin) republican integration
 - The failure of liberal parties in the Duma elections was a consequence of their own failings. Khodorkovsky clearly overstepped the mark.
 - Putin is a classical state-builder. He wants a modern, consolidated nation which overcomes the permanent contradiction with itself
 - Putin wants a popular representative system, but does not know how to achieve that. He is not likely to extend his term, as he has always voted out that option.
 - Only a new united democratic party that brings social-democrats, liberals and civil rights movements together could effectively challenge Putin.
 - Theoretically, a middle class strengthens democracy. History, however, often disproved that assumption (cf. Germany in the 1930s). In Russia, there is not yet a basis for a strong middle class supportive of democracy.

PUTIN'S POLITICAL AGENDA

Lilia Shevtsova

- The experiment with liberal democracy from 1990s has come to an end. Russia is becoming more totalitarian, but the structure of power resources is a more relevant framework of analysis.
- Which political alternative will replace the Communist Party? The new left? Glaziev? Main slogan will be the re-invention of Russia, not its incorporation into the West
- New relationship between business and the state; unclear what it will be like.
- Interestingly, only 15% of Putin's supporters think he is successful in dealing with Russia's problems, and that appraisal is based on foreign, not domestic policy. Putin will still be re-elected by an overwhelming majority.
- **Agenda:** Economic reform, Pro-western orientation, Modernisation from above (resembling the traditional, Soviet pattern)

Challenges

1. *Political*

- Bureaucracy: key to Putin's modernisation. Fradkov will consolidate a bureaucratic, semi-authoritarian regime. He is disposable, a Mr Nobody. Kasyanov's replacement is supposed to compensate for the lack of legitimacy of the upcoming elections. It is also a means to divert attention from the electoral farce.
- Putin will remain in favour of the market and of co-operation with the West. He already seems to be fed up with politics and will most probably leave in 2008.
- There are other groups in the Kremlin (pragmatists, liberal technocrats) in addition to the *siloviki*. The degree of consolidation of the *siloviki* is often overestimated.
- Oligarchs are temporarily sidelined, but a new generation of oligarchs are waiting for their turn. They see the ousting of Kasyanov as a sign of Putin's weakness. Lobby groups are still influential actors in Russian politics.
- Chechnya: no clear solution in sight, even liberal forces cannot come up with a feasible peace plan. Negotiations with Maskhadov would not resolve the conflict. Putin recognises the failure of the Chechnya campaigns and sees Kadyrov as an exit-strategy.

2. *Systemic*

- Importance of legitimacy of power is finally understood and acknowledged by Putin
- Accountability: the inherent dilemma of legitimacy and responsibility
- Reproduction of power: continuity, perpetuation and the quest for a future successor
- Pro-western orientation including a high degree of assertiveness, goal: competitiveness

3. *Strategic, existential*

- Is it possible to carry out reforms under conditions of stagnant stability, with the political elite preferring the status quo?
- Consolidation of the state and nation on the basis of liberal democracy failed. New consolidation attempts based on a common enemy (terrorism)

- Political class: the conventional truth that society is more traditional than politicians regarding reforms should be reversed in the case of Russia
- Liberal democrats need to provide anti-systemic opposition in order to be successful, but at present no anti-systemic liberal alternative is in sight; Must wait for a new political generation.
- Only crisis can trigger change when there is no political will
- Quasi-authoritarian modernisation is not viable in the long run
- The major political instrument, television, is controlled by the state. Self-censorship by the media is a big threat.
- The West has very few instruments with which to influence Russia. Foreign debt can no longer be used, and major pro-Western parties are not represented in the Duma. Recently proposed initiatives, like excluding Russia from the G8, would be counter-productive.

THE RUSSIAN ECONOMY: REFORM OR STAGNATION?

Philip Hanson

The Russian economy has grown at an average rate of 6.7% a year in the past five years (7.3% last year).

Extrapolated for another five years, that growth rate would yield a 2008 GDP 91% above that of 1998. Such an outcome would be close to meeting President Putin's call for a doubling of output over a decade. Few expect such a rate of growth to be maintained in reality.

The Russian government started this year with a projection of 5.2% growth for 2004. Everyone, until July last year, projected too low a growth rate for 2003.

Maybe Russia is embarking on one of those rare and enviable accelerations of the trend rate of national economic growth that seem to take everyone by surprise. Or perhaps one should draw attention to a range of structural weaknesses and cast doubt on Russia's ability to sustain recent growth rates in the medium term.

Recent developments

In the most recent period household consumption (around 51% of GDP) and gross fixed investment (now around 20% of GDP) have been the main drivers of aggregate demand.

There has been a surge of business confidence in Russia. This has manifested itself above all in the rapid growth of fixed investment (12.5% last year).

Recent growth has reduced poverty. The numbers officially estimated to be living below the poverty line fell by five million to 22 million in the year to September 2003.

Other indicators of improvements in underlying business conditions and confidence include:

- Growing rouble monetisation (rouble M2/GDP has been rising, albeit from very low levels, and was 20.5% at 11/1/03);
- Rising credit to the private sector (27% up, last year, in real terms);
- A reduction in the spread between deposit and lending rates;
- The growth of output, investment and labour productivity in sectors additional to the natural-resource-exports-based industries;
- Signs of increased small-firm activity and reduced bureaucratic burdens on small firms
- Improvements in business practice: in autumn 2003 Standard & Poor's survey of quoted Russian companies' transparency produced an average score of 39 (out of 100). Up from 34 last year and higher than the Latin American average

Policy since 1998 has been helpful. Macroeconomic management has been prudent: 2004 should be the fifth successive year of general government surpluses; Consumer-price inflation was 12% - still double-digit, but declining. Institutional reform, has continued to be carried forward, both in legislation and at least to some extent in real implementation on the ground. The tax, land, banking, housing, customs and de-bureaucratisation reforms have all made some progress,

even though, much is still to be done. The prospects for reform of public-administration are uncertain

Weaknesses and risks

- A large, sustained fall in oil prices would reduce growth
- Manufacturing is vulnerable to a rapid real appreciation of the rouble.
- Difficulties in the WTO accession negotiations could weaken incentives for further reform.
- The Yukos affair suggests that a clear rule of law is not imminent.

Oil prices. Significantly lower oil prices would substantially reduce growth but not necessarily eliminate it. There would be a cut of 3.5% off GDP if oil prices were halved for, say, a year; that would entail roughly a halving of last year's growth.

Real exchange rate. Larger, recent net capital inflows may now boost reserves even more than in the recent past, making control of the growth of the monetary base harder. But, the establishment of the (budgetary) stabilisation fund should provide a new form of sterilisation of foreign-exchange inflows, and the planned development of internal government borrowing should provide the central bank with new instruments for managing liquidity.

WTO. Russia is disadvantaged by being outside any major trade and economic grouping, and by having the slow-growing and protectionist EU as its main market. Membership would help. So should some sort of Common European Economic Space. But leading WTO members are seeking a tough deal with Russia. In particular, EU demands on domestic gas pricing and gas reform are probably WTO +

Yukos; Putin's priorities. As a minimum this indicates a resolve on the part of Putin and close Kremlin associates (but not the present government) to keep any large company beholden to the state. However, it might be argued that the consequences for future economic growth may not be dire since (a) such political risks are already priced in (*vide* the stockmarket index and private international capital flows since July 2003) and (b) countries like Japan and Italy grew fast for decades with big firms deeply entangled with the state and very little 'Anglo-Saxon due process' regulating their relations. Putin's future priorities are at the time of writing unknowable. The composition of the new government will provide more evidence one way or the other.

Conclusions

Four main risks have been considered. One not considered is a departure from prudent macro-economic management. This seems unlikely. Prudent macro management looks more entrenched in Moscow than in London or Washington. Of the four risks considered here, three things are worth noting: Russia would be exceptionally lucky if none of these downside risks materialised in 2004-8. Russia would be exceptionally unlucky if all of them materialised together. And some of the downside events would have at least some offsetting benefits. Thus a substantially lower oil price would reduce upward pressure on the exchange rate and inflation.

The most likely scenario is that Russia will see somewhat, but not much, slower growth in the next four years than it has enjoyed in the last four years.

TOWARDS A NEW RUSSIAN FOREIGN POLICY?

Bobo Lo

Russian foreign policy under Putin has been based on fairly constant principles. Moreover, these principles will continue to inform Moscow's approach to international affairs over the next four years.

Overall approach

- Positive-sum view of international affairs – conviction that one can have cooperative relations with countries of very different outlooks and interests. Putin also believes that positive-sum outcomes are possible on a number of issues, namely, the war on terror and other parts of the new security agenda, while in other areas there are competing agendas
- Multiple and flexible identities – Russia sees itself as a regional and global actor; great power yet also 'normal' nation-state; valued transatlantic partner, an integral part of Europe
- 'Not-like-the-others' mentality – despite talk about integration and normalization, Russia considers itself to be 'special' and different. In effect, it wants 'selective integration'
- 'Great power-ness' (*derzhavnost*) – Despite the 'normalization' of Russian foreign policy – characterized by a more cooperative attitude towards the West – Putin sees Russia's natural destiny as that of a modern great power: not only militarily powerful, but an influential political and economic actor
- 'Big issues for big players' – Russia has consistently conducted its foreign policy on the basis of a few key 'strategic' relationships between the major powers.
- 'Wager on the strong' – Putin looks for the most effective means of realizing his foreign policy objectives, and that means engaging with powers and institutions most likely to advance (or obstruct) Russian interests.
- Interests, not values – despite the talk of 'a universal civilization', Russian foreign policy is based on the convergence of selected interests, not values.
- Self-awareness – Putin's realism and pragmatism is reflected in:
 - (i) an emphasis on action rather than rhetoric, most notably in the FSU
 - (ii) a reluctance to fight unwinnable battles, such as over NATO enlargement, abrogation of the ABM treaty,
 - (iii) the realization that, as a relatively weak power, Russia is frequently less an 'actor' than 'acted upon'.
- Primacy of security priorities – Russia's key foreign policy priorities are and will remain overwhelmingly security-oriented: the war on terror; international conflict resolution; geopolitical priorities; WMD non-proliferation; strategic arms control. The (partial) exception to the rule is WTO accession;
- Strategic culture – constructs such as zero-sum, balance of power and spheres of influence remain extant, albeit in a more implicit form.
- 'Economization' – with traditional means of power no longer adequate to maintain Russia's international position, there has been a pronounced shift towards economic priorities at home and abroad, driven by:
 - (i) the belief that Russia cannot be a great power except on a strong economic base
 - (ii) the profit motive
 - (iii) the utility of economic means to achieve political and security goals, such as the projection of geoeconomic power (through energy pipelines) and exercising influence in the FSU
- Image projection – public diplomacy is critical to Putin's foreign policy.

- Strategic opportunism – opportunism mixed with a longer-term strategic sense. After 9/11, this was demonstrated by using the radical shift in American foreign policy as a catalyst in developing closer relations with Washington.
- One foreign policy – centralization of foreign policy-making. There still exist competing agendas within the administration, but Moscow presents a united face to outsiders. Although the system of policy-making remains deficient (e.g., over-reliance on Putin), there is a tighter nexus between the formulation and implementation of policy. This will strengthen over Putin's second term.
- 'Managed normality' – Although there will be occasional downturns and minor crises over individual issues, for the most part Russian foreign policy will be characterized by a 'managed normality' – generally responsible behaviour and cooperation, based on numerous common interests, while underplaying the importance of diverging value-systems with the West

Specifics

- Functional if unspectacular relationship with the United States
 - (i) security cooperation will continue in Central Asia
 - (ii) Russia will gradually disengage from Iran
 - (iii) Putin will be cautiously assertive in the FSU, without risking military adventurism in places such as Georgia
 - (iv) economic cooperation will expand, especially in the field of energy
 - (v) in the longer term, Russia may incline slightly towards America in the latter's impending strategic rivalry with China
- Economic cooperation with Europe
 - (i) economic interdependence will increase, but there will also be a growing moral/normative divergence
 - (ii) the Russia-EU relationship will continue to be difficult
- Russian policy in Asia will remain Sinocentric, although Moscow will look to develop greater strategic diversity.
- Consolidation and cautious expansion of influence in the FSU. Although a strong hegemonic mindset remains, the means to realize such ambitions are lacking – and will remain so for the foreseeable future.
- Lip-service to the UN. Putin will continue to speak of the UN's primacy in international decision-making, but Russian foreign policy will remain centred on key bilateral relationships
- The Muslim world will remain a backwater of Russian foreign policy

Conclusion

- The rise of authoritarianism in Russia is unlikely to translate into an aggressive and confrontational foreign policy
- There remains ample scope for Western cooperation with Russia in many areas of common interest
- However, it is important not to retain any illusions that the West can 'convert' Russia to its system of values or even to pretend at a commonality of moral perceptions. This will not happen, not in Putin's next presidential term, nor for many years after that.