

Russian Foreign Policy in Times of Crisis: Greater compliance or resilient self-confidence?

Stanislav Secieru

Abstract

The economic crisis has hit Russia hard and it seems that no sector or policy of the Russian state will remain unaffected. Several questions accordingly arise in regard to Russia's foreign policy at this time of economic difficulties. Will the country fall victim to the crisis or will the crisis re-energise its assertiveness? Will Russia mechanically adjust to the declining curve of the oil price or will it preserve its self-assertive tone while the economic crisis fuels the aggressive rhetoric? Will the shortage of resources scale down Russia's foreign policy ambitions? Among Russia's possible responses are two alternative scenarios. The first portrays a more compliant Russia seeking to bridge the divide with the West. The second one is more or less static, and predicts no dramatic changes as long as Russia manages to preserve its political autonomy in the international arena, which is fundamental for upholding the Kremlin's normative vision.

Russian foreign policy and the economic crisis

After months of pretending that the economic turmoil is not likely to affect Russia, the government went public on the multiple ramifications of the crisis. As a consequence, the authorities reintroduced into the Russian political discourse almost forgotten concepts such as deficit, budget cuts and unemployment. Since it seems that no sector or policy of the Russian state will escape unscathed, several questions arise in regard to Russia's foreign policy at a time of economic

difficulties. Will it fall victim to the crisis or will the crisis re-energise Russia's assertiveness? Will it mechanically adjust to the declining curve of the oil price or will it preserve its self-assertive tone while the economic crisis fuels the aggressive rhetoric? Will the shortage of resources scale down Russia's foreign policy ambitions? How will the crisis influence Russian foreign initiatives such as Medvedev's European Security Treaty?

Three years of crisis

The economic crisis affecting Russia is not only a temporary embarrassment for one of the rising stars of the so-called 'BRIC' (Brazil, Russia, India and China) constellation, but also an unpleasant reality the Russian polity must learn to live with for some time to come. This is the conclusion the Russian authorities have reached after six months of economic turmoil. First, Minister of Finance Aleksei Kudrin admitted that Russia might need three years to emerge from the crisis.¹ Concomitantly, in an interview for the Russian Channel One, President Medvedev displayed a similar long-term approach towards the economic turbulence. Though less clear about its duration, he warned against many uncertainties on the road to recovery from the crisis and pleaded for mobilisation of the regional and local bureaucracy in tackling the multiple effects of

¹ "Russia Might Not Emerge from Crisis for at Least Three Years", 11 March 2009 (<http://www.cdi.org/russia/johnson/2009-50-23.cfm>).

CEPS Policy Briefs present concise, policy-oriented analyses of topical issues in European affairs, with the aim of interjecting the views of CEPS researchers and associates into the policy-making process in a timely fashion. Unless otherwise indicated, the views expressed are attributable only to the author in a personal capacity and not to any institution with which he is associated.

Stanislav Secieru is Associate Researcher at the Center for East-European and Asian Studies in Bucharest and Fellow at the Institute for European Politics (Berlin) within the Study Programme on European Security. The author would like to thank Michael Emerson, Elena Gnedina, Octavian Milevski, Nicu Popescu, Mark Leonard and the anonymous reviewer for helpful comments on previous drafts. The author is also grateful to Julie Dixon for stylistic improvements to the text.

the crisis.² This public message marked a clear break from the position assumed at the start of the crisis. It ended a six-month discourse which evolved from vehement negation and attempts to control the information flow on the issue to a frank acceptance of the deep implications of the crisis and forecasting endeavours.

Throughout the last decade, Russia pursued a strategy of integration in the world economy on its own terms. This presupposed the development of a wide web of trade links and privileged economic partnerships, without ceding an inch of sovereignty and at the same time retaining space for manoeuvre on the international stage.³ Russia's energy industry assumed a leading role in this scheme, a trend particularly visible in relations with the EU and the post-Soviet world. Apparently, the 'sovereign integration' brought generous dividends and convinced Moscow that it is on the right path towards a full but distinctive and respectful membership in international economic society. However, the crisis seems to challenge this assumption and questions the long-term sustainability of this strategy. Russia has rediscovered the *diktat* of the world markets and the deep interconnectedness which limits propensity for unrestrained autonomy. As confirmation, the Russian stock exchange fell synchronically with the oil bubble burst and convulsions in the US financial sector. Since mid-March, it began to recover once stocks in the US turned green and the oil price followed an ascending curve from below \$40 up to \$70 per barrel.

After months of economic troubles nobody in Moscow denies that the crisis and its repercussions set the governmental agenda. The most dramatic drop in industrial output since 1998 (17.1% in May) together with high unemployment (9.9% in May) have inevitably led to changes in social attitudes towards the government and fuelled the potential for social unrest.⁴ While the crisis unfolds, it

² Conversation between Dmitry Medvedev and Director of News Programmes at Channel One Kirill Kleimenov, 15 March 2009 (http://www.kremlin.ru/eng/speeches/2009/03/15/1300_type82916_213985.shtml).

³ Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, Oxford: Blackwell, 2003, pp. 57-61.

⁴ On June 2nd residents of the small town of Pikalevo (near St. Petersburg) blocked a federal highway. The protest against deteriorating living conditions prompted Prime Minister Putin's intervention, which ultimately brought the crisis to the end. There are between 400 and 500 'mono-towns' in Russia whose economic and social survival depends on one or two factories' performance. Facing similar problems, the populations of these cities could follow the example set by the residents of Pikalevo in order to get the central authorities' attention.

jeopardises the most valuable accomplishment of the Kremlin, the new social contract⁵ between the state and society in which citizens accept limitations on their political rights and liberties in exchange for growing economic prosperity. If the authorities do not deliver on their part of the contract, the population might recover a taste for protests challenging the fundamentals of 'sovereign democracy'. The breach of the social contract might dispel the myth of the prime minister as 'efficient manager' and could breed dissension within the double-headed power *vertikal*.

To neutralise the perils that the crisis has ushered in for the political order, conservative thinkers advise the leadership to inject more trust in the 'sovereign democracy' model. They plead for a renewed top-bottom effort to improve the efficiency of democratic institutions, intensify dialogue with supporters of the regime and address the interests of the significant groups in society.⁶ The message has been heard in the Kremlin. At a meeting with civil rights activists on April 15th, President Medvedev acknowledged that Russia would not be able to survive the economic crisis without a confident and trustworthy relationship between the authorities and civil society.⁷ In response to criticisms of the tough legislation restricting the activities of non-governmental organisations, the President submitted to the State Duma amendments aimed to ease some restrictions imposed by his predecessor.

It is not only the authorities, the real economy and the population that are feeling the heat of the economic crisis. Many of Russia's prestige projects aiming at promoting the new image of a self-confident country on the international scene are under strain. Gazprom has reduced sponsorship of *FC Zenit*, the jewel in the Russian football league's crown and last year's UEFA cup winner. The funding cut is likely to influence the club's transfer policy and very probably its future performance. In addition to grave mismanagement, two federal mega-construction sites, Sochi and Vladivostok, are experiencing financial shortages and looming budget cuts. In order to complete the winter Olympic Games venues by 2014, some officials

⁵ President Putin called for a new "social contract" in his first major speech. See Putin, *Address to the Federal Assembly*, 8 July 2000.

⁶ See Iosif Diskin, *Krizis i Demokratya. Konservativyi Vzglyad*, 3 March 2009 (<http://www.liberty.ru/Themes/Iosif-Diskin-Krizis-i-demokratiya.-Konservativnyj-vzglyad>).

⁷ *Nachialo Zasedanya Soveta po Sodeistviu Razvitiu Institutuov Grazhdanskogo Obshestva i Pravam Tcheloveka*, 15 April 2009 (<http://www.kremlin.ru/text/appears/2009/04/215116.shtml>).

have suggested that students – a cheap labour force – could give a hand to organisers.⁸ “Molodaya Gvardya”, a youth wing of “Edinaya Rossya”, has pledged to mobilise 12,000 young workers for Russia’s most important construction projects.⁹ Despite the prime minister’s reassurances that construction sites for the Asia-Pacific Economic Cooperation Summit 2012 will continue to operate, the event could be moved from Vladivostok to Russia’s window into Europe, St Petersburg (Strelnya).¹⁰ The Russian government seeks a 15% reduction in the budget for each event.

In the aftermath of the military campaign in Georgia, the Kremlin rightly concluded that the Russian armed forces need additional financial resources for new hardware procurement. The recent inspection of Russian air forces revealed that approximately 90 of the 200 MIG-29 jets are out of action. There are another 100 jets to be inspected, but regardless of whatever statistics are made public, it is certain that any improvement in performance could be achieved only by an increase in allocated resources and by tight spending control.

However, the crisis forced the executive to reduce the defence budget by 10%. In turn, high-ranking officers put on a brave face in an attempt to convince the public that the army has enough resources to continue its military modernisation. In the end, President Medvedev conceded during the meeting with high-ranking officers that a massive re-equipment of the armed forces will start no earlier than 2011.¹¹ For the time being, the Russian army will only be able to rely on a 10% proportion of modern equipment.¹² Since the planned modernisation of armed forces will be based overwhelmingly on home-made military hardware, the government’s immediate concern will be to rescue Russia’s defence industry, which faces

financial drain, a plunge in the demand for products with civil destination and a decline in external and possibly internal orders.¹³

The economic crisis influences Kremlin’s security calculations regarding the North Caucasus region. In 1999, Prime Minister Putin launched the most violent operation in post-Soviet Russian history aimed at reintegrating the Chechen republic into the economic and legal space of the Russian Federation. After 10 years of heavy presence, Moscow plans to withdraw 20,000 troops from Chechnya, leaving behind three brigades (from the Interior Ministry and Ministry of Defence) and *Spetsnaz* units. Besides the improved security situation in the republic, the Speaker of the Russian lower house Boris Gryzlov explained that heavy military presence requires substantial financial resources, which are difficult to provide at a time of economic difficulties.¹⁴

The economic crisis has weakened Russia. What kind of impact, if any, will it have on Russian foreign policy? There are two dominant images of Russian external behaviour during the economic turbulence. The first one portrays a more compliant Russia seeking to bridge the divide with the West. The second one is more or less static, and predicts no dramatic changes as long as Russia manages to preserve the political autonomy in the international arena that is fundamental for upholding the Kremlin’s normative vision.

The crisis as a constraint

Rationalists argue that power capabilities define the actors’ foreign policy goals. Accordingly, they assume that a decline in state resources will compel Russia to scale down its international ambitions. There are expectations that, as the crisis strikes with full force, Russian foreign policy will soften and Moscow will adopt a more conciliatory tone. Thus, the crisis is seen as an opportunity “for a new beginning”¹⁵ in relations with the West. It is considered that it would be wise for the US and EU to take several concrete steps to meet Russia’s regional and global concerns. Such an approach would neutralise the Kremlin’s suspicion that the

⁸ “Mutko Predlagaet Napraviti v Sochi Studencheskie Stroiotryady”, *Interfax*, 19 February 2009 (<http://news.ng.ru/2009/02/19/1235048286.html>).

⁹ See, “Molodaya Gvardya” Gotova Poslati Molodezh na Krupneishii Stroiki, *RIA Novosti*, 13 April 2009 (<http://www.vedomosti.ru/newslines/index.shtml?2009/04/13/757715>).

¹⁰ Grigori Sanin, “Ostrov Nevezhenya”, *Itoghi*, No. 11, 9 March 2009 (<http://www.itogi.ru/chto/2009/11/138157.html>).

¹¹ Dmitri Medvedev, Speech at an Extended Session of the Defence Ministry Board, 17 March 2009 (http://www.kremlin.ru/eng/speeches/2009/03/17/2037_type82913type84779_214073.shtml).

¹² Anatoli Serdyukov, Doklad na Rasshirenom Zasedanii Kolleghii Ministerstva Oborony Rossiiskoi Federatsii, 17 March 2009 (<http://www.mil.ru/info/1069/details/index.shtml?id=60046>).

¹³ For more on Russia’s defence sector problems, see Konstantin Makienko, *Economic Crisis and Russia’s Defense Industry*, Moscow Defense Brief, No. 1, 2009 (<http://mdb.cast.ru/mdb/1-2009/item2/article1/>).

¹⁴ “Vopros o Zavershenii v Cechine Kontraterresticeskoi Operatsii ‘Nazrel’”, *Itar-Tass*, 26 March 2009 (<http://www.itar-tass.com/level2.html?NewsID=13721570&PageNum=10>).

¹⁵ Dimitri K. Simes, “Russian Roulette”, *The National Interest*, 30 October 2008 (<http://www.nationalinterest.org/Article.aspx?id=20120>).

West is likely to speculate on the vulnerabilities of a weakened Russia and extract more advantages. Alleviating these fears might help to find the right balance between the “three branches of European civilisation”¹⁶ – Russia, the EU and North America.

On the Russian side, the desire to overcome the all-time low in relations with the West could be a favourable factor. Nevertheless, such adjustments will take place not as the natural consequence of a gradual convergence of values, but as the result of long-term calculations driven by Russia’s economic vulnerabilities and security imperatives.

Firstly, the crisis will sharpen the structural problems of the Russian economy and make diversification a vital task. Moscow is fully aware that energy resources alone cannot generate a new cycle of sustainable growth. Secondly, the Russian corporate sector has a \$500 billion debt, part of which might have to be restructured. Because of the heavy state presence in the economy, the debt is a quasi-governmental burden. This issue was raised with Minister Kudrin during the G7 finance ministers’ summit in Rome in February 2009. Thirdly, if internal resources (the Reserve Fund, the National Wealth Fund and international reserves) shrink faster than anticipated and the crisis deepens, the government will need massive international loans to finance its budget deficits in the years to come. The profits made by Gazprom – the main contributor to the federal budget – are expected to drop in 2009 by \$29 billion. Finally, Russia will face serious security threats if the new US strategy fails in Afghanistan¹⁷ and some allies decide to withdraw by 2010-11.

In order, therefore, to address the multiple internal problems effectively and prevent negative spill-over effects from Afghanistan on its soft underbelly, Russia could seek to mend relations with the West and develop sustainable interactions with its financial and security institutions. Rationalists argue that, despite the post-8/8/08¹⁸ inertia, there are already discernible signs of policy reorientation.

In this context, the sober and conciliatory tone used by Russian officials behind the scenes during private exchanges and the genuine desire to re-

establish relations on the cooperative agenda could serve as proof of the Kremlin’s willingness to make foreign policy adjustments. Moreover, Russian readiness to engage with NATO and reverse the decision on the deployment of the SS-26 short-range ballistic missile system (Iskander) in Kaliningrad might also be interpreted as further evidence of Russia’s evolving new international stance.

Viewed from this perspective, the Kremlin’s gestures towards the Obama administration could indicate that Russia sees a way to reconnect to the West via Washington. This explains the approval of the transit through Russia of US non-lethal military supplies for troops in Afghanistan, intensified contacts and dialogue at expert level on the new strategic arms control treaty (START-I, due to expire in December 2009), delay of the political decision on deliveries of S-300 long-range surface-to-air missile systems to Iran, almost identical with the US position on North Korea’s intercontinental ballistic missile test plans, and promising bilateral meetings at the highest diplomatic level. Neither finance minister Kudrin’s remarks on the causal relation between the US economic recovery and Russia’s emergence from the crisis¹⁹ nor President Medvedev’s agreement on the need to “reboot” the relationship at the Russian-American Public Dialogue Group²⁰ have been overlooked.

Rationalists argue that, while Russian foreign policy reorientation is still at an embryonic stage, the West has to seize the moment and reciprocate quickly by engaging Russia. Talks on the European Security Treaty and more sensitivity towards Russia’s interest in post-Soviet space would be a good starting point. A move of this kind could guarantee Russian support on issues like Iran, Afghanistan and nuclear non-proliferation, and would have an overall beneficial impact on an improved Atlantic order. If it is not careful, however, the West could find itself on the wrong path to engaging Russia. A hasty and ill-conceived Western response to the one-dimensional European Security Treaty proposal (focused on hard security) will play into Russian hands. More understanding for Moscow’s interest in the ‘near abroad’ will only encourage Russia’s assertiveness in the region. Finally, Russia’s leverage and its ability to discourage Iran from acquiring nuclear capability are often overrated.²¹

¹⁶ Dmitri Medvedev, Speech at Meeting with German Political, Parliamentary and Civic Leaders, 5 June 2008 (http://www.kremlin.ru/eng/speeches/2008/06/05/2203_type82912type82914type84779_202153.shtml).

¹⁷ “What if...” debate is already underway in Russia. See, for instance, Ilya Kramnik, “Afganistan: Pohod Zapada po Sovetskim Grablyam”, *RIA-Novosti*, 15 February 2009 (<http://www.rian.ru/analytics/20090215/162051686.html>).

¹⁸ Russian officials regard the war in Georgia (08/08/08) as similar to the 9/11 terrorist attacks.

¹⁹ “Rossya Vyidet iz Krizisa po Sledam SShA”, 2 March 2009 (<http://www.svpressa.ru/issue/news.php?id=5176>).

²⁰ Beginning of Meeting with Members of the Russian-American Public Dialogue Group, Russia-USA: A Look into the Future, 20 March 2009 (http://www.kremlin.ru/eng/speeches/2009/03/20/2042_type82914_214187.shtml).

²¹ For more detailed analysis, see Stephen Sestanovich, “What Has Moscow Done? Rebuilding US-Russian

The crisis has set the premises for Kremlin rapprochement with the West by increasing opportunities for cooperation, but this is only one of several possible ways in which Russia could react. There are other potential outcomes. Thus, it would be premature to interpret the above-mentioned conciliatory actions as signs of a long-term trend. On the deterministic assumption that every actor will react alike to the pressure of diminishing resources, many rationalists overlook the role of ideas in foreign policy. This leaves a question mark over a significant number of other Russian foreign policy decisions taken during the crisis. While correctly depicting the constraining nature of the crisis, those rationalists who neglect actors' ideas²² fail to foresee alternative reactions by Russia beyond those prescribed. In order to anticipate reactions, we have to examine closely the last decade's mutations in Russia's international self-perception and understand the factors that sustain its self-confidence.

The crisis as an opportunity and test

The most explicit expression of the prevailing mood in Moscow is illustrated by Sergei Lavrov's speech at MGIMO. Outlining the vision of a proactive Russia, the foreign minister announced the end of the "concentration phase" defined by the Gorchakovian statement that "Russia is not retreating, Russia is concentrating". Instead, the head of Russian diplomacy made a plea for the channelling of accumulated resources in order to set and implement Moscow's international agenda.²³ The discourse confirms the consensus reached by the elites at the end of Putin's presidency. The idea that Russia has recovered its role as great power and is an independent centre in a multipolar world is an important image that shapes Russian self-

perception.²⁴ Another important element around which consensus has crystallised is the need to switch from reactive to proactive foreign policy. Russia wants to shape the international environment, not just to react to its constraints. This is the rationale behind Medvedev's initiative on the European Security Treaty. These sentiments are deeply entrenched in the psyche of Russia's political class. Thus, it is unrealistic to assume that the crisis will instantly wipe out the self-confidence and tendency to self-assertiveness cultivated and internalised by Russia's ruling elites during the oil boom.

In contrast to the turbulent 1990s, Russia has entered the crisis with the perception that it is prepared to withstand it and able to continue to pursue foreign policy projects forcefully. There are two fundamental factors that strengthen Moscow's stance. Firstly, Russia is not the only power that has been affected. The US is omnipresent in Russia's economic crisis calculations. Moscow considers that the US financial and economic difficulties could result in an increased propensity for multilateralism, understood in the Kremlin as an inclination to reach agreements on strategic dossiers within a great power framework. Secondly, Russia has a financial safety net. Despite the multiple ramifications of the crisis, the Russian leadership thinks that international reserves (\$409.5 billion) and stabilisation funds (the Reserve Fund – \$121 billion, the National Wealth Fund – \$85.7 billion) provide enough resources to overcome the economic turbulence and preserve its space for manoeuvre. The corporate debt problem looks less critical from Moscow's perspective. The government has stated that during recent months the Russian corporate sector managed to repay or restructure \$174 billion worth of debt.²⁵

Moscow believes that Russia's place in the global power structure depends on how it will emerge internally and externally from the crisis. Any reversal could be interpreted as a sign of weakness and, as the Russian prime minister once stated, "the

Relations", *Foreign Affairs*, Vol. 87, No. 6, November/December 2008 (<http://www.foreignaffairs.com/articles/64603/stephen-sestanovich/what-has-moscow-done>).

²² For a good account of the role of ideas in foreign policy as perceived by rationalists, see Judith Goldstein and Robert O. Keohane (eds), *Ideas and Foreign Policy. Beliefs, Institutions, and Political Change*, Ithaca, NY and London: Cornell University Press, 1993.

²³ Sergei Lavrov, Vystuplenie v MGIMO(U) MID Rossii, 1 September 2008 (http://www.mid.ru/brp_4.nsf/2fee282eb6df40e643256999005e6e8c/dc8247ee1acb0d95c32574b70038a1a5?OpeDocument). The "concentration philosophy" has guided the policy of Yevgheni Primakov, Igor Ivanov and until recently Sergei Lavrov. Seen in this perspective, minister Lavrov's declaration highlights a turning point in Russian foreign policy.

²⁴ For more on Russian identity mutations and foreign policy implications, see Valentina Feklyunina, "Battle for Perceptions: Projecting Russia in the West", *Europe-Asia Studies*, Vol. 60, No. 4, June 2008, pp. 605-629; Alfred B. Evans, Jr., "Putin's Legacy and Russia's Identity", *Europe-Asia Studies*, Vol. 60, No. 6, August 2008, pp. 899-912; Jakub M. Godzimirski, "Putin and Post-Soviet Identity: Building Block and Buzz Words", *Problems of Post-Communism*, Vol. 55, No. 5, September/October 2008, pp. 14-27.

²⁵ *Otchet V.V. Putina v Gosudarstvennoi Dume*, 6 April 2009 (<http://premier.gov.ru/events/2490.html?tab=videosten>).

weak get beaten”.²⁶ Therefore, Russia is likely to maintain its current course aimed at securing “a place in the front row of international relations”.²⁷ The head of the government has stated unequivocally that Russia has to “emerge from the crisis stronger and more competitive”.²⁸

Nonetheless, Russia’s determination to resist the economic constraints of the crisis does not mean that Moscow is slow in adapting. Russia intends to minimise the effects of the economic turmoil by an ambitious anti-crisis package estimated to total 9.1% of the GDP in 2009. The partial recovery of oil prices might not be enough for a new economic boom, but it could provide for a stronger bargaining position in the international arena. It might also help to avoid massive borrowing on the international market (as additional profits will be channelled to the Reserve Fund), which would otherwise constrain Russia’s autonomy. Thus, there are reasons to expect closer policy coordination between Russia and OPEC. Moscow is convinced that the problem of corporate debts and investments has solutions not only in the West but also in the East. In February, Russia’s Rosneft and Transneft secured a 20-year credit of \$25 billion from the China Development Bank. Rosneft will refinance debts and support an investments programme, while Transneft will direct resources for the construction of the Eastern Siberia-Pacific Ocean pipeline spur to China, due to start in mid 2009.

Russia expects to make maximum profit from some openings that spring from the crisis. Faced with multiple internal problems, Russia perceives the crisis as a geopolitical opportunity to oust the EU and the US from the post-Soviet world and strengthen its own position in the region.²⁹ Nor has the crisis reduced its appetite to reap some juicy assets in the West. Equally strong is Russia’s zeal to reshuffle the security architecture in Europe and to have more weight in international institutions. While the post-Soviet states will be the primary political-economic targets, the global agenda will figure high in the Kremlin’s corridors of power.

²⁶ Address by President Vladimir Putin after the hostage crisis in Beslan, 4 September 2004 (http://www.kremlin.ru/eng/speeches/2004/09/04/1958_ttype82912_76332.shtml).

²⁷ Dmitry Rogozin, “We Deserve a Front-Row Seat”, *Moscow Times*, 31 March 2009 (<http://www.moscowtimes.ru/article/1016/42/375806.htm>)

²⁸ Vladimir Putin, Vystuplenie na Otkrytie X Siezda Partii “Edinaya Rossya”, 20 November 2008 (<http://premier.gov.ru/events/1212.html>).

²⁹ See Aleksei Malashenko, “Krizis i SNG: Shans Dojiti do Rassveta”, *RIA-Novosti*, 3 March 2009 (<http://www.rian.ru/analytics/20090310/164340576.html>)

In January the Minister of Economic Development, Elvira Nabibulina, called for the creation of a special body that would coordinate public and private efforts to acquire cheap assets in the CIS.³⁰ Even before arranging this structure, Russian state as well as private companies had already signed a number of lucrative deals. Russian Vnesheconombank bought a 75% stake in Kiev’s Prominvestbank, the sixth largest bank in Ukraine, while the Russian top gold company (owned by Mikhail Prokhorov), Poluys Gold, reached an agreement on a 50.1% share of Kazakh Gold. In line with previous agreements, Russia increased its stake in Beltransgaz to 37.5%, planning to raise it shortly to 50%. Gazprom has closed the deal with Itera, raising for \$49.3 million its stake in Armenia’s Armrosgazprom from 75% to 80%. Moscow has written off the Kyrgyz government’s \$180 million debt in exchange for 48% in equipment and naval torpedoes manufacturer Dastan.

The Russian gas monopoly intends to expand in Moldova’s energy sector by acquiring power plants CET-1 and CET-2 in Chisinau, and CET-Nord Balti, while the Russian Sberbank expressed its interest in rescuing the troubled Kazakh BTA Bank with branches in Armenia, Georgia, Ukraine, Belarus and Kyrgyzstan. Despite the recent ‘milk war’ between Russia and Belarus, Moscow still hopes to participate in the privatisation of the Belarus dairy industry. Moreover, Russia is attempting further penetration of the Belarus energy sector in order to acquire a stake in Mozyri Oil refinery.

Russia has been equally proactive in the West. Vnesheconombank took over Malev, the Hungarian airline. Russia’s leading mining and metals company Mechel reached the \$425 million deal on Bluestone Coal Corporation and state-owned Sberbank bought a 35% stake in Opel. Sberbank has plans for more acquisitions in Europe; the Hungarian OTP bank is among possible targets.

On the ‘energy front’, Gazprom has concluded the agreement with Hungary’s Development Bank on the South Stream project and has confirmed interest in Slovenia’s fuel retailer Petrol, while Surgutneftegaz has purchased 21.2% of Hungarian MOL for €1.4 billion. Kremlin-friendly Lukoil has bought 49% of ERG’s Isab refinery in Priolo in Sicily (€1.35 billion) and a 45% stake in Dutch TRN oil-refinery (\$725 million). Lukoil is set to continue the expansion. Russian company made an offer for a 30% shares package (estimated at €0.8 billion) in Spain’s energy company Repsol, expressed the

³⁰ “MER Predlagaet Sozdati Strukturu po Koordinatsii Rossiiskih Investitsiiv SNG”, 27 January 2009 (<http://www.banki.ru/news/lenta/?id=801367>).

intention to bid for a stake in the Czech Republic's largest oil refinery Ceska Rafinerska and allegedly, with Russia's state-owned oil pipeline monopoly Transneft has approached Polish PKN Orlen to acquire part of Lithuania's Mazeikiu Nafta. After the Sakhalin-2 LNG plant launch, Gazprom has announced its interest in Japan's gas distribution network. Thus, although the crisis has dealt a heavy blow to the Russian national champions, they intend to make maximum profit from the global discount, in some cases with the help of the state.³¹

Russia's 'shopping season' was accompanied by a massive infusion of credits or financial aid to Armenia (\$500 million), Belarus (\$2 billion), Kyrgyzstan (a \$2 billion loan and aid worth \$150 million), Moldova (\$500 million promised) the separatist enclaves Abkhazia (\$68 million) and South Ossetia (\$81 million dollars in addition to the \$246 million assigned for post-war reconstruction of infrastructure) and the EurAsEc special fund (out of \$10 billion, Russia contributes \$7.5 billion). Another post-Soviet separatist enclave – Transnistria – is in line for Moscow's \$200 million financial rescue package.³² Moscow has been discussing with officials in Kiev the terms of the \$5 billion credit required to keep Ukraine's economy afloat. However, after the high-level Investment Conference on modernisation of Ukraine's gas transit system in Brussels, Russia has shelved the deal.

The Kremlin has sent signals that the claims of privileged interests are credible and must be taken very seriously. For this reason, Russia made a loan agreement with Kyrgyzstan coinciding with the latter's decision to demand the evacuation of the US military base from Manas, and promoted the initiative for the creation of a Rapid Reaction Force within the CSTO, which is supposed to have "the same sort of training as the troops of the North Atlantic Alliance".³³ Russia, not surprisingly,

³¹ Lukoil secured €1 billion from Gazprombank. Previously, the company asked between \$2 and \$5 billion of state aid.

³² Data on Russia's aid collected from Denis Malkov, Maria Tsvetkova and Natalya Kostenko, "Dorogya Druzhba", *Vedomosti*, 4 February 2009 (<http://www.vedomosti.ru/newspaper/article.shtml?2009/02/04/180092>); Interview with Igor Smirnov, "Nezavisimaya Gazeta", 23 March 2009 (http://www.ng.ru/cis/2009-03-23/1_Pridnestrovie.html); "Rossya Vydela 5 milliardov rublei Abkhazii i Iuzhnoi Osetii", *Grani.ru*, 18 March 2009 (<http://www.grani.ru/Economy/m.148745.html>).

³³ Press conference following CSTO and EurAsEC Summits, 4 February 2009 (http://www.kremlin.ru/eng/speeches/2009/02/04/1956_type82914type82915_212504.shtml).

reacted to the EU initiative to upgrade relations with six post-Soviet states. Minister Lavrov qualified the Eastern Partnership as "an attempt to extend the EU's sphere of influence".³⁴ In another move, the Kremlin re-energised its efforts to solve the frozen conflict. Under its auspices, Moscow organised a high-level trilateral Russia-Moldova-Transnistria meeting. Previously hosting a similar summit on the Nagorno-Karabakh conflict, Russia is eager after the short summer war in Georgia to reassure the sides of its peace-broker intentions, make sure that it remains an indispensable actor for the resolution of the 'frozen conflicts' and sideline the West in negotiations. Last but not least, Moscow put additional pressure on Belarus to recognise Abkhazia and South Ossetia.³⁵ The underlying logic of these actions is that if the West plans something in the post-Soviet world, Moscow expects to be consulted. Otherwise the West will have to face the consequences and prepare to 'be evacuated'.

Although several Russian proposals formulated for the London G20 summit were refuted by the economists as unrealistic, the 8-page document³⁶ clearly demonstrates Moscow's ambition to increase its clout in world economic structures. The 'near abroad' has not escaped from the Kremlin's image-making schemes. Moscow sought formal approval by CIS finance ministers and heads of National Banks of the proposals submitted. After obtaining consent, at the G20 summit Russia could assume, at least symbolically, the role of the regional leader representing the interests of the post-Soviet world at the highest level.

Moscow has not reduced its diplomatic investments in high-profile international meetings, organising on June 16th in Yekaterinburg the first BRIC summit. The meeting had the role of coordinating the positions of 'the rest' in order to reshuffle or reform international financial institutions. The Kremlin hopes to keep Russia in the international diplomacy circuit by hosting the conference on peace in the Middle East and the summit of the biggest oil producers. Russia remains equally proactive on the European Security Treaty proposal, which seeks to establish new security architecture in Europe based not on "the Cold War institutions, but [a deal] with

³⁴ Quoted in Valentina Pop, "EU Expanding its 'Sphere of Influence', Russia says", *EUobserver*, 21 March 2009 (<http://euobserver.com/9/27827>).

³⁵ See, "Belarus Samostoyatelino Budet Reshati Vopros o Priznanii Abkhazii i Iuzhnoi Osetii", 5 June, 2009 (<http://www.belta.by/ru/topics?tid=773&id=379687>).

³⁶ Russian Proposals to the London Summit (April 2009), 16 March 2009 (<http://www.kremlin.ru/eng/text/docs/2009/03/213995.shtml>).

Great Powers”.³⁷ Russia is striving for a new deal, similar to the European concert of powers. Moscow is aware of the risk of losing the initiative in the event of a security architecture reshuffle and is determined to push this issue actively with the European preferential partners. The crisis seems not to have affected Russia’s muscular policy. Moscow might not have enough money to renew its air force inventory, but it has enough fuel for the old one. In February 2009, the Canadian air force intercepted two Russian TU-95 strategic bombers close to its national airspace. The event provoked a harsh diplomatic exchange reminiscent of the Cold War era.

Conclusions

The resources Moscow has stored for the crisis bolster Russia’s self-confidence and therefore the ruling elite’s consensus on Russia’s place in the world affairs is set to survive the economic troubles in the medium term. On the other hand, a financial safety net may have perverse effects. An overconfident Russian leadership might not fully grasp the magnitude of the crisis and to overestimate Russia’s global weight. Such misjudgements could see Russia neglect the structural reforms needed for a new cycle of sustainable growth and would expose Moscow’s reduced ability to set the international or regional agenda. The early signs are already visible, particularly in the ‘near abroad’ where Kyrgyzstan reversed its decision to close the US military base, the Belarus-Uzbek duo opposed conclusion of the agreement on formation of the CSTO Rapid Reaction Force, while resource-rich Turkmenistan refrained from signing the deal with Russia on construction of the Caspian gas pipeline while multiplying efforts to deepen ties in the energy field with the West and China. Thus, if not adjusted accordingly, the Russian domestic and foreign policies risk amplifying the effects of the crisis with dire consequences in the long run. Instead of reassuring Russia’s normative vision, the crisis could widen the gap between ambitions and resources, pushing elites mentally back to frustrating late 1990s.

However, in the immediate perspective, there is no societal demand for radical change in foreign policy orientation. According to opinion polls, despite the economic crisis, 42% of those surveyed approve the government policy to assist allies financially, while 40% consider such assistance an efficient

³⁷ Round Table “Russia, NATO, and the Future of European Security” with Dmitri Rogozin, Chatham House, 20 February 2009 (http://www.chathamhouse.org.uk/files/13622_200209rogozin.pdf).

investment that will bring many benefits to Russia.³⁸ If anything, an even more assertive foreign policy could be used to shore up domestic support for the authorities in case the crisis deepens. This will certainly inflate the rhetoric and weaken the foundations of sustainable relations with the West.

Hopes, then, that a self-assertive foreign policy will fade away under the pressure of the crisis are short-sighted and ignore the impact of the oil boom on the Russian strategic identity. Putin’s reply in Davos, “We are not handicapped people, we do not need to be helped”,³⁹ is indicative of Moscow’s self-perception. The Western policy based on the assumption of declining resources and mechanical adjustments is risky and more likely to prove counterproductive. While the crisis might increase the tactical space for cooperation on the Russian side, the West should not harbour illusions about a submissive Russia.

Though potentially useful, the intrinsic value of rebooting US-Russian relations should not be overestimated. Moscow is unlikely to change its perception of the West as an obstacle to Russia’s re-assertion of its influence in the ‘near abroad’, which it considers to be an attractive space for its investments and containing useful players on several international security dossiers. Seen from this perspective, Russian foreign policy will display elements of intense competition in the post-Soviet region, a propensity for stealth and non-binding integration in the world economy (with the focus first of all on Europe), and selective cooperation on political-military issues with multi-vectoral partners.

Under such circumstances the West has first to focus on building a new transatlantic consensus on the strategic issues. The polls on both shores of the Atlantic show that the population perceives the link as inefficient and the overwhelming majority of those surveyed expect governments to make necessary repairs.⁴⁰ A redefined transatlantic link is likely to produce better coordination of the US and EU policy on Russia.

In the medium term, a recalibration of Western policy on Russia and related issues has to target the following tasks:

³⁸ “U Rossyan Net Edinogo Mnenya po Povodu Vydachi Kreditov Drugim Stranam”, 24 February 2009 (<http://www.regnum.ru/news/1128649.html>).

³⁹ “Putin urges Europe not to Fog His Mind”, 30 January 2009 (http://english.pravda.ru/russia/economics/30-01-2009/107035-putin_davos-0).

⁴⁰ “Nine-Country Poll Finds Europeans and Americans Desire Closer Relations”, 18 March 2008 (<http://www.worldpublicopinion.org/pipa/articles/breupera/458.php?lb=breu&pnt=458&nid=&id>).

- to formulate a coherent and comprehensive answer to Russia's proposal for the European Security Treaty and engage Russia in negotiations within the OSCE platform;
- to intensify dialogue and interaction with Russia along the 'cooperation axis',⁴¹ where the positions of both sides converge or where there is at least basic consensus (Afghanistan, START negotiations, combating piracy in the Gulf of Aden);
- to speed up elaboration of a coherent EU external energy policy that would guarantee sustainability, competitiveness and security of supply;⁴² and
- to seriously boost the EU's policy in its Eastern neighbourhood. A new political will is needed to give real effect to the Eastern Partnership initiative launched in May 2009, and in particular to help post-Soviet states to limit the effects of the economic crisis.

⁴¹ Elena Gnedina, a visiting Research Fellow at CEPS, suggested this approach.

⁴² Objectives set out in *Commission's Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy*, 2006 (http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf).

About CEPS

Founded in Brussels in 1983, the Centre for European Policy Studies (CEPS) is among the most experienced and authoritative think tanks operating in the European Union today. CEPS serves as a leading forum for debate on EU affairs, but its most distinguishing feature lies in its strong in-house research capacity, complemented by an extensive network of partner institutes throughout the world.

Goals

- To carry out state-of-the-art policy research leading to solutions to the challenges facing Europe today.
- To achieve high standards of academic excellence and maintain unqualified independence.
- To provide a forum for discussion among all stakeholders in the European policy process.
- To build collaborative networks of researchers, policy-makers and business representatives across the whole of Europe.
- To disseminate our findings and views through a regular flow of publications and public events.

Assets

- Complete independence to set its own research priorities and freedom from any outside influence.
- Formation of nine different research networks, comprising research institutes from throughout Europe and beyond, to complement and consolidate CEPS research expertise and to greatly extend its outreach.
- An extensive membership base of some 120 Corporate Members and 130 Institutional Members, which provide expertise and practical experience and act as a sounding board for the utility and feasibility of CEPS policy proposals.

Programme Structure

CEPS carries out its research via its own in-house research programmes and through collaborative research networks involving the active participation of other highly reputable institutes and specialists.

Research Programmes

Economic & Social Welfare Policies
Energy, Climate Change & Sustainable Development
EU Neighbourhood, Foreign & Security Policy
Financial Markets & Taxation
Justice & Home Affairs
Politics & European Institutions
Regulatory Affairs
Trade, Development & Agricultural Policy

Research Networks/Joint Initiatives

Changing Landscape of Security & Liberty (CHALLENGE)
European Capital Markets Institute (ECMI)
European Climate Platform (ECP)
European Credit Research Institute (ECRI)
European Network of Agricultural & Rural Policy Research Institutes (ENARPRI)
European Network for Better Regulation (ENBR)
European Network of Economic Policy Research Institutes (ENEPRI)
European Policy Institutes Network (EPIN)
European Security Forum (ESF)

CEPS also organises a variety of activities and special events, involving its members and other stakeholders in the European policy debate, national and EU-level policy-makers, academics, corporate executives, NGOs and the media. CEPS' funding is obtained from a variety of sources, including membership fees, project research, foundation grants, conferences fees, publication sales and an annual grant from the European Commission.

E-mail: info@ceps.be

Website: <http://www.ceps.be>

Bookshop: <http://shop.ceps.be>