“CAN’T BUY ME LOVE” 38

WILL THE GLOBAL ECONOMIC DOWNTURN HELP RUSSIA CONSOLIDATE ITS INFLUENCE IN POST-SOVIET EURASIA?

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- As the Kremlin believes that the global economic downturn is increasing the trend towards greater regionalism, the strategic conclusion is to strengthen Russia’s position as the centre of its “own region” – post-Soviet Eurasia.

- In order to enhance its geopolitical posture in the ex-Soviet area, Russia has been pursuing a two-track policy: it is buying up assets from, and giving out loans to, its distressed neighbours on a massive scale.

- Several forces appear to be working at cross-purposes with the Kremlin’s ambitions: 1) the state of Russia’s own economic system; 2) the wiliness and cunning maneuvering of Moscow’s “allies”; and 3) the growing competition on the part of the other centres of power – the European Union and China.

- Ultimately, the Kremlin’s desperate efforts to turn Russia into a geopolitical leader of the Commonwealth of Independent States (CIS) are likely to be frustrated by Russia’s lack of a coherent long-term strategy and by its socio-political system’s dearth of appeal.

The Finnish Institute of International Affairs
Russia in the Regional and Global Context Programme

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Photo: Sigismund von Dobschütz

Is the global crisis going to make Russia a more benign international actor?

Given the severe impact of the global economic meltdown on Russia, one might assume that the Kremlin will be forced to readjust its geopolitical ambitions, seek accommodation with the West and loosen its grip on the post-Soviet lands. Indeed, having been hit particularly hard by the global crisis, Russia is severely lacking in the necessary resources to pursue an assertive foreign policy of the kind that the Kremlin has been pursuing in recent years. This argument has recently been voiced most famously by U.S. Vice-President Joe Biden, who said that Russia's "withering" economy, abysmal demography and deplorable national banking system are inadvertently pushing Moscow to rethink its international self-interest.

However, Russia's conduct appears to be powerfully influenced by the Kremlin's *own* subjective perception of how the recession is going to reshape the world's geopolitical landscape. There seem to be two key elements in the Russian post-crisis strategic outlook. First, there is a strong belief among Moscow policymakers that although the crisis certainly hit Russia hard, the other global centres of power were seriously damaged as well. Thus, while globally Russia's situation might not be any worse than that of its major geopolitical competitors, in post-Soviet Eurasia it seems to have weathered the financial storm much better than its neighbours, whose economies were literally ravaged by the crisis.

Secondly, the Kremlin strategists appear to believe that the crisis is going to strengthen the trend towards greater multipolarity and regionalism. As Russia's policy elite perceive their country to be one of the world's several major centres of power, they seek to secure Russia's position as a leader of a regional grouping which, ideally, would embrace all the CIS countries.

Some of Russia's latest moves seem to be influenced by this strategic outlook. First came Prime Minister Vladimir Putin's announcement that Russia is no longer interested in becoming a member of the World Trade Organization (WTO) on its own but would rather join as part of the customs union it has forged with Belarus and Kazakhstan. Second was the recent decision to give a significant boost to the Russia-led Collective Security Treaty Organization (CSTO), including the creation of the bloc's rapid reaction force. These moves suggest that Russia has indeed opted to play the role of a distinct regional power which is eager to offer its neighbours alternative non-Western economic and military institutions.

A Eurasia-wide shopping spree

Along with the attempts at beefing up the institutional framework of its Eurasian bloc, Russia is actively seeking to consolidate its influence within the CIS. As most post-Soviet countries, badly battered by the economic recession and credit crunch, desperately need cash, Russia is pursuing a two-pronged policy – offering generous loans to its distressed neighbours (with quite a few political strings attached) and seeking to buy some prized assets from them (preferably at knock-down prices).

Earlier this year, a special Anti-Crisis Fund was set up under the aegis of the Eurasian Economic Community (EEC), a Moscow-led economic grouping, comprising, in addition to Russia, five other CIS countries – Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Of the Fund's hefty $10 billion, the lion's share – $7.5 billion – is going to be provided by Russia. So far, Moscow has pledged (and in some cases already partially disbursed) truly significant loans: $2 billion to Belarus, $3.5 billion to Kazakhstan, $2 billion to Kyrgyzstan, $500 million to Moldova, and $500 million to Armenia. The self-styled statelets and separatist enclaves have not been forgotten either: South Ossetia is going to receive $81 million – on top of the $246 million that had already been earmarked for the post-war reconstruction programme; Abkhazia is to get $68 million and Transnistria $200 million.

Of course, the CIS countries can also borrow from the International Monetary Fund (IMF), and some ex-Soviet states have done precisely that. However, the IMF loans usually come with the obligation to carry out painful reforms and introduce unpopular austerity measures, whereas few economic questions are asked in dealings with Moscow. Russian loans, however, tend to involve downsides of a different kind. In borrowing heavily from Russia, the CIS countries risk being sucked deeper into Moscow's geopolitical orbit: accepting such a loan means granting Russia the possibility to interfere in their affairs which, in turn, increases their dependence on their powerful neighbour.

Moscow has its own way of going about things. The generous loan to Bishkek seems to have been accompanied by a secret clause whereby the U.S. air base at Manas, Kyrgyzstan – a facility absolutely crucial for resupplying the U.S. troops fighting in Afghanistan – would be ejected by the Kyrgyz authorities. A series of loans to Belarus was most probably intended, among other things, to encourage Minsk to recognize the independence of Abkhazia and South Ossetia. The money Moscow offered to Astana actually represents a so-called "industrial loan" earmarked for the purchase of Russian-made goods such as steel and machinery. In other circumstances, Moscow would insist that most of the borrowed money be spent on buying Russian energy resources.

Furthermore, there is the ubiquitous issue of graft, which is a common scourge of the entire post-Soviet Eurasia. Unlike the strict IMF rules, Russian loans are not transparent and may well be used to further corrupt the elites in the CIS countries and line the pockets of the powerful few in Moscow. It can't be ruled out that some of the funds distributed by Russia could end up being cashed by corrupt officials and even wired back to Moscow in the form of kickbacks.

Russia's distribution of loans is accompanied by a Eurasia-wide "shopping spree" with Moscow seeking to snatch some assets in the post-Soviet lands on the cheap. Taking advantage of the CIS countries' needs, several leading Russian companies managed to make significant acquisitions. Russia's Vneshekonombank purchased a 75 per cent stake in Ukraine's Prominvestbank, the country's sixth largest bank, while another Russian state-controlled financial institution, Sberbank, is said to be holding talks aimed at buying BTA, Kazakhstan's biggest bank. In the meantime, Gazprom, Russia's energy giant, has increased its stakes in Belarus' Beltransgaz and in Armenia's Armrosgazprom. In another move, Russia's metals tycoon Mikhail Prokhorov has acquired a controlling stake in the Kazakh Gold company.

An uphill struggle

Yet Russia's strategic objective to consolidate its zone of "privileged interests" in post-Soviet Eurasia appears to be a tall order indeed. Several powerful

Photo: www.kremlin.ru

forces are at work which might eventually thwart Moscow's regional domination ambitions.

First, the Kremlin strategists seemed to be banking – at least at the initial stage of the global crisis – on Russia's impressive foreign currency and gold reserves accumulated during the previous years of high energy prices. But as the recession has dragged on, Russian reserves keep dwindling dramatically. The recent economic assessment by Russia's Finance Ministry is far from rosy: Russia will be living with a significant budget deficit for the next five years. Furthermore, the country is likely to convert from a lender into a borrower: over the next three years, Russia will be compelled to borrow around $60 billion on the external financial markets to cover its budget deficit. Ultimately, analysts say, Russia will have to confront a painful dilemma: either cut government spending or devalue the rouble. Clearly, such a prospect is not particularly conducive to the Kremlin's ambitious programme of economic expansion within the CIS.

Furthermore, many of Russia's biggest companies – the so-called "national champions" such as Gazprom, Rosneft, and Rusal – appear to have been dramatically overleveraged and are up to their ears in debt. The most recent estimate puts Russia's external corporate debt at a staggering $294 billion. The indebtedness of the companies that the Kremlin often used as effective tools in its assertive international conduct powerfully contributes to the repressing of Moscow's resurgence. Yet this sorry situation also reveals just how dysfunctional – and corrupt! – Russia's economic management is. Given the opaque merger of business and political power in Russia and the no less opaque ownership structure of most of Russia's big companies (according to one political quip, "the guys who run Russia also own it"), the "Board" of Kremlin Inc. are likely to continue milking the shrinking state funds to bail themselves out as (shadow) owners of the largest corporations. They simply cannot have any meaningful crisis-battling strategy; no wonder, then, that their only hope is the revival of global demand for commodities and a subsequent rise in commodity prices. This is, of course, a risky gamble that might well end in tears.

Second, the "allies" Russia is seeking to herd into a Eurasian bloc appear to be a thoroughly unruly and disloyal lot. To be sure, Russia dwarfs all its CIS neighbours both economically and militarily. But they compensate for their weakness vis-à-vis Moscow with cynical cunning and their phenomenal ability to wriggle their way out of any agreements with Mother Russia which they deem run contrary to their interests. In the fierce battle over its geopolitical backyard, Moscow is being constantly frustrated by what it perceives as the "treacherous" moves of its wily "strategic partners".

Both Belarus and Kyrgyzstan happily pocketed Russia's billions but did not deliver – to Moscow's utter chagrin. Bishkek did issue the order terminating the American use of the Manas airbase but after Washington agreed to triple the rent payment, Kyrgyzstan effectively reversed its decision and announced that instead of the airbase the Americans will be using a "Transit Centre" at the same Manas airport. For its part, Minsk never recognized the independence of Georgia's separatist regions, although Moscow has been eagerly awaiting such a step. Moreover, to add insult to injury, the Belarusian Foreign Ministry recently advised Belarusian citizens to visit the secessionist enclaves only on documents issued by Tbilisi, thus explicitly confirming Georgia's jurisdiction over South Ossetia and Abkhazia. Also, annoyed by the trade war Moscow was waging against it (possibly seeing the trade bans as a form of Russian pressure), Belarus joined Uzbekistan in refusing to sign the CSTO agreement on the Collective Rapid Reaction Forces – one of the Kremlin's pet projects aimed at strengthening Russia's position in Central Asia.

The ease with which the ex-Soviet states repeatedly betray and swindle their much more powerful former overlord suggests that at the heart of Russia's policies within the CIS lies one extremely flawed premise. In its alternate attempts to bully and cajole the Eurasian "allies" into subservience, Moscow appears to be deluding itself that it can still manage the relationship with them through the19th century-style pacts containing some "secret clauses" with the unwritten quid pro quos. But since these secret agreements are never put on paper, there are no legal mechanisms that would render them binding. As long as this delusion persists, Moscow is going to be in for more unpleasant surprises, as the ruling regimes in the CIS countries safeguard their own interests first, not Russia's.

Finally, the truth is that the Kremlin's notion of "privileged interests" in Eurasia is increasingly sounding like defensive rhetoric. And rightly so – the post-Soviet space is getting crowded as the European Union and China keep casting covetous glances into Eurasia over Russia's shoulder. For Moscow, both Brussels and Beijing are extremely formidable competitors. Together, they possess a combination of attractions that Russia can only dream of. However shallow, inconclusive and underfunded the EU's Eastern Partnership and Central Asia Strategy might be, the rich European bloc offers the CIS countries a superior social model and the ideal of prosperity and liberty. Whatever is being peddled in this department by Russia is undoubtedly regarded as second-rate by Moscow's ex-Soviet "allies".

Moreover, in terms of spending capacity, Moscow is absolutely no match for Beijing. China's vast financial reserves tower over Russia's much touted Stabilization Fund. Like Russia, China, too, sees the global crisis as an opportunity as it goes about establishing its economic hegemony in Central Asia and beyond through its "peaceful rise" policy. Besides providing massive loans ($10 billion to Kazakhstan; another $10 billion to all Central Asian states within the framework of the Shanghai Cooperation Organization; and $1billion to Moldova), China is also buying stakes in the regional energy companies and building pipelines and power plants in the Central Asian countries. Sandwiched as it is between the EU and China, Russia seems destined to wage the rear-guard geopolitical battles in its backyard, while huge chunks of its former "patrimony" will be increasingly drifting away from Moscow and towards the new rising centres of power in Europe and Asia.

Conclusion

In exploiting the economic dire straits most CIS countries have found themselves in, Russia might well achieve partial success: in the short term, it will likely continue acting as the centre of gravity for its post-Soviet neighbours. In the long term, however, Russia's leadership position in Eurasia appears to be unsustainable.

The Kremlin is right in perceiving that it is being challenged in its former backyard. However, the real competition that is currently going on, also in the territories of the former Soviet Union, is not about geopolitics. Ultimately, it is about which model of development guarantees the people more stability and better prosperity. To emerge triumphant, Russia would need to demonstrate to its neighbours that its socio-economic system is viable, efficient and attractive – both politically and economically. So far, the image Russia has projected is one of an inefficient and corrupt petro-state.

The inability to present an attractive social model and the bad image problem are closely connected with Russia's lack of strategic vision. Remarkably, despite all the lip service paid to the "unique civilizational ties" with its neighbours, Moscow is, in fact, unable to clearly formulate what precisely its national interests in the post-Soviet lands are. No wonder, then, that the only tools Russia can lay its hands on to forge a regional bloc are wire transfers.

But can the cash handouts alone help Russia consolidate its influence in Eurasia? Most analysts are sceptical. One Russian pundit summed up Moscow's geopolitical prospects in the post-Soviet space in a pithy comment. "That is purchased love," he said. "It's not very reliable."

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