



EXECUTIVE SUMMARY

Round Table on

Societal Concepts for the Upcoming Russia

10 April 2008
Luxembourg

Introduction

In cooperation with the Russian Center for International Scientific and Cultural Cooperation (Russian Ministry of Foreign Affairs) and the Moscow-based Association for Euro-Atlantic Cooperation, the Luxembourg Institute for European and International Studies (LIEIS) convened a one-day conference on 'Societal Concepts for the Upcoming Russia' on 10 April 2008 in Luxembourg. This event was supported by the Business Association Luxembourg-Russie and the Luxembourg Ministry for Culture, Higher Education and Research.

Following seminars in 2006 and 2007 in Luxembourg, this conference was the third in a series of events on Russia in recent years organised by the LIEIS in cooperation with the Russian Center for International Scientific and Cultural Cooperation. Whereas the earlier seminars had focused on Russia's role in international relations and its relations with the EU, this conference focused on wider societal questions. In the presence of more than 30 observers, about 20 participants from Russia and Europe debated possible societal, political, social and economic models, as well as possible strategies for the country's foreign, defence and security policy, including relations with the EU, NATO and the USA but also with China, India and Central Asia (cf. programme and list of participants in the appendix).

Like similar LIEIS conferences, the ambition was to generate new insights and ideas in order to conceptualise the various options available to Russia. Based on short presentations and interventions, the discussions were free-wheeling and centred on critical comments and debate. The objective was to have a conceptual brain-storming on a broader and more strategic theme, with the aim of making a contribution to ongoing discussions about the state of Russia and future relations with its neighbours and the wider world.

Anatoly Blinov, Representative for Luxembourg of the Russian Center for International Scientific and Cultural Cooperation, thanked the Luxembourg Ministry for Culture, Higher

Education and Research and the Business Association Luxembourg-Russie for their support. He also acknowledged the input of the Association for Euro-Atlantic Cooperation, above all its Executive Director Evgeny Silin. According to A. Blinov, Russia after the Putin Presidency is stronger and more stable and has reverted to being a superpower (as reflected in Putin's speech at the 2007 Munich Security Conference). This trend is expected to continue under Medvedev. At the same time, Russia is also likely to see an increasing emphasis on social support and economic development. Indeed, the immediate challenges are as follows: continue modernising the economy, combat inflation, raise wages and pensions, as well as fight corruption. In terms of foreign policy, Russia needs – and would like to have – better relations with the USA, with the UK and with the EU. The main problem is NATO enlargement, in particular the perceived US encirclement of Russia and the future of the geopolitical grey areas in Europe, the Caucasus and elsewhere. In short, Russia is a global power whose weight in international affairs will keep on growing as a result of a buoyant economy and renewed confidence.

In his introductory remarks, Armand Clesse, Director of the LIEIS, said that Russia's political, economic and social development, as well as her foreign and security policy are all interlinked and that some of the most fundamental questions have either not been addressed or are still being debated. He urged all participants to distinguish two conceptual approaches: first, what is the present situation and how may it evolve? Second, what ought to be done and how could it be done? In order to have a meaningful exchange of ideas, it is worth beginning by asking what the fundamental challenges are that face the Russian society.

I. Russia's Key Challenges

At the start of the conference proceedings, the participants briefly stated what they take to be Russia's key challenges. Some argued that the principal issue is democracy and, more widely, the development of the political system (Mikhail Nosov). The system built by Putin is a transitional one that cannot last without changes. In the absence of political competition and elements of federalism, efficiency will further decline (Nicolay Petrov). The severe restrictions imposed upon the opposition and the Kremlin-orchestrated domination of the media prevent the formation of a more plural and diverse democracy that can tackle the country's socio-economic problems (Paul Mertz). Even though Putin brought two virtues to the Presidency – a cool head and steady nerves – Russia's potential for political development is undermined by pervasive corruption and limited rule of law (Quentin Perret).

More fundamentally, it was suggested that the following five criteria can be used to assess a country's political structure: first, legitimacy; second, authority and control; third, stability and continuity; fourth, the coherence of a country's political vision; fifth, its strategic orientation. Ludwig Erhard's notion of 'formed society' (*formierte Gesellschaft* or *société encadrée*, i.e. a structured, well-ordered society) is an indication that democracy is not limited to a particular political regime but extends to a wider set of arrangements that are, in principle, compatible with a hierarchical ordering. If Russia developed such a hierarchical system, then it would not be dangerous to itself or to others (Lothar Rühl). Democracy is also the main issue in Russia's relations with its neighbours: there might be analogies between the UK's relations with former British colonies and Russia's relations with former Soviet Republics,

especially when one remembers that the initial tensions gave way to subsequent harmonious relations (Mark Almond).

Other participants stressed the need for Russia to address a number of economic, social and cultural problems. Chief among them is the growing gap between rich and poor (in terms of income, access to social security, etc.) and the loss of social cohesion, a tendency that is illustrated and reinforced by racism, xenophobia and Anti-Semitism (Mario Hirsch). Some socio-economic problems such as obsolete infrastructure and declining standards in education are not unique to Russia but shared by countries in both East and West (M. Almond). One particularly worrying trend is the degradation and ‘primitivisation’ of the foundations of the Russian economy and the threat this poses to the present and future of democracy (Dimitry Sorokin). Furthermore, the capitalist model that now prevails in both Russia and also increasingly in the EU relies on the collusion of the centralised bureaucratic state and the free market and leads to the concentration of wealth and centralisation of power. One consequence of this constellation is the growing gap between rich and poor and the lack of citizens’ involvement in the political process. As a result of promoting mindless consumerism and civic passivity, the wider Europe, including Russia, faces the loss of its high culture that is indispensable to the independence and vibrancy of its political culture (Adrian Pabst).

Given the important economic and social problems, the choice of Medvedev can be interpreted as a partial corrective to Putin’s policies, in particular as a way of promoting the prosperity of the middle-classes and implementing market reforms, perhaps even limiting executive power in the process. The question remains as to whether Medvedev and Putin will be rivals or allies. If the new President is able to build his own team and get the support from the rising middle-class, then there is also a chance that Russia might move away from a pure raw material export economy towards a more fully developed market economy and a political system that can overcome both state bureaucracy and popular scepticism (Alexander Rahr).

In terms of international relations, Russia’s key challenges include, first of all, the formulation of a coherent security and defence strategy and the commitment of resources for the modernisation of the army rather than a new arms race with the USA (Vitaly Shlykov). Second, Russia must not succumb to the temptation of isolationism but instead should reinforce its position as a global power. The new President seems determined to defend international law abroad and to develop Russia’s legal system at home. Whereas external threats will be counter-productive, international pressures can be brought to bear on the current arrangements to improve the legal system (Natalia Dmitrienko). Third, Russia’s influence in international affairs would benefit from strengthening public diplomacy and improving the image of the Russian nation in the global arena. What Russia can do to overcome the binary logic that pits Russia’s apologists at home against Russia’s critics abroad is to develop a culture of dialogue, a culture of compromise and a culture of confidence or trust (cf. the book on trust by Francis Fukuyama). This cannot be achieved at once but requires an ongoing process of construction and formation (Alexander Sucharev).

In the field of foreign policy, it is not up to the West to give lessons in democracy or good international behaviour, but rather to forge a genuine strategic partnership; as neighbours, this is of mutual interest to the EU and Russia. The current gaps in cooperation must not stop both sides from reverting to the spirit of this initial partnership, and so the challenge for Russia is to mobilise its energies in the service of a common European project (Jacques Santer). Russia

under Medvedev might well try to re-enter Europe and this attempt could be the last window of opportunity for the EU (and the USA) to wrestle Moscow away from the lure of Asia in general and China in particular. One precondition for such an outcome is that Europe and the USA must overcome their divisions and especially their rift on how to deal with Russia (A. Rahr). Moscow's axis with Beijing does not seem to be based on genuine reciprocity but appears to be motivated by a defensive move against US unilateralism, so there is scope for European initiatives. In addition, the challenge for Europe is to sort out energy dependence, which is not overwhelming (only about 12%), but can be used as a geo-political instrument and has in the past poisoned relations. Rather than trading mutual accusations, both sides should concentrate on common problems such as nuclear non-proliferation and global climate change. Moreover, Russia must improve relations with the CIS, especially with the Ukraine: does Moscow still believe that it is or should be the dominant power or is it prepared to entertain a more plural model? This and other cases highlight Russia's lack of 'soft power' and the grave error of basing foreign policy on fear and intimidation (Robert Skidelsky).

More generally, all Russian attempts to modernize in the 20th century originated from the West and its ideologies, starting with Karl Marx. This is an important reminder of the proximity between Moscow and the rest of Europe, but also the difference that persists between the Euro-Atlantic community, on the one hand, and the Eurasian world, on the other, as illustrated by the difficulties that have beset Russia's attempts to get closer to Europe and to integrate its structures (Katerina Lukesova). There is a danger in societies undergoing major changes to veer towards extremes; does not Russia see herself as a beleaguered country and has not the West – whether inadvertently or deliberately – encouraged a certain sort of siege mentality? (A. Clesse).

II. Democracy in Russia – Evolution and Possible Models

The second part of the discussions focused on the question of democracy in Russia. According to A. Clesse, this topic raises a number of fundamental questions. First, what is the order of priority and right sequence? Is democracy a prerequisite for economic development or vice-versa? Does Russia need both simultaneously? Second, is there a model of democracy which Russia should – and could – adopt? Or would it be more appropriate for Russia to develop a model of democracy *sui generis*?

Some participants, like M. Nosov, claimed that virtually all aspects of Russia's future will depend on the state of democracy rather than on the economy. Indeed, the case of China illustrates that a regime can remain totalitarian even when it adopts capitalism and that more democracy is needed for a more balanced economic development. One problem in Russia is that the issue is wrongly framed: the Russian elites argue over whether Russian democracy is or ought to be 'national' or 'sovereign' (a thesis put forward by Vladislav Surkov). However, there is a more fundamental choice between democracy itself and other regimes (after all, even the North Korean constitution features the term 'democratic' three times). Broadly speaking, democracy is not a fixed condition but instead a process and an evolution, which in Russia (and elsewhere) is far from perfect and completed. For example, there is a lack of separation of powers, and parliament remains marginal. What is indispensable for Russia's evolution towards more democracy is the growth of the middle class and the expansion of small- and medium-sized enterprises. In terms of international relations, the debate between

East and West needs to abandon stereotypes and double standards on both sides in favour of mutual understanding. What is interesting is that figures such as Mikhail Gorbachev are calling for a reinvention of social democracy.

L. Rühl agreed that ‘sovereign democracy’ does not exist. For the issue of sovereignty makes sense only at the level of the state, and states can be governed democratically or otherwise. However, the idea of a directed democracy may not be such a bad thing, especially given the experience of Western democracies where there is a lack of direction: the West tends to be dominated by parties that seek to preserve their own power, by trade unions that do not pursue the public good and by parliaments that do not do their work (failing to pass laws or neglecting their duty to scrutinise proposed legislation and to hold the executive accountable). The absence of strong direction and governmental authority in countries as diverse as Germany, Italy and Spain leads to the unwitting creation of a legal oligarchy: for example, the German Constitutional Court has read into the constitution many things that the founding fathers never imagined. As such, the professed ideal of ‘a state for the people’ is usurped – in Germany it is rather the case that the people exist for the taxman! The ensuing loss of national unity and consensus requires state control in order to ensure authority and to reinstate a social contract that binds citizens together with an outlook towards the common good.

Other participants argued that liberal democracy also is a slogan, just like ‘sovereign democracy’. According to M. Almond, the question is who decides what exactly democracy is and which country or culture or people can be said to be democratic and free. For instance, it is not clear whether the rule of law in Russia is quite as deficient as most outside observers claim and whether the accusation of impunity is justified: in recent times there have been a number of convictions for attacks on foreign students in St. Petersburg. In fact, Russia has a history of domestically driven legal reforms, e.g. the introduction of juries during Tsarist times. Is it not perhaps preferable to encourage a country to develop its own political and legal system in line with its national identity and traditions?

A. Pabst argued that in relation to democracy and liberalism, a distinction must be drawn between form and content or between procedural and substantive values. Over the past 10 years or so, a variety of Western countries have seen the rise of a sort of corporate and managerial politics that is procedurally democratic but substantively post-democratic, in the sense that the system is governed by the rules of democracy but virtually all the political parties and institutions have embraced an uncritical consensus that offers no choice to the citizenry. This consensus combines the worst aspects of the left and the right and is founded upon the complicit collusion of centralised bureaucracy and the unbridled free market, giving rise to the authoritarian and post-democratic market state. As a result, the substance of democracy is hollowed out in favour of compliance with the prevailing order and the delegitimation of any alternative. By adopting a particularly aggressive and destructive form of capitalism whilst maintaining its over-sized bureaucracy and authoritarian central state, Russia risks repeating the Western experience and exacerbating the consequences, namely the centralisation of power and the concentration of wealth. The task for Medvedev is to develop a model that balances Russia’s centre and its regions and localities around a new political and economic compound.

Yet other participants like N. Petrov remarked that democracy in Russia can be described as a glass that is half full and leaking. The dominant myth which needs to be dispelled is that

democracy was somehow vibrant under Yeltsin and then disappeared under Putin. Rather, what happened is that Russia moved from being a new democracy in a weak state towards a stronger central state with a weak democracy. Indeed, the strengthening of central state authority has had as a side-effect the weakening of most democratic institutions, with the notable exception of the Presidency. Contrary to the central federal level where the President wields supreme sway, at the regional level there are more checks and balances, including a certain degree of competition among different political parties and increasingly independent courts, etc.

Thus, one way to characterise the recent evolution is to say that since 2004 and the ‘package of reforms’ after Beslan, Russia is an ‘over-managed’ democracy. The question is whether Medvedev can change the country’s trajectory away from over-management and authoritarianism. This is all the more urgent since Putin’s second term was a mix of consolidation of state power and stagnation of reforms: great projects were announced but not implemented. This situation is untenable and in this sense the Medvedev Presidency is bound to be very different. Perhaps the most important task is to redistribute income and wealth from the central to the regional level and thus to close the gap between the centre and the periphery.

III. Russia’s Economic and Social Evolution: Trends and Factors

The bulk of the conference discussions was dedicated to Russia’s economic prospects and its social evolution. At the outset, A. Clesse framed the debate with the following questions. First, we know that after 1998 the Russian economy emerged from more than half a century of planning and a decade of chaos, but where is the Russian economy standing now and where is it evolving towards? Second, does Russia not have time to find its own path of development? Third, does Russia not require a model that can cater for the interests and vital needs of the ordinary people and thereby reduce the unequal distribution of assets and incomes? Fourth, what are the implications for Russia’s attempts to join the World Trade Organization (WTO) and to deepen its cooperation with the EU and other economic blocs?

According to R. Skidelsky, a number of different conjectures seem to dominate current debates about Russia’s economic and social future. In terms of geo-politics, there is talk on both the Russian and the Western side about a new cold war (e.g. the recent book by Edward Lucas *The New Cold War: Putin's Russia and the Threat to the West*). In terms of geo-economics, the discussions is about whether a broader and more balanced economic development of Russia requires major political reform because an authoritarian state cannot command support or whether Moscow will follow the Chinese example of economic liberalisation without political democratisation. A recent study on Russia’s options during the Medvedev Presidency outlines four possible scenarios. First, a rentier economy that would allow Russia to live off the rents accruing from energy and other raw materials. The mark of this model is that redistribution is limited to the governing elite, with little left for the population. Second, a mobilisation economy where the state should concentrate on a few ‘strategic’ sectors – energy, infrastructure, military industry, etc. – but the risk is that the economy would run into the well-known problems of economic planning.

Third, an inertia economy, not unlike the later Putin years when the overall economic system was in a state of stagnation as a result of half-hearted reforms, but this seems to be an

untenable state of affairs in the medium- and long-run. Fourth, a modernisation economy where a relatively weak President and a compliant government would give Prime Minister Putin the chance to balance between *siloviki* (i.e. the members of the security services) and liberals and to implement a number of long-overdue reform projects. But at least two conditions are necessary for such a scenario: a stable cohabitation between President and Prime Minister, with the latter offering support and protection for the former; and improved relations with the West that would have to stop antagonising and offending Russia (R. Skidelsky)

In response to the presentations of these scenarios, D. Sorokin said that any debate about whether democracy or economic growth is a precondition for the other is like the age-old discussion about which existed first, the chicken or the egg? In any case, a multi-national and multi-ethnic country requires a stable and simultaneous development on both fronts, and Russia has now had about a decade of economic stability and political consolidation. Indeed, even the dismantlement of Yukos did not lead to the end of relations with the West. This episode was in fact followed by an influx of foreign capital. Moreover, the first important attempt to redefine the direction of economic development was the Gref project in 2001 and covered the period until 2010, but it remained a draft document and was not finalised or implemented. The second major attempt to define Russia's strategy for economic modernisation has been done in 2008, and it focuses on only one objective – that by 2020, Russia should join the club of the five most innovative countries in the world. The question is of course whether such a plan can be operationalised and implemented.

According to official statistics, Russia's GDP is still 25% lower than at the point of the pre-crisis level (in 1989/90). This also applies to agricultural production, manufacturing and industry. For example, the current machine-building capacity stands at only about 50% of the pre-1989 level and is growing slowly. Over the last ten years, more than half of the production equipment has reached the point of amortisation where it becomes obsolete and requires replacement. Moreover, since the peak of the economic crisis in 1998, Russia's import and export structure has profoundly changed, especially with respect to China. Taken together, oil and fuel products, mineral and timber represented at that time only 7% of exports to China; the overwhelming part was machines and equipment; now the former is more than 50%, whereas the latter has shrunk to only 1.6%! Moreover, in the past imports from China included mainly textiles, now 35% are machines. Finally, Russia is experiencing human resources shortages: many older workers will not be able to cope with new techniques. All of which is putting a brake on Russia's development.

R. Skidelsky contended that no one outside Russia believes D. Sorokin's narrative which is misleading except for some statistical detail. The fact is that Russia has no 'soft power' and it will not be able to generate a broader economic development without improving its own collective capacities, including administrative capability. The difference with China is that the latter has more and better collective capacity as a result of the Communist Party. Contrary to what D. Sorokin said, the Yukos affair had a fatal impact on the *net* inflow of foreign capital: Russia has a large and growing off-shore aristocracy that is transferring large sums abroad rather than investing them at home. The growing gap between classes and regions is threatening the cohesion of society which is important for both political and economic development. The modernisation scenario is for many reasons the least likely because of the

current political constellation, but with the election of Medvedev there is a window of opportunity.

As N. Petrov emphasised, Russia's image-makers are deluding themselves with the imagined success of Russia. In reality, the country continues to suffer from the following problems: a shortage of energy in some regions; an infrastructure so bad that Russia was losing roads rather than building new ones; a lack of connection between experts and decision-makers (demography is a good example – the recent rise is only due to the grand-children of baby boomers having children; demographers are warning that Russia will not continue to see demographic growth in the future); a lack of political support for the modernisation scenario; until recently, a lack of investment (now the country is awash with petro-dollars, but the problem is the absence of coordination between large-scale projects, especially in the Eastern part of the country). Crucially, the overriding problem is a failure to understand the nature of Russia's crisis.

After these different assessments of the current situation, the discussion shifted to a number of more specific aspects: strategic sectoral development; poverty and inequality; the prospect of the middle class; Russia's energy dependency; low collective capacity and the role of the state in the economy and in the area of social welfare.

First, some form of economic nationalism is another of the possible scenarios. China is a case in point: its development centres on 47 strategic sectors where governmental approval is needed. This seems to challenge the view that foreign direct investment is of little or no benefit to the receiving country and that multinationals stand to win most. Indeed, in the raw material sector in particular, Russia has genuine leverage over robber barons at home and abroad who look for a model that privatises gains and nationalises losses. The question which the country's strategic advantage raises is whether WTO membership should be resisted as long as possible in order to protect Russia's ability to diversify its energy-dominated economy (M. Hirsch).

Second, inequality and poverty blight Russia's current economic expansion. Nationally, the GINI coefficient that measures income inequality has reached 17:1, compared with 10:1 in the USA. This represents the highest level of inequality since 1989/90. What is more, in Moscow this coefficient used to be 50:1 until recently and now stands at 41:1. The problem is that the current model actually exacerbates the situation because – far from trickling down and raising the overall level – economic growth is coterminous with rising poverty and inequality. Regional development is of vital importance precisely where it dilutes the concentration of wealth and begins to restore some sort of balance between the various regions and localities. One of the main obstacles that is hindering the transition from an economy of recovery to an economy of development is the scourge of corruption (N. Petrov; D. Sorokin).

Third, Russia's economy needs to be measured differently from other post-Soviet countries in Central and Eastern Europe or in Central Asia. At present, Moscow is somewhere between China and Europe. Indeed, at the end of the Yeltsin era, 3% of people were middle class, now about 30% would describe themselves as middle class and increasingly prosperous. This is borne out by a series of figures, e.g. the rise of average monthly wages from US \$100 to \$500 over the last three years. Furthermore, the growing number of private sector employees in Moscow and St. Petersburg earn about US \$2,500, with living costs still much lower than in

the West as a result of lower taxation and lower rents. In consequence, as much as 80% of personal income is disposable for consumption and luxury goods. More Western modernisation like the introduction of progressive income and corporate taxes or the privatisation of public services could harm the emerging middle class by pushing up prices. But even if the economic weight of the middle class continues to grow, the oligarchy that rules Russia will remain in power ([A. Rahr](#)). Moreover, to focus on the middle-income groups diverts attention away from the extremes, in particular the situation of the poorest and the obscene wealth of the richest ([D. Sorokin](#)).

Fourth, Russia's vast energy resources have led to accusations of blackmail and intimidation, but in reality this risk is low because Russia depends much more on exports than the West depends on imports. Moscow's dependency varies, with gas exports representing a much larger share of national revenue than oil exports, but Russia's energy addiction has reached unprecedented proportions. The importance of export receipts for the national economy is all the more worrying since Russia faces a production decline in spite of large unexploited gas and oil fields: the pipeline network is largely obsolete and the gas field depletion rate is high and rising. All of which is exacerbated by a terrible management structure of Gazprom and insufficient efforts to diversify the economy as a whole ([Q. Perret](#)).

Fifth, one factor that affects Russia's entire system of economic governance is the exceptionally low level of state capacity. Even if there are plans to diversify the economy, it is uncertain as to whether the state is capable of implementing reforms on a large scale and over a prolonged period of time ([D. Sorokin](#)). Russia's political and administrative system is ill-equipped to support anything like a social market economy model ([R. Skidelsky](#)). Nor is it clear whether the state could adopt an approach that combines central planning and the free market in ways that better correspond to the long-term strategic needs of the Russian people ([A. Clesse](#)). Moreover, Russia's elite does not seem to have determined a coherent position between a closed and an open economy, in particular the appropriate degree of protection depending on sectoral development ([M. Almond](#)). More fundamentally, Russia needs to reconfigure the role of the state. In some areas, the state is excessively present, whereas in other areas, especially the social sphere but also the legal system (above all the protection of individual property rights), the state is not sufficiently present ([D. Sorokin](#)).

IV. Possible Models for Russia's Future Development

After highlighting some of the main trends and key factors that describe and determine Russia's socio-economic evolution, the discussions then turned to the question of desirable and feasible models for the country's future development. [R. Skidelsky](#) outlined six different models of political economy. First, the Anglo-Saxon model that advocates the liberalisation and deregulation of the economy and the reduction of taxation. Second, the social market economy that emphasises the role of the state in setting limits to market power and seeks to blend economic efficiency with social justice. Third, the central planning model that subordinates the market to the state and leads to inefficiency and exorbitant costs of coordination. Fourth, the oligarchic economy that is characterised by huge inequalities and an overwhelming dependence on economic rents (e.g. South America). Fifth, market socialism where the market operates without private ownership, a theoretical model that has been likened to a socialist economy without central planning (cf. the debates between Hayek on the

one hand and Lange and Learner on the other, in the period from the 1920s to the 1940s). Sixth, the hybrid model that is now predominant in China and other parts of Asia where a party state monopolises political power but the actual economic driving forces are left to the market. This model is perhaps ideologically contradictory but pragmatism prevails; as Deng Xiaoping said, it doesn't matter what colour the cat is as long as it catches the mouse! Economic nationalism is a sub-system that is shaped by foreign policy and is compatible with all the models. Likewise, corruption is endemic to each system, but it is a matter of degree.

According to Alfred Steinherr, the present economic model of Russia is not sustainable, in that it may exist for a long time but the country will not be able to live off it for decades. Of course, the evolution is open-ended and there is no determinism, but when corruption moves to a certain equilibrium level, then it is very difficult to change the system, as evinced by Southern Italy. However, the creation of small- and medium-sized businesses through a combination of endogenous market incentives and exogenous state intervention can trigger an evolution that redistributes rents and over time changes the *modus operandi*.

A second consideration which was put forwards by A. Steinherr is that Russia's rich endowment of raw material reserves is a mixed blessing. In addition to the well-known phenomenon of "Dutch Disease" (whereby exports of primary resources drive up a country's exchange rate and thereby reduce the competitiveness of other exporting sectors such as manufacturing or industry), an excessive reliance on raw materials induces a 'rentier' mentality. Rather than encouraging ideas and innovation, the elites tend to fight over rents and undercut efforts to decentralise and reform the economy. Even though the long-term trend is towards higher raw material prices (not least because the old terms of trade argument about the interplay of demand and supply is dead), Russia would be more advanced in traditional ways if it stopped exporting oil, gas and other commodities. What ultimately determines wealth is societal organisation and human capital, not natural resources.

These two presentations led to an extensive debate. According to some participants, the task for Russia is not to choose between the existing models but rather to clean her own yard, above all by addressing the pervasive problem of corruption and inefficiency (M. Nosov). Others defended the potential of natural resources to help create wealth, prosperity and well-being. From the 17th to the 19th century, the combination of raw material extraction and human capital development led to the introduction of modern industry and the economic take-off of regions such as Bohemia and Silesia. What is instructive for Russia is that state planning and private ownership are not mutually exclusive but can be reinforcing and collectively beneficial (L. Rühl). Moreover, the stabilisation fund that was set up in 2004 seems quite successful on its own terms. It now amounts to about US \$150 billion and is used to service debts, contain inflation and invest in national projects (Q. Perret). Russia could also learn from the experience of Norway and other countries where resource extraction per capita has increased and a sovereign wealth fund was set in place. In 2015, it will be 3.8 tons of crude oil per capita in Russia, an increase compared with the current level. However, serious problems remain, including the size of the shadow economy and the spread of corruption. Whether during tsarist, Soviet or post-Soviet times, corruption has been a permanent and endemic feature of Russian society for centuries. Only the strengthening of democracy and civil society will address it – Russia should not rely on a good President alone (D. Sorokin).

Yet other participants wondered whether the new diarchy of President Medvedev and Prime Minister Putin can transform the patrimonial system that was put in place during the Putin Presidency. As Robert Skidelsky explained in an article published in 2007 in *Prospect Magazine*, the hallmark of Russia's patrimony is the conflation of political and economic power – state companies such as Gazprom and Rosneft are run by high-ranking officials in the Presidential Administration, many of whom served in the FSB or other security services, with the President acting as mediator between rival clans (liberals vs. *siloviki*) and factions (including within the FSB). During the election campaign, Medvedev spoke not only of 'legal nihilism' but also promised to appoint independent CEOs and managers to head state companies. If he fulfils this promise, this would amount to a separation of political office from business interests and thus undo one of the core pillars of Putin's system. Much will depend on whether Putin will not just shield his protégé Medvedev from the demands of the *siloviki* but more importantly whether Putin is prepared to reduce the influence of the entire security apparatus by demoting some of its most powerful members and allowing Medvedev to promote people with no FSB or similar background (A. Pabst).

In response to these points, R. Skidelsky argued that the entry of big players in the global economy and their increasing demand for raw materials, including oil and gas, will indeed contribute to the rising prices and that this could sustain Russia's current economic strategy. But it cannot be ruled out that in the long run the prices of raw materials will come down. If so, then the average duration of Kondratieff cycles will get longer, including longer downturns, which would destabilise the entire economic and political architecture. Moreover, Russia lacks some of the cultural barriers that can limit some of the current excesses. For example, in the American Wild West that was dominated by robber barons, Protestantism was a major counter-veiling force. But the contemporary Russian oligarchy is largely amoral and utterly self-interested, and philanthropy is under-developed – it only happens via Kremlin-induced arm-twisting. M. Almond challenged the notion of US robber barons, remarking that Rockefeller and others invested in new technologies and donated large parts of their private wealth for philanthropic purposes. Besides promoting civil society, Russia must devise a different economic and tariff policy to encourage more private and public investment.

For his part, A. Steinherr said that a stronger government could achieve much more, e.g. by way of a wealth tax to force the oligarchs to contribute to national well-being. Of course private and state interests are inextricably intertwined: the state needs assets and the capitalists need the state to protect their wealth. It is in this light that Putin's decision to introduce a flat income and corporate tax must be seen. But other participants disagreed, saying that the assets of oligarchs flow from off-shore into Russia and back (A. Steinherr contended that assets can be taxed when they are in Russia and that the oligarchs retain substantial business interests on the territory of the Russian Federation, not least in exchange for political protection). Moreover, the wealth of the stabilisation fund could and should be invested in health care and other essential public sector services; such an investment in infrastructure would not raise inflation (M. Nosov). Finally, it was also argued that Russia is no longer banking its entire future on the energy sector alone and that four key directions of reforms and development have been defined (the so-called four i's): institutions, infrastructure, investment and innovation. This includes the creation of science parks, the promotion of nanotechnologies and the expansion of internet and e-commerce across Russia's economy (N. Dmitrienko).

V. Russia's Foreign Policy Outlook: With Whom and Against Whom?

The final part of the conference proceedings focused upon Russia's foreign, security and defence policy. A. Rahr began his short presentation by explaining that the NATO Summit in Bucharest in early April 2008 was a crucial event in a number of respects. First and foremost, Russia is perceived by some in NATO and in the EU as a hostile and dangerous country that needs to be contained, whereas it is seen by others as an international power with which the West should cooperate. These different perceptions reveal perhaps more about the West than about Russia itself. Indeed, there is a deep and growing disunity within the Euro-Atlantic Community about how to deal with Moscow. Germany views its policy not simply as a defence of German interests but also and above all as a pursuit of a European vision with view to a strategic partnership and an economic alliance culminating in a free economic zone (which could perhaps include the Ukraine and other post-Soviet countries). This vision follows the *Ostpolitik* of Chancellors Brandt, Kohl, Schröder and Merkel and also builds on Gorbachev's idea of a common European house and the 1990 Paris Treaty.

But with few exceptions, the rest of Europe has lost enthusiasm and prefers to drive countries into a geo-political grey zone. Worse, President George W. Bush's cowboy tactics at the recent NATO Summit surprised the 'old' Europe by offering the Ukraine and Georgia a three-year road map to NATO membership. Seen by the Bush Administration and the 'new' Europe as buffer states against a dangerous and belligerent Russia, this move ignores the strategic partnership between the EU and Russia and threatens to antagonise Moscow even more than the US proposal to set up an anti-missile shield. What we are seeing is nothing less than a major historic split within the West, NATO and Europe about Russia and, more widely, a lack of strategic vision. The hope is that Medvedev may give a positive impulse to East-West relations, including on the anti-missile shield, climate change and nuclear non-proliferation, explained A. Rahr.

L. Rühl concurred with much of this analysis, adding that President Bush is now interested in a legacy and that this sort of mentality is undermining other US foreign policy goals. But more importantly, on Russia Bush is no different from President Clinton's policy of NATO eastern enlargement: since Warren Christopher's statement in late 1993 and Clinton's speech in 1994, the US has been sending signals to the Ukraine and Georgia that their membership in the North Atlantic alliance is merely a matter of time. In so doing, the USA has challenged Russia's status as a Eurasian power and it has destroyed NATO's foundation as a collective security alliance, equipped with the means of providing effective protection. Would NATO seriously consider intervening on behalf of Georgia and against Russia over the territory of Southern Ossetia or Abkhazia? This sort of reckless attitude speaks of a complete lack of geo-political strategic thinking on the part of the USA and its allies in Europe.

M. Almond contended that President Bush is currently the favourite boo man but that Europe may soon be nostalgic, not least because of his good relations with Putin. In fact, all three candidates for the US Presidency are openly hostile towards Russia, as is the UK. There is thus among some of the main Western powers a deep-seated Russophobia that resonates strongly with widespread sentiments in Poland, the Baltic States and some CIS countries. One glimmer of hope is that Italy under Berlusconi will join Germany, France and Spain in working for better relations with Moscow. Another pattern that is emerging is that economic

interests are increasingly divorced from diplomacy – it seems that poor old Marx was wrong again!

Q. Perret said that the former US Defence Secretary Donald Rumsfeld had apparently been vindicated in his distinction between ‘old’ and ‘new’ Europe. On Russia, one European family (composed of the UK and parts of Central and Eastern Europe) which is liberal, free-market, pro-Atlantic and anti-Russian pits itself against another European family (constituted by France, Germany, the Benelux and Italy) which embraces a social market economy, is sceptical vis-à-vis US unilateralism and tends to be pro-Russian. Given that this division is undermining any efforts to adopt a common approach in the field of foreign, defence and security policy, the choice for the EU is whether to remain a bloc of nation-states devoid of any coherent and tenable CFSP and ESDP or whether to work towards a unified European polity with two rival ideologies that compete electorally and thus determine which policy will prevail.

R. Skidelsky commented on Russia’s relations with NATO. In late 2000 and throughout 2001 Putin suggested Russia’s membership in NATO, but he was rebuffed by the West (and parts of Russia’s defence establishment). Since then, Putin has opted for an increasingly hostile view of NATO’s intentions and the need for Russia to pursue other alliances. More importantly, the growing East-West divide raises questions about NATO’s *raison d’être*. The USA have a negative view and believe that the organisation is largely symbolic and only good for low-level technological operations. The Europeans have also weakened NATO by failing to commit the resources to build up a real European pillar. Moreover, the EU has no real conception of Europe’s interests, its role and its responsibility independently of the USA. All of which leaves US-Russian bilateral relations as key to future links with Moscow.

Asked about whether Russia needs one or several strong opponents in order to define its role in the international system and whether Central Asia, China, India, Latin America and Africa might emerge as partners, M. Nosov acknowledged that Russia lacks allies. Even within the CIS, there is only Armenia, as relations with Belarus are fraught with difficulties. Whilst Russia’s interests may overlap with China’s, would Moscow really accept to be the junior partner in a Sino-Russian alliance? Russia could also develop trilateral relations with China and India, but on many key interests they diverge. The official function of the Shanghai Cooperation Organisation is to provide stabilisation in Central Asia and to strengthen cooperation with China, but it lacks a clear strategic identity and purpose. Worryingly for Russia, in Central Asia it is EU that is the main trading partner, followed by China. Russia is only a distant third. Within the framework of the CIS, the Collective Security initiative has offered cooperation with NATO, but so far there has been no response from the West. What is needed is a new resolve in the West to invite Russia to join NATO.

A. Pabst disagreed, saying that Russia resents the perceived encirclement by the USA in Europe and Central Asia and attempts to entrench American hegemony at a global level. Thus, Russian membership in NATO would probably be aimed at the containment of the USA and at paralysing the functioning of the alliance by opposing Russia’s veto power. More fundamentally, the question is whether the EU and Russia can reconfigure their existing cooperation and create a genuine partnership not just based on common interests but also grounded in a shared vision for the future role of the Eurasian powers in the world. Specifically, the EU and Russia will only be able to offer an alternative to the US-led Euro-

Atlantic community if they can develop a new foreign and security policy paradigm centred on soft power, in particular the transformative effect of the wider European political, socio-economic and cultural model.

At the level of international relations, A. Steinherr argued that there are no friendships, only common interests (a thesis defended by the British Foreign Secretary Lord Palmerston in the 19th century). National interests tend to be measured in economic terms, and according to Marx the economy is the structure on which is based the superstructure. Economically, gravity (distance and mass) is GDP, so the EU is of course the biggest partner of Central Asia, but over the next decade or so everyone will be China's junior partner. In any case, the EU might be an economic giant, but it remains a political dwarf. If this is true, then why not create a free trade zone between the EU and Russia?

The discussion then shifted to the question of the Russian military. According to L. Rühl, from next year onwards the USA will need Russian cooperation on non-proliferation and arms control, as the START treaties will expire. The potential for confrontation and conflict is also exacerbated by Western fears of substantial Russian rearmament, beginning with the Russian creation of hybrid intermediate and long-range missiles. At the same time, NATO depends on Russia's good will for the fate of the mission in Afghanistan, where the West needs Russia to maintain its military presence. For these and other reasons, the Bush Administration's drive for NATO expansion is at odds with the condition of mutual inter-dependence and overlapping interests. V. Shlykov said that Russia is developing a new defence doctrine and that the Kremlin is watching NATO closely. Thus far President Putin has tried to resist a new arms race with the West, but the military which has been a sleeping giant for the last 15 years is awaking and making demands. Putin and Medvedev will have to manoeuvre carefully between rival interests in the military and security apparatus, but what is clear is that Putin has not given the military adequate resources. However, more is at stake than simply money: is it acceptable for the military that a civilian is commander-in-chief and another civilian minister of defence? Recently, some senior military commanders openly criticised Russia's foreign policy in the media.

Conclusion

In conclusion of the conference, N. Petrov said that Russia needs to develop a societal model that enables the country to modernise in accordance with its own values and principles. More specifically, natural resources are positive for Russia's present and future development insofar as they are not consumed but invested. One key problem is that the relations between the state and society are misunderstood, by Russians themselves and by outsiders. A few points illustrate the idiosyncrasy of the Russian case. First, virtually all political parties are weak – United Russia is only an electoral vehicle. Second, there is as yet no real electoral competition and no feedback from the population to the elite. Third, the share of the middle class is projected to rise to 70%, but this forecast is based on a monthly income of US \$1,000 – given the ever higher costs of living, the middle class is in fact shrinking. Fourth, the state is facing new challenges, and the old-style paternalistic society cannot be maintained, while at the same time protest is being suppressed. Finally, there are also positive notes: even though the current opposition is weak, and civil society will not arise as a result of the activities of the

opposition, direct Kremlin intervention and the side effects of reforms will in all likelihood produce civic mobilisation and political protest. Coupled with a growing middle class (albeit much more slowly than anticipated), this might enable the emergence of a more effective opposition and a vibrant civil society.

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LIEIS
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The Luxembourg Institute for European and International Studies,
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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

Societal concepts for the upcoming Russia

10 April 2008

Konschthaus beim Engel, 1 rue de la Loge, Luxembourg

Programme

- 9.00 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
- 9.15-10.45 **I. The possible political dispensation: If democracy, what kind of democracy?**
- 10.45-11.00 Coffee break
- 11.00-12.30 **II. The economic system: market economy, of course, but what about the role of the state?**
- 12.30-14.00 Lunch
- 14.00-15.30 **III. The social system: how much and what kind of protection for the citizens?**
- 15.30-15.45 Coffee break
- 15.45-17.15 **IV. The foreign policy outlook: with whom and against whom?**
- 17.15-17.45 **Wrapping up the discussions by Adrian Pabst**

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Panellists

- Almond, Mark**, Lecturer in Modern History, Oriel College, Oxford
- Blinov, Anatoly**, Representative for Luxembourg of the Russian Center for International Scientific and Cultural Cooperation at the Russian Ministry of Foreign Affairs
- Clesse, Armand**, Director, Luxembourg Institute for European and International Studies
- Dmitrienko, Natalia**, Head of Analytical Department, Effective Policy Foundation, Moscow
- Hirsch, Mario**, Director, Institute Pierre Werner, Luxembourg
- Lukesova, Katerina**, Ambassador, Embassy of the Czech Republic, Luxembourg
- Malayan, Edouard**, Ambassador, Embassy of Russia, Luxembourg
- Mertz, Paul**, Ambassador, Luxembourg
- Nosov, Mikhail**, Vice-Director, Institute of Europe, Russian Academy of Sciences, Moscow
- Pabst, Adrian**, Research Fellow, Luxembourg Institute for European and International Studies
- Perret, Quentin**, Director of the Energy and Enlarged Europe Axis of the 'Atelier Europe', Paris
- Petrov, Nikolay**, Scholar-in-Residence, Program Chair, Russian Domestic Politics and Political Institutions, Society and Regions, Carnegie Moscow Center
- Rahr, Alexander**, Program Director, Körber-Zentrum, Russland/GUSS, DGAP, Berlin
- Rühl, Lothar**, Professor, Research Institute for Political Science and European Affairs, University of Cologne
- Santer, Jacques**, Honorary Prime Minister, former President of the European Commission, Luxembourg
- Shlykov, Vitaly**, Member of the Civil Council to the Minister of Defence; Vice-President, Association for Euro-Atlantic Cooperation, Moscow
- Skidelsky, Robert**, Professor emeritus of Political Economy, Warwick University
- Sorokin, Dmitri**, First Deputy Director, Institute of Economics, Russian Academy of Sciences, Moscow
- Steinherr, Alfred**, Professor; Chief economist, EIB, Luxembourg; Head of Department Macroeconomic Analysis and Forecasting, DIW, Berlin
- Sucharev, Alexander**, Head of Department for Europe and the United States of America, Russian Center for International Scientific and Cultural Cooperation at the Russian Ministry of Foreign Affairs, Moscow