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RUSSIA AND THE CIS IN 2008

Axis of Authoritarianism?

Charles E. Ziegler

Abstract

Russia's seamless presidential succession produced no major changes in domestic politics or foreign policy. Ties with Asia remained strong, though several key relationships—with China, Japan, and the Central Asian states—frayed under the impact of Russia's military action in Georgia. Impressive economic performance in the first half of the year boosted Russian confidence as a great power, but its vulnerability to the global financial crisis together with the heavy-handed operation in the Caucasus undermined Moscow's standing with both Asia and Europe by the end of the year.

Keywords: Russia, foreign policy, economic crisis, great power, Asia, energy

Tectonic economic and political shifts in 2008 led some observers to suggest that the fulcrum of power was shifting away from the Western liberal democratic world toward a new nationalistic, authoritarian group of states led by Russia and China.¹ Although the Sino-Russian partnership showed occasional strains, Washington's neglect of Asia in an election year facilitated Moscow's more active diplomacy in the Asia-Pacific. Politically, Russia managed a smooth transition, with Dmitry Medvedev succeeding Vladimir Putin as president, although the latter remained on the scene as a powerful prime minister who frequently overshadowed his young protégé. Confidence in Russia's great power status was shaken in

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1. This argument was voiced by Robert Kagan in *The Return of History and the End of Dreams* (New York: Knopf, 2008).

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the fall of 2008 by the global financial crisis, which highlighted the country's dependence on world markets, particularly in the field of energy. Russia's military intervention in Georgia further eroded Moscow's standing in the West. China, Japan, and Central Asia were troubled by Russia's violation of Georgian sovereignty, but economic considerations muted criticism. A severe dip in oil prices toward the end of the year eroded the foundation of Russia's success story, but the prospect of new energy deals in Asia was cause for some optimism.

Meet the New Boss

Russians were treated to the spectacle of a stage-managed, thoroughly predictable presidential election in the early months of 2008. President Putin had designated First Deputy Prime Minister Medvedev as his successor in December, and Medvedev promised to continue Putin's program. The pro-presidential United Russia Party, which had garnered nearly 65% of the vote and 315 of 450 seats in the December 2007 Duma elections, threw its considerable political weight behind the young technocrat. Medvedev also solidified his position by indicating his intention to appoint Putin as prime minister immediately upon taking office.

The opposition, such as it was, never really had a chance. Four candidates were registered for the March elections. Gennady Zyuganov once again represented the Communist Party; nationalist and peripatetic political clown Vladimir Zhirinovskiy was nominated by his Liberal Democratic Party. The final candidate was an unknown former member of United Russia, Andrey Bogdanov, who was reportedly backed by the Kremlin in a bid to split the opposition. The Central Electoral Commission rejected former Prime Minister Mikhail Kasyanov's attempt to secure a place on the ballot, declaring that his nomination petition contained invalid signatures. Former world chess champion Garry Kasparov also failed to secure a spot, and Boris Nemtsov, a leader of the ailing Union of Right Forces Party, withdrew from the contest in late December.

As expected, the state-dominated mass media provided Medvedev with favorable coverage, while the Kremlin-sponsored group Nashi (Ours) rallied the youth vote, ensuring a landslide victory for Putin's choice, with just over 70% of the vote. The Organization for Security and Cooperation in Europe declined to monitor the elections in the face of government obstruction; observers from the Parliamentary Assembly of the Council of Europe who did attend said the vote appeared to reflect the will of Russian voters, but they questioned the overall fairness of the electoral process.

Inherent in Russia's mixed presidential-parliamentary system, patterned after the French model, is an uncertain division of authority between the

two executive positions. Medvedev asserted that he would be responsible for foreign policy (the Constitution assigns this power to the presidency), while Putin's brief seemed to include the economy and domestic affairs. However, Putin's subsequent behavior during the Georgia crisis made it clear he still carried significant, probably decisive, authority on foreign and security questions. A system of dual power (*dvoevlastie*) between Medvedev and Putin may well be untenable. Historically, divided authority in Russia has been a sign of weakness, as it was in 1917 (when the Petrograd Soviet and Provisional Government vied for control) and in 1993, when Boris Yeltsin used tanks to quell an insurrection by Parliament. Putin and Medvedev did not clash openly during the first year, but the institutional framework makes a future contest for power difficult to avoid.

Nonetheless, potential conflicts between the two were not evident during the Georgia crisis, in which Russian forces rushed to the aid of the South Ossetians following President Mikheil Saakashvili's ill-considered decision to try to restore Tbilisi's control over the breakaway region. Putin seemed to be calling the shots, with Medvedev readily acquiescing to his constitutional subordinate's actions. Putin, who was in Beijing for the Olympics when Georgian forces started shelling Tskhinvali, the capital of separatist South Ossetia, flew to Vladikavkaz (the capital of North Ossetia) to direct military operations. Medvedev played his role by condemning Georgian aggression and accusing Saakashvili's government of "genocide." The Russian Duma, piqued by U.S. and European support for an independent Kosovo, unanimously urged Medvedev to grant diplomatic recognition to both South Ossetia and Abkhazia, which he did on August 26.

Russia's domestic and foreign policy priorities appear unlikely to change under Medvedev—the goals of preserving great power status and exercising maximum political influence along the unstable southern and eastern borders are immensely popular with ordinary Russians and are a vital component of official Moscow's national security program. Restoring military power is a priority over the next few years—Russia plans to spend \$50 billion on its military in 2008 and Finance Minister Alexei Kudrin announced in September that defense spending would increase by an additional 26% in 2009.

Tensions with the West may redirect Russian attention eastward, but the interests of major bureaucratic actors and powerful business interests (especially those in the commodities trade) are not directly affected by diplomatic disputes. However, of the different foreign policy factions in Russia, the Westernizers (those favoring close ties with the U.S. and Europe and supporting neoliberal economic policies) are currently the least influential. The *siloviki* (top officials in the armed forces, secret police, and power ministries) and Russian nationalists are in a much stronger position, which

suggests that relations with the U.S. and Europe will remain testy. Asia has been far more supportive of Russia politically and has economic potential equal to that of Europe's, but Russia's geographic position and the demographic imbalance between European Russia and the Far East constrain Moscow's options in Asia.

The Best of Times?

By the time Putin left the presidency he had managed to reassert state control over the commanding heights of the economy, using a neomercantilist strategy similar to that pursued by China to privilege "national champions," marking out an economic policy distinct from the neoliberal stance of Washington or London.² From the Kremlin's perspective, a state guided economy was demonstrably more stable than the Western model, which in the first half of the year was plagued by the real estate crisis originating in the U.S. Russia's real gross domestic product (GDP) growth had been a very respectable 8.1% in 2007, and although 2008 was expected to be somewhat lower, it was shaping up to be a very good year. Foreign exchange reserves stood at over \$500 billion in mid-2008, oil prices reached an all-time high in June, and the country realized a \$260 billion trade surplus in the first half of the year.

By late 2008, the Russian economy was in free fall. At one point in October, Russia's two major stock exchanges had fallen 75% from their May level, and the government drew down its reserves when it allocated over \$210 billion to bail out banks and major corporations.³ Inflation was a problem, driven by high oil prices and capital inflows, with food prices rising rapidly at an overall rate of around 15% for the first half of the year. In the latter half, Russia was severely impacted by the global financial crisis and the precipitous drop in oil prices, from a high of \$147 per barrel in June to under \$50 a barrel for Urals crude in December. Capital flight accelerated after Putin accused the giant coal and steel firm Mechel of underpaying its taxes; net outflows reached \$33 billion in August-September, and the situation worsened after the Georgian conflict.⁴ Few Russians seemed

2. The idea of national champions was discussed in Putin's 1997 dissertation on strategic resources. From this perspective, the most important sectors of the economy—oil and natural gas, other minerals, armaments, nuclear power—should be fully or partially state-owned, or at least under state influence. The most prominent national champions include Gazprom (the state-owned gas monopoly), Rosneft (oil), Alrosa (diamonds), Rosoboroneksport (defense), and Rosnanotech (State Nanotechnology Corporation).

3. *Washington Post*, October 24, 2008.

4. RIA (Russian News and Information Agency), *Novosti*, October 17, 2008.

worried about the crisis, though, because the state-controlled media downplayed the severity of the economic downturn and focused the blame on the U.S.

On the positive side, Russian firms concluded a number of deals that strengthened the country's economic position in Central Asia. In March, state energy giant Gazprom acquiesced to Central Asian demands for a better return on their natural gas, agreeing to bring payments up to world price levels by 2009. Under the direction of Anatoly Chubais, the state monopoly Unified Energy Systems finished privatizing most of its subsidiaries, with foreign utilities assuming significant shares in the new companies. Moscow also moved to consolidate its hold over vital sectors of the economy—a new law enacted in 2008 regulated foreign investment in 42 strategic sectors, including oil and gas, nuclear power, defense related industries, and mining. American-backed plans to build a natural gas pipeline from Turkmenistan across Afghanistan to Pakistan and India foundered on an upsurge of violence in Afghanistan and uncertainty in the wake of Pakistani President Pervez Musharraf's August resignation.

Russia's energy pipelines eastward became more important in Moscow's calculations as Europeans made energy diversification a priority. Work continued on the East Siberian Pacific Ocean (ESPO) pipeline; the first section (Taishet—Skovorodino) was scheduled to be completed by the end of 2009. Although hugely expensive (at \$14 billion), the ESPO would provide Russia with alternate export routes, enhancing leverage vis-à-vis the Europeans. Putin traveled to the Russian Far East to promote the pipeline in the wake of European criticism over the Georgian conflict, and the Russian government announced plans to increase the share of its oil exports to the Asian-Pacific region from the current 3% to 30%, with gas exports to grow to 15%. State pipeline monopoly Transneft had reportedly drawn up blueprints for the oil pipeline spur to Daqing, China, by late October. It is still unclear, though, whether the Siberian fields contain sufficient oil to justify both the Pacific and the Daqing routes.

Russia and China continued negotiating on a natural gas pipeline, but the two sides differed over a pricing formula. Gazprom is trying to realize the same price for gas exports to Asia as it has in Europe (by tying the price to a basket of crude oil prices), but the Chinese have resisted. With the Europeans now searching for alternatives to Russian oil and gas, the Asian markets have become more attractive. Piped gas from Russia is the most logical option for meeting China's growing demand, but pipelines tie nations into webs of interdependence and in any case the Chinese have resisted paying European prices. Liquefied natural gas (LNG) is an option, but an expensive one—Chinese demand has already driven up international prices for this commodity. China also wants oil and gas pipelines routed directly

to its territory, rather than through Mongolia or via the Russian Pacific coast.⁵

For China, as for Europe, Central Asian oil and gas are attractive options, given Moscow's active political use of the energy lever. In addition, Central Asians may prove more interested in shipping their oil and gas eastward following Russia's military action in the Caucasus, which threatens existing and planned pipelines to Europe. Those Central Asian societies with substantial numbers of Russian expatriates—Kazakhstan, Uzbekistan, and Kyrgyzstan—are now understandably nervous about Moscow's more muscular approach to dealing with its neighbors. While China's looming presence and the inflow of Chinese goods and nationals cause unease among Central Asians, Beijing to this point has demonstrated no inclination to use force in the region.

Russia's trade with East Asian economies continued to grow in 2008, while its share of Central Asian trade lost ground to China. Russian-Chinese trade reached a record \$48.1 billion in 2007, an increase of about 44% over the previous year. About \$6.7 billion of this consisted of Russian oil exports, which were down slightly over the previous year. The real growth was in Chinese exports to Russia, which surged by 80% over the previous year. Arms sales to China declined as Beijing increasingly utilized its own technology to modernize the People's Liberation Army. Russian military equipment also came in for some bad press because of its poor performance in the Georgian campaign, making it less attractive to Asian buyers.

Russo-Japanese trade more than doubled between 2006 and 2007, growing from \$9.6 billion to \$20 billion.⁶ Energy accounted for much of this—the Sakhalin II project ramped up its exports of crude to Japan in 2008, and deliveries of LNG are expected to begin in 2009. Economic cooperation between Russia and South Korea continued apace. Bilateral trade was up sharply, at \$15 billion in 2007, and a number of projects were discussed during President Lee Myung-bak's September visit to Moscow. Lee proposed a "New Silk Road" of Russian-Korean cooperation in energy, railways, and agriculture. The most prominent project was a huge natural gas deal envisioning delivery of 10 billion cubic meters of gas annually over a 30-year period, starting in 2015, supplying about 20% of South Korean demand. The pipeline is to run through North Korea, assuming Pyongyang eventually agrees to cooperate, or the gas could be delivered in liquefied form if a pipeline proves unfeasible.

5. John Helmer, "China Stumbles in Forging Russia Gas Deals," *Asia Times* online, January 11, 2008, <http://www.atimes.com/atimes/Central_Asia/JF11Ag01.html>.

6. Anna Smolchenko, "Fukuda to Build Ties before G8," *Moscow Times*, April 25, 2008.

The Korean gas agreement, worth an estimated \$90 billion–\$100 billion, is one indication of Gazprom's plan to diversify exports away from Europe. Since the Siberian fields (the Kovykta field north of Irkutsk and Vilyusky in the Sakha Republic) are far from the Pacific and will require expensive pipelines, Gazprom would prefer to supply gas from Sakhalin. But the company does not own ready Sakhalin 1 gas, and Sakhalin 2 gas (in which it does have a 50% stake) is virtually all promised in long-term contracts to Japanese, Korean, and American buyers.

Russia's Far East continued to languish, victim of Moscow's usual promises for massive investments, which have never been realized in full. In September, Medvedev made a tour of the Far East region, attending development conferences in Chukotka and Kamchatka, where he criticized local leaders for their failure to deal with problems of declining population, unemployment, and poverty. Medvedev also stopped off in Magadan to discuss the gold mining industry, where he clashed with executives demanding tax breaks. Stricter visa restrictions did little to moderate regional paranoia about Chinese migration, as tensions flared occasionally between Russian residents and Chinese students and migrant laborers.

Eurasian Leanings

In its new Foreign Policy Concept of July 2008, Russia for the first time defined itself as a Eurasian rather than European power, according to Igor Morgulov, Russian minister counselor to China.⁷ In May, Medvedev confirmed the Eurasian direction of the country's foreign policy by making his first official visit abroad to Kazakhstan—a brief stopover, followed by his primary destination, China. Medvedev's choice reflected the fact that ties with Europe and the U.S. were strained, while those with Asia were relatively good. Kazakhstan is the least problematic of the Commonwealth of Independent States (CIS) countries for Moscow, and China is easily the most important Asian nation.

Tensions with the Bush administration, and critical comments directed against Russia by the American presidential candidates, particularly John McCain, strengthened Moscow's resolve to signal its preference for Asian partners. During Medvedev's trip to Beijing, he and President Hu Jintao voiced their opposition to American plans for a strategic missile defense shield in Europe, asserting that it would threaten the world's strategic balance.⁸ The two sides also agreed on the need for a multilateral world order in which human rights issues were not used as a screen for interfering in

7. Chinadaily.com, July 30, 2008, <<http://www.chinadaily.com.cn>>. The concept can be found at <<http://www.kremlin.ru/eng/text/docs/2008/07/204750.shtml>>.

8. *Financial Times*, May 24, 2008.

countries' sovereign internal affairs. Russia provided assistance to China following the May earthquake, bringing 1,000 traumatized students to Russia for convalescence. China expressed strong support for Russia hosting the 2014 Olympics in the Black Sea city of Sochi, even in the wake of criticism over Georgia. Shortly after Medvedev returned to Moscow, Russia and China celebrated the signing of a final border demarcation along their 4,300-kilometer frontier in July, capping 40 years of negotiations and finalizing an agreement reached in 2004.

Although Medvedev described China as one of Russia's foremost partners in foreign policy, China has differed with Russia in the Shanghai Cooperation Organization (SCO). China would prefer to see the organization's economic role move to the forefront, where China is stronger than Russia. Moscow is understandably less enthusiastic. Russia's military intervention in Georgia also put Beijing in a difficult position. The Chinese value their partnership with Russia as a counterweight to the U.S., but Beijing's commitment to the principle of inviolable sovereignty and territorial integrity, given the possibility of separatism in the People's Republic, made it unlikely that China would support Russian-sponsored independence for Abkhazia and South Ossetia.

At the annual SCO meeting in Dushanbe, capital of Tajikistan, China and the Central Asian states urged Russia and Georgia to resolve their differences peacefully through dialogue, while preserving the unity and territorial integrity of states in accord with international law. Beijing's policy has sought to maintain good relations with both Moscow and Washington, so Chinese officials were reluctant to take sides in the conflict. China was preoccupied with fluidity along its periphery—leadership turnover in Pakistan, rioting in Thailand, and the selection of Taro Aso, a hawkish supporter of the U.S.-Japan alliance, as Japan's prime minister.⁹ Officials in Beijing were also miffed that the conflict in the Caucasus deflected attention from their all-out effort to showcase the 2008 Olympics.

Russia's resort to military force in the Caucasus produced widely varying reactions among the country's putative allies in the CIS. Georgia announced its withdrawal from the enfeebled organization. Ukraine's leadership split, with President Viktor Yushenko taking a hard line against Moscow and lobbying for NATO membership, while Prime Minister Yulia Tymoshenko avoided criticizing Russia. Kazakhstan, which had invested heavily in Georgia, refused to support Russia through the SCO and in late August launched a "Road to Europe" plan in connection with Kazakhstan's 2010 chairmanship of the Organization for Economic Cooperation and Development

9. Yu Bin, "China Still On-side with Russia," *Asia Times* online, September 6, 2008, <<http://www.atimes.com>>.

(OECD).¹⁰ Azerbaijan recognized Georgia's territorial integrity and welcomed Georgian refugees, but the vulnerability of the country's oil and gas export routes, illustrated by British Petroleum's decision to shut down the Baku-Tblisi-Ceyhan pipeline temporarily, may force Baku to work more closely with Moscow. The energy producing states of Central Asia, by contrast, may find greater security in shipping their product eastward to China.

Japan and Russia continued to discuss the perennial issue of the disputed Northern Territories (Kurile Islands), though Medvedev showed no sign of being more accommodative on the issue than was Putin. During Prime Minister Fukuda Yasuo's April visit to Moscow, a joint venture was announced between the Japan Oil, Gas, and Metal National Corporation (JOGMEC) and Irkutsk Oil to explore for oil in East Siberia.¹¹ Japan offered its support in developing the Russian Far East, though Tokyo was unhappy with Moscow's plans to invest in the Northern Territories, thus making it more attractive for the Russian inhabitants to stay.

The Japanese sided with the other G-8 countries in condemning Russia's military action in Georgia, including Moscow's diplomatic recognition of Abkhazia and South Ossetia.¹² Tokyo immediately pledged up to \$1 million in emergency humanitarian assistance to Georgia and postponed planned naval exercises with Russia. Japan's Ministry of Defense warned in its 2008 White Paper that Russia had reemerged as a strong state and was developing a military posture in the Far East commensurate with its new economic potential.¹³ For Japan, a confident Russia that is more confrontational toward the U.S. underlines the importance of the U.S.-Japan strategic alliance, and may have encouraged the recent warming in Japan's ties with China.

Russian-Korean relations revolved around the Six-Party Talks on North Korea's denuclearization (stalled after Pyongyang announced its intention to restart its program, in violation of the 2007 agreement), as well as business deals on energy, automobiles, and aerospace. President Lee Myung-bak visited Moscow for a summit with Medvedev and Putin in September 2008, where the two sides announced that their relationship had been upgraded to a strategic partnership. Lee pointedly refrained from criticizing

10. Andrew Iacobucci, "Kazakhstan: Astana Promotes Plan for Expanded Ties with Europe," Eurasianet.org (October 23, 2008), <<http://www.eurasianet.org/departments/insight/articles/eav102308.shtml>>.

11. Bruce Gale, "Russia and Japan Paper over Their Differences," *Straits Times* (Singapore), May 14, 2008.

12. Joseph Ferguson, "Russia Disappointed in Dushanbe," *Japan Times*, September 15, 2008.

13. Japan Ministry of Defense White Paper, <http://www.mod.go.jp/e/publ/w_paper/pdf/2008/part1/Chap1.pdf>.

Moscow over Georgia; indeed, in a clear rebuke to Washington's confrontational warnings, the Korean side expressed its support for Russian membership in the World Trade Organization and for Russia's plans to host the 2012 Asian Pacific Economic Cooperation forum and the 2014 Olympics. Lee and Medvedev also agreed to push North Korea to cooperate on completing the Trans-Korea Railroad link.

Under pressure from the U.S. and its G-8 colleagues, Russia countered by convening the first independent ministerial meeting of the BRIC emerging-market countries (Brazil, Russia, India, China) in Ekaterinburg in July, followed by a G-8 sideline meeting among the four heads of state, in Hokkaido. Russian leaders find the idea of a BRIC grouping appealing as a counterweight to U.S. and NATO dominance and, perhaps more important, as a dynamic economic grouping shifting the balance of power away from the West. The four nations have common interests in strengthening multilateralism and combating terrorism and drug trafficking, and there are clear complementarities among their economies. Although the July meeting of foreign ministers seemed in accord on the question of containing separatism (in the context of Serbia and Kosovo), Russia's military action in Georgia was bound to strain ties among the new partners.

Relations with India warmed as Moscow courted the Asian giant through the BRIC forum and in bilateral talks. During Medvedev's December visit to New Delhi, the two sides discussed cooperation in nuclear power, space exploration, and weapons sales. The Russian president received a warm reception but cut short his visit upon learning of the death of Orthodox Patriarch Alexei II. Russia has actively courted India diplomatically and economically, hoping to contain gains in U.S.-Indian relations made in recent years by the Bush administration. India, in turn, continues its efforts to expand trade and acquire upstream energy assets in Russia and Eurasia. In August, India's Oil and Natural Gas Corporation (ONGC) bid against China's Sinopec for control of Imperial Energy Corporation, offering \$2.6 billion. Imperial Energy, an oil and gas exploration and production company founded in 2004 and based in England, holds modest hydrocarbon reserves in Western Siberia and Kazakhstan.

Few Russian initiatives were evident in Southeast Asia in 2008. Indonesia took delivery of three Su-30 jet fighters and three Mi-17 helicopters, with an additional three Su-27s to follow in 2009, but cancelled talks for the purchase of Russian submarines.

Toward the end of 2007, Russia committed \$500,000 for the ASEAN (Association of Southeast Asian Nations)-Russia Dialogue Partnership Fund for energy, trade, and Russian language promotion projects. Russian firms Rusal and Gazprom concluded agreements with Vietnam in the aluminum and oil sectors. Russia and the U.S. clashed over the proposed

extradition of Viktor Bout, a former Russian military officer suspected of illegal arms trading who was arrested in Bangkok in March 2008, putting Thailand in a difficult position. The Asian Development Bank in September approved a \$40 million loan to Georgia at the lowest possible rate, signaling Asian displeasure with Russia's action in the Caucasus.¹⁴

Conclusion

Russia started the year flush with oil money, with a rapidly expanding economy, and confident that its position as a great power was firming up nicely. Stage-managed presidential elections produced a smooth transition from Putin to Medvedev, with the ex-KGB officer staying on to ensure that the gains of the past eight years would not be lost. Strong central authority was further guaranteed by the political stranglehold of United Russia, the pro-presidential party that dominated the Duma and controlled the bulk of Russia's governorships. Ties with the U.S. and much of Europe were strained, but relations with Asia showed great promise.

By the end of the year, the situation looked considerably bleaker. The precipitous decline in oil and gas prices, and Putin's intemperate criticism of Russian business, coupled with the occupation of Georgia, contributed to the collapse of the Russian stock markets, proving that Russia could not shield itself from upheavals in the global economy. Asian criticism of Russia's military action in the Caucasus may have been muted, but there were clearly fears in many quarters that Soviet-style aggression was back in fashion. Russia's authoritarian trends may not have preoccupied Asians to the same extent as Europeans, but neither did they provide a workable basis for an axis of authoritarian states led by Russia and China.

14. Keith Bradsher, "Asians Rebuke Russia with Loan for Georgia," *International Herald Tribune*, September 13, 2008.