

Domestic Sources of Russia's Resurgence as a Global Great Power*

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With the dissolution of the Soviet Union, Russia being its legitimate heir lost most of its greatness. In recent years, coincided as they have been with Vladimir Putin holding office, Russia appears to have been on the way to recover and reemerge as a first tier great power in world politics. Holding constant the shaping influence of the international system and geopolitics, this development also owes much to the legacy of Czarism, the Soviet Union and Putin's two-term presidency.

Keywords: *Russia, resurgence, great power, domestic sources, Czarism, Putin, Medvedev*

1. INTRODUCTION

The post-Soviet era may be divided into two periods: one of Boris Yeltsin and another of Vladimir Putin and his recently elected successor Dmitri Medvedev embracing the 1990s and the first decade of the twentieth first century respectively.¹ These two periods have been featured as the fall and rise of Moscow. During the first period, the main trait was the fall of Moscow's power and prestige as the center of the Soviet Union and the socialist camp, as well as its quasi-eclipse from international affairs. In the second period, we have been witnessing the rise of Moscow as the glorious capital of Russia and as an increasingly important global player.

Specifically, following the disintegration of the Soviet bloc, Russia ceased being not only one of the world's two superpowers but also the major leading power in Europe and Asia. In terms of hard and soft power of all kinds, it inherited a little more than one third of the Soviet Union's whole. Geopolitically in particular, Moscow lost:

- the countries of the Soviet Union's spheres of influence all over the world, in particular those in central and eastern Europe. This, as a sequel to this event and natural as it was, went hand in hand with the closure of its military bases abroad,

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¹ Although Putin left his presidential post in mid-May 2008, his period might be claimed not to have been over. That is so because immediately after Medvedev was inaugurated president, he appointed Putin prime minister. Hence, Putin remains in charge on the centre stage. However, as this event had taken place several months before research for this article was completed, we hereby focus only on the legacy of Putin as president. That time, too, coincided with the fierce outburst of the present global financial crisis and, thereby, we assume that its effects on the global economic balances are bound to affect all the great powers of our era *pro rata*. For example, when the crisis erupted, Russia was number four in the world by its trade and current account balance surplus. For the first quarter of 2009, on the other hand, its economy is estimated to have contracted by 9.5%, while for the entire year this figure is forecast to reach 7.0%.

- the degeneration of its armed command and control systems, and the disarray of its fighting services;
- all the republics but Russia that made up the former Soviet Union;²
 - Crimea and part of the southern Siberia, which during the Soviet era were given to Ukraine and Kazakhstan for administrative reasons.

To these key geopolitical losses was added the economic plight. Throughout the Cold War, Moscow stood economically second to the United States of America (US). After the end of the Cold War, it was no longer among the capitals of the world's ten most powerful countries. Whether or not the Soviet system was economically ineffective (Fakiolas 1985a: 39-52), the heart of the matter was that in 1992 the financial deficit "was downright disastrous": 30 to -35 percent of the gross domestic product (GDP). This was related, by and large, to the massive outpouring of cash into the economy through central bank credits "that had no backing whatsoever" (Dubinin 1995: 51). By then there were no funds to pay for the import of food and medication, service foreign loans and reimburse tickets for ambassadors to travel abroad or return from their embassies to Moscow (Gaidar 2006: 377-390). Poverty was rampant even among nuclear-weapon guards; it was no secret that many of them were forced to go on hunger strikes because they had been without pay and allowances or homeless. In a sense, Russia's transition to democracy and market economy was a catastrophe. Military decay, political vice and corruption, economic hardship, societal unrest, and deterioration of morals staged an acute comeback.

During the course of the Yeltsin period, indeed, Russia suffered an uninterrupted seven-year fall of production.³ In the space of one decade (1989-1998), its GDP fell sharply by 44 percent, while its industrial production and investments twofold and fivefold respectively (Kydrov 2004: 338, 513). For instance, the aerospace industry, which in the Soviet age accounted for a quarter of the world's aircraft output, went into deep recession as orders dried up. In just three years (1990-1993), Russian exports reduced from \$ 208 billion to \$ 60 billion and imports from \$ 197 billion to \$ 44 billion (The World Bank 1994: 5). The result was that foreign trade revenue climbed down from ten percent of the net material product to 2.3 percent (The World Bank 1995: 427). At that time doing business in Russia took "ten times longer than anywhere else" (Andresen 1995: 39). That public health care and insurance were remarkably downgraded was also hardly surprising. As a result, alcoholism, drug abuse, tuberculosis, hepatitis B and C rage, Aids, and other diseases aggravated.⁴ And life expectancy at birth for men worsened. Between 1985 and 1990 it stood at 64.9 years, 1990 and 1995 at 60.8 years, and 1995 and 2000 at 60.2 years (Gaidar 2003: 39).

Overall, in 1998 Russia was nearly bankrupt. It was forced to default on a \$ 40 billion domestic debt and devalue the ruble. Two years later, its GDP was estimated at 64 against 100 in 1990 (Khasbulatov 2006: 669-70). Its share of world GDP (2.1 percent), industrial

² The demise of the Soviet Union was not followed by the break-up of Russia. Chechnya, the most insurgent area in the country, proved unable to secede, notwithstanding that it enlisted to its cause the support not only of many Arab states but also of much of international media (Fayutkin 2006: 52-5).

³ According to Russian figures, only the mining industry production remained unimpaired, and its share in the Russian GDP increased from 18.1 percent in 1990 to 24.4 percent in 2000. Also, in 1996 the Russian raw materials reserves were estimated to worth about \$ 28.6 billion. The percentage share of natural gas in this sum amounted to 32.2, coal 23.3 and oil 15.7 (Goricheva 2004: 53).

⁴ "The death of a nation," *Time*, 22 January 2001, 29.

production (4.4 percent) and commodity exports (1.0 percent) was much lower than it was in 1990 and far lower than that of the US (21.2 percent, 21.9 percent, 11.8 percent) and China (10.7 percent, 11.1 percent, 7.7 percent) respectively (Obolensky 2004: 72, 74, 81). In essence, Yeltsin's Russia saw its human and material resources shriveled up, its finances on the verge of collapse and much of its population living in abject poverty. Thereby, it endured a sharp and severe lessening of its greatness.

By contrast, the Putin period is marked with recovery. The trends of decline reversed and Russia began to regain much of the ground it had lost. As the first decade of the twentieth first century draws to a close, Moscow is by far in better situation both domestically and internationally than it was in the 1990s. Since the advent of Putin to power, growth rates have averaged 7 percent, it being higher than the world average of 5 percent and two to three times higher than those in the US and Europe. In 2005, the Russian GDP amounted to \$ 763 billion. However, in purchasing power parity terms this figure was estimated at \$ 1.56 trillion in 2005 and \$1.67 trillion in 2006 (IISS 2007: 195). Official statistics is argued to have undervalued private consumption spending, insofar as the share of shadow economy is about 45-50 percent of GDP. Thus, estimates for GDP should be revised by 40-45 percent upward to reflect it to its full extent (Gotz 2005: 242).

In 2002, the European Union (EU) accorded to Russia the status of market economy. This made it easier for Moscow to contest anti-dumping practices, benefit from lower tariffs and reduce its debt burden. Alongside went achievements like a budget surplus, a soaring stock market and inflated central bank reserves; and reforms such as the introduction of a new land code and a flat tax for personal income which has set the stage for a considerable amount of Russian capital abroad to repatriate. Russia today is more investor-friendly thanks to its political stability, healthy finances, abundant raw materials and energy resources, cheap and skilled workforce, and sufficient transport facilities. It is no coincidence that in 2007 more than six million work permits were issued for migrants from the poor ex-Soviet republics. These people are added to eight to twelve millions that the Russian federal migration service estimates that currently are working illegally in the country. In terms of global migration, Russia is the main destination for immigrants, surpassed only by the US. That is due partly to ethnic Russians returning to the motherland, but also to Georgians, Moldavians and other citizens of the ex-Soviet republics "moving to Russia in search of work".⁵

In short, Russia re-surges out of the ashes of the profound depression of the 1990s to log nearly a decade of outstanding growth and development. This domestic rejuvenation has played its part, along with the concurrent balancing imperatives thrown in by the US's unilateralist assertive actions, in laying the foundations for the Russian political leadership to embark on staking a claim for a leading role in world politics. Moscow has consistently spelled out that it is determined to reassert its right to have a say in international affairs on account not merely of its geographical position in the center of Eurasia, its nuclear arsenal, its highly competitive competence in space exploration and utilization and its permanent membership of the UN's Security Council. Also, it aspires to restore its power status on the world stage by fully mastering its domestic potential and possibilities from the huge wealth of natural resources, the pool of skilled scientists and the military technology expertise to the use of economic and foreign policy tools.

It is from this so-often neglected angle that the article seeks to shed light on the domestic sources of Russia's resurgence as a global great power. It argues that in addition to the

⁵ The Economist, 20 January 2007, 33-4.

pushes of the international system and geopolitics, this development owes much to the legacy of Czarism, the Soviet Union and Putin's two-term presidency. Thus, the article proceeds with exploring the main assets, that is territory size and mineral resources, with which Czarism endowed today's Russia. Next, it discusses the legacy of the Soviet Union and Vladimir Putin, and closes with conclusions.

2. THE CZARIST LEGACY

To begin with territory size, Russia today is smaller than the Soviet Union, nearly by one fourth.⁶ Following the end of the Cold War, it lost not only most of the Soviet Union's territorial gains but also a considerable slice of the Czarist legacy including Ukraine, Kazakhstan and Uzbekistan. Nevertheless, it still remains the world's biggest country, being about 1.7-1.8 times the size of Canada, China and the US, two times the size of Brazil, and four times the size of the EU. And it possesses 31.5 percent of Eurasia's territory, roughly 23 percent of which lies in the eastern part of Europe.

Also, Russia has no equal in terms of mineral resources. In fact, it is the world's sole energy superpower, having abundant energy resources nearly of all sorts. It is number one in natural gas reserves amounting to 32 percent of the world's total. These reserves may sustain Russia's prevalence both as global producer and exporter until the end of the current century (Polyakov 2005: 110-11). To this should be added the fact that Moscow is first in the listing of timber reserves and second of coal reserves (30 percent of the world's total). Its share of world oil reserves is estimated at 17-18 percent, of world palladium at 50 percent, of world nickel at 40 percent, of world iron ores at 30 percent and of world uranium at more than 10 percent (Encyclopedia 2005: 44; Mazin 2006: 4).

What is more, if Russian proven oil and gas reserves are combined, Moscow occupies the first place in world ranking, with about 15 percent more reserves than Saudi Arabia's (Eyal 2002: 24). Siberia and Far East have reserves that "Russia can rely on its prosperity in 21st century." Historically, *European* Russia spent huge resources for *Asian* Russia. This is no longer the case and is not likely to be in the years to come, inasmuch as "eastern Russian energy resources are the basis for the country's future development" (Bagaturov 2004: 98). There is no denying that "energy reserves in eastern Russia [...] far exceed those in the entire Caspian Basin," since eastern Russia is estimated to have as much as 278 billion barrels compared to the 233 billion barrels of the Caspian basin (Goldstein and Kozyrev 2006: 163, 176).

According to the statistics of Table 1:

- energy exports, which fell substantially in the years 1990-2000 (from 706 to 526 million tons of conditional fuel), are expected to climb up to about 530-600 million tons of conditional fuel in 2010-2020. Like in the past,⁷ Russia in the near future will continue producing and exporting energy resources of all sorts, something that no other country in the world is able to do;

⁶ Russia as a territorial entity surpasses more than threefold all the other fourteen republics of the former Soviet Union taken together (17,1 million sq km against 5,3 million sq km).

⁷ Early in the 1980s, for instance, 62 percent of all Russian exports were natural resources-based, of which the share of fuels amounted to less than 53 percent (Fakiolas 1985b: 376).

- the share of Commonwealth of Independent States, which in 1990 was more than half the total of Russian energy exports, fell sharply and came down to amount to less than 20 percent in 2000. By contrast, the countries of the *Far Abroad* increased their share in Russian energy exports fourfold to more than 80 percent. This trend is most likely to endure until 2020;
- of all energy resources, oil and coal exports today are and will be lower than the level of the 1990s. On the contrary, the level of natural gas exports will be much higher in 2010 and 2020, while that of electricity will be nearly two times higher in 2020.

Table 1. Export of Energy Resources from Russia (ml)

	1990	2000	2010*	2020*
Total to the world (t.c.f.)	706	526	530-600	565-585
of which				
<i>Oil and oil products</i> (t.)	286	143	155-180	150-165
<i>Natural gas</i> (c.m.)	213	193	245-275	275-280
<i>Coal</i> (t.c.f.)	30	28	15-20	18-20
<i>Electricity</i> (kwh)	37	13	30-35	40-75
Total to the CIS Countries (t.c.f.)	372	102	105-125	110-125
of which				
<i>Oil and oil products</i> (t.)	154	16	20-25	25
<i>Natural gas</i> (c.m.)	101	59	70-80	65-70
Total to the Far Abroad (t.c.f.)	334	424	440-475	455-460
of which				
<i>Oil and oil products</i> (t.)	132	127	135-155	125-140
<i>Natural gas</i> (c.m.)	112	136	175-195	210-220

*: forecasts

CIS: Commonwealth of Independent States

ml.: million

t.: tons

t.c.f.: tons of conditional fuel

c.m.: cubic meters

Source: Russian Academy of Sciences (as quoted in Telegina 2003: 61).

The overwhelming majority of Russia's energy resources, therefore, are related with hydrocarbons. The potential for energy saving however is enormous. That is why in 2003 the Russian government set the more effective exploitation of these resources as a strategic priority. They decided that nearly three fourth of the additional resources that were to go to the market should spring from the reduction of waste in energy (Kovtunov and Titov 2004: 66). On this count, indeed, Russia remains one of the foremost culprits in the world. Hot water from central water supply facilities is pumped into the consumer network mostly through non-insulated pipes, while "thermostatically controlled heating remains virtually unknown in Russian homes" (European Parliament Directorate General for Research 1993: 46). And in the Siberian oil fields billion of cubic meters of gas are most often burnt off unused.

Despite these shortcomings, Russia is the only country in the world that may supply the EU and China with ample energy resources, including electricity, in the coming decades. More important still, Russia being a Eurasian country and having common frontiers with the EU and China can transfer most of those resources by the cheapest way, through pipelines and grids.

Having insufficient energy resources, the EU and China appear intent on increasing energy resources imports from Russia. Moscow is ready to supply fuels in preferential prices and establish a longstanding energy partnership with Brussels in return for EU investments in the Russian energy sector. From this angle, the interdependence of markets, geographical proximity, and the existence of traditional economic ties and developed pipelines infrastructure are said to be the conditions that are required for the built-up of an effective common Russia-Europe energy space (Telegina 2003: 60). Not accidentally, with the progressive connection of energy networks and systems between Europe and Asia, the volume of the Russian electricity set to be exported to the EU, the CIS and China is expected to enhance considerably (Grinkevich 2003: 15-24).

To close this section, a measure of the key weight of the Czarist legacy is the fact that up to end-2008 Russian economic recovery and modernization was being driven mainly by rising energy prices. With the oil peaking \$ 147 per barrel, Russia was then the world's number three, after China and Japan, in gold and foreign exchange reserves, having totaled a record \$ 500 billion. But let us move on to shed light on the legacy the Soviet Union left to Russia.

3. THE SOVIET LEGACY

Russia inherited from the former Soviet Union a well educated and experienced manpower. However, over the Cold War the Soviets bought up to twelve times more technology than they were able to sell.⁸ This was so despite the fact that they had about 5,500 research centers and labs employing 1.1 million people. Two decades ago, the percentage participation of scientists and engineers in national labour was estimated at 11.6 in the Soviet Union and 6.3 in East Germany against 11.5 in Japan and 5.3 in West Germany. At the time, not accidentally, *the Economist* commented: "how educated a workforce" the Soviets had; if only they could "dash for greater freedom in politics and markets at home."⁹

⁸ "Soviet Union making effort to export technology to West," *International Herald Tribune*, 16 August 1977.

⁹ *The Economist*, 30 May 1987, 72.

In the post-Soviet period, despite the low public funding of centers of Research and Development (R & D), the Russians continue to have excellent and internationally competitive human resources in numerous scientific fields, including aerospace, earth sciences, physics, chemistry, mathematics and nuclear applications. However, early in the 2000s, although Russia's share of the world research employment was 11 percent, its share of the world research expenses was just one percent.¹⁰ Indeed, while the share of R & D in the Russian GDP showed signs of slight upturn scaling up from 0.9 in 1996 to 1.16 in 2001, Moscow kept spending for R & D 9.3 times less money than Japan, 4.7 than Germany and 2.8 than France (Obolensky 2003: 9-10).

Last but not least, Russia inherited from the former Soviet Union a strong tradition in space, nuclear and military manufacturing. Industries in those fields are largely state-owned, but being capable of producing their own high technology they can potentially foster Russia's capabilities and reach as a global economic player. In particular, the world share of Russian enterprises in the construction of atomic electric stations and commercial space launches is estimated at 11 percent, while in the reprocessing of spent nuclear fuel at 8 to 9 percent (Obolensky 2003: 9-10). The output of these sectors is exported to Asia, Africa, Latin America and Europe. China, India and Iran are the principal markets for Russian conventional weapons, nuclear reactors, and space equipment and services. China, for instance, has long been the biggest buyer of Russian arms. It has made considerable purchases of advanced weaponry mainly for its navy and air force. These purchases include destroyers, submarines, sea-skimming, fighter jets and anti-ship missiles.¹¹ Beijing is also said to pursue buying Russian nuclear technology.

As for the Europeans, so long as the construction order for numerous Airbus A400 is expected to be ready for delivery not earlier than 2009, they have leased the Russian military cargo aircraft *Antonov* 124-100, which until 2003 successfully flew to more than 600 airports in 137 countries carrying heavy engines, oil and gas pumping units, satellites aircraft and helicopters.¹² Of the contracts Moscow has signed with Greece, Hungary, the Czech Republic and Lithuania for the purchase of weapons, the longest term one is set to be carried out in 2015. Additionally, Russia and the EU are about to begin consultations over the conditions with which the former is likely to provide the member-states of the latter with nuclear fuel supplies (Sumarokov and Sumarokov 2006). Moscow's atomic energy designs involve, among others, the goal of turning the country into the world's largest repository of spent nuclear fuel with industries to reprocess it.

In 2005, Russian weaponry exports amounted to \$ 6.1 billion. In 2007, too, Moscow gained a \$ 7.5 billion deal to supply Algeria with fighter aircraft, tanks and anti-aircraft missiles.¹³ At the same time, having arranged joint investments in uranium projects with countries such as Venezuela, Sudan and Kazakhstan, the Russians let it be known that they would look for a similar agreement with South Africa (IISS 2007: 194; Anderson 2007: 70). And now we will turn to examine which were, in our opinion, the most important in-house moves Putin's administration went through that had their own share, along with the Czarist and the Soviet legacy, in setting the domestic stage for the re-emergence of Russia as a key strategic actor in the international scene.

¹⁰ 2002, Russia's science in numbers, Moscow, 94, 104, 128; (Obolensky 2004: 72, 74).

¹¹ "Coming over the horizon. Why China wants a bigger navy", *The Economist*, 6 January 2007, 44.

¹² 2003, "Strategic airlift on call," *World Defence Systems* 6 (August): 24.

¹³ *The Economist*, 10 February 2007.

4. VLADIMIR PUTIN'S LEGACY

It goes without saying that it was Yeltsin and his close fellows that engineered the rise of Putin to power. But the critical dimension of the rise was that while initially Putin had been appointed prime-minister by the Kremlin establishment and with the consent of the Duma, afterwards he was elected president with a clear popular mandate. This, coupled with his strength of character and grasp of personal capabilities, enabled him from the outset to pursue freedom of moves and autonomy of ruling. Putin could thus be said to have gone through three grand strategic steps shortly after he took office.

4.1. State authority restoration

Putin's first grand step, after he succeeded Yeltsin, was to restore the authority of the president as the primary source of state power in Russian politics and render it the one and only guarantor of the political order. His ultimate aim, in that regard, was to foster the fundamentals of the political system, marked as they were by the strong presidential powers. He did so, in the first place, by making a clean sweep of Yeltsin's political associates and wider entourage. Hence he renewed the governing coalition with political personnel and senior state functionaries loyal to his cause.

In the second place, Putin reinstated and demarcated the bounds of constitutional power among the executive, the legislative and the judiciary; although in the course of his administration the former branch of power was made to overshadow the two latter branches.¹⁴ To this was added the fact that he rallied around the task of breaking the notorious and corrupt relations between business and state (Sakwa 2008: 185-91). Of the business elite, he targeted those few tycoons, the so-called oligarchs, who during the Yeltsin period not only created a huge fortune by acquiring on the cheap the most profitable assets of the Soviet public productive means but also capitalized fully on their financial might to manipulate the government, thereby commanding both politics and economics.

The Putin leadership showed ample signs of firm determination to get businessmen to bend to the interests of the state. He reframed the power competition for the spoils of office by setting new rules of the game. Entrepreneurs were called on to stay out of politics, pay their taxes, conform to the law and avoid bribing public servants. So long as did they respect and play by the rules, the Kremlin abstained from investigating economic crimes they had allegedly committed during the sweeping privatizations of the Yeltsin period.¹⁵ Indeed, the majority of Russia's business community displayed willing and strong attitudes of cooperation and adaptation to the new situation. Roman Abramovich, Mikhail Fridman and Oleg Deripaska, among many other key figures of the oligarchs, were cases in point. Not

¹⁴ One effect of this development is claimed to have made Putin the dominant player in Russian politics to the extent that political power "is being intimately connected to personalities rather than institutions." The other effect is that Russia tends towards "becoming a unitary state than a federation," while at the same time "elections are manipulated and controlled by the Kremlin and fundamental human rights and liberties are violated" (Pallin 2008: 26).

¹⁵ It is indicative that in the 1990s, according to Sergei Stepashin, the head of the Russian parliament's audit committee and prime minister during the Yeltsin presidency, Russia was estimated to have made a 'laughable' \$ 9.5 billion out of the privatization of 140,000 state companies. Financial Times, 14 May 2004, 12.

only did they realise that Putin's policy was in tune with popular feeling. More important still, they well understood that in a country where personal success and property was much conditioned on a measure of fidelity pledging to central authority, they had no choice but to submit loyalty to Putin's rule.

The oligarchs who instead refused to toe the line and insisted on getting engaged in politics drew themselves into the vortex of the Kremlin's exasperation. Some of them, like Boris Berezovsky and Vladimir Gusinsky, having been accused of corruption and fraud, were forced to flee abroad. Others were arrested and imprisoned on charges of large-scale tax evasion. Mikhail Khodorkovsky, the head of the Yukos oil company, suffered a humiliation of this kind, which eventually came to symbolise both the high stakes involved and the culmination of Putin's campaign against the noncompliant top tycoons. Whether or not the 2003 Yukos affair was actually a palpable demonstration of totalitarianism, or an acute violation of property rights by the state, the gist of the matter was that it "signalled the Kremlin's determination to assert its authority over the business community" (Sakwa 2008: 187). As a result, the aftermath of this fierce struggle found the Putin leadership stronger and more capable of defining the preserve of presidency and mustering the allegiance of big business to state institutions.

Overall, Putin was capable of rearranging the domestic power game but without turning the ruling regime upside down. By standing, at least apparently, by the letter of the constitution, he fabricated a new start of the play in a way that evolved to his political benefit; in the notion that it set the stage for him to buttress the power prerogatives of Russia's presidential system, and thus to centralize and improve the state's decision-making-and-implementation capacity. The more Putin's moves on this count gathered momentum, the more his popularity was heightened and so did the Russian business elite line up to reach and forge a consensus with him. In fact, oligarchs who abstained from politics and stuck to the value of corporate social responsibility had no reason to oppose Putin, inasmuch as their business activity remained intact and social order was secured. Putin's new rules of the domestic game aimed not so much at re-establishing the Russian economic life under state ownership as at restoring the presumed sway of politics over economics. It is no coincidence that a considerable section of the Russian society perceived of the prosecution of the few oligarchs "as advancing a political and economic system, where many people could enjoy property and political access" (Caranghan 2007: 64). From this standpoint, the widely held fear that the capture and the nationalization of Khodorkovsky's company would inescapably led to the liquidation of the business community and the demise of democracy and market economy in Russia was far from reality.

4.2. Market Reforms

In essence, the anti-oligarch campaign paved the way if not purposely intended for the further advance of market reforms but this time under state control, the second grand domestic step that Putin took after his ascent to power. Notwithstanding the outcry the Yukos affair incited in the West, multinational companies kept looking for investment opportunities or doing business in Russia as usual. In reality, there existed "a striking dissonance between the growing Russophobia of politicians and the enthusiasm of investors."¹⁶ Not accidentally, in 2006 foreign direct investments amounted to \$ 42 billion.

¹⁶ "Business in Russia. Dancing with the bear," *The Economist*, 12 February 2007, 59.

It was shared understanding, though scarcely spoken out, among the Western political and economic elites that Putin's Russia bore no resemblance to the Soviet Union. The Russian people enjoyed numerous freedoms, "to travel, open businesses, go to church, watch satellite television or use an uncensored internet-unthinkable 20 years ago."¹⁷ The days of command economy were over definitely. Compared to Yeltsin's liberal restructuring of the Russian economy however, the Putin administration might be said to have pursued a policy of state-driven but market-oriented economic modernization. As one analyst puts it, he set out a "neocorporatist state-sponsored model of economic development," in order to create and transform state holding companies into "national champions" in such key sectors as energy, arms and aircraft manufacturing (Sakwa 2008: 187-90). This was a matter of strategic consideration rather than an issue about renationalizing a sizeable segment of the economy. In December 2005, for instance, the director of the federal security service proclaimed that there were "suspicions that foreign capital could have been at the roots of attempts to force defense companies into bankruptcy." Some time later, a bill was introduced to exclude foreign investments from 39 sectors including aerospace and defense. In 2007, foreign capital was not allowed to acquire a controlling stake in about 550 Russian companies (Anderson 2007: 71-2). The private forces of capitalism, therefore, were left free to work in conditions of competition in areas where the state was not intent on doing business or controlling resources and rents in the name of national interest.¹⁸

At the same time, as the Russian companies and in particular the state-controlled champions outgrew opportunities at home, they began to venture abroad by obtaining a notable or a majority equity participation in enterprises located in the former Soviet republics, Europe and Africa. In terms of geography, in that regard, Russia is faired well since it has extensive ground and maritime frontiers with the world's biggest markets, the EU, China, Japan and the US. Clearly, the more Russian companies play by international market rules with a view to a global customer base, the greater are the prospects for them to comfortably compete and become global-scale companies.

4.3. Foreign policy re-orientation

Putin's final grand step concerned foreign policy. Unlike Yeltsin who swung from appeasement to confrontation with the West, Putin tried to assert Russia's first-tier greatness through joining and actively engaging with the international community but doing so in its own way. In view of the US's unilateral assertiveness (Fakiolas and Fakiolas 2007: 53-86), he devised a policy intended to "combine adaptation to international norms with a reversed area of autonomy and scope for indigenous development" (Sakwa 2008: 244). In addition to countering US *Pax Americana* moves, this policy could be said to have had two major objectives. One was to integrate Russia into the world economy. Apart from assisting Russian companies to invest and put through deals abroad especially in the sectors of raw resources and arms, effort was devoted to inaugurating Russia as member of the World Trade Organization.¹⁹ Yet by the time Putin stepped down from the presidency, while the task of

¹⁷ "The pull of power: How nothing is left to chance in Putin's 'managed democracy'," *Financial Times*, 27 June 2006, 13.

¹⁸ Nonetheless, inside the country Putin was criticised for setting the private aside, "not relying on the private sector any more," *Izvestia*, 12 August 2005, 5 (in Russian).

¹⁹ We distance from the conventional belief that Putin's Russia seeks to become an energy superpower.

penetrating the world energy and weaponry markets met with much success, the issue of membership remained open due primarily to the US's opposition.

The second objective was to foster solid relations with the EU and China. As regards the former, the Kremlin was reported to believe that Russia would never become "part of the European family," and it was destined to evolve into "an independent centre of power-same as China, India, Japan, the EU and the US."²⁰ But almost two years ago, Putin had no hesitation to declare that "Russia is a member of the European family in spirit, history and culture...when I consider the future of our relations I do not see any areas that are not open to equal, strategic cooperation based on common objectives and values" (Putin 2006: 10). This was meant to imply that, as several Russian scholars argue, even though Russia did not aspire to join the EU and sought to retain its freedom of action, its security, political and economic future lay with Europe.²¹

The Russia-EU relationship, though not free of friction and setback, made noteworthy progress during the course of Putin's two-term presidency. Dated back to 1997 when the partnership and co-operation agreement (PCA) entered into force, relations were upgraded with an energy dialogue launched by the October 2000 Russia-EU summit. The dialogue was set to explore whether the two partners could construct common oil and gas pipelines and interconnect their electricity grids.²² In 2003, at the St. Petersburg summit, Moscow and Brussels decided, on the basis of the PCA, to establish common spaces in four areas: economics, freedom, security and justice, external security, and education and culture. Two years later, the Moscow summit adopted road maps that detailed the way these spaces would come into being (Council of the European Union 2005: 2-3). And it was not until Putin left office as president and took over as prime minister that late in May 2008 Russia and the EU agreed upon starting negotiations over the renewal of the PCA. However, today these talks appear to have dragged on as a result of Poland's strong opposition.

Overall, Putin's decision to orient Russian foreign policy towards Europe seems to be paying off. Cooperation is increasingly expanding from trade and energy through the fight against organized crime and corruption to space, having "enormous potential."²³ Of course, the degree to which Russia and the EU are prepared to develop a strategic partnership is conditioned largely by the manner they are to deal with the outstanding issues of energy security and geopolitical flux in their joint near neighbourhood.²⁴ All other things being equal, integration process is bound to gather speed in the medium term. The main driving force behind is the fact that while the EU accounts for roughly 50 percent of Russian exports and is the largest provider of economic and technical aid to Russia, the latter can potentially serve as the Union's principal energy supplier and market for exports and investments.

With respect to China, Russia tried to capitalize on the friendly relations that the two countries, each one with a permanent seat in the United Nations Security Council, developed

We subscribe to the view espoused by *The Economist* that rather than being an end in itself, "in today's Russia, energy is itself the tool of influence," in its "A bear at the throat," 14 April 2007, 27.

²⁰ "Russia-self-confident state re-enters world stage," *Financial Times*, 21 April 2006, 2.

²¹ (Vinokurov 2006: 51); (Skorov 2005: 79-84); (Yudanov 2005: 53-5); (Pavlov 2004: 57-69); (Sckolyar 2004: 36-9); (Inozemtsev 2002: 13); (Tsivarev 2002: 18-29).

²² Russia's natural gas is forecast to account for about 50 percent of EU gas imports by 2030. See *The Economist*, 14 June 2008, 67.

²³ "Stronger Russia-EU links urged," *Financial Times*, 23 May 2006, 2.

²⁴ (Massari 2007: 8-13); *Financial Times*, 18 April 2008, 3.

during NATO's air campaign in the Balkans in 1999. Shortly after he came to power, Putin took the initiative of settling nearly all his open disputes with Beijing, including that over their borderline which was the cause of their armed conflict at the end of the 1960s. The Russia-China relationship was further built up on their common fear of the US's unilateral assertiveness. Not only were they disturbed by the American criticism of their domestic human rights record. Also, they were alarmed by the US's meddling in Chechnya and Taiwan and its intense military presence nearby their frontiers.

In this context, Russia and China sealed their determination to concert their moves in the Shanghai Cooperation Organization in order to direct the future of Central Asia. It was no coincidence that in 2005, for the first time they jointly staged a war game that looked like a rehearsal of invading Taiwan.²⁵ At the same time, Beijing concluded, in addition to the purchase of weapon systems and equipment, a deal to build a 5,000 km high-voltage grid to get electricity from Russia. The latter, in return, appeared to have promised to construct one oil and two gas pipelines. On the whole, Putin made great strides in coming to terms with China, a fact that along with his other domestic steps enabled Russia to stand up for itself more vigorously than it did in the past. A caution should be entered, however. So long as the US unilateral proclivities are in force and Russia's natural resources can feed China's industrial growth, the prospect for further development of the political and economic relations between the two countries is very promising. This by no means implies that the conditions for a strategic partnership are mature. The struggle for power and security in the energy arena in the wider Eurasian region is everyday in the agenda of world politics (Hall and Grant 2009: 113-37). This should be added to the fact that Beijing does not seek to challenge the other great power of our era; while Moscow being the next most formidable nuclear power after the US has no incentive to strategically ally with the Chinese, the third in rank nuclear power in the world.

To come full circle, a last word must be said about the domestic constraints that are likely to weaken the potential of rising Russia. One major problem facing today's Russia is that its economy rests heavily on extracting sector rather than machinery and high-tech manufacturing. In the mid-2000s, the share of oil, gas, raw resources, metals and timber in Russian exports was roughly 75 percent, whereas that of machines and tools nine percent and high-tech products 1.5-1.8 percent (Polyakov 2006: 89). Putin seemed fully aware not only of this weakness but also of the potential involved. Addressing the Russian business community he stated that his goal was first to "maximize the profit from every ton of iron ore...and other raw materials" and then use the proceeds to renovate and diversify the economy; he felt confident that this was the necessary precondition "for developing manufacturing industry, and to miss such opportunities is impermissible."²⁶

The other key limitation concerns the outdated state of Russia's Soviet-era infrastructure, as the recent disastrous accident in its biggest hydroelectric power station has vividly demonstrated. Politicians and senior state functionaries recognise that many years and enormous funds are needed for Moscow to renovate obsolete industrial plants, communications and road and rail networks. It is no coincidence that long before the accident, the Russian government pronounced its intention to budget \$ 1 trillion in the next

²⁵ "When dragons dance with bears. Russia and China are getting along better than ever-for now," *The Economist*, 2 December 2006, 61.

²⁶ "Putin urges business chiefs to modernise," *Financial Times*, 7 February 2007, 2.

ten years in order to renew the country's crumbling infrastructure.²⁷ Even today, amid the global economic recession that affects vitally its growth and development prospects, the Russian leadership is ready to spend billions of rubbles to this end and, thus, pave the way for its climbing to the top eight places in the world GDP listing (in purchasing power parity) until 2020.

5. CONCLUSION

Late in the 1990s one could hardly place a bet in the comeback of Russia as a first tier great power in world politics within the span of a president's two terms of office. But Putin's Russia won the bet. Instead of standing on the edge of power collapse, as it so often did in the aftermath of the Cold War, Russia today is a preeminent global actor. A month before he left his presidential post, Putin had declared that his administration resulted in the "resurrection for Russia, with a strong independent state and a strong foreign posture".²⁸ At the time, Putin's ambition to get Russia becoming "an equal in the society of the most developed states" appeared to have been rewarding, even though his regular forceful assertive moves "threatened the existing balance of relationships and increasingly provoked zero-sum confrontations" (Sakwa 2008: 298-99). If nothing else, the August 2008 Russian limited war in Georgia, a few months after Putin stepped down from the presidency and re-took office as prime minister, confirmed Moscow's firm determination to safeguard its *first violin* role in its Near Abroad and insist on its status as a resurgent global great power (Shearman and Sussex 2009: 251-75; Allison 2008: 1145-171).

This re-emergence, we reason in this article, was enabled by domestic forces related to the legacy of Czarism, the Soviet Union and of Putin's presidency besides the systemic impact of the US's unilateralism. Czarism and the Soviet Union endowed Russia with an array of considerable assets: strategic location at the heart of Eurasia, rich energy resources and an excellence in space, earth sciences and nuclear applications, coupled with high-technology military-industrial research tradition and development potential. In turn, the eight years of Putin's rule laid the ground for Russia to restore the status of its state machinery and demarcate the power prerogatives in all realms of domestic politics; accelerate market reforms and its integration into the world economy; and to come to terms with the EU and China. All these domestic forces played their shaping part in pushing the Putin leadership to reassert Russia's great power aspirations and play for high stakes in world politics.

For the time being, and despite the repercussions of the global economic recession, the tendency for reassertion remains markedly discernible in the Kremlin's strategic designs and moves. But this should not be mistaken for a revival of renewed, Soviet-style expansionism. Russia scarcely has a present and a future as "a global superpower," however, as a matter of fact "it is once again a force in world affairs".²⁹ What it seeks is to be recognized by the US and the EU as an equal strategic partner in collective global leadership. Two years ago, Russia's minister for foreign affairs was truly apocalyptic of his intentions in declaring that "we favour an integrated approach to solving the problems of the Euro-Atlantic region-in a trilateral format" (Lavrov 2007: 13). This stance, of course, is dictated by its power

²⁷ "Medvedev inherits a tricky legacy," Financial Times, 18 April 2008.

²⁸ As quoted in "From Russia with love?", The Economist, 4 April 2008.

²⁹ "The Editor's Column," Financial Times, 2 January 2007.

deficiencies, primarily of economic nature.

Even though Putin, to come full circle, has since May 2008 handed over presidency to Medvedev, he stays on power as prime minister to manage his legacy and complete the course he set out over the past eight years. As head of state, Medvedev is expected to leave behind its indelible mark on Russia's economic and social transformation in a more modernistic and democratic direction (Antonenko 2008: 25-31). He pledged, at his inauguration speech, to "be further developing civil and economic freedoms, creating new and broadest opportunities for the self-fulfilment of citizens."³¹ This, certainly, remains to be seen. Yet no matter who will really steer the country and who will be reduced to merely run the everyday state affairs, the heart of the matter is that both Medvedev and Putin are firmly committed to the task of Russia attaining the top rank in the form of a leading great power on the world stage.

"Medvedev vows to preside over wider freedoms," *Financial Times*, 8 May 2008, 2.

Article Received: 12-Aug-2009 Revised: 09-Nov-2009 Accepted: 12-Nov-2009

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