Russia of Transformations

Puolustusministeriö
Försvarsministeriet
Ministry of Defence
Finland

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”The highest and most sharply characteristic trait of our people is a sense of justice, a thirst for it [...]. One needs only to remove the exterior, superficial shell and look more closely and carefully at the kernel itself, without prejudice, and one will see in the people such things as one had never anticipated. There is not much that our wise men can teach the people. I will even say positively, to the contrary: they themselves have yet to learn from them.”

Fyodor Dostoyevsky, Notes from the House of the Dead. (1861-1862.)

Preamble

The reader is holding the second, more comprehensive study on developments in Russia commissioned by the Ministry of Defence. The first, published in 2008, focused on society and domestic politics, the economy, traffic and transport, the environment and energy, and foreign and security policy. At the time, this project represented a new approach. Extensive use was made of expertise outside the defence establishment, while reports submitted for publication were drawn up by thematic working groups, based on the preliminary research question and their own work. From the Finnish security perspective, the 'Russia of Challenges' publication demonstrated a clear need to gather knowledge on Russia produced, analysed and processed in a practical manner. Three editions were published. Of these, around 13,000 copies in Finnish and 2,700 in English were downloaded from the internet. Over a period of four years, developments in both Russia and the international community have once again created the need for a survey of Russia by Finnish experts and specialists in various fields.

Dmitri Medvedev and Vladimir Putin have exchanged roles at Russia's highest political level. In the same period, Russia and Georgia have engaged in a brief war, while Barack Obama's election as US President has failed to reset Russian-US relations. Relations with NATO have been strained. Russia's economy continues to grow, but is dependent on trends affecting raw material prices on the global market. Terrorism within the country has not been subdued, and security problems along Russia's southern borders are an almost every day event. In its defence doctrine, Russia's military doctrine still rests on nuclear deterrence, while the country continues its vigorous efforts to reform its armed forces. Russia is still heavily investing state resources in military security, its rhetoric in this area having at times hardened. Economic productivity, however, presents obstacles to many of its objectives in this respect.

The recent, more-outspoken censure of the country's political leadership has been particularly worthy of note. Suspected election abuse has provoked strong reactions; President Putin has been the main target of regularly held demonstrations where people have called for his resignation. Correspondingly, the political opposition's freedom of action has been curtailed, for example by arresting participants in demonstrations. The country's political leadership is no longer able to monopolise the media; people and organisations active in the social media have been able to get their message across. It is clearer than ever, then, that Russia is going through a period of dramatic change.

Finland's academic community and private sector, as well as its public authorities, offer a great deal of expertise on Russia. However, the conclusions drawn, and the process of collecting and analysing information through collaboration between such organisations, have often been inadequate. While knowledge of Russia may have helped to answer the internal needs of organisations, insufficient knowledge has been accumulated. Furthermore, studies of Russia related to so-called 'hard security', which are crucial to the defence establishment, have been regrettably few in number. In some instances, there has been reluctance, or at least a dearth of skills, when seeking to exploit opportunities to improve this situation. For these reasons, it can be seen that this Russia project, which is very timely and has a particular focus on security issues, answers a genuine need for information. The project was coordinated by Terhi Ylitalo and Janne Helin, both Senior Advisors at the Finnish Ministry of Defence.

'Russia of transformations' concentrates on four main themes:

1. Russia's foreign, security and defence policy
2. the war economy, the economy and energy policy
3. social stability
4. the potential for crisis in the Commonwealth of Independent States (CIS)

For the defence administration, the war economy, in particular, represents an interesting perspective and a somewhat neglected theme. In specific terms, the main challenges in the development of the Russian armed forces can be found in the productivity of the war economy, innovation and expertise, and research and development competencies. In addition, the reform of Russia's armed forces will depend on strong economic growth, both now and in the years to come. But the defence administration requires more than an analysis of the war economy. Naturally, it also needs an up-to-date analysis of factors critical to Russia's security, i.e. foreign relations and society, and the potential for crisis in the CIS countries.

This publication, Russia of Transformations, summarises the work of the thematic working groups over six months. Such work was challenging: expertise is dispersed, being vested in individuals rather than entire organisations. Although not all experts were able to participate in the group work, they produced sections of text and commented on the output. Various challenges are inevitably associated with this type of approach – it is worth noting that those involved arrived at some highly creative solutions to supplement the available expertise. Also noteworthy is the fact that the process consisted of three joint events and the groups' own meetings, equivalent to around 2-3 days of time spent.

We would like to express our gratitude to the experts in various fields who were involved in the Russia project and whose work made this publication possible. Our special thanks go to the writers of the working groups who, based on the questions and resources conveyed to them, coordinated their working groups and convened meetings of them all the way through to publication.

We would also like to thank Ambassador René Nyberg, Ambassador Matti Anttonen, Markku Kivinen, Director of the Aleksanteri Institute, and Doctor Pekka Sutela (Social Sciences) for contributing their valuable expertise by giving presentations at the project's joint events.

The membership of the working groups is given below. Since each group is responsible for the report it issued under its assignment, the reports do not represent the views of the defence establishment. Some group members did not want their names to be given in public. The following double page gives summaries of how the thematic working groups view Russia in the 2010s.

The Ministry of Defence will continue to produce studies on Russia which condense Finnish expertise into knowledge of significance to the Ministry's administrative sector.

We hope that you find these analyses on Russia interesting!

Juha Martelius	Jyrki Iivonen
Director of Research	Director for Public Policy

Thematic working groups:

Foreign, security and defence policy

Group writer: Suvi Kansikas
Members: Tuomas Forsberg, Olli-Matti Mikkola, Tommi Lappalainen, Ari Rautala and Hanna Smith
Commentator: Hiski Haukkala

The war economy, the economy generally and energy policy

Group writer: Katri Pynnöniemi
Members: Alpo Juntunen, Katja Koikkalainen, Juha-Matti Lehtonen, Kari Liuhto, Mikko Niini, Seppo Remes, Laura Solanko and Veli-Pekka Tynkkynen

Social stability

Group writer: Arto Luukkanen
Members: Jussi Lassila and Taisto Tolvanen
Commentators: Antti Helanterä, Susanna Niinivaara and Seija Lainela

The potential for crisis in Russia and the Commonwealth of Independent States (CIS)

Group writers: Salla Nazarenko and Mikko Palonkorpi
Members: Vesa Korhonen, Christer Michelsson and Helena Rytövuori-Apunen
Commentators: Christian Jokinen and Kimmo Kiljunen

Summaries by the thematic working groups:

Russia in the 2010s

Foreign, security and defence policy

1. Russia is opposed to the idea that other actors in the international system should compete with it in areas it regards as its own sphere of interest. Russia is seeking to maintain a military capability, which is quantitatively and qualitatively sufficient to ward off a broad range of threats. These threat scenarios, which are part of the country's strategic culture, are also applied in domestic politics.

2. The goal of Russia's foreign policy is to avoid exclusion from the international decision-making process, which would otherwise mean loss of influence. The political goal behind this endeavour is Russia's wish to be recognised as a superpower. As the structures of the global economy change, the country has felt ever more compelled to integrate with international economic cooperation and structures.

3. Russia aims to promote a global system in which no one actor has achieved hegemony and where Russia itself plays a key role. Being opposed to US hegemony on the world stage, it is prepared to accept the growing strength of competing countries, as long as this acts as a counterweight to US supremacy.

The war economy, the economy generally and energy policy

1. The Russian political leadership is strongly committed to its arms programme up to 2020. A cloud of uncertainty hangs over Vladimir Putin's return as President, which is not regarded as having strengthened the ability of Russian leaders to implement key reforms – although the atmosphere of protest in Russian society will not lead to any immediate change in the political system.

2. The costs of the arms programme are paid for out of the state budget, which is still closely tied to trends in the global market prices for energy. No major change to this situation is anticipated in the period under scrutiny. The current price of oil means that Russia can only afford to implement its plans if increases in other costs are kept to a minimum.

3. The Russian defence industry faces the enormous challenge of meeting orders in line with the targets of the arms programme by 2020. To produce the modern weaponry as planned will require the rebuilding of production lines and planning processes and the training of a new generation of engineers. The arms programme up to 2020 represents just one interim stage in what is a very long-term period of change.

Social stability

1. The dilemma with respect to stability in Russia lies in the fact that the elite's goal of achieving political stability is hindering society's democratic development.
2. Under the current circumstances, the Russian economy will not prove a source of instability, in the absence of a devastating event in the global economy. In the last 20 years, trade between Finland and Russia has relied very much on favourable economic trends in Russia.
3. It is probable that political activity on the part of the people will change Russia's political system over the long term.

The crisis potential of Russia and the Commonwealth of Independent States (CIS)

4. Re-escalation of the prolonged conflicts within the CIS (Abkhazia, South Ossetia, Nagorno-Karabakh, Transnistria) into prolonged, large-scale military conflict could have an effect on Russia's stability, if Russia became directly or indirectly involved in an open conflict as a result of bilateral or multilateral defence agreements. The same would be true if Russia became more closely enmeshed in the potential for crisis in Central Asia and Afghanistan, or the Middle East and South Caucasus.
5. New 'colour' revolutions, especially those in the more authoritarian CIS countries, or the implementation of actual democratic reforms or the organisation of genuinely democratic elections in the CIS countries, would provide more robust support for the democratic reforms being called for by the opposition in Russia. The same could be said for the movement in the CIS that draws inspiration from the Arab Spring, especially if it were to result in the toppling of authoritarian leaders.
6. The unstable internal political situation in countries in Central Asia and the South Caucasus may increase the potential for a crisis in Russia, owing to employment-based immigration. Greater internal pressures in CIS countries may result from an economic recession and any rise in unemployment and, in certain countries, the return of migrant workers from Russia – or a sharp increase in food prices. The effect of fairly sudden return migration on certain CIS countries, on the other hand, would make the situation there difficult, even threatening their stability.

Russia's foreign, security and defence policy

Group's writer: Suvi Kansikas

Members: Tuomas Forsberg, Olli-Matti Mikkola, Tommi Lappalainen, Ari Rautala and Hanna Smith

Commentator: Hiski Haukkala

1. Introduction

The direction being taken by Russia's foreign policy, its goals and targets for 2020, and the means available to it depend on many factors. There may be changes in power relations on the international political stage and in Russia's internal political situation, including changes in its leadership. These will impact on the kind of foreign policy Russia pursues in the future. Since the Cold War, Russia's position in the global power stakes has varied from time to time, and its foreign policy has been shaped by economic interests and those in charge of the country's security. Nevertheless, there is a strong sense of continuity in Russia's foreign policy, some aspects of which go back to the time of the Soviet Union and even further. This continuity is largely based on both geopolitical and cultural factors.

This chapter offers an assessment of Russia's reactions and behaviour from the viewpoint of the strategic culture that informs its policies. To define that strategic culture, we start by examining the elements and principles that the Russian leadership itself has identified and recognised as those that steer its political actions. The examination also represents a search for those principles underlying foreign policy that the country's leaders do not openly acknowledge, but that nevertheless affect their actions. These may either be short-term trends or deeply rooted assumptions which, for one reason or another, Russia is unwilling to identify and acknowledge. The concept of a Russian strategic culture, as defined here, is employed with respect to four trends in four geographical directions, in which an evaluation is conducted of Russia's possible operational models. In the conclusions, an assessment is made of the impact of the principles underlying Russia's foreign policy in terms of the policy itself and the repercussions for Finland of developments in Russia's neighbouring regions.

2. The Russian strategic culture

Among organisations and actors involved in strategic decision-making, the prevailing culture that provides political leaders with guidelines and policies, on which their strategic decisions can be based, is termed the strategic culture. Strategic culture is a model for action, shaped by history and experience. The policies and approaches it offers are not always necessarily viable in any practical sense. Neither is a strategic culture the exclusive product of the policymakers who happen to be in power at any one time. On the contrary, in their statements and decisions, political leaders might be said to give voice to, revamp and adapt the established cultural guidelines that they have learned and internalised over time. Strategic culture is thought to have an effect on the number of options available, either by excluding them from what is considered acceptable or by directly influencing those taking decisions, with implications as to the correct way to act in a certain situation.

The concept of strategic culture was first used by the American researcher, Jack L. Snyder, in his 1977 report for the US Air Force, 'The Soviet Strategic Culture: Implications for Limited Nuclear Operations'[1] In his report, Snyder assessed the Soviet view on US strategy with respect to the limited use of nuclear weapons. In the early 1950s, Nathan Leites introduced the term 'operational code' when examining the behaviour of political leadership. It was later applied to the analysis of the principles that guide the actions of individuals.[2] In terms of how these concepts might be applied to predicting Russia's foreign policy, it is interesting that both terms were first adopted in studies of the Soviet Union. In contemporary analyses, the definition of strategic culture is very closely linked to how identity and organisations are formed, and to history, tradition and culture. It is based on the notion that structural and materialist external interests cannot in themselves explain a certain strategic choice. Although some believe that the concept of strategic culture is a more viable option in trying to understand rather than explain strategic choices, in practice they also assume that there is some sort of causal relationship between culture and policy.

Defined in this way, the concept of strategic culture can lead to the following basic assumptions. The country's foreign, security and defence policies are not entirely dependent on the persons in power at any one time, because strategic cultures always change very slowly. Their basic principles may remain unaltered, even if the external factors that impinge on them have changed. On the other hand, intense experiences, such as losing a war, can change the principles based on which a country conducts its policies. To define the nature of Russia's strategic culture, we must analyse the principles that underlie its foreign and defence policies.

As a concept, strategic culture has no clear-cut boundaries, but its crucial characteristic is generally a set of beliefs regarding potential threats and the country's role in the international system, the use of force, its rights and entitlements, and the relationship between its armed forces and society. Since we are concentrating specifically on foreign policy, our main focus in the examination of Russia's strategic culture is on what Russia views as threats and its status in the international system.

Russia's foreign policy and the statements made by its leaders reflect a long historical continuum. The Russian strategic culture embraces the notion that the state's identity is dependent on threats and dangers. The threat of Russia being besieged by the West informs the Russian identity. Western threat scenarios feed this national identity, promote the strengthening of Russia's borders and provide a useful tool for domestic policy.

While examining Russia's strategic culture, we assess its durability and possible susceptibility to change. The basic assumption is that Russia's strategic culture is so strong that it will undergo no major changes during the period under scrutiny. But it is essential to consider how the Russian strategic culture will adapt to the events of the 2010s and what might cause it to change. What are the principles underlying Russian foreign policy? Will any of these principles decrease or increase in significance over the next 10 years?

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1 Snyder, 1977.
2 Leites, 1953.

3. Defending the sovereignty of a superpower: a principle of Russian foreign policy

"...we should not tempt anyone by allowing ourselves to be weak."[3]
Vladimir Putin

A guiding principle of Russia's foreign, security and defence policy is the defence of the country's sovereignty as a superpower. Russia regards itself as a superpower and resists the idea of other countries interfering in its internal affairs. It relies on various identifiable resources and tools, with varying emphases, to achieve its foreign policy goals and targets.

Russia's current political leaders have shown that the country identifies and acknowledges five principles that determine its role in international politics. These principles were mentioned by former President Dmitri Medvedev in August 2008, in the wake of the war in Georgia.[4] Other political leaders have also made statements that reflect these principles. Prime Minister Vladimir Putin gave a policy speech, as part of his presidential election campaign in spring 2012, which also illustrated these five self-acknowledged principles. They are:

1) Russia endeavours to promote global multipolarity
2) Russia will avoid isolating itself
3) Russia has privileged interests
4) Russia places an emphasis on the norms of international law
5) Russia will protect its citizens, even beyond its borders.

When analysing Russian policy, it becomes apparent that the principles underlying Russia's actions, as defined by its political leaders themselves, differ from the way in which these actions manifest themselves through the concept of strategic culture. Some of the precepts that determine the country's actions could, in fact, be regarded as foreign policy tools that are a means of achieving other goals.

Russia will avoid isolating itself

In a number of situations, the Russian political leadership has expressed a desire for international cooperation in different policy areas. Although, in its political rhetoric, Russia occasionally highlights its isolation and it sometimes goes its own way in international poli-

3 Vladimir Putin, 20.1.2012.
4 Dmitri Medvedev, 31.8.2008.

tics, over the last 20 years the country has integrated ever more with the outside world, the most recent example of this being its membership of the World Trade Organisation (WTO). It is keen to be involved in as many international organisations as possible. Membership is important, because it guarantees access to information and represents an opportunity for Russia to promote its own interests. For this reason, Russia aspires to the role of at least an observer in various organisations. While Russia has no natural allies, one defence method involves representation on many forums and in cooperation schemes in various geographical emphases. Consequently, Russian foreign policy aims to have an impact in a number of directions. Russia views its possible isolation from international policymaking as a threat. It campaigns on behalf of good relations and, furthermore, readily addresses changes in the political atmosphere in neighbouring countries that might demonstrate an inclination to reduce cooperation with Russia.

The main background factor behind this principle lies in economic considerations. Russia's non-isolationist policy is associated with adherence to an agenda of modernisation. Russia has to ensure that there are enough customers for its natural resources in the future. Although, at least in its political rhetoric, Russia opposes NATO and although its partnership with the EU is not always straightforward, Russia is nevertheless prepared to cooperate with the member countries of these organisations over a very broad area. In the Arctic regions, Russia has sought partnerships with Norwegian and French energy companies in order to promote the exploitation of energy resources. Russia and other organisations have created established forms of cooperation, such as the NATO-Russia Council and the EU-Russia summits. Other examples of partnership are joint military exercises with countries such as Belarus, Kazakhstan, China and Norway.

It is vitally important to Russia that it is not excluded from international policymaking. Its strategic culture includes the instinctive goal of being the dominant actor in all coalitions amongst the countries of the former Soviet Union. It endeavours to be a leading actor in such alignments and to determine their norms, precepts and rules.

Russia is keen to play a more influential role

The accounts and descriptions of Russian security policy, the strategies that underline it, and speeches made by the Russian Government lead us to conclude that Russia aims at a world order where it feels it has the status of a superpower, and where others also regard it as one of the world's most influential countries. As Foreign Minister Sergei Lavrov said in his speech in January 2012, in future Russia will do all it can to strengthen the country's authority and influence, in order to become a key centre of power and influence in the new, multilateral world order that is taking shape.[5]

5 Sergei Lavrov, 18.1.2012.

The Russian view is that superpowers are key actors in determining the structures, norms and agenda associated with international policy. The approach adopted in the 19th century and during the Cold War suggests that Russia's main objective is a multipolar world, where it is one of the centres of power. This is why Russia is critical of US hegemony, even in situations where action taken by the United States is aligned with Russia's own interests. Russia's strengthened status as a superpower leads it to conclude that the US's current hegemonic position does not reflect the true balance of power in the international system. Russia wants to achieve the status of international power that it believes it deserves, and to be one of the poles of the international system. The Russian discourse posits that a unipolar international system is a threat to international security. It will not allow decisions on global security to be taken by US leaders who do so while ignoring Russia's views.

The desire for a multipolar international system is linked to the notion that different countries have different interests and that they are in competition with one another. This principle is connected with the previous one, in that a multipolar system would serve Russia's interests, because then the superpowers in particular would take decisions on the norms and rules applied to international relations. At the same time as it calls for a multipolar world order, Russia is in fact seeking recognition that confirms its status as a superpower.

Russia aims to influence the structures of the international system. Its attempts at boosting its influence, especially in Europe, are linked to the principle of multipolarity. Russia can aspire to greater influence, for example, by increasing Europe's dependence on it for energy or by strongly opposing the US missile defence programme. Russia's ability to block the programme would be an indication of its 'true' superpower status and, conversely, we might say that its inability to do so would be a sign of US supremacy.

Russia has privileged interests

A superpower is a power whose influence extends beyond its borders, and which is able to wield power in a way that, if necessary, violates the sovereignty of smaller countries and international law. Russia's 2008 Foreign Policy Concept and National Security Strategy of 2009 declare that Russia has 'privileged interests' in certain areas.

Russia believes it has the right to extend its political, economic and social power to the area of the former Soviet Union, and still more widely to the area that was once under its control. Its philosophy as regards its sphere of interest includes the view that it has the right to interfere in the events that take place in the area of the former Soviet Union. It seeks to maintain a tight grip on Belarus and Ukraine in particular, and influence the politics of these countries. The Collective Security Treaty Organisation (CSTO) represents a way of trying to prevent security threats in Central Asia. Furthermore, for historical reasons, the area of eastern Central Europe still has a special position in Russian foreign policy. This is one reason why missile defence has become a major threat in the Russian security discourse. Although Europe is no longer at the heart of the Cold War East-West divide, its importance has not diminished as a geopolitical entity in Russian eyes.

But Russia's spheres of interest are not restricted to its neighbourhood. Trade relations and the arms trade with countries such as Venezuela, India, Iran and Syria may bind them to Russia's interests. Russia can use energy exports to boost its influence. Trade relations create dependence, which makes the countries involved less inclined to be disloyal to Russia. The other side of the coin is Russia's ability to politicise its energy supplies. The energy weapon is a potent deterrent, but its use is also harmful to the party that wields it. Russia is more prepared to use the energy weapon within its own sphere of interest, but even then it has to take account of the indirect consequences of its actions. Russia must, for example, assess how its pressure on Ukraine will affect its relations with the EU.

How Russia regards its sphere of influence is also partly reflected in the oft-stated aim of the country's leaders, i.e. that Russia will defend the interests of its citizens and companies and all things Russian in general, both within and outside its borders, should the need arise. For example, in his speech of January 2012, Foreign Minister Lavrov declared that Russian foreign policy aimed to guarantee Russia's security and partnerships with other countries for the benefit of its citizens, to improve their social and economic standing, and to safeguard their rights in foreign countries.[6]

To show that it is ready to protect its citizens, Russia needs sensational cases such as the dispute over the Bronze Warrior monument in Estonia and the rows over guardianship in Finland. It is also easy to use them for the needs of domestic policy, such as strengthening the government's legitimacy. One of the characteristics of a weak, authoritarian form of Government lies in extolling one's own culture to the detriment of others, as a cover for problems in one's own country. Powerful propaganda campaigns can be regarded as information campaigns, used to realise this principle. In this way, Russia shows the outside world that it will protect its citizens, no matter what the situation. It was with this principle in mind that the defence of calls for independence by Abkhazia and South Ossetia were justified by Russia, in the Georgian war of 2008.

In recent times, the protection of its citizens has become a controlling influence in Russia's foreign policy. Indeed, it could be suggested that measures in line with this objective have occasionally been excessive. For example, one might ask whether the quarrel over the statue in Estonia was really about protecting citizens, or whether the main motive was that of a superpower protecting its interests abroad. Similarly, distributing Russian passports in disputed areas goes further than what is generally regarded as protecting one's own citizens.

6 Sergei Lavrov 18.1.2012.

International law as a foreign policy tool

Russia stresses that it complies with the precepts of international law in its international affairs. For Russia, international law specifically underpins the importance of state sovereignty and national defence, a more traditional notion, perhaps, than in the case of other superpowers. On the other hand, there are good grounds for arguing that international law is principally a tool of foreign policy. In this case, reference to international law is therefore mainly rhetoric and is employed when useful and convenient for Russia.

Russia's key demand is that it be included in decision-making on how legal principles should be applied. It cites a number of reasons why it is in a strong position to set the international political agenda and the main, universally agreed principles governing the international system: its history, its nuclear weapons potential, and its wealth of energy resources. On the other hand, Russia is often unwilling to sign and adopt agreements that it has not negotiated itself. There are historical reasons for this: the state of weakness in which the country found itself after the collapse of the Soviet Union and the bitterness over the unfavourable international agreements in the early 1990s that Russia was compelled to accept. An example of a recent attempt by Russia to play a major role in determining and implementing international law is the proposal to create a new European security structure. The current European security architecture is a relic of the Cold War and the Russians believe it should be changed, because Russia's position within the architecture does not reflect what it views as its superpower status.

Russia is keen to stress the importance of the role of the UN. It contends that the organisation should be as strong as it was during the Cold War era – that the Security Council should play a key role in world politics. Russia takes the view that it was once a player that largely determined the frames of reference for superpower and international politics. This call for greater attention to be paid to the role of the Security Council is linked to Russia's desire to see NATO's importance in international politics diminish. The UN's powers and authority also give legitimacy to other international organisations – including those of which Russia is a member and in which it has a principal role, such as the Collective Security Treaty Organisation (CSTO). Russia actively appeals to international law in cases where it wants to oppose the rules unilaterally determined and applied by military alliances, or international organisations to which it does not itself belong.

Russia's attitude to international law suggests that it regards it as a tool for defending sovereignty. The country's leaders have a clear view of which countries may intervene in the internal affairs of other countries. Recent examples of this are the conflicts in Libya and Syria, where Russia has emphasised the importance of the role of the UN Security Council in resolving them. Russia respects the sovereignty of states, and is unwilling to promote the Responsibility to Protect initiative, a norm lowering the threshold for the military use of force. On the other hand, in the case of Abkhazia or South Ossetia, Russia resorted to international law in defending these area's calls for autonomy. The international law dimension is also associated with issues relating to the exploitation of the Arctic region, in which Russia is keen to determine the rules and norms. With respect to the question of to whom these areas and their natural resources belong, Russia makes particular reference to the principles of international law.

Of the principles mentioned by Medvedev, international law seems to sit in a different category to other policy-guiding principles. Russian leaders make rhetorical reference to compliance with international law when this is useful to them and serves their purposes. They themselves appear to think that they act in compliance with international law, but refrain from such references when this does not suit with their political aims. For example, in the Partnership and Cooperation Agreement with the EU of 1994, Russia committed itself to various obligations, which, however, Russia has not acted on. Russia justifies this behaviour by claiming that it feels it has been unfairly treated. The other parties to the Agreement, it complains, have not fulfilled their commitments either, which is why Russia, too, feels disinclined to honour its obligations. But the pressure of international law can be felt in the fact that Russia wants the new PCA to be legally binding and is calling for the EU to respect international law.

Military power as a foreign policy tool

Russia's foreign, security and defence policies are defined by its National Security Strategy and Military Doctrine, its Foreign Policy Concept and other laws and rules related to security issues. However, the country no longer has a political ideology that informs its foreign policy, as it did in the Soviet era.

In Russia, foreign and defence policy is independent of the administration, and, being under the supervision of the President, is not under parliamentary control. Policy is made by a small top-level circle of individuals – those outside the political elite have barely any influence on it. Responsibility for foreign and security policymaking is shared by different bodies, the most important of which is the Security Council of the Russian Federation. This is headed by the President. Other members include the Prime Minister and the ministers for foreign affairs, defence and internal affairs, the Chairman of the Duma, and the leaders of the Presidential Executive Office, Foreign Intelligence Service and Federal Security Service (FSB). In the Duma, there are four committees that deal with matters relating to foreign affairs. The Duma can also formulate foreign policy, inasmuch as it can exploit inter-parliamentary cooperation to promote Russia's interests.

Since the breakup of the Soviet Union, there has been a massive geostrategic change in Russia's neighbouring areas. For example, the independence of the Baltic countries changed Russia's status in the Baltic Sea region. This and many other developments have signified the rising status and importance of the armed forces in Russian society. There is little enthusiasm for military service and most of the equipment used by the armed forces dates back to Soviet times. After the collapse of the Soviet Union, production in many sectors of the defence industry collapsed and research and development was minimal. Attempts were made to reform the armed services, but without success.

The reform initiated in 2008 seems to be more ambitious than those that preceded it. Leadership structures are being reformed and the modus operandi of troops is being developed. Furthermore, the country has seen the start of a huge armaments programme, which entails repairing equipment from the Soviet era and building completely new capabilities.

Throughout this period, the nuclear weapon triad has been retained as an essential element to maintaining the armed forces and as a foreign policy tool. Although the use of nuclear weapons is regarded as improbable, their significance as a strategic deterrent will continue in the future. This is something the Russian Government fully recognises. As Prime Minister Putin declared in a speech in February 2012, diplomacy and economic cooperation alone are still not enough. He also said that if Russia is sufficiently strong, others will listen to what it has to say.[7] Of the countries in the world with a nuclear strike capability, the United States and Russia still have by far the greatest number of nuclear warheads. Nuclear weapons ensure that Russia enjoys a position as an equal partner in negotiations with the US. With them, Russia can maintain its position as a key actor on the world stage, as a country to take account of in international politics. Russia believes in force, and uses shows of strength to support its foreign policy and as a foreign policy tool, although, correspondingly, it also shows respect for the strength of its opponents.

The multipolarity of the Russian strategic culture and the country's non-isolationist stance are so robust in nature that they influence the content and direction of Russia's defence policy. The need to engage in cooperation on all points of the compass is due to the fact that Russia's strategic culture does not allow it to prioritise and concentrate on just one or two directions. This absence of priorities means that Russia needs to try and respond with sufficient military might to anything it considers a threat, from whatever direction. The threat scenario, which forms part of the country's strategic culture, is also required in domestic politics. In this way, the country's leaders appeal to the people to provide legitimacy to their use of force.

In addition to the defence argument, the country's strategic culture also involves a belief in the importance and effect of military shows of strength. Such demonstrations are motivated by the need to shape a superpower identity and confirm the country's status as a superpower. Decisions regarding when to use military force are ultimately based on the Russian leadership's own set of values, rather than international law. Russia wants to retain its position and safeguard its interests – while defending its neighbouring areas.

7 Vladimir Putin, 20.1.2012

4. Four trends in four geographical directions

In the following, we will attempt to apply the concept of strategic culture and define the factors and principles constituting the main and strongest phenomena motivating Russian foreign and defence policy. We present the trends manifested in all four directions – west, east, north and south – and describe Russia's possible reactions in the situations in question. How does its foreign policy alter when the outside world changes, and how does it arrive at its strategic calculations? It should be realised that a change in international politics alone is insufficient to trigger the use of force. Such a decision must also be supported by the principles underlying the strategic culture. In this examination of trends, we assess whether any one principle is so strong that it overshadows all of the others. In the summary, an assessment is made of whether any change is occurring in the impact and hierarchy of the principles underlying Russian foreign policy.

To the west, Russia's main anxiety concerns its relations with the United States and its military alliance. NATO's missile defence system in Europe will probably be completed during the current decade. Another area of controversy is the possibility that NATO will add the acceptance of new member countries to its agenda. How will Russia view possible NATO expansion in the future?

To the east, the main challenge is a strengthening China. China is on the way to becoming the world's largest economy. Estimates suggest that it will achieve this position by 2030, or at least no later than 2050. Russia needs to define its relationship with China and be ready to move from being a strategic partner to a strategic competitor.

In the north, there is ever fiercer competition for the resources of the Arctic region and the exploitation of these areas. Forecasts suggest that the Northern Sea Route will open for commercial traffic all year round by 2030. The territorial claims made by the littoral states still awaits a decision from the UN. Considerable raw material reserves are fomenting fiercer competition and a greater military presence on the part of the countries involved. How will Russia manage to safeguard its interests in the region?

In the south, a challenge to Russian foreign policy concerns how to reconcile complex issues of nationality with control of economically important raw materials markets. This is an area where Turkey has very clearly made its presence felt. Turkey's actions could also stir up nationality conflicts in the area. Another perceived threat is the islamification of Turkey and, for that matter, the entire neighbouring region. Will Russia try to prevent Turkey from becoming stronger, or form an alliance with it?

The developments described are not precise scenarios. Rather, they present a view of the kinds of threats and problems that could arise from all points of the compass and that might affect Russia's foreign policy. Russia's possible reactions are assessed from the perspective of its strategic culture, based on the above definitions of such a culture.

As has been stated, the strategic culture establishes a frame of reference in which political decisions are taken, though with no precise definition of how such a decision should be taken or what the country should do. It does not specify any chains of events or individual solutions, but makes some decisions and actions more likely or unlikely than others. On the other hand, it should also be borne in mind that the faster a decision needs to be taken, and the greater the pressure the decision-makers are under, the more likely it will be that Russia will act in accordance with its cultural model. In other words, when there is no time to establish a new operating model, it will act in a way that is in line with its previous actions and attitude.

A characteristic feature of the Russian strategic culture is the fear of external threats targeted at the country. Threats from different directions differ from one another. Russia sees the West as an innovative opponent, while in the east it would be fighting against a conventional mass army. The military potential of Central Asian countries, such as Kazakhstan, is still developing and, during the current decade their impact on Russia's foreign and security policy will be formulated within the CSTO. The threat from the south lies in illegal, armed groups and 'bandits'. In the north, Russia fears it may fall under siege if Western countries and China show a growing interest in the energy resources in the vicinity of Russia's territorial waters. Russia's best means of defence against the United States and, over time, China, is nuclear parity. And there is yet another dimension to consider in Russia's external policy – that of space, where it aims to challenge the United States, in the area, for example, of satellite navigation.

The west – NATO as an opponent and partner

Russia considers NATO expansion a political and military challenge. It has taken a critical view of its western neighbours approaching NATO and protested, in particular, at the promise of NATO membership given to Georgia and Ukraine at the Bucharest Summit in 2008. This position became very apparent in the war against Georgia in 2008. During that war, President Medvedev made it very clear that Georgian and Ukrainian NATO membership would represent a threat to Russian security.

Russia's Military Doctrine, which was published in February 2010, views the extension of NATO structures to its borders as a danger, which at some stage may transpire as a military threat. The Russians believe that the Georgian war in 2008 halted NATO expansion for a while, but the matter may be back on NATO's agenda before 2020.

NATO expansion is a threat to Russia's endeavour towards a multipolar world and the safeguarding of its interests, two of the principles on which Russia's foreign policy rests. In the name of multipolarity, Russia opposes a stronger NATO. It continues to regard the organisation as a potential adversary, at least within the context of its threat rhetoric. Russia can also refer to the precepts of international law in its attempt to prevent new countries from joining NATO. NATO's expansion contributes to the difficulties Russia faces in trying to restore its position as a superpower and its influence in the area of the former Soviet Union. Critical statements on the subject by the Russian leadership also have a domestic policy function: the message is sent to the Russian people, some of whom still perceive NATO as the traditional enemy from the Soviet era, in whose face they want to see Russia resume superpower status.

The multipolar way of thinking represents a framework in which Russia is endeavouring to establish a counterforce to NATO. Although China is opposed to US hegemony in international relations, it has no interests in allying itself with Russia in terms of the latter's anti-NATO stance. Russia therefore needs to identify new forms of cooperation. In recent years, Russia has actively promoted the new project of the Eurasian Union, on the basis of an agreement to form a customs union made between Russia, Belarus and Kazakhstan in 2011. Another cooperation forum whose influence Russia has tried to increase is the Collective Security Treaty Organisation (CSTO).

NATO expansion would also run counter to another key principle of Russian foreign policy: Russia's view of its neighbouring areas as belonging to its privileged sphere of interest. If NATO seeks expansion into Russia's adjacent countries, Russia may have recourse to shows of strength in its neighbouring areas. For example, it could organise provocative military exercises in western and northern parts of the country and in the Baltic Sea area. The main motive for these would be military, but they may also have political objectives, the purpose being to show that Russia has the potential to respond to a challenge from the West.

Recent history provides examples of how Russia acts when NATO encroaches on Russia's sphere of interest. Russia has systematically opposed the siting of parts of NATO's missile defence system in eastern Central Europe. The Russian government has threatened to respond with tangible military action, for example, by siting Iskander ballistic missiles in Kaliningrad. Despite its protests, Russia has not carried out these threats. It wants legally binding guarantees that the US system will not be used against it. On the other hand, despite not receiving the guarantees it seeks, Russia has continued to engage in military cooperation with NATO.

The principle whereby Russia should not be isolated acts as a robust counterforce in this case. By adhering to a policy of non-isolation, Russia is prepared to do much to proactively expand its spheres of interest, so that any potential new NATO member feels disinclined to move closer to the organisation. Russia is also attempting to lobby NATO and minimise its efforts to invite Ukraine and its other neighbouring countries to join. At the same time, however, it continues to cooperate with the organisation in military terms, in areas such as counter-terrorism, the campaign against piracy, the war on drugs and the use of transit routes to Afghanistan.

The non-isolationist stance is a motivating factor in Russia's policy of not allowing its relations with the West to reach a critical point. Earlier examples exist of how Russia has reacted to NATO enlargement in support of this principle. Both enlargement rounds since the Cold War, in which NATO encroached on Russia's spheres of interest and drew nearer to its borders, went ahead without any significant political or military conflicts. When NATO expanded into Poland, the Czech Republic and Hungary in 1999, Russia loudly opposed the move, and threatened countermeasures. Its sharpest protests were related to NATO membership among former Soviet republics. Nevertheless, when in 2002 NATO invited all three Baltic countries to take part in membership negotiations, Russia refrained from any dramatic gestures.

Russia is likely to protest vehemently at any expansion by NATO into areas where it has interests. Ukraine, where Russia feels it has privileged interests, faces a fiercer reaction from Russia. Russia could easily restrict gas supplies to the country, for example, or institute price rises on oil purchased by Ukraine from Russia. Since these measures will also be reflected in Russia-EU relations, NATO membership for Ukraine would have indirect repercussions for Finland. If Russia views Finland as belonging to its sphere of interest, any NATO connection could also result in economic sanctions against Finland, as well as diplomatic action, provocation and shows of strength. However, it is unlikely that the main form of pressure exerted on Finland would take the form of discontinuing energy supplies.

Russia does not want to sever relations with NATO, because this could lead to isolation in terms of international politics. The organisation's expansion would be unlikely to result in open war between Russia and NATO, despite the strong rhetoric deployed. The non-isolationist principle suggests that Russia will continue to engage in cooperation with NATO in one form or another, in any case. While unattractive, this is the only option available. One form of protest might involve a temporary withdrawal from the NATO-Russia Council. Russia would also be certain to step up its rhetoric casting NATO as a threat to Russian security. At the same time, Russia is trying to develop bilateral relations with the West and attract new allies, through energy-based partnerships, for example. Increased mutual dependence reduces the level of threat. However, a major factor underlying Russia's attitude relates to what candidate NATO countries do based on their prospective membership, and how provocatively they behave towards Russia.

The east – a strengthening China

Asia and the Pacific Ocean have grown steadily in terms of their importance to Russian foreign policy. At the same time, the United States has turned its attention to Asia. In the east, the key issue is China and its development. At a formal level, Russia and China enjoy a warm diplomatic relationship. It is in the interests of both countries that this situation should not suddenly alter. The two also agree that it is in their interests that the US be denied the opportunity to strengthen its position in international politics.

A 'strategic partnership' was established between the countries in 1996, but both are quick to point out that this is not a military alliance. Rather, this is a question of mutual cooperation on military and energy-related matters. Russia uses the Shanghai Cooperation Organisation as a way of balancing and coordinating its interests with China in Central Asia, while keeping the USA and other actors out of the region. Although cooperation within the organisation benefits both parties, a number of practical problems mar relations between Russia and China. Their partnership does not always seem like an equal one based on cooperation, but one of zero-sum games and competition between the two countries.

Military cooperation between Russia and China has consisted of high level meetings, joint military exercises and military-technical cooperation, such as trade in arms and technology and information transfer. The last twenty years or so have seen a decline in Russia's defence industry and cooperation on energy, while China has succeeded in its quest for new partners. China believes it can develop its armed forces without Russia's help. Many Asian countries have received military training from the US, while China thinks it gains an additional advantage and supplementary expertise from cooperation with them. Since 2006, Russia's sales of weapons to China have fallen dramatically. Relations have weakened in the area of energy cooperation because China is unwilling to become dependent on Russia. Russia is now only China's fifth biggest supplier of oil. Another significant reason is that China does not have confidence in Russia's ability to deliver adequate supplies of raw materials. China has invested heavily in the raw materials production infrastructure in Russia, but the projects have given rise to a host of problems. Russia, for its part, does not want to remain a mere supplier of raw materials for China's growing industry.

China is growing stronger, while its dependence on Russia is diminishing. One telling example of this is that in 2010 Russia only made tenth position in terms of foreign trade relations with China. In the same year, China became Russia's biggest trading partner. This makes the strategic partnership less significant and substantial. Problems in the relationship are arising because China has become a rival in areas of strategic importance to Russia, i.e. its spheres of interest. China has managed to penetrate the raw materials markets in Central Asia and has simultaneously deprived Russia of its monopoly as a constructor of transport channels for raw materials. Since the beginning of the 2000s, China has concluded numerous agreements with countries in Central Asia on the construction of gas and oil pipelines and the supply of raw materials.

There is awareness in Russia of the fact that China has become stronger. According to most estimates, China will be the world's biggest economy by 2030, or at least no later than 2050. The challenge for Russia is that too little is known about China and not enough research has been done on the subject. In the early 19th century, China was one of three great economic powers. It is now rapidly regaining this status. Relations are marred by Russia's desire to view China as the inferior party in the future, even though it has little prospect of preventing China's development. Centuries-long antagonism has resulted in distrust between the countries. Their cultures, ideologies and identities, which differ so much, have also served to widen this gulf.

A stronger China threatens Russia's foreign policy principle of safeguarding its interests. The two countries share a border, but China is not part of Russia's sphere of interest. On the contrary, they both compete for the same political and commercial interests within Russia's sphere of interest. China itself claims to respect Russia's right to a presence in the area and has not tried to displace it. Nevertheless, it opposes Russian hegemony in the area. Tensions between the countries are particularly evident in relation to energy.

In a situation in which the strategic partnership is turning into strategic competition, Russia may step up its threat scenarios. Russia aims to make China less influential in Central Asia, by establishing international organisations in the area, such as the CSTO, of which China is not a member. As China becomes stronger, Russia's military potential will grow in significance. Options could even include the threat to use nuclear weapons.

On the other hand, the competitive situation is offset by the partnership between the countries and the objectives they share. Under the principle of non-isolationism, Russia maintains relations in every way it can, even though problems sometimes arise. Both countries are opposed to a unipolar world and aim to curb growing US influence in Central Asia. Similarly, they have a common interest in preventing the growth of terrorism, separatism and extremist movements in the region. With regard to many issues the two countries work together to oppose the United States, even though they are not openly anti-American. Their goal is to achieve a multipolar world. The keyword in Russia's foreign policy is multilateralism. Russia will not perceive China as a threat as long as the latter does not achieve hegemony.

Multilateral cooperation exists, for example, between the BRICS countries[8] and within the Shanghai Cooperation Organisation (SCO), whose founder members are Russia and China. The BRICS countries engage in cooperation in trade, investment and infrastructural development. They hold annual summits and act as a pressure group, for instance in the context of the International Monetary Fund (IMF). Together, these countries represent almost half of the world's population. It is predicted that China, India, Russia and Brazil will be among the world's ten largest economies by 2020. India is one of Asia's growing powers and a major client of Russia's arms industry. Together with Russia and China, it forms a powerful strategic triangle in Asia. Russia seeks to maintain good relations with India, thereby blocking any further rapprochement between India and China.

Finland is indirectly affected by changes in relations between Russia and China. Russia could respond to China's possible competitive stance in the economic sector by amending legislation in the area of cross-border trade, for example. Any such changes, even if mainly targeted at China, might also be implemented on the Finnish border. A recent example of this is the dispute over duties on timber, where the import of raw timber from Russia, so vital to the Finnish forest industry, was hampered by high export duties imposed unilaterally. Another factor affecting Finland lies in the fact that the multipolarity so prized by Russia may have the tendency to diminish the influence of small countries on world politics.

8 The acronym BRIC was coined by Jim O'Neill in 2001 in his article:"Building Better Global Economic BRICs". South Africa was invited to join the group when it was formed in 2010.

The north – the growing importance of the Arctic region

In the north, as a result of global warming, a long-term development consists in the opening to all-year traffic of the Northern Sea Route through the Arctic Ocean. The route will greatly shorten the sea journey from Europe to Asia and may save time and money. The region also harbours considerable raw material reserves. Some estimates suggest that 30% of the world's undiscovered gas and 15% of its oil are located here. As the ice cap melts, the sea area is becoming an object of political and economic competition – with implications for Russian foreign policy. The Arctic Ocean may also become a setting for military competition.

In September 2008, Russia adopted its Arctic policy for the period up to 2020. This focuses on the region's importance as a source of natural resources and on potential difficulties due to other countries making territorial claims. In 2009, Russia announced its plan to set up a military force to defend its interests in the Arctic. It claims that the purpose of this is to establish a more balanced situation in view of the NATO troops in the region. In a speech given in January 2012, Prime Minister Putin declared that the activities of the world's leading military power in the Arctic region and its surrounding areas compelled Russia to defend its interests there. It is likely to do so by means of an increased presence by the Federal Border Guard Service, the navy and the air force. Plans for a heightened military presence, however, may remain a threat scenario, at least as long as no other country fundamentally increases its military presence close to Russian territorial waters.

Other countries with an Arctic Ocean coastline (the US, Canada, Denmark and Norway) have become more interested in both the region and how their fleets cope in Arctic conditions. However, they mainly claim to be modernising their armed forces in the area and improving their rescue services. Russia is not seeking to militarise the region, and neither are the other countries. They are mainly making preparations to defend and monitor their territorial waters and interests, while establishing a new basis for changing economic, political and environmental conditions. New projects involving ice breakers and research vessels are under way in many countries.

Members of the Arctic Council have contradictory opinions on how to safeguard the agreements regulating sea traffic, tourism, fishing and the exploitation of raw materials in the Arctic. According to some estimates, the Northern Sea Route should open up to traffic all year long sometime between 2030 and 2050. The reduction in size of the ice cap will result in greater use of the region generally and answers will need to be found to the question of who owns what territory and who has the right to exploit natural resources in the Arctic. All five littoral states have said that they would strengthen their military presence in the region, which may be regarded as a symbolic gesture to demonstrate their right to the natural resources there. However, at the specific request of the US, the Arctic Council has no mandate to deal with matters of security.

Under the United Nations Convention on the Law of the Sea, littoral states are entitled to a zone stretching 320 kilometres out to sea from the coastline. The economic zone may be lengthened if it can be proven that undersea ridges are geographically part of a country's continental shelf. In 2001, Russia applied for a permit to extend its territorial waters beyond the zone determined for it, which would mean that it would cover a large part of the northern Arctic Ocean. The argument given for the application was that the underwater Lomonosov and Mendelev ridges are part of the Eurasian continent. No decision has as yet been taken on the application and more investigations are needed. Both Denmark and Canada have their eyes on the same area. In summer 2007, despite the fact that the UN had yet to make a resolution on the matter, in an impressive publicity stunt Russia made a territorial claim and stated that it had planted its flag in the ridge.

In discussions of which countries have the right to access the region, Russia points to the principles of the United Nations Convention on the Law of the Sea. In matters where international law provides no answer, Russia is inclined to dictate the use of the sea route. Controversial issues include the borders of territorial waters and the continental shelf. Under international law – in this case, the Convention referred to – all countries should have the right to decide on the use of the area. Russia has said that it would allow its territorial waters to be used for sea traffic, although problems will arise if and when competition threatens the country's commercial or other interests. Nevertheless, Russia is eager to point out that the region belongs to its spheres of interest. In its opinion, only littoral countries have a legitimate right to be involved in policymaking. For example, China has tried in vain to join the Arctic Council or become an observer. In its opposition to Chinese membership of the Council, Russia is acting contrary to the principles of multipolarity and international law.

However, under the principle of non-isolationism, Russia is seeking cooperation with Norway and Canada, for example. It needs partners, because its own resources are insufficient for exploiting the region's raw materials. Russia cannot exploit the energy resources under the Arctic seabed unaided; it needs partners in the West. But in spite of its eagerness to work with others, Russia does not want to see the countries with an Arctic coastline lose their privileges. Because of this, it is not unambiguously in favour of cooperation between everyone in the region. The key question is whether Russia can prevent other countries from exploiting the region and its raw materials, if Russia cannot do so itself.

Rescue and navigation systems represent another form of cooperation in the region that requires development. Russia's non-isolationist stance prompts it to cooperate with both individual countries and international organisations – in this case the Arctic Council and the Barents Euro-Arctic Council. The member countries of the Arctic Council have concluded an intergovernmental agreement on the prevention of major disasters and rescue operations.

In the future, the key question for Finland is whether the decision-making powers of organisations active in the region will remain at their former level. Russia has sought to defend the rights of littoral countries in regional policymaking. It would be in Russia's interests for the five countries concerned to agree between themselves on how the region should be exploited. The main goal is to keep China out of Arctic policymaking and to deny it access to raw material resources. In the same way, keeping decision-making powers among the five countries would render international organisations less influential, whether this means EU, NATO or the Councils active in the region. For Finland, an increase in shipping along the Northern Sea Route could be of benefit to both regional policy and the country's industry. Finland has the third highest number of icebreakers in the world and special expertise in Arctic conditions. If sea traffic were to increase in volume, Finland's shipbuilding industry might obtain many more orders. Finland could also benefit from the increase in transit traffic and the creation of new traffic routes to ports in Arctic areas.

The south – Turkey: an indispensable partner?

In the south, the principles underlying foreign policy and the means of promoting them are somewhat undermined by the issue of how the alliances in the Caucasus, Central Asia and the Middle East will develop. The region is volatile and fraught with problems – many to do with nationality. In the south a huge, stable country is emerging both economically and politically: Turkey. So far, Turkey's strengthening position has not been viewed as a problem in Russia, despite the fact that the country is a member of NATO. Under the principle of multipolarity, its growth has not been regarded as problematic. But if Turkey becomes stronger, it might pose a range of threats to Russia.

Turkey is a strong military power which now sells military hardware to countries in the Caucasus and Central Asia. It has also conquered other markets, becoming a competitor in Russia's spheres of interest. Turkey has raised its profile in the transportation of raw materials from Central Asia and the Caucasus. It also has the support of the EU and the US, as they are both keen to help Europe to cut its dependence on Russia for energy. This is due to the fear that Russia will use deliveries of raw materials as a political tool against its neighbouring countries. Turkey's growing presence to the south of Russia may also lead to a US presence and influence in the region, given Turkey's NATO membership and the gas projects it is planning with the support of the United States. With these major gas pipeline projects, Turkey will be a key player in the raw materials markets of Central Asia and the Caucasus, and thus may pose a threat to Russia's alliances.

Turkey is a partner of many EU countries in energy matters. Plans for the Nabucco project, established as a rival to the South Stream project, were begun in 2002, and in 2009, Turkey, Romania, Bulgaria, Hungary and Austria signed a cooperation agreement. This project, run by a consortium of six companies, is expected to be completed by 2017. It has the support of the United States, while the countries supplying the gas are Iraq and possibly also Azerbaijan, Turkmenistan and Egypt. Turkey has also outlined a plan for an alternative Trans-Anatolian gas pipeline, for which Azerbaijan would supply the gas.

Turkey is a crucial actor in the as-yet unresolved Syrian crisis, which was triggered by the events of the Arab Spring. Hitherto, Turkey has been a very secular nation, held up as a model for Muslim countries in the Middle East. The radicalisation of the Middle East and chains of events like the Arab Spring may result in the islamification of Turkey. The worst-case scenario would be the formation of an 'Islamic crescent' to the south of

Russia, extending from North Africa, through the Middle East to Central Asia. This would foment greater instability, both in the neighbouring regions of Russia and within the country itself. In addition, Turkey may become an intermediary in problematic questions of nationality in the region, thus thwarting Russia's attempt to maintain a balance amid a tangle of problems.

Under the principle of a multipolar world, Russia would not oppose a strengthening Turkey. Even Turkey's joining the EU could meet with Russia's approval, given that this might make the organisation an even more powerful player, thus acting as a counter-balance to US hegemony. Furthermore, Turkey poses no threat to Russia's strongly held view that it, Russia, should never be the junior partner. Russia can continue to compete with Turkey and seek to a proactive role in limiting the extent of Turkey's importance.

A key principle of Russian foreign policy, privileged interests, is being threatened by developments in this particular geographical direction. Russia sees the former Soviet Republics as its sphere of interest, and Turkey's bid to ally itself with them in energy co-operation – against Russia's interests – is a worrying development. Russia is concentrating heavy resources in the region, in order to prevent a situation where Turkey would exclude it from the partnership arrangements there. For Russia, the question of whether to try to form a closer alliance with Turkey in this situation, or keep Turkey out of the region altogether, is a key issue.

The principle of protecting Russia citizens would become topical if Turkey were to interfere in festering problems associated with nationality in a way that caused conflicts to flare up. In such a case, Russia would have to adopt a position on how it protects the security of Russian citizens resident in its neighbouring countries. Another question concerns how to prevent crises from spreading into its own territory.

In the case of Turkey, none of these foreign policy principles are so strong that they would represent a clear policy for Russia's leadership. Russia is watching for possible changes in Turkey's political climate and will endeavour to prevent situations that are harmful to Russia. Finland is affected by developments in Turkey as regards, for example, its possible membership of the EU and as an energy transit country. It may benefit Finland if Russia focuses its attention on the south, because close relations between Turkey and Russia may also be a stabilising factor in the context of the problems in the North Caucasus.

5. Summary

Strategic culture may be viewed as a model of action that has taken shape over time, to which political leaders give voice, revamp and adapt in their statements and decisions. Such a model, for example, provides an understanding of what to do in a certain situation. On the other hand, it may rule out certain options. A strategic culture changes slowly. This study is based on the assumption that the strategic cultural principles informing Russia's foreign policy will remain as before in the following decade.

Russian foreign policy is fundamentally defensive in nature. The country is attempting to cling to its traditional status as a superpower rather than build a new, hegemony outside its traditional sphere of influence. A characteristic feature of the Russian strategic culture is its fear of external threats towards the country. It believes that different types of force may be used against it from all four points of the compass and that these threats differ in nature. From the Russian perspective, the West is an adversary in the area of high technology, while in the east it would face a conventional mass army. To the south, threats are represented by illegal armed groups and 'extremists'. To the north, Russia fears falling under siege from the West and China. Threat scenarios, which form part of the country's strategic culture, are also useful in terms of domestic policy. Wielders of power step up their rhetoric as a way of appealing to the people to lend legitimacy to their use of force.

Russia seeks to act in international politics in such a way that its status as a superpower is maintained and recognised. Defence of that status is viewed as being in the national interest. The Russian leadership fears humiliation and will go to any lengths to avoid losing face. The credibility of Russian foreign policy relies on the nuclear deterrent, as well as highly developed and adequately manned conventional armed forces. If Russia's military potential were to grow, its foreign policy might change from a defensive to a more offensive posture. This would also increase the latitude of its foreign policy.

Russia has barely any natural allies and views a scenario, in which it is excluded from international policymaking, as a threat. Its key requirement is to be involved in determining and applying the principles of international law. Reference to compliance with international law is a tool frequently used by Russia in its foreign policy, when this is useful and serves Russia's purposes. It may also be viewed as a weakness – Russia resorts to this when it has no other means at its disposal. Binding international agreements are a way of easing diplomatic pressure and, in some cases, buying time.

Russia is opposed to the idea that other actors in the international system should compete with it in areas it regards as its own sphere of interest. If, for example, NATO intends to expand into Russia's sphere of interest, Russia will protest. Another goal of Russian foreign policy is to avoid exclusion from international decision-making, because this would result in loss of influence. As the structures of the global economy change, it has felt ever more compelled to engage in international economic cooperation and adopt international structures. Historically, the political motive for this is Russia's aspiration to be recognised as a superpower.

Russia is eager to increase its influence. It aspires to a multipolar world, in which it is one of the key actors. It is opposed to US hegemony on the world stage and is therefore also prepared to accept that competing countries will grow in strength, as long as this acts as a counterweight to US hegemony. Besides, the emergence of China, both in military and economic terms, is also something that Russia can do little about. That these countries compete over the same interests leads to conflict, although Russia is nevertheless seeking to maintain bilateral relationships and work with China in the same alliances and organisations.

Finland is indirectly affected by many of the developments and trends described herein. For example, the potential for crises in the south could have repercussions for Finland in the shape of refugees entering Finland from the region. As China becomes stronger, Russia will be inclined to resort to protectionism. Trade restrictions and amendments to legislation on cross-border trade which are mainly targeted at China may also extend to Russia's trade with Finland. For Finland, maintaining good political and economic relations with China and Russia is crucial, as is taking advantage of the economic development of both countries.

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The Russian defence industry and its development guidelines until 2020

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1. Introduction

Towards the end of 2010, the Russian Government approved a state arms procurement programme (Gosudarstvennaya Programma Vooruzheniya, GPV) worth 22.5 trillion roubles (approximately 550 billion euros), covering the period up till 2020[1]. Its function is to substantially raise the standard of Russia's weaponry. The programme sets a difficult task for the Russian military-industrial complex. Russia's domestic industry will have to develop more up-to-date products alongside the Iskander missiles, the S-400 air defence system and the SU-35 fighter currently in production. It will also have to modernise its now outdated production technology and replace partly lost production resources with new investment.

An ambitious programme for the reform of the defence industry has also been launched. The aim is to modernise the industry, which in the last 20 years or so has fallen into decline, and to transform it into a driver of the Russian economy. The modernisation programme, costing three trillion roubles (around 75 billion euros), will provide funding to those companies and research institutes that are involved in the arms programme.[2]

Having announced these major objectives, the question emerges concerning Russia's ability to implement them. Does modern Russia have the resources and ability to carry out a structural reform of its defence industry, replace corruption with transparency, and, as a result, make feasible the development of modern weaponary? And does Russia have sufficient financial resources to safeguard the financing of the arms programme, if the economic situation should deteriorate?

In this part of the report, we examine the key uncertainty factors affecting the defence industry and its ability to function well. Such factors include: securing adequate funding, production resources, the supply of labour and the financing of investment, and the development of production technology, management and administration. If the programme is to go ahead, it is also essential that the current objective be maintained if there is a change in the country's political situation. The analysis provides the basis for assessing the potential for successfully implementing the arms programme.

The group responsible for this section met a total of five times between November 2011 and April 2012. The report makes extensive use of the content of earlier studies and other sources in the public domain, from press reports to international statistics. The research material was supplemented by interviews with Russian military and economic experts in Moscow in spring 2012. The conclusions reached are only intended as a guide to the situation, given the nature of the area of study, the time available for the research and the source material.

1 The procurement programme supplements the annual 'State Defence Order' (Gosudarstvennyi Oboronnyi Zakaz, GOZ).

2 Rogozin 2012.

2. Russia's defence industry in the 2000s

2.1. Trends in defence expenditure

The resources allocated to arms and defence expenditure have grown considerably since the start of the current millennium. According to the Stockholm International Peace Research Institute (SIPRI), from 2001 to 2010, Russia's defence expenditure rose by 82%.[3] The relationship of military expenditure to GDP has remained more or less the same (under 3%) during the entire period. The aim of the new programme is to increase military expenditure at a considerably faster rate (Table 1). At present, Russia spends 2.9% of its GDP on defence. With the new arms programme in place, that is predicted to rise to 3.9% by 2014.[4]

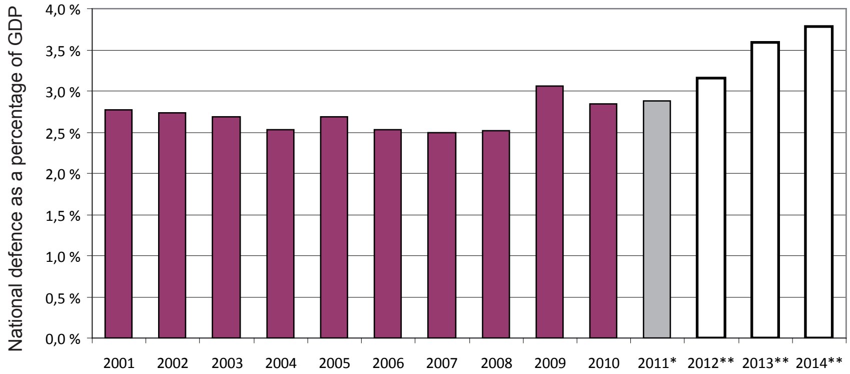


Table 1. National defence expenditure as a percentage of Russian GDP.
Source: The Military Balance 2012. *Revised with supplementary budgets ** Draft budget

On average, expenditure on national defence in the period 2009–2011 breaks down in the Russian state budget as 74% allocated to the defence forces and 12% allocated to R&D. The budget's section for national defence comprises just two-thirds of the

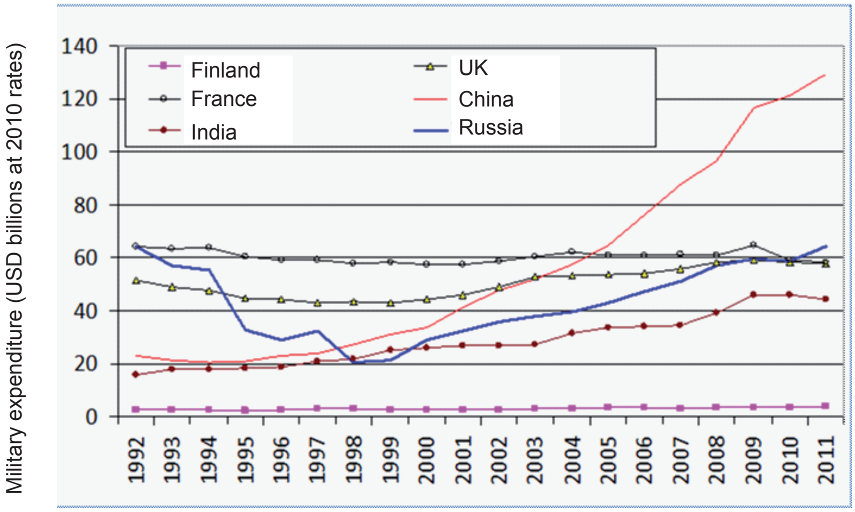
3 SIPRI 2011b, 163. SIPRI's calculations include salaries and pensions as well as paramilitary forces. Also included in SIPRI's figures are re-search and development in the defence sector and the costs of international defence cooperation.

4 The equivalent figure for Finland has remained steady at close to 1.5%.

expenditure internationally classified as military expenses (by SIPRI, for instance); this excludes the pensions of military personnel and costs relating to the internal security authorities. According to information supplied to the UN, half of Russia's military expenditure for the period 2009–2010 was used for personnel costs and procurement, and just over a fifth to cover operating and maintenance costs.[5]

Like the annual 'State Defence Order' (GOZ) that supplements it, the ten-year procurement plan (GPV) is a state secret, on which only the barest of details are published by the state.[6] The total budget for the procurement plan for 2011 (GOZ-2011) was around 580 billion roubles (approximately 15 billion euros), 80% of which was for the purchase of new equipment and basic repairs. According to military expert, Andrei Frolov, the procurement plan will see arms expenditure rise in real terms for the first time since 2008.[7]

SIPRI estimates that Russia spent 2,100 billion roubles on defence in 2011. That is approximately 50 billion euros, the equivalent of Finland's entire state budget.[8] In global comparisons, this puts Russia in third place after the United States and China. In defence expenditure, Russia and China deviate from the general trend, since expenditure on defence is clearly rising in these two countries.[9] (Table 2.)



5 United Nations Report on Military Expenditure, 2011.

6 Cooper 2012, 175. A summary of Russia's defence forces' arms procurement plan and data on R&D have been classified information since 1998. A detailed additional section to the plan was published in connection with the budgets for 2002–2005, but that too has been classified information since 2006. Cooper 2007.

7 Frolov 2011.

8 In this report, sums in roubles are converted to euros at the average rate advised by the Bank of Finland in 2011: 40.88 roubles to the euro.

9 SIPRI 2012a; SIPRI 2012b; Moscow Times 18.04.2012.

Table 2. Military expenditure (1992-2011) in Russia compared to other countries. Source: SIPRI 2012a.

According to SIPRI, Russia's defence expenditure in 2011 was round the same as that of France and the UK, but just a tenth of that of the US. On the other hand, if the figures for Russia and Finland are compared, it is clear that in the same year Russia spent about 20 times more on defence than Finland.

2.2 The reorganisation of the defence industry and arms exports

In addition to growth in defence expenditure, another change characterising the period since 2000 is the reorganisation of companies in the defence industry. The aim of the large-scale administrative arrangements that have occurred over the past ten years or so was to establish globally competitive, large and vertically integrated companies, while also cutting the number of companies and research institutes in the defence industry by as much as half. In 2002, a decision was taken to establish 75 holding companies. The idea was to obtain the most able and promising companies and the related research institutes. By halfway through that same decade, however, it had become evident that the work of the holding companies was being hampered by legislative flaws, inconsistencies in rules and regulations laid down by various administrative authorities, as well as other problems relating to management and production resources.[10]

Since 2006, four state-owned corporations have been established around the main defence industry clusters: the United Aircraft Building Corporation Oboronprom[11], the United Shipbuilding Corporation OAK[12], Rostehnologii[13], and Oboronservis, which was founded as a supplier of maintenance services to the armed forces[14]. The nuclear weapons industry has become its own separate entity under the aegis of the state-owned company Rosatom.

10 Westerlund 2012, 174; Iivonen, interview 09.02.2012; Demtshuk and Fadeikina 2006.

11 In the early stages, Oboronprom had 19 planning/design, manufacturing and financing companies in the sector (fighter planes, cargo planes and special and civil aircraft). The state corporation Rostehnologii is Oboronprom's biggest shareholder (58.32%). The state owns 27.82% of Oboronprom shares. Iivonen, interview, 09.02.2012; Oboronprom 2012.

12 When it was founded, the Shipbuilding Corporation had nine design offices and three subsidiaries [Northern, Western and Far-East Ship Building Centre]).

13 The Rostehnologii Corporation was founded at the end of 2007 and Putin's confidant, Sergey Chemezov, became its director. The present organisation comprises less than 600 companies, slightly more than half of which belong to the defence industry. Under the strategy reviewed in 2011, the Rostehnologii Corporation will be transformed into an Open Joint-Stock Company by 2014. Rostehnologii 2011, 5

14 The Corporation has nine subsidiaries for each of the armed forces' maintenance service sectors. Iivonen, interview, 09.02.2012.

Experts are of the opinion that, with a few exceptions, the establishment of these new corporations has led to no significant improvements in the competitiveness, productivity and technological know-how of the companies involved. A plausible explanation for this is that the development of corporations is tied to the private interests of the inner circle of Russia's power elite and to complicated takeovers, rather than being based on rational business models.[15] Of the roughly 1,700 organisations, in the defence industry business register in 1999, almost 1,400 remain.[16] In October 2010, First Deputy Chairman of the Government Military-Industrial Commission, Vladislav Putilin, declared in public that only around 40% of the companies in the defence industry classified as strategic, totalling just under 1,000, were financially sound. A fifth were on the verge of bankruptcy.[17]

The consensus among experts is that companies involved in arms exports coped better than others during the difficult years. This dividing line is still apparent within the military-industrial complex. The differences between industrial sectors in terms of production technology and competitiveness in general have grown in the last 20 years or so.[18]

The United Aircraft Building Corporation, and especially the 'Russian Helicopters' group that belongs to it, has managed to retain and even partly increase its share of the global markets. Furthermore, the aerospace industry has maintained its traditional position at the forefront of development. The shipbuilding industry, by contrast, still faces immense difficulties. The 700 billion rouble (approximately 17 billion euros) aid package granted by the Russian Government at the end of 2011 is considered a significant boost to the modernisation of the sector. Only a fraction (250 billion roubles) will go to civilian shipbuilding: the main focus will be on the development of the defence industry.[19]

Russia's arms exports have remained at virtually the same level since the growth spurt at the start of the millennium, and were worth a total of 13.2 billion dollars in 2011 ($10.4 billion in 2010).[20] It can be seen from Table 3 that Russia's exports to China have fallen dramatically since 2000, with India superseding China as the main importer of Russian weapons. More than half of Russia's exports consist of aircraft (aeroplanes and helicopters), and a quarter of missiles and air defence systems.[21]

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15 Blank 2011, 151.
16 Rogozin 2012; Westerlund 2012, 170.
17 Companies classified as strategic are not covered by normal legislation on bankruptcy. Tsyganok 2010.
18 Iivonen 2003.
19 Interfax 02.12.2011. According to Military Balance, by 2020 4.7 billion roubles (160 billion dollars) will have been spent on repairs to present vessels and the construction of new ones. Military Balance 2012, 6.
20 SIPRI's statistics on arms exports do not describe their value, but represent technology transfer. SIPRI, therefore, does not compile statistics on the nominal value of arms exports, but reports them by means of trend-indicator values (SIPRI TIV). SIPRI 2012a; Military Balance 2012
21 SIPRI 2011b

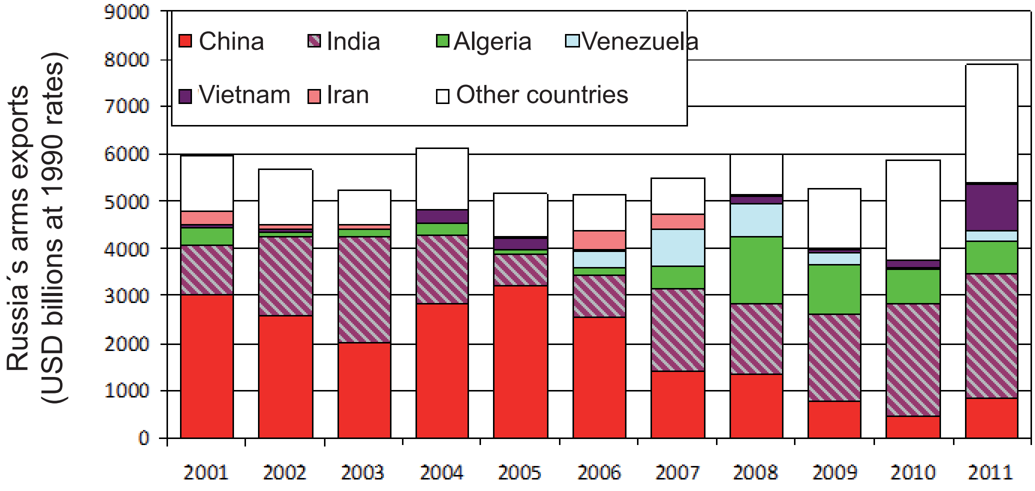

Table 3. Trend in Russia's arms exports by importing country 2001–2011. Source: SIPRI 2011a.

The value of Russia's arms exports has steadily increased to 2011, when the value of orders fell for the first time in 10 years, and was 35 billion dollars ($38.5 in 2010).[22] The Russian military expert, Ruslan Puhov, has predicted that the value of arms exports will continue to fall in the years to come. This is partly due to market saturation. In particular, Russia's biggest trading partners, China and India, will probably decrease the size of their orders. This trend could also be regarded as a sign that Russia does not offer global markets the required range of modern products.[23]

22 Pukhov 2012.
23 Pukhov 2012.

3. The objectives of the arms programme

3.1. Superpower policy: threats

In recent years, Russia has updated the programmes and doctrines it considers crucial to its foreign and security policy. In May 2009, the then President Dmitry Medvedev adopted the National Security Strategy, which replaced the National Security Concept that had been formulated at the start of the decade. In February 2010, Russia's new Military Doctrine was approved. It lists the main threats facing Russia and sets targets for the future development of the defence forces. The Military Doctrine has been described as inconsistent in terms of its objectives, which partly reflects Russia's reluctance to set security policy priorities. Partly due to the fact that Russia has not sought strong security policy partnerships, it has been compelled to prepare for many different types of threat. The termination of the operation in Afghanistan in 2014 and movements afoot in Central Asia are special causes for concern in Russia.[24]

It should be noted that, over the last six months, Russia's foreign and security policy rhetoric has regressed, at least for the time being. Official discourse has once again resorted to anti-Americanism and stressed Russia's position as one of the leading superpowers. NATO is traditionally considered as posing the greatest threat to Russia's national security, but other sources of danger, particularly to Russia's territorial integrity in the south, are drawing Russia's attention. [25]However, some researchers interpret the reform of the army as a real indication that Russia does not consider NATO to be the main threat. Instead, its attention has turned southwards, to Central Asia and the North Caucasus.[26] On the other hand, it should be realised that a major share of the funds available under the arms programme is devoted to building intercontinental missiles and new nuclear submarines, which form part of Russia's nuclear deterrent.

The current world political situation is a factor stimulating the debate in Russia on army reform and military procurement, although the actual need for change is emerging from within. The conflict between Russia and Georgia in August 2008 revealed the drawbacks in the Russian army's weaponry and management system and the need to reform them, something that had been planned for a long time.[27]

The main areas of the army reform commenced under President Medvedev include changes to the management system and the gradual shift from conscription to a smaller but more effective professional army. These changes reflect the desire to improve the ability of the armed forces to operate in regional conflicts in the area of the former So-

24 Military Doctrine 2010; National Security Strategy 2009.
25 Putin 2012b; Putin 2012d.
26 Lannon 2011.
27 Giles 2011, 9-10; Safronov 2012.

viet Union.[28] An important component in the army reform is the modernisation of the equipment used by the armed forces. The state arms procurement programme extending to the year 2020, and the defence industry modernisation programme that will run concurrently, are intended as a response to these needs.

3.2. The new industrial policy: is the defence industry to become the driver of the innovation economy?

The guidelines for the development of the Russian defence industry are described in the new Military Doctrine adopted by Russia in February 2010. The main objective of the defence industry is the modernisation of weaponry in order to respond to present and future needs. To achieve this goal, more effective use must be made of the funds allocated to the arms programme. Also, the technological developments required for the modernisation programme will have to be guaranteed, and the civilian and military sectors will need to be integrated to serve the needs of the armed forces, in accordance with the Military Doctrine.[29]

The main argument used to explain the growth of the arms programme and the development of the defence industry in general, is Russia's need to improve its military strike capability. A fear of Russia's vulnerability in the face of international competition and the backwardness of domestic industry is another factor often mentioned in discussions of the defence industry's development.[30] Of particular concern is the Russian defence industry's dependence on foreign hi-tech products. For example, in civil aircraft construction, the number of foreign components used is considerable.[31] The Deputy Prime Minister, Dmitry Rogozin, who is currently responsible for the defence industry, recently said that, technically speaking, products from Russia's electronics industry are five to twelve years behind foreign products.[32]

The new state procurement programme and the development programme for the defence industry are expected to change all this, and to make the defence industry a driver of Russia's innovation economy.[33] Silicon Valley in California is taken as a reference point for this idea, since its development into the present, well-known centre of technology received its initial impetus from the US defence administration.[34] Russia's lead-

28 Barabanov 2011; Golts 2011.
29 Military Doctrine 2010.
30 Kuzjushkin 2009. Listopad and Nezhigay 2011; Rogozin 2012.
31 In connection with the accident of the Sukhoi Superjet 100 (SSJ-100) on a demonstration flight in Indonesia, it was revealed that 80% of the aircraft's components were made abroad. Bozheva 2012; see also Hanson 2011, 11;
32 RIA Novosti 23.4.2012.
33 Putin 2012b.
34 Dvorkovitsh 2012; Vedomosti 30.1.2011.

ing economic experts view these plans warily, even though the state has traditionally played a central role in Russia's attempts at reform. Among researchers well versed in the current state of the Russian defence industry, the consensus is that the sector will only be able to lead the way in Russia's innovation economy because the country has major difficulties in exploiting inventions and discoveries by the defence industry for civilian purposes.[35]

In Russian official policy, such priority areas are space technology and the nuclear weapons industry, whose strategic development is currently under review by the Government. Under this strategy, it is proposed that a 'space council' (sovet kosmos) be established under the auspices of the President and that a separate research institute, equivalent to the American DARPA (Defense Advanced Research Project Agency), be created to expedite research applied to space and nuclear technology. The Skolkovo Innovation Centre, established under an initiative of President Dmitry Medvedev in September 2010, has been proposed as the new research institute's location. It would be part of Skolkovo's space technology cluster. Vice Prime Minister Dmitri Rogozin commented on these plans in February 2012, stating that the intention was not for the new research institute employing 200–300 research staff to become a 'new Skolkovo'.[36]

Russia's former finance minister, Alexei Kudrin, has criticised the decision to use budget resources for the arms programme, remarking that no-large-scale arms programme could be implemented by the defence industry in its current state. As a reason for this, Kudrin pointed to the fact that the last 20 years had seen insufficient modernisation and reform of production, product development and the administration of the industrial plants in the defence industry. On the contrary, the sector had been akin to an island isolated from the market.[37] On the other hand, Russian researchers also point out that companies and research institutes in the military-industrial complex remain better placed than others to develop new types of technology and innovation.[38]

The critical factors in the structural reform in the defence industry and the ensuing implementation of the entire arms programme will be discussed in the next section.

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35 The programmes launched since the end of the Cold War and the breakup of the Soviet Union, intended to reform arms production in order to meet the requirements of civilian production ('conversion'), have mainly failed. Gronberg 2003; Cooper 1995.

36 Skolkovo 2012a; Skolkovo 2012b; Rossijskaja gazeta 06.02.2012.

37 BBC Monitoring 19.1.2012.

38 E.g. Tregubov 2007.

4. Critical variables

4.1. Finances and trend in the state economy to 2020[39]

A grand total of 22.5 trillion roubles ($550 billion) were granted for the state arms procurement programme (GPV) approved by the Russian Government in December 2010, of which almost 90% accounts for procurement for the defence forces. The remainder is being spent on modernising the armaments of the other power ministries (including the Internal Troops of the Ministry for Internal Affairs). It is important to realise, however, that according to Military Balance, these are nominal values, worth around 14 trillion roubles (€340 billion) today.[40]

According to the budgetary frameworks adopted at the end of last year (2011), defence expenditure is predicted to rise by close to 20% per year between 2012 and 2014. An increase in the salaries of military personnel accounts for a significant part of this increase in 2012. The budgetary framework indicates that expenditure on defence and internal security in 2014 will account for around a third of the federal budget (in 2011 it accounted for a quarter).[41] Overall, the forecast for budgetary expenditure in 2012 envisages a rapid rise, mainly because of the presidential elections, although it is expected to increase in the future too.

It is unclear whether the costs under the arms programme announced will be included in the budgetary framework for 2012–2014, or be provided by means of supplementary budgets. For example, the implementation of the arms programme in 2007 was boosted by means of seven supplementary budgets, whereas a total of 19 were needed in 2008. It is also worth noting that the arms programme in 2009, for example, was fully financed, though only 42% of the projects went ahead as planned. As for the programme in 2010, estimates suggest that around 30% of orders were delayed, despite their being fully financed. In every case, however, estimates of the extent to which the programmes were implemented are based on incomplete data. As a result, such estimates are partly contradictory.[42]

The state arms procurement programme, running until 2020, will see defence expenditure grow as a share of GDP from its present level of 2.9%, to 3.9% by 2014.[43] In

39 Tables: Juha-Matti Lehtonen, Finnish Defence Forces
40 IISS Military Balance 2012.
41 See, for example, the Bofit weekly analysis of 13.10.2011.
42 For example, estimates suggest that just 30% of the arms programme in 2010 was implemented, while other estimates suggest a figure of 65%. Felgenhauer 2011; Nichol 2011, 20; Zatsepin 2012, 121; Cooper 2012.
43 Oxenstierna and Bergstrand 2012, 152.

the first stage, 2011–2015, around one third of resources will be allocated to the programme, that figure rising to around two-thirds in the second stage (2016–2020).[44]

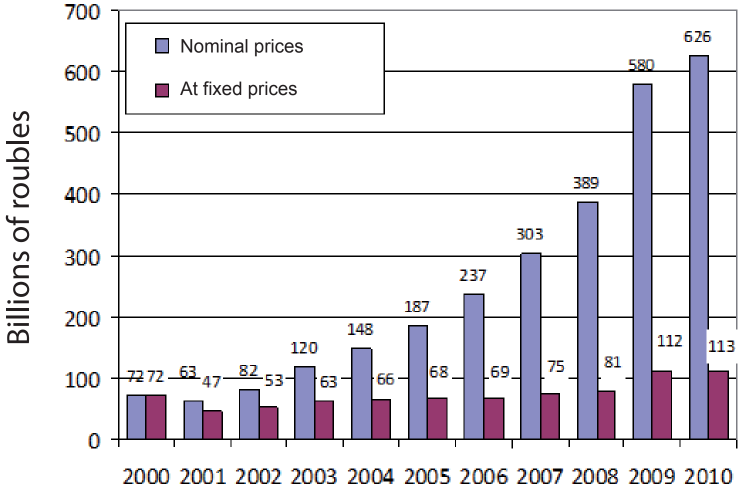

Table 4. The defence procurement order. 2000–2010. Source: Zatsepin 2012.

It can be seen from the above table (Table 4) that the value of Russia's defence procurement order has increased steadily since the year 2000. It is worth noting that, in the debate on the arms programme, the Russian Ministry of Defence called for even greater investment in arms and equipment, as much as 28–36 trillion roubles up to the year 2020 and 900 billion roubles for the simultaneous development of the defence sector. At the start of 2012, the decision was taken to invest more than three times this on the latter, i.e. 3.5 trillion roubles, which is just under 90 billion euros.

The increase in future defence expenditure will only be politically possible if the somewhat optimistic assumptions about the increase in budget revenues and growth in the general economy are realised. Nearly half of the revenue from the Russian federal budget derives from energy production and taxes on exports. This leads to sharp fluctuations in revenue, which mainly reflect the global market price of oil. The problem is that current budget expenditure has increased dramatically since 2007, i.e. the state has committed itself to expenditure levels that can only be maintained without falling into debt when the global market price of crude oil is exceptionally high. To balance the budget in 2008, the price required was 62 dollars per barrel. The budget was balanced in 2011, when the average price for crude oil was 110 dollars a barrel. To balance the budget oil prices will have to be even higher over the next few years, unless continually burgeoning pension costs are brought under control.

44 IISS Military Balance 2012, 189.

By 2020, Russia may be facing a cut in budget expenditure, even if the price of oil remains at its current level. If this happens, the high cost of defence will certainly have to be reviewed. This situation is politically difficult, because the country's leaders have committed themselves to increases in expenditure determined for the social sector and the energy ministries. A survey conducted by the University Moscow Higher School of Economy indicates that the majority of economists who responded think that the planned increases in defence expenditure will not go ahead as proposed.[45]

In recent years, the implementation of the arms programme has been hampered by continuing conflict between the defence industry, which also expects price rises in the future, and state officials at the Ministry of Defence, who need to accommodate these demands with the fact that budget-based funding is lagging behind what was originally planned. There is no separate price indicator for the defence industry, but many experts say that prices have been rising at a much faster rate than in other machine building sectors. Furthermore, the then Prime Minister Vladimir Putin has outspokenly condemned these price rises, which have been considered unreasonable.[46] Russian military experts think that one reason for the increase in producer prices in the industry is overcharging associated with corruption, rather than rises in production costs.[47] Increases in the unit prices of modern defence materials have also been observed in the West, although studies there show a number of reasons for this other than corruption and overcharging.[48]

4.2. Production resources: population ageing and skills pose a problem

During the Soviet era, the defence industry was in a privileged position compared to other sectors of industry, employing some 10 million workers. It represented the heart of the Soviet economy and the best production resources were allocated to it for decades. The defence industry was also able to manufacture top quality products at artificially low prices agreed at Government level.[49]

The collapse of the Soviet Union in 1991 altered this situation radically. Most defence industry companies fell into financial difficulties, the means of production declined and production lines were closed down. Privileges ceased and members of the highly trained working population either sought work in other sectors or moved abroad. Production had more than halved by the end of the 1990s and in some sectors was just

45 Akindinova 2012.
46 Putin 2012c.
47 See, for example, Arbatov and Dvorkin 2011, 37.
48 Alho, Lehtonen, Mankinen, Maury and Nikula 2012.
49 Cooper 2012, 169.

10% compared to the beginning of the decade. As much as a third of production facilities ceased operating.[50]

Nowadays, companies in the defence industry employ around 1.5-2 million workers, around the same number as in 1997.[51] The most radical change in the workforce occurred at the start of the 1990s, when the industry lost two-thirds of its workers. As a result, the number of employees in individual companies also saw a general fall (in 1995 they employed an average of just over 6,000 staff, and under 2,000 in 2006).

The reduction in the labour force is also reflected in its age distribution. As the new millennium dawned, the number of workers under the age of 30 accounted for about a fifth of the entire workforce. Now the average age is 49, although middle-aged employees are under-represented, a large number of young people or workers having almost reached the age of retirement, or having passed it.[52] The situation in the defence industry reflects the general trend: for example, the number of those over 70 in research institutes in the period 2004–2008 grew from less than 5% to 8% of the workforce, and the average age of researchers rose from 45 to 49 years of age between 1994 and 2008.[53]

Since the start of the 2000s, the main problem has been the dearth of trained workers. It has been estimated that, for various reasons, the number of trained employees is falling each year by about 7%.[54] Surveys conducted in the period 1995–2006 show that the age of professional employees and engineers has increased. More than 80% of the companies that responded to the survey (1,000) had difficulties in employing engineers and skilled employees, whereas the situation had improved or at least remained the same in the case of economists, accountants and marketing personnel.[55] The question of whether the defence industry can continue to compete for highly trained workforce, or whether young engineers and designers will prefer to seek employment in the private sector, or non-industrial occupations, is essential to the industry's future.

In the 1990s, salaries in defence industry companies were around only 40-60% of those in other industries. In civilian life, only salaries in teaching, farming and health care were lower.[56] Since the beginning of the 2000s, companies in the defence industry have closed the gap, and pay rises in this sector have even outstripped other areas of industry, although there are considerable regional differences.

The heart of the Russian defence industry is represented by the Moscow area, the city of St Petersburg, and the Nizhny Novgorod, Novosibirsk, Omsk, Sverdlovsk (Yeka-

50 Kosals and Izyumov 2011, 736-737.
51 Felgenhauer 2011, 17; SIPRI 2011b, 163.
52 Putin 2012c. 2012c; Kosals and Izyumov 2011, 742-743.
53 Indikatory Innovatsionnoi Deyatelnosti 2011, 45.
54 Sovet Federatsii 2010.
55 Kosals and Izyumov 2011, 743.
56 Besides the low salaries, one problem in the 1990s in the defence industry, as in other sectors, lay in delays in paying salaries. In 1997–1999, as many as 70–90% of companies had difficulties paying salaries on time. Kosals and Izyumov 2011, 745.

terinburg) and Perm areas. Defence industry companies in these areas, mainly in their regional capitals, receive most state orders and export weapons. In the main, state-owned companies focus on military production within their defence sector: weapons, space technology and the aircraft industry. Areas of the defence industry that succeed better than average also include the shipbuilding areas of Archangel, Astrakhan and Kaliningrad, which have received orders from the Russian Navy, but which do not export. The same is true of companies in the Smolensk, Kaluga, Ryazan, Kemerovo and Altai regions, whose market is almost exclusively Russia.

Averagely successful areas in the defence industry include Yaroslavl, Tula, Tomsk and Ulyanovsk, which are adjacent to the most successful regions. These are enhancing the opportunities for the heart of the defence industry to succeed, while also sharing in this success.

The less successful defence industry areas include those in Russia's 'rust belt' (southern Russia from Bryansk to Chelyabinsk) in particular. The defence industry in these areas is characterised by small companies, a higher proportion of private ownership, few state orders, and a firm foothold in local politics by the Communists throughout the era of the new Russia. Furthermore, these companies have been more responsible than state companies for providing well-being beyond the scope of their business operations.

These companies are typically located in the so called closed cities, or mono-cities that have relied on one or several sectors of industry. Here, greater pressure is placed on companies by the population and regional/local authorities than in the core areas of the defence industry, where a diverse business structure and general affluence guarantee greater stability. This situation has led to the weakest companies in the defence industry falling into a development trap: owing to regional policy objectives (to prevent social unrest), the state has been compelled to order production from these poorly competitive companies too. This arrangement ensures that such companies can continue operating, although social obligations (e.g. schools, day-care centres and housing) are on such a scale that there is only limited potential for investing in the modernisation of production plants and in greater competitiveness.

It is also worth noting that, at the end of the first decade of the new millennium, a clear trend throughout the defence industry reflected a tendency on the part of business towards exercising greater rather than less social responsibility. In the Moscow and St Petersburg areas, the production of external well-being services in military production for employees and their families is either a lucrative business or a way of keeping highly trained experts in the company. Again, in the defence industry in the regions, this phenomenon is explained by traditional approaches to regional policy that have their origin in notions of social equality. A system that emphasises the importance of the social responsibility of companies would therefore seem to play a natural role within the Russian defence industry. When considering the costs and aims of the reform of the Russian defence industry, it is worth remembering that, for the reasons given, its cost structure differs from the international standards that prevail within the industry.[57]

A perhaps still greater challenge – closely connected with the supply of labour but also for industrial development generally – lies in the level of skills of employees now and in the future. Russia's current educational system is mainly thought to be good, although there has been some criticism of it. With significant exceptions, the standard of education provided by technical universities, in particular, has fallen. In recent years, various tailor-made contracts have been concluded between companies in the defence industry and universities. These have allowed the companies to avail themselves of an educated workforce. There have also been attempts to boost the appeal of vocational courses through scholarships for those studying at vocational colleges.[58] However, some experts think that separate development projects are needed. The defence industry lacks a comprehensive strategy to improve this situation.

4.3. Technical and technological expertise: the potential for change

An objective of the state arms programme (GPV-2020) is to increase the share of modern weaponry to 70%, which means a replacement rate of 9–11% a year. This is an ambitious goal: in the last few years, weaponry has been modernised/replaced at a rate of around 2% a year.[59]

An investment in procurement worth more than two trillion roubles is planned for the period 2010–2013. A report by the Swedish Defence Research Agency (FOI) states that procurement of materials under the new arms programme accounts for 80% of expenditure; the rest is reserved for R&D and basic repairs.[60] Table 5 shows how material procurement has represented an ever greater share of the arms order. This and the general increase in orders for arms and equipment (Table 5) has meant that armaments now account for two-thirds of turnover in the defence industry overall. On the other hand, there are considerable differences between defence and civilian production within the sector.[61]

57 Kosals and Izyumov 2011, 745.
58 Rogozin 2012.
59 Tsyganok 2010.
60 Westerlund 2012, 191; Cooper 2012, 172. According to Russian military expert, Andrei Frolov, more funds were available for basic repairs in the military supplies order than in previous years. Frolov 2011.
61 Rogozin 2012; Falitshev 2012. The share of civilian products amongst the total production of the biggest companies in the Russian defence industry varies from 5–6% (e.g. the Almaz-Antei Group that manufactures anti-aircraft equipment) to more than 60% (OAO Uralvagonzavod). There may also be considerable annual fluctuations. CAST 2011, 21.

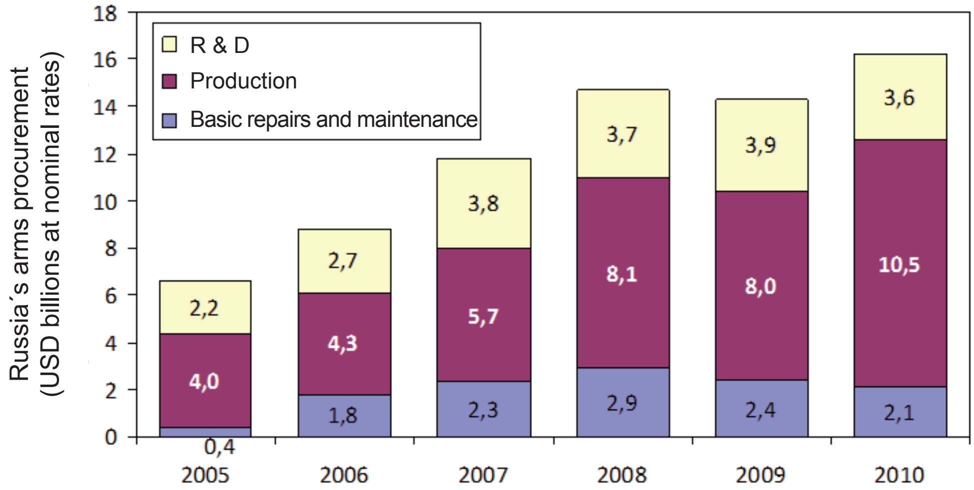

Table 5. Russian arms procurement figures 2005–2010. Source: CAST 2011.

The priority areas in the renewed arms strategy are strategic nuclear forces and weapons, development of a fifth generation fighter, ships and submarines, and development of the air defence system, telecommunications and the combat gear of military personnel.[62] Under the arms programme, 600 new fighter aircraft, including a fifth generation fighter, 1,000 helicopters, 200 new air defence missile systems, 400 intercontinental ballistic missiles, 8 ballistic missile submarines, more than 20 multipurpose submarines, over 2,000 modern tanks, 28 regimental kits of S-400 air defence systems, 38 battalion kits of Vityaz missile systems, around 2,000 self-propelled artillery systems and vehicles, and more than 17,000 military vehicles have been ordered.[63]

Russian military experts Alexei Arbatov and Vladimir Dvorkin estimate that, under the new arms programme, there will be 10–20 times more orders for weapons and technology than were delivered under the previous programme for the period 2006–2015. According to them, from 2004 to 2008, the defence industry delivered a total of 36 MBP Topol-M rockets, 2 Iskander rocket complexes, 2 C-400 air defence systems, 150 T-90 tanks, 700 military vehicles, 20 light tanks, 3 SU-34 destroyers, 30 helicopters, one Sarov diesel submarine, one corvette, one patrol vessel and 13 smaller vessels.[64] Researchers claim that, so far, the problems affecting the implementation of the previous

62 Nichol 2011; Presidenta RF, 'Ukaz N 603', 07.05.2012.
63 Forss, Kiianlinna, Inkinen and Hult 2011, 31; Putin 2012b.
64 Arbatov and Dvorkin 2011, 37. The figures presented by various researchers for orders realised differ significantly, and are not comparable in all respects. See, for example, Forss, Kiianlinna, Inkinen and Hult 2011; Tsyganok 2010.

programme have not been resolved. There is therefore room for doubt concerning the success of the new programme.[65]

From the perspective of implementing the arms programme, a more important factor than production volumes lies in the question of whether the desired modern weaponry can be produced using current technology. Manufacture of defence materials that meet modern-day requirements requires heavy investment in production technology. For example, a Federal Target Programme has been launched that aims to increase the domestic production of electronic components and to reduce the number of components produced abroad by 50–60% by 2015. Given the current state of this industry (Vice Prime Minister Dmitri Rogozin has estimated that domestic electronic component production is 12–15 years behind that of other countries [see section 3.2]), it is only realistic to expect that this target will not be reached until around 2020 at the earliest.66

At present, around a tenth of the companies in the Russian machine building industry are involved in the deployment of innovative technologies, and only just under 6% (2010) of production in this sector meets the criteria for innovative products.67 Despite this, high targets have been set for the new innovation economy. In future, it is hoped that hi-tech products, produced in Russia within five or more sectors of industry, will achieve a 5-10% market share in international markets. In addition, the intention is for innovation technology companies to represent as many as 40–50% of companies in the machine building sector and for the share of innovative products to grow to 20–25% of all production in the sector.68 These efforts were boosted by the decision taken in August 2010 by the Russian Government's Science and Innovation Committee to increase R&D expenditure by 20% a year until 2015. A total of 48 large state-owned companies are involved in the scheme, around 20 of which are in the defence sector.[69]

Nevertheless, it is worth remembering that the defence industry's role as a pioneer in technological development has altered fundamentally in the last four decades. Today most technological applications are invented in the civilian sector and find their way into the defence industry from there. However, given the tradition of secrecy that still surrounds the defence industry, the establishment of contacts between new companies working in the civilian sector and traditional defence industry companies has proved very difficult. Defence industry companies more typically produce both civilian and military products.[70]

As a result of the economic crisis in the 1990s, companies and research organisations in the defence industry have, with a few exceptions, lagged substantially behind the main competing countries in the area of technological and innovation development.

65 Arbatov and Dvorkin 2011, 41.
66 Rogozin 2012
67 Kukushkin 2009, 4
68 Chemezov 2010.
69 Sokolov, interview 17.01.2012; see also Putin 2010.
70 See page 47, footnote 59

Many products currently manufactured by the defence industry are based on models that are 30–40 years old. Direct purchases made abroad by the Russian Ministry of Defence (e.g. the Mistral class helicopter carrier form France), as well as major cooperation deals made with foreign defence industry companies, have provided a clear signal to the domestic defence industry.

The message from the Russian army's General Staff has been loud and clear: the quality of end products needs to improve in the near future. Of the products now being manufactured, the T-90 tank has been in the news, the General Staff having stated that it considers the model to pose a danger to military personnel, and that it will not be ordering any more in the years to come.[71] The Ural tank factory, however, plans to begin mass-producing Armata-based tanks in 2015. In spring 2012, Vice Prime Minister Dmitry Rogozin declared his support for these plans, despite opposition from the General Staff.[72]

In the past few years, a number of new factories and production lines have been built in Russia to replace worn out and outdated production capacity. In February 2012, in a debate led by Prime Minister Putin, it was established that the deployment of new technology by 2015 would reduce the need for labour by 25% compared with the figure for 2009.[73] New equipment and technologies have been introduced in companies involved in the export of arms, in particular.

For example, the Almaz-Antei Group, one of the largest companies in the Russian defence industry, is planning to build two new industrial plants in Kirov and Nizhny Novgorod by 2015. This investment, worth more than a billion dollars, is part of the defence industry development programme running until 2020. The new industrial plants under construction will be responsible for the manufacture of modern air defence systems and their components.[74]

In recent years, cooperation between foreign companies and Russian defence industry has intensified. The Russian Ministry of Defence has embarked on a joint venture with Italy, the initial aim being to assemble almost 2,000 IVECO M65 LMV vehicles at the Kamaz plant in Tatarstan from 2011 to 2016. It is hoped that domestic production of components will rise gradually to 50%.[75] Similar projects are also underway in the aircraft construction industry. Russia has, for example, made an agreement with India to collaborate on the development of a fifth generation fighter aircraft (the T-50). In addition, at a cost of some 450 million dollars, Russia bought unmanned aerial vehicles from Israel in 2009 and 2011, as well as licence to manufacture them in Russia.

The special economic zone established in December 2010 in Sverdlovsk Oblast, close to Yekaterinburg, (Titanova Dolina), and the innovation centre founded slightly earlier in

71 At least one of the main reasons given for the reluctance on the part of the Russian defence forces to purchase more of these tanks is that they have enough in stock.
72 Ptitskin 2012; Finam.fm 14.2.2012; Kommersant 15.2.2012.
73 Putin 2012c.
74 The Moscow Times, 30.01.2012; Almaz-Antei Novosti 2011; Smirnov 2011.
75 Gorenburg 2011.

Skolkovo, near Moscow, are two examples of putting state innovation policy into practice.[76] Both of these zones are separated from the rest of Russia by special legislation, which is considered instrumental in facilitating foreign investments.

4.4. Leadership and Government: a closed system that hinders change

Following the reorganisation of the defence industry in the latter part of the decade, around two-thirds of companies and production plants in the sector were directly or partly owned by the state. Over 60% of production and research in the defence industry takes place in vertically managed state corporations and consortia.[77] The absence of a business environment network based on subcontracting is one of the hallmarks of Russia's defence industry. At the start of President Putin's third presidential term in spring 2012, a proposal was made to develop cooperation mechanisms between the private and public sector in the defence industry.[78] In the best-case scenario, this would mean more investment being made available for the defence industry, which is also probably the plan's objective.

Different federal-level authorities have been given more powers over defence companies and the state procurement programme, in an effort to improve the efficiency and profitability of the defence industry. The arms procurement system inherited numerous independent customers from the Soviet era. Close relations between the supplier and customer have encouraged corruption, reduced competition and led to product overlap. In 2005, the Chief of Armaments assumed responsibility for procurement, and a centralised procurement organisation was established. The new organisation has not, however, managed to consolidate its position as the central body for coordinating the arms programme.[79]

In May 2010, the then President Dmitry Medvedev issued a decree to establish the Federal Agency for the Procurement of Armaments, Military and Special Equipment and Logistical Resources (Rosoboronpostavka). Its task is to control the use of resources for the procurement of weaponry, military equipment, special technology etc. The agency reports directly to the President, although in practice it is overseen by the Ministry of Defence, which coordinates orders and deliveries. It replaces the intermediaries that, as

76 By January 2012, two companies had registered for the Titanova Dolina special economic zone, one in the aircraft industry and the other in the manufacture of machinery and equipment needed for electricity production. Titanova Dolina 2011.

77 Iivonen, interview, 09.02.2012; Rogozin 2012.

78 Under President Putin's ukase, the Russian Government must, by the end of 2012, develop private and public sector cooperation mechanisms (PPP partnerships) in the defence industry. Presidenta RF, 'Ukaz N 603', 07.05.2012.

79 Cooper 2012.

Russia has moved towards a market economy, have acted as the link between industry and its customers.[80]Dimitry Rogozin, who replaced Sergei Ivanov as Deputy Prime Minister responsible for the military-industrial complex in December 2011, has also proposed some changes to current administrative practices. The main reform proposed concerns a situation centre to be set up at the Military-Industrial Commission of the Russian Federation. Its task would be to keep track of orders and spending under the arms programme. The decision taken in May 2012, when Russia's new Government was formed, to transfer responsibility for the Federal Agency for the Procurement of Armaments, Military and Special Equipment and Logistical Resources (Rosoboronpostavka), from the Ministry of Defence to the Government, may well anticipate such a reform.[81] It has also been proposed that inter-company subcontracting chains and links between banks should be investigated to expose possible abuse. Rogozin has also suggested publishing details about budget expenditure on defence. Researchers at the Gaidar Institute estimate that 11 billion roubles – some 300 million euros – constituted secret expenditure in the budget for 2012–2014. That is probably a conservative estimate.[82]

The state playing a major role in the development of sectors classed as strategic is not unique to Russia. However, this situation is rendered problematic by a lack of awareness as to how strategic sectors will be defined in future and how companies operating within them (including foreign ones) will be treated. Earlier studies and assessments by experts suggest that the administrative structure of the defence industry itself is a major factor inhibiting the efforts of companies in this sector. Russian economists also agree that large-scale reform of state companies and the consortia they form will require substantial changes in Russia's current political system.

The possible privatisation of state companies, a subject raised from time to time in the Russian press, will not extend to companies in the defence industry to a significant degree.[83] The plan to turn the Rostehnologii Corporation into an unlimited joint-stock company (OAO) in or around 2014 is a single example of the dynamics of change affecting state-owned corporations. It is quite another matter as to whether this will have any effect on the performance and future development of the parent company's various sections (e.g. Russian Helicopters).

A feature common to many of the problems described here is a lack of communication bordering on secretiveness, something which is still closely associated with developments in the defence industry. Russia is not the only country in the world with this characteristic. However, it differs from other countries in terms of its inefficient adminis-

80 Juntunen, 'Memo', 2011.

81 Ukaz Presidenta RF 636; Lenta.ru 22.05.2012. The Russian press has already speculated that this shift in circumstances will, in particular, consolidate Rogozin's position at Serdyukov's cost, thereby making it easier to resolve disputes over orders for military equipment, to the advantage of the defence industry. Vardul 2012.

82 Nezavisimaja gazeta 30.12.2012; RIA Novosti 20.04.2012.

83 Vedomosti 30.01.2012.

trative machinery and the corrupt manner in which issues are monitored and supervised. Combined with the closed corporate structure of state corporations, these factors do little to help companies in the defence industry to modernise, i.e. move towards a more transparent and efficient approach to business.

On average, corruption is generally thought to be a more serious problem in the defence industry than other sectors of industry. In an interview given to Rossiiskaya Gazeta in May last year, Russia's chief military prosecutor, Sergey Fridinski, estimated that as much as 20% of the funds allocated to defence were lost due to corruption.[84] Furthermore, in spring 2012, the department of the Russian Ministry of the Interior that investigates economic crimes reported misappropriation of funds amounting to 190 million roubles (approximately five million euros) and involving high-ranking officials in the Russian Ministry of Defence.[85] According to a study completed in 2011, typical economic crimes in this sector relate to the privatisation of production plants viewed as strategic, and takeovers.[86]

5. Conclusions

The problems in the defence industry are mainly the same as those affecting Russia's other industrial sectors. The sector's productivity and resultant competitiveness (internationally) are impaired by corruption, problems in the availability of trained workforce, and increased production costs as a result of a run-down infrastructure and obsolete means of production. If modern weaponry is to be produced on the scale envisaged, entire production lines and planning processes will have to be restructured and a new generation of engineers educated and trained. This will entail long-term change, and, in this sense, the implementation of the arms programme running until 2020 may be regarded as just one stage in the process, rather than the endpoint of development.

The essential issue is whether the defence industry will see any real structural change in the years to come. Will the companies and research institutes facing the greatest challenges be allowed to go bankrupt and will money go to those companies that implement R&D projects, for example? Or will the changes within the current state corporations or between them mainly be cosmetic? A discussion held in March 2012 on the Russian Government's new programme would suggest that the first of these scenarios might be realised. The plan is to modernise 500 strategically important companies in the defence industry by the year 2015. Only those companies involved in the implementa-

84 Reuters 24.05.2011. Inefficiencies linked to public procurement (corruption) swallow around 2% of GDP every year. Economic news from Moscow 12.-25.04.2012.

85 Interfax, 03.04. 2012. Deputy Prime Minister Dmitry Rogozin submitted a Bill to the Duma in spring 2012 proposing that corruption at the Ministry of Defence be treated as high treason, with the perpetrators receiving sentences of up to 15 years in prison. The Russian Ministry of Justice referred the draft law for a new reading, citing the importance of the equality of citizens. Lenta.Ru 02.05.2012.

86 Krylov 2011, 209.

tion of the arms programme may be admitted to the development programme.[87] The debate may be regarded as a weak signal that real structural change is in store.

Russia's political leaders are firmly committed to the arms programme, which is considered to be vital to national security. The debate on the development of the defence industry has also given rise to the notion that the sector is a driver of Russia's innovation economy. But this image of the future does not convince defence analysts. The set of tools proposed for the realisation of this goal in no way addresses the problems in the structures underlying the public finances, any more than those connected with the business environment.

The current situation is made problematic by the unpredictability and arbitrariness of political and administrative decision-making, as well as the inability of the authorities to deal with systemic corruption. These factors make improvements to the defence industry not only costly but also ineffectual. However, the possibility cannot be dismissed that, through additional funding, priority areas will succeed in enhancing the current technology and, in this way, raise the level of the final products, in 10 to 15 years.

The modernisation of companies and research institutes in the defence industry is vital if the arms programme is to succeed. Significant state funding for the defence industry is required if such changes are to be successfully implemented. In turn, this will increase the pressure on the state budget. In this respect, a possible fall in the market price of oil and the resulting effect on Russia's economy and growth is a fundamental uncertainty factor.

87 Putin 2012e; Rogozin 2012.

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Social stability

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1. The protest movement 2011–12 and 'Putinesque' stability

The demonstrations in the wake of the 2011 Duma elections undermined our neighbouring country's more than ten years of political stability, personified in the Vladimir Putin administration.

A considerable number of the demonstrators belonged to the 'middle classes', whose standard of living had improved during the 2000s. The way in which, in Moscow and St Petersburg, people turned against the government was noteworthy: improved living standards were no longer sufficient to satisfy the demands they set on society.

Although the groups involved in the protests tended to represent diverse ideological backgrounds, their ranks were swelled by more and more 'ordinary people' – those considered ideologically non-aligned. People in ever larger numbers from all walks of life took part. These were ordinary citizens whose primary demands were probity and a clean political playing field. United in its call for Putin's resignation, this heterogeneous group not only demanded political change, but also judicial and policing reforms, genuine reform of the educational system and a free media.

The political elite reacted to this mass display of social unrest following the 2011 Duma elections, by placing it against the background of the Orange Revolution in Ukraine. It was thereby cast as an attempt engineered from abroad to undermine Russia's stability.

The demonstrations had their roots in events that occurred during Putin's second term. Almost without exception, demonstrations by unregistered opposition groups were deemed unlawful and forcefully broken up. At the time, such protests were referred to as dissident marches: these formed a heterogeneous group consisting of liberals, anarchists, National Bolsheviks and human rights activists.

The protests mainly seem to have been triggered by the announcement of on 24 September 2011 that Putin and Medvedev would swap roles. This was viewed as a decision made in advance by the political elite, which entailed the stifling of hopes for liberalisation associated with President Medvedev, and the triumph of Putin's more conservative stance.

Another major factor was the confusion over vote counting in the Parliamentary elections in December 2011. The increasingly forceful exclusion of genuine opposition, and the clear vote-rigging associated with the main party's electoral success, provoked popular outrage.

The Duma elections demonstrated Russians' ability to use social media for political purposes. An excellent media tool in terms of its effectiveness and coverage, the internet enabled the people, in impressive fashion, to shatter the establishment's aspirations to monopolise the media. While no one had believed that previous elections had been organised honestly, genuine evidence of abuse in the 2011 elections appeared on the internet and word spread quickly. The internet also mocked those in power in a new way: during the 2011 election, Putin was ridiculed online.

Immediately after the elections, state television attempted to avoid references to electoral fraud and the first protests. On Twitter, Facebook, and Vkontakte and in numerous blogs, however, the news spread. The new media also had an impact on state media, which could no longer ignore events: mass demonstrations were shown on state television channels.

2. Stability and its background factors

Russia's stability could be undermined, either by structural factors or sudden disruption of the political system. Stability comprises four elements: political, social and economic stability and the stability of the judicial system. Political stability can be measured on the basis of various criteria and economic parameters. The most stable countries share some characteristics: 1) effective state institutions, 2) developed political institutions, 3) political legitimacy of government resting on popular support, 4) economic effectiveness and responsible economic policy, 5) low levels of opposition to the state, 6) low levels of political violence, 7) low levels of social, ethnic or religious tension and 8) infrequency of humanitarian disasters.[1]

Stability in itself is a relative concept. In Russia, it has traditionally been defined on the basis of negation: society is stable in the absence of conflicts or violence and of direct threats to society. Such a definition is black and white, hinging on the notion of disorder and violence, or their absence. This approach is frequently characterised by drawing attention to future, external threats, in order to confer the system with legitimacy.[2] Putin's notion of the permanence of stability is specifically rooted in this way of thinking.

Legitimising the system by using threat scenarios continues as before. An opinion poll conducted in 2004 revealed that 37% of those interviewed believed in the existence of an external threat. By 2012, the corresponding figure was 55%.[3]

Since 2000, Russia has been redoubled its efforts to safeguard its political stability. Pressure for change has emerged in the shadow of this endeavour.

Energy price hikes in the last decade have boosted political stability by improving the standard of living. Stability has also been maintained by strict control of the media. While strong economic growth proved popular, people were also more and more disgruntled with corruption, inequality and restrictions on democratic rights.

Russia has a strong authoritarian legacy. On the other hand, the historical context reveals that Russia's chief problem has been administrative weakness, which strengthens disintegrative forces. The lack or weakness of democratic institutions is associated with

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1 Guillaumont & Jeanneney 2009
2 Ake 1967; Ake 1975.
3 See http://www.levada.ru/20-02-2012/rossiyane-ob-armii; see also http://www.russiavotes.org/security/security_trends.php. Kt. Umland 2012

a legacy of centralised leadership, which has enhanced the powerlessness of private individuals in relation to the state. Against such a backdrop, dissent or opposition is problematic, since a patrimonial system does not traditionally seek dialogue with the forces of opposition.

The administrative system that emerged during Putin's reign has applied the lessons of history, particularly in propaganda holding up Yeltsin's weakness as a cautionary tale of the dangers posed by internal feebleness. Given the importance that the administration places on stability, it is worth noting that many staff in the President's current administration have a background in Russian and Soviet state security or military institutions.

The key feature of 'Putinesque' stability is a centralised power system – the only way, it seems, to guarantee stability. The system has the external trappings of democracy, while concentrating real power in the hands of the country's leadership. Various pseudo-democratic structures have been put in place in an attempt to compensate the people for their lack of broader political participation. These include the Public Chamber and, more recently, the All Russian National Front, intended to give the impression of such participation. Directly supportive of Putin, these debating institutions or bodies mainly comprise window dressing in terms of the people having a say.

'State monopoly' has also meant subordination of the law to political power. The judiciary lacks independence and the administration of justice can be selective – as the case of Mikhail Khodorkovsky demonstrates.

Control of the media

Upon succeeding Yeltsin, Putin tried to revert to a system of state control over the media. Criticism of the political leadership on television was banned and more programmes adopted the official line. However, it proved impossible to regain the full control that characterised the Soviet era. Russia now had journalists who intended to do their job well. Editors on the Kommersant, Vedomosti and The Moscow Times, for example, have adhered to western news values. These newspapers are also important sources for foreign journalists writing about Russia. Novaya Gazeta and the Echo of Moscow radio station have raised their profile, especially as media organisations sympathetic to the opposition. However, these papers have very small circulations, being restricted to small, educated circles and having no impact on the majority in terms of access to information.

President Medvedev always stressed the importance of the internet – during his time its use spread quickly. Connections improved and became cheaper, while mobile connection prices continue to fall rapidly. This eventually enabled opposition groups to break the establishment's monopoly on providing and distributing news. United Russia may have won the Duma elections, but it lost control of the media.

During the 2011 Duma elections, websites favourable to the opposition were hacked and rendered unusable. However, this did not prevent communication by anti-government supporters, who disseminated information on Twitter, Facebook and its Russian equivalent, Vkontakte, while swiftly creating new websites. The TV channel Dozhd is also increasing its influence, not only thanks to its programmes but mainly due to its skilful use of social media. While state Channel 1 is still wondering how to report arrests made during a demonstration, Dozhd broadcasts direct images of what is happening and where, and refers to this on Twitter. The internet has a major impact in the cities, in particular; in the provinces, state television retains its monopoly over the media.

The power vertical

The power vertical established during Putin's reign has meant central government authority over regional administration. The relationship between the President and regional leaders is based on subordination and benefits received by way of compensation.

Under Putin, the country's party system has changed. The ruling party, United Russia, is the only party with any real power, with other parties in Parliament representing the 'official opposition' – while being able to criticise the government, they in fact accommodate themselves to the power elite's policies.

With the strengthening of the opposition movement, the organisation of local government has acquired special significance. While president, Medvedev placed a bill before the Duma on the election of governors by the regions (although this would still leave the central administration with a key role in the election process).

Social systems

In their attitudes, the Russian people are still influenced by ideals dating back to the socialist era. An example of this lies in their respect for social stability and the benefits provided by the state, which the current political elite views as the main prop legitimising its position.

For some, the Gorbachev era represented an inadequate and largely cosmetic attempt at reform, while for others (fewer) it was a well-grounded and moderate endeavour to improve the system. Most people viewed the reforms enacted in the Yeltsin era as negative.

While history still plays a part, an approach to social thinking based on an entirely new outlook has developed – and is developing – in Russia. One notion is that the power system now established solely represents the interests of the wealthy, while ignoring ordinary citizens. Under Putin, it has proven impossible to create social mechanisms of a kind specifically designed to help the poor. As already mentioned, power has become centralised at the expense of the regions, which has only reinforced social divisions. On the other hand, the regions have begun to view Moscow and the other large cities warily, even with hostility.

What is seen as ineptness on the part of representative bodies, mainly Parliament, has influenced social thinking – the man in the street does not feel represented by MPs. The non-independent parties have failed to acquire a lasting, established and convinced following. The joint safeguarding of interests by party and citizen organisations does not therefore function in the desired manner. As voters, most citizens do not identify themselves with any particular social group: Russia has no party representing the interests of workers, farmers or the retired.

Social inequality has resulted in a situation where certain segments of society take a dim view of the power elite and are calling for institutional change, changes of personnel, and concrete measures to redress the social imbalance. This new attitude to change and development seems to be gaining broader support in civil dialogue.

The new generations and the rise of nationalism

There are also other worrying developments. A threat to stability is posed by a nationalist, anti-immigrant mood. Nationalist and extreme nationalist groups have taken part in demonstrations; they object to the presence of foreigners and are opposed to support for the North Caucasus. Even moderate protesters have been sympathetic to such ideas.

Surveys conducted over the last 10 years (by the independent Levada research centre, in particular) have revealed strongly patriotic, nationalistic sentiments among people, especially the young. Against this background, the official guiding principle underlying youth policy, as established under Putin, is the fostering of patriotism and a kind of 'umbrella-ing' of a wide range of social and political issues affecting the young. Seen from the Kremlin's perspective, there seem to be two reasons for the patriotic policy targeting youth.[4]

Firstly, the restoration of a national identity and an appreciation of Russian greatness is part of a wider policy of establishing an identity under the Putin administration. Representing the future, young people are an obvious and key target group in this project. Secondly, the Kremlin's patriotic youth policy represents an attempt to subdue nationalist and racist feelings among the young. Youth organisations supportive of the Kremlin have played a particularly major role in demarcating 'good' patriotism and 'bad'

4 See http://www.levada.ru/eng/fresh-voices-against-russia%E2%80%99s-old-regime.

nationalism, although this distinction is problematic in practice, especially with regard to actions affecting Russia's foreign relations.

The Duma elections in December 2011 finally confirmed that the options on offer from the main party, the officially defined framework for political inclusion, as well as officially defined patriotism, are less and less likely to meet the expectations of young people.

If the current political establishment continues to lose legitimacy, there are good reasons for questioning how the existing political alternatives can fill the vacuum. What sort of policy will the country's leaders reach for in response to the politicised problems that emerge? For example, an important issue for young people has been educational reform, which has involved an attempt to expand fee-based education. This has been subject to widespread criticism, as indicated by the student demonstrations in Yekaterinburg in 2011. Although regional youth departments supportive of the Kremlin have attempted to establish official channels for this mood of dissatisfaction, they appear to have failed in this.

A more alarming phenomenon is the use of patriotism by the establishment to divert attention from socio-economic problems. Speaking out on special problems affecting the regions is labelled nationalism. Given the lack of an apparent lasting solution to regional and ethnic tensions, and their tendency to loom large during periods of socio-economic problems, we may ask whether the clear causes of dissatisfaction in Russia's regions are beginning to be channelled into nationalistic sentiment.

The wave of recent political protests is associated with national populism and xenophobia. However, the visible role of nationalism and patriotism in Russian society begs the question as to what will result from what is at least a partial crisis of legitimacy in Putin's reign. Will this have a knock-on effect on the actions of the existing opposition parties?

So far, both the Communists and Vladimir Zhirinovsky's Liberal Democrats have largely based their policies on being more open to nationalism than United Russia. The fact that this has been particularly apparent in the work of the parties' youth organisations indicates that a strong sense of nationalism will continue to be associated with Russian political life for some time to come.

This trend may also intensify if socio-economic problems persist and xenophobic feelings continue or strengthen, given current demographic trends. In the shorter term, the political practices represented by United Russia will have to fall more in line with the view of the Communists and the Liberal Democrats.

Corruption

Corruption in Russia is pervasive and widespread. It takes many forms: the inclusion of kickbacks in prices, libellous pamphlets for purchase, forged official documents, the use of bribes in gaining access to health care or university, and avoidance of military service.

Corruption harms meaningful social development. It forms a network in which wealth, benefits and advantages are handed out in a way that distorts genuine competition and hinders transparency in politics, administration and the economy.

Political programmes have failed to eliminate corruption. No attempt to curb it will yield satisfactory results unless the unofficial system of distributing wealth and benefits condoned by the country's leaders is broken. And that is politically impossible as long as stability is viewed as depending on the strengthening of the executive power vertical by any means possible.

Vladimir Putin has been criticised for buying political stability. In this sense, the Putin administration was virtually powerless at the start of the 2000s. The new state did not intervene in such an unofficial system: on the contrary, it appeared to reinforce it as part of the new order.

Corruption does not in fact pose a direct threat to social stability, even if it continues to be a growing source of dissatisfaction. A flexible, accommodating society, along with lively debate and rising living standards, is easing social pressure, and the opposition has been unable make corruption a driving force for widespread protest.

Nevertheless, dissatisfaction and irritation have the potential to cause instability, which will erupt if the credibility of political leaders as wielders of power and the controllers of group benefits falters. The initial stage of President Putin's third term of office is characterised by an air of expectancy, with both the elite and the people watching how he takes control of the situation.

Corruption helps to perpetuate organised crime, the opportunities for which have increased alongside economic growth and general prosperity. There are now fewer cases of robbery, extortion and violence, all so prominent in the 1990s; these have been replaced by white collar crime under the cover of legal business fronts, and protected by social and official connections.

Recently, several previous-generation mafia bosses have been murdered in power struggles or imprisoned, which has accelerated the pace of change. Russia's most influential career criminals now more than ever resemble respectable businessmen.

Like corruption, organised crime represents a challenge to social stability. While it does not create instability, it does gnaw at the legal order in some respects, undermining the authorities, the rule of law and its development potential, as well as the credibility of the country's leaders.

The judicial system

As a political and economic tool rather than an independent mechanism, the judicial system is a legacy of the Soviet Union and Gorbachev's era. The new Russia has not embarked on the wholesale reform of its judicial system. Its current leaders were educated and trained in the spirit of the Soviet legal system. A crucial role could therefore be played by a more powerful middle class in strengthening Russia's judicial system: the middle classes need an effective legal system to safeguard their interests.

The development of Russia's judicial system has been overshadowed by the Chechnya issue and terrorism. Chechnya's removal from the country's legal system and its transformation into a de facto feudal power has dealt a blow to Russia's legal homogeneity. For Putin, Chechnya provides justification for his power vertical. Whereas at one time people spoke of the war against terrorism, in point of fact a full-scale war was waged against a single republic of the Russian Federation. Both Russian and Chechnyan soldiers were guilty of grave violations of human rights and international law.

Another image of the Russian judicial system can be obtained by examining the cooperation that has existed between the judiciary and the Council of Europe and other Western institutions. The war in Chechnya delayed Russia's membership of the former, although Russia promptly signed and ratified the European Convention on Human Rights, albeit with some reservations, in 1998.

Russia's membership of the Council of Europe has been of huge importance to its development of its judicial system. Even the membership conditions imposed a commitment on Russia to reform its civil and criminal laws and to sign conventions prohibiting the death penalty and torture.

However, the decision of the Council of Europe to accept Russia as a member involved a large number of risk factors, of which Chechnya provided a foretaste. As is well documented, the council's insistence on achieving a solution in Chechnya based on European values came to nothing: Chechnya remains a millstone in relations between the Council of Europe and Russia.

Russia long delayed the ratification of the 14th Protocol of the Convention on Human Rights. The same is true of certain other resolutions.

On the other hand, cooperation with the Council of Europe and, more particularly, recognition of the competence of the European Court of Human Rights, have been important to the development of Russia's judicial system. As Russians have a right to appeal to the Court in matters relating to the Convention – and this they have done frequently – each appeal is examined according to Russia's internal practices, thus providing a basis for the onward development of other aspects of legal reform.

The convention on Human Rights means that Russia is committed to what it regards as far-reaching legislation on civil freedoms, freedom of religion, freedom of opinion, speech and assembly, and the prevention of discrimination and unlawful arrest.

But the Chechnya issue damaged the partnership when Russia prevented the Court from hearing complaints concerning Russia, by, for example, refusing to submit the necessary documents. Whilst being positive on the whole towards the Council of Europe, Putin has at times railed against it.

The European Court of Human Rights has issued a large number of decisions condemning Russia on a broad range of issues. Russia has increasingly agreed to compensate citizens to whom it has caused suffering. It has not called the legitimacy of the Court into question: representatives of Russia act faithfully and 'legally'. Even in those cases where documents are not released, legal arguments for such conduct are presented verbally.

Similarly, membership of the Council of Europe has had a major impact on legal reforms in Russia. In Putin's first presidential term, 10 new codifications on tax and land were agreed for the third part of the Civil Code and customs and excise legislation. However, the most important reform by Putin affected the entire criminal justice system.

How will these reforms succeed alongside very clear attempts to continue using the judicial system for political purposes? There have been such cases, even if they are becoming rarer i.e. the effect of the new act on criminal procedure is highly visible. Bolstering the independence of judges by improving their financial situation, which President Medvedev has sought through his highly concrete proposals, should make state interference with legal decisions more difficult. Strengthening the position of counsel in courts of law will contribute to this.

As has already been suggested, Russia's partnership with the Council of Europe and the European Union has been of major importance to its legal reforms. One of the four target areas of the modernisation programmes concluded with the EU in 2005 is justice and internal security. Russia's forthcoming membership of the WTO will play its own part in legal development in the areas of foreign trade, enterprise, competition law etc.

Basic structural solutions to the reform of the legal system have therefore been implemented and there are signs that the system is gaining strength, although economic and social problems – bureaucracy, corruption and the like – still inhibit the protection of citizens' rights and freedoms.

The economy

The Russian economy grew very rapidly in the 2000s – at a rate of about 7% a year – to become one of the world's ten largest economies by the latter part of the decade. It was the world's sixth largest economy in 2010[5]. In international comparisons, Russia

5 This estimate is based on purchasing power parities rather than official exchange rates. Based on the latter, Russia was in 11th position.

is now classed as a middle-income country. PPP per capita GDP is around the same as Poland's.

Russia's rapid economic growth of the 2000s was partly due to increases in crude oil production and the exceptional leap in oil prices on world markets, the buoyancy of international financial markets (which meant the availability of cheap money), and the deployment of production capacity that had been idle within Russian industry since the 1990s.

These growth factors are now less significant. The Russian economy is based on the production of raw energy materials, especially crude oil. Crude oil production is no longer predicted to increase, at least over the next decade or so, because investment in the sector has long been minimal. Nor is the price of crude oil on the world markets expected to rise dramatically to the same extent as in the 2000s. Scarce liquidity in the international financial markets means that financing is no longer as cheap as before, and production in Russian industry is reaching full capacity. Russian economic growth is forecast to slow from 4% to 3% in the years to come which, even if it represents a considerable reduction for Russia compared to the previous decade, is still a high rate compared to the developed countries in general.

The global situation in the energy sector, which until now has only benefitted Russia, may be changing. Russia's role as a major supplier of natural gas may be restricted by the growing importance of shale gas, and European plans to use alternative gas suppliers and pipelines.

Russia's goal is to maintain economic growth at a faster rate than the developed countries, allowing it to close the economic gap with the West. In the current situation, fast and sustainable economic growth will require a new approach to economic policy, promoting economic diversity and the modernisation of production.

The problem of economic development is something the Russian Government is aware of – in recent years it has actively sought a new direction in this respect. Experts and several members of the government see that change will depend on freeing the economy of bureaucracy and corruption, helping competition to thrive in sectors that are now monopolies, diminishing the role played by the state, and shoring up the legal system and the protection of property. These are the basic preconditions for making entrepreneurial activity capable of generating new production.

All of this is acknowledged by the country's leadership, at least in the declarations and resolutions they issue. On the other hand, they are promoting the centralised development of the economy. There have been a number of moves in this direction in the last few years: for example, founding large state-owned corporations as flagship projects in the development of sectors considered important.

There are many reasons for emphasising the importance of the state's role. Russia's current political leadership and the related circles built a system in the 2000s that, through ownership and networks, covers a large number of the economy's key sectors. The same thing has happened on a smaller scale in the Russian regions. This structure will probably remain stable, at least over the next few years, since its disintegration would force the political elite to forsake power on a massive scale[6].

But such stability comes at the price of hindering economic development. It is based on the unchanging nature of ownership, supported by unofficial administrative mechanisms. The result is a monopolised operating environment that represents a barrier to competition and innovation, and which is difficult for new companies to penetrate. This also applies to foreign companies, a potential source of new technology and know-how. If such a situation is allowed to prevail, there can be no economic regeneration or increased economic efficiency.

Demographic trends

According to the UN, Russia had a population of 142.9 million in 2010. Russia has a high mortality rate and a low birth rate. The greatest difference compared with countries at an equivalent level of development lies in the mortality rate. Health differences between men and women are evident from the figures for life expectancy: 63.03 years for men and 74.87 years for women. The life expectancy of the overall population is now 69.98 years. This figure has risen substantially since the low point that followed the collapse of the Soviet Union and its welfare services.

The birth rate hit an all-time low in 1999, when only 1.2 million children were born in Russia. In 2010, the figure was 1.79 million. The average number of births for each woman in Russia is presently 1.54 (1.89 in Finland). If the current population level is to be maintained, this figure would have to rise by at least 27%. In the years to come, the birth rate is likely to fall again, however, when the exceptionally small 'baby buster' generation reaches childbearing age. In 2025, Russia will have 45% fewer women of childbearing age than now.[7]

It should also be realised that the ageing population will push up the mortality rate over the following decades. The same UN prediction puts the population of Russia at approximately 141 million in 2020, after which it will see a clear fall, to some 131 million by 2040.

But it is not the birth rate alone that needs to be addressed to improve population trends: improvements in public health are also needed. Over the period 2005–2025, in global terms Russia's share of people of working age will drop from 2.4% to 1.6%. The mortality rate among men of working age resembles the statistics of many developing countries. Three times more people die of cardiovascular diseases than in Western Europe.

6 The regional elite can be toppled more easily, as the dismissal of Moscow's mayor, Yuri Luzhkov, in 2010 showed. However, he has been replaced by a new elite with its own group of supporters.

7 See http://geography.about.com/od/obtainpopulationdata/a/russiapop.htm

The number of people of working age has fallen since 2007. It is hard to see any alternative to immigration on a massive scale, if the number of available workers is to be increased. It has been estimated that the Russian economy needs as many as 15 million new workers from abroad. Developments in immigration policy in recent years reflect this need.

A labour shortage was especially evident when the economy was flourishing in the period 2005–2008, leading to a rise in labour costs. Regional imbalances in the labour market are being effectively evened out, through both migration within the country and the mobility of migrant workers. Estimates suggest that, for example, up to two million unregistered migrant workers, mainly from the Caucasus and Central Asia, live in Moscow.

The shortage of labour and reduction in the labour force are crucial indicators when comparing the factors underlying social stability in Russia with, say, the social situation in the MENA (North Africa/Middle East) countries of the Arab Spring.

3. Possible developments and their effect on Finland

The above-described factors provide a basis for various future scenarios. Russia's economic stability is an obvious starting point for future alternatives: but its long-term and structural problems may pose a threat to such stability.

The possible developments described hereafter may transpire, either singly or together. Certain factors may be more emphasised than others, or come to the fore.

Sudden and unpredicted developments, such as unrest in the North Caucasus, external conflicts, a possible new Cold War or global recession are obvious possibilities, but they are not the most likely scenarios in the current decade.

Immediate change in Russia is unlikely. As dissatisfaction grows, the threshold for its explosive expression will lower, and events could be triggered by a relatively minor incident, such as a terrorist attack, an environmental disaster or a sudden hike in prices. The breakdown of just one component of the centralised power system would pose a threat to its whole existence.

Above all, structural threats to stability are related to the political system's ability to control the centrifugal forces of a large country and act to maintain the status quo, while also pursuing a flexible approach. As elsewhere in the world, the political system must be able to regenerate itself in such a way that it reflects the growing needs of the people. This places huge demands on the Russian administration and its political elite.

The economy – a threat to the current stability?

When the Russian economy recovered in the 2000s, following the collapse in the previous decade, for the first time in their lives people saw their standard of living rise substantially. Between 2000 and 2007, income in real terms increased by 12% a year on average. Because, in the current decade, the economy is not growing as fast as before, the increase in income levels is also slowing. This may mean that Russia will find itself in a new social situation in which the people's dissatisfaction with their standard of living reinforces other pressures for change. On the other hand, it was precisely improved standards of living that led to political activism in the winter of 2011–2012.

An economic recession poses a particular threat to communities that rely on just one industrial plant or sector of industry. Such structures are typical legacies of the Soviet era. A decrease in production threatens the existence of the entire locality. These towns and cities have witnessed demonstrations, which will take on a political colour if the situation worsens.

As in other countries, the economic situation in Russia largely depends on the state of the global economy at any given time. The effects of the global economy on Russia most directly relate to trends in the export price of crude oil and the availability of foreign finance. Any collapse in the global market price of raw materials and a worldwide economic recession would be visible in the form of a sharp contraction in the Russian economy, as during the downturn of 2008–2009. In the short term, however, the production of raw materials is one of the economy's fundamental strengths. In the wake of a recession, demand for raw materials always grows quickly on the world markets, helping the Russian economy to recover, as seen in the last few years.

The economy is in relatively good shape, thanks to strict controls on spending that go back to the latter half of the previous decade. Over the last few years, budget expenditure has grown considerably, however, which has made the budget highly sensitive to fluctuations in international energy prices. The Russian state nevertheless runs up only a small amount of debt abroad (the ratio of public external debt to GDP is around 3%), and receives foreign credit, if necessary, on relatively favourable terms. Difficulties in Russia's public finances do not appear to pose a particularly serious threat to the country over the next few years.

If the global price of crude oil falls dramatically (to 70 dollars a barrel, for example[8]) and remains low for many years – something most experts think is unlikely in the medium term – the effect on Russia will be reflected in falls in production and income and problems in the Russian economy.

8 The price in the spring of 2012 was around 120 dollars.

This could result in higher unemployment and falls in income, and, as a result, increase the number of those calling for social change. A crisis in the economy on this scale, however, might herald the beginning of change in the right direction, whereby the current structures and procedures that now restrict economic growth would inevitably have to change.

The need for political change – the 'trigger factor'

The demonstrations in the winter of 2011–2012 were not about money, but having a say in politics and policy. They were an indication that a certain amount of economic independence leads to the desire for involvement in policymaking – the desire to take responsibility for one's own affairs.

The demonstrations forced the power elite to alter its strategies. During the time of Putin's re-election at the start of 2012, very new political reforms, planned from above, were proposed. These were designed to appease the populace.

If the current restrictions on the media and the political system begin to be lifted, it is obvious that demands for change and its implementation will very quickly gain momentum.

Does Russia's current political system rely exclusively on one man? If so, does this mean that, but for Putin, the balance of power would be under threat? Herein lies a classic paradox of political power: while Putin has concentrated power in himself, institutional power structures have weakened. Unofficial pressure groups at different levels of society, from the business world to the regional administration, have consolidated their position whilst in competition with one another, which may be regarded as the 'latent decentralisation of power', to use the words of Lev Gudkov, Director of the opinion pollster, the Levada Centre.

Russian stability seems to be anchored in the Putin persona; the loyalty of the elite that surrounds him is focused in principle on the person, not the system. That being the case, his absence would lead to a new kind of power struggle and a period of instability, with unforeseen consequences. On the other hand, Russia's present political system relies heavily on the institutions protected by the Russian constitution and the collective interests of the new elite that emerged in the period 2000–2012.

4. Models for future development

Model A: A country led from above; stagnation and possible system upheaval

The first model, 'A country led from above; stagnation and possible system upheaval', is based on an interpretation of the situation whereby present-day Russia is seen as a partly bureaucratic-authoritarian/partly market capitalist hybrid, headed by a 'securocracy', an elite predicated on a security machine.

Political power is firmly in the hands of the leader. Such a system is not institutionalised, but built on personal relations. It thrives on threat. In terms of internal policy, this means the use of new Cold War rhetoric with respect to foreign countries. In this scenario, Russia will revive the Soviet Union by establishing a Eurasian Union. The system will be slowly regenerated, and from above. The only option for the nation will be to submit, vote in accordance with instructions from on high, and remain passive. Political power will channelled via the main party to the current elite.

This is the sort of model that Putin would continue with as leader until 2024. Russia's political system will continue in the shape of a 'managed democracy' with no major changes, heading for stagnation and a dead-end. The only minor changes would be either technical or ostensible reforms from above. There would be an attempt to modernise the economy and society controlled from above, in the form of an ineffectual, expensive project running indefinitely.

Politically, this would mean an approach to foreign policy based on keeping the former countries of the Soviet Union within Russia's political sphere of influence, one modified to adapt to current conditions, and further away from NATO. However, in time stagnation would substantially weaken Russia's international position.

Under this model, Finnish business would have only a restricted role in the investment plans organised by the state leadership, for example, since Russia would protect its industry and production by means of what it would term practical measures. However, foreign companies would still be involved in Russia's vitally important modernisation programme – with the inevitable provisos imposed under this model.

Model B: The path of gradual reform

This model is based on a notion whereby Russia's ruling elite is viewed as a network of social relationships in which different groups have particular political objectives, which they try to realise autonomously. Under this model, the emphasis is on Russia's dynamism and changes taking place behind the scenes.

Here, in principle, the present Russian leadership would be willing at some stage to consider the reforms demanded in the 2011–2012 demonstrations and would eventually be prepared to engage in political dialogue with the dissenters. This would entail gradual reforms led from above, which would be introduced as a globalising world compels Russia to do so.

Under this model, and under pressure from new generations of citizens and the ever-growing middle class, Russia's elite would gradually have to acknowledge the inevitability of change and, furthermore, make the political system a more 'honest' one. Change would happen slowly, perhaps not until Putin's third and fourth presidential term had ended.

The danger in this model lies in the slow progress of reform. Can the Russia of today afford to wait around for this sluggish process to see itself through to the end? Reforms from above would arrive too little, too late. The emerging middle class would want to establish its own new Russia faster than assumed by those implementing the reforms from above. Then again, swift change would jeopardise the social balance and the country's integrity. Under this model, Finnish business would have greater opportunities to become involved, say, in Russia's economic reforms.

Model C: Change

Under this model for change, Russia's political situation would be turned upside down for both external and internal reasons (external threat, change of leadership, etc.). A complete political change would also undermine the unity of the current political elite.

Here, the political situation would be characterised by a political power struggle as well as economic uncertainty. For Finland, it would mean a new kind of threat, mainly involving disruptions on Finland's frontier with Russia. At present, of course, the border separates two countries with a huge difference in living standards – representing one of the world's most dramatic dividing lines. But it functions incredibly smoothly, and organised crime and smuggling, for example, do not hugely overshadow relations between the countries.

The model for change would pose a huge challenge to stability in Russia, but it would also present opportunities. On the other hand, while Russia's current leaders are now all too apt to perceive threats to their operating environment, this model for change could result in a reorganised Russia, seeking potential partners on a more favourable basis.

The individual factors behind stability

These models for development show that the threat to Russian stability would be one of the following: global recession, the growing political demands of the middle classes, conflict within the system, or a change of leadership.

To these threats can be added the more minor problems in the economy and the more active role of the opposition. In addition to threats to current stability, Russia is currently host to a plethora of individual phenomena that may well contribute to the realisation of such threats.

The worldwide situation in the energy sector may be changing. Russia's role as a major supplier of natural gas could be weakened by growth in the importance of shale gas and plans to use alternative gas suppliers and pipelines. The economic recession poses a particular threat to communities that rely on just one industrial plant or sector of industry. These 'monocities' are typical legacies of the Soviet era. A decrease in production would threaten the existence of the entire locality. The monocities have witnessed demonstrations, which may take on a political colour if the situation worsens.

Russian social stability may be under threat if nationalist forces are suddenly galvanised in their various forms. Patriotism, which is promoted as a conscious policy of the state and political parties, has hitherto kept these forces in check, and the government has been able to rein in violent displays of radical nationalist fervour. Extreme nationalistic elements are not expected to become crucially significant among the existing parties or the opposition, but if greater political freedoms are granted, they may grow in strength.

Demonstrations are now a permanent phenomenon in Russia. They have been peaceful and dignified in the main: the appearance of some highly prominent figures, such as Alexei Navalny, has had a very dramatic effect, for they symbolise criticism directed personally against those who wield power. The demonstrations in 2011–2012 were particularly anti-Putin in nature. It is to be assumed that allegations of financial abuses on such a large scale will gain support from the general public and thus become a factor promoting and radicalising the protest movement. Radicalisation of demonstrations may be one such factor.[9]

The situation in Chechnya has become somewhat pacified, thanks to the emergency measures and military operations in place there, but this situation is probably only temporary. Peace in Dagestan and Ingushetia, in particular, is fragile, and the North Caucasus in general remains a problem region for Russia. If a series of events should begin there (e.g. terrorist attacks), it could have an impact on the whole country's stability. The Central Government is striving to compensate for its own weakness in this area by investing heavily

9 See http://suomenkuvalehti.fi/jutut/ulkomaat/putinin-paluu-millaisen-venajan-presidentti-saa-johtaakseen?ref=top

there. However, continued widespread corruption in these areas poses a problem. On the other hand, no direct threats are in prospect in the country's other Islamist regions, especially Tatarstan and Bashkortostan.

There are possible problems associated with the fact that Russia is continuously opening up: greater freedom of movement has presented difficulties. An example of this is the inability of the authorities to produce passports in the numbers required, which is now a cause of resentment. This problem is highlighted by the fact that there are millions of illegal migrant workers in the country. Bringing a badly needed foreign workforce into Russia may bring issues to a head.

Immediate change in Russia is unlikely. However, as dissatisfaction grows, the threshold for its violent expression lowers, and events could be triggered by just one event, such as a terrorist attack, an environmental disaster, a sudden hike in prices, or an insurrection by pensioners or students. The breakdown of just one component of the centralised power system would pose a threat to its entire existence, while corruption poses a permanent threat to society.

What does Russian stability mean for Finland?

Finland's national interests clearly depend on the political and economic stability of its neighbour to the east. Finnish post-war foreign policy vis-a-vis the Soviet Union, and later Russia, has adhered to Bismarck's notion that the main requirement for a nation is 'das politsche Augenmass' – moderation. Finland has followed a doctrine of political expediency.

Finland's official policy since the 1990s has involved the promotion of every endeavour to achieve this goal, and this remains true of its relations with the new Russia. One example of this long-term policy is the Modernisation Partnership between Finland and Russia, which was signed in March 2011.

Opportunity: business and modernisation, with Finland as a partner

What of renewal and reform with the help of Western companies – is that the route to the modernisation of Russian industry? Could Finland be involved in this?

Russia should be prepared to adopt the role of a 'subsidiary economy' with regard to products that call for a strategic posture and top expertise. Russia's membership of the WTO, now being finalised, is expected to promote this.

Modernisation in Russia has always been initiated and managed from above, based on a political decision. Foreigners have often been invited to become partners, but not teachers, in cooperation schemes. At Davos in January 2011, President Medvedev even declared that the West should not seek to teach Russia, but work with it. Finland's strength could lie in just such a modernisation partnership, where, at grassroots level and in practice, joint ventures and production projects are managed in such a way that they reflect the demands, financial incentives or marketing strategy of modern business.

A new opportunity: the border and movement of people

The impact on Finland of Russian criminality, the mafia and money laundering has been slight, largely thanks to Finnish law, the general good order maintained in society and Finland's overall reputation. No fundamental, sudden change in this situation is anticipated, given various possible scenarios, if, as Russian investment in Finland increases, the issue of 'clean' and 'dirty' money arises.

Overall, the increase in cross-border mobility is to be viewed as a positive factor in bilateral relations, trade between the countries and growing Russian stability. Movement among ordinary people is enabling them to gain first-hand experience of their neighbours and is likely to dispel prejudices and needless anxieties.

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The potential for crisis in Russia and the Commonwealth of Independent States (CIS)

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1. Introduction: from protracted conflict to the gas crisis – the current potential for crisis in Russia and the Commonwealth of Independent States (CIS)

An underlying principle of Russian foreign and security policy, which must be borne in mind in any examination of the current potential for crisis in Russia and the CIS, relates to Russia's view that it has privileged spheres of interest. These might include, for example, the Transnistria region in Moldova, the Georgian breakaway republics of Abkhazia and South Ossetia, Armenia, Belarus, Ukraine and parts of Central Asia. The South Caucasus in its entirety remains a priority neighbouring region in terms of Russian security policy; the area is a focal point with respect to the security and economic interests of Russia, the countries in the region, the West, and regional actors such as Iran and Turkey. The struggle for influence in the South Caucasus is hampering the implementation of any consistent, harmonised strategy by Russia. For Russia, an important factor regarding the South Caucasus lies in the fact that the situation in the North Caucasus has almost entirely escalated into something approaching civil war and the region is highly unstable, with the exception of Chechnya under the Kadyrov administration.

The key challenge for Russian foreign policy in Central Asia is the creation of a viable, comprehensive strategy with respect to the region's countries. Disputes between those countries tend to involve Russia, affecting its chances of establishing genuinely close and satisfactory relations with each country. At the same time, its desire to maintain good relations with all Central Asian countries and at least avoid conflict in the region could easily result in Russia drifting into a situation where every option is politically risky and unwise. Russia is anxious about the rise of Islamist movements in Central Asia and their effect on Russia's stability. Russia's support for the current regimes in Central Asia is intended to prevent the rise of Islamist movements in the region.

Ukraine and Belarus are close to Russia: they are Slavic countries which, for many reasons, Russia clearly regards as belonging to its sphere of interest. Such reasons may be historical, based on the idea of shared origins or related to the infrastructure inherited from the Soviet era. For Russia, these countries are important due to the relative stability and predictability of their internal circumstances. Relations between Ukraine and Russia cooled after Ukraine's Orange Revolution (in 2004). Thanks to the countries' divergent economic and other interests, the situation has not mellowed during President Yanukovych's term of office. In Belarus, President Lukashenko's unpredictable nature has been a source of anxiety for Russia. However, Belarus is a buffer state between Russia and the West – Russia will do all it can to ensure that the close partnership between the two countries continues. Belarus's dire democratic situation and its unwillingness to carry out the reforms that the West requires of it are probably a guarantee that, at least in the mid-term, Russia will remain an important strategic partner of Belarus.

2. How Russia views its neighbours: differences and similarities

Russia's attitude to its neighbours is impossible to analyse without taking account of the number and status of Russian speakers and ethnic Russians living in the various countries in question. Common risk factors between Russia and the CIS countries concern actual or alleged ill-treatment of the Russian-speaking population (cf., for example, the abduction of children in both directions), and real and alleged discrimination against the Russian language, which occasionally hits the headlines in Russia. And yet, with the exception of residents of Abkhazia and South Ossetia, almost 100% of whom have Russian citizenship, obtaining Russian citizenship and/or emigrating to Russia have become more difficult in recent years. The position of ethnic Russians in the countries of the former Soviet Union varies: Latvia and Estonia are reluctant to grant citizenship to ethnic Russians born later than 1940, while in Belarus, Ukraine and Kazakhstan the ethnic groups live in relatively peaceful coexistence. This is true despite the fact that ethnic Russians are often segregated from the majority and are fairly unfamiliar with local languages and special cultural characteristics.

Russians as a proportion of those living in the countries of the former Soviet Union

COUNTRY	ETHNIC RUSSIANS % (1989)	ETHNIC RUSSIANS % (2007)
Russia	81.5	79.5
Armenia	1.6	0.5
Azerbaijan	5.6	1.8
Belarus	13.2	11.4
Estonia	30.3	25.6
Georgia	6.3	1.6
Kazakhstan	37.4	30.0
Kyrgyzstan	21.5	12.5
Latvia	33.9	29.6
Lithuania	9.4	6.3
Moldova	13.0	5.9
Tajikistan	7.6	1.1
Turkmenistan	9.5	6.7
Ukraine	22.1	17.3
Uzbekistan	8.4	5.0

Source: Grigorjev & Salihov: GUAM – Pjatnadzat´ let spustja (Moscow: Regnum 2007) http://common.regnum.ru/documents/guam.pdf in Trenin, Dmitry (2011): Post-Imperium. Carnegie Endowment for International Peace

Russia's view of the three countries of the South Caucasus reflects both these countries' dependence on Russia and their political outlook. Relations with Georgia are the most problematic: on the one hand, relations with Russia are crucial to Georgian national unity, but, on the other, Georgia seeks categorical separation from Russia's sphere of influence, looking exclusively to the West. Russia's relations with Azerbaijan could be described as neutral: the situation could change rapidly, though, if the status quo in Nagorno-Karabakh is disturbed. Armenia, however, is Russia's main ally in the region.

Russian foreign policy in Central Asia reflects its eagerness to safeguard its political sphere of interest in the region and to politically bind the countries there to Russia. From this perspective, Russia has endeavoured to prevent the United States from strengthening its position in the region, an excellent example of which was the wrangle over airbases in Kyrgyzstan in 2009 and 2010. American interests in Central Asia are short-term and mainly linked to Afghanistan and the war against terrorism. A more likely contender is China, which has made enormous efforts to protect its resource interests in Central Asia. An actual confrontation is improbable, however, because China's interests are chiefly economic. But Russia lacks the ability and the will to challenge China over Central Asia: for Russia, it is more than sufficient that the countries in the region maintain strong political links with Russia.

In the long term, growing xenophobia in Russia towards Central Asians and people from the Caucasus may well lead to a broadening gulf between the Russian and Central Asian cultures. A clear example of this was the expulsion of 100 Tajik migrant workers and the temporary suspension of work permits for Tajiks in November 2011, during the run-up to the Russian parliamentary elections.

3. Potential crisis factors in relations between Russia and the CIS countries

The western/Slavic CIS countries

Moldova

Following a break of almost six years, it was agreed in Vilnius in November-December 2011 that the '5+2' negotiations on Transnistria [1] should resume at official level. The aim of developing a joint conflict management process between the EU and Russia had given the issue renewed political impetus in summer 2010. From the EU's perspective, Transnistria's status was called into question by the joint initiative by Chancellor Merkel and President Medvedev at Meseberg in June 2010 and in the Deauville Declaration that followed in October (with President Sarkozy as a third signatory). As the European cooperation on security demanded by Russia develops, this is putting Russian flexibility to the test. For Russia too, the connection allows Transnistria to become mainly a tool in the quest to develop the institutionalised architecture underlying European security.

For Russia, an independent (non-aligned) Moldova acts as a counterbalance to the influence of Romania, which currently lies within the framework of the EU and represents a NATO presence in the region. Broadly speaking, the Transnistria 'strip' has been broadly under Russian control since 1792. For reasons of internal policy, Russia points to its solid historical and cultural links to the people there. Russia's main objective is Moldova's non-alignment or neutrality, protected under the constitution of a unified Moldova. This status would be guaranteed by a federal state structure and possibly by international guarantees in the form, say, of a UN Security Council resolution. A federal structure would guarantee the Transnistrian legislative body's right of ratification by means of international agreements, and the right of secession, should Moldova become part of another state or lose its sovereignty. Moldova's Liberal Government has tried to avert a federal structure, fearing that Russia would use this to maintain a permanent grip on policymaking in the country. It has pointed out the difficulties that the young country would have in establishing itself; in the light of such a concern, no deviation can be allowed from the special administrative status of Gagauzia, legally established in 1994. The Moldovan parliament, in which the communists are the biggest party, has had no elected president since the liberal coalitions rose to power in September 2009.

1 Under the 5+2-format, Moldova and Transnistria are parties to a conflict, with Russia, Ukraine and OSCE acting as mediators. The EU and USA are involved as observers.

The ongoing political crisis means that developments might be manipulated and external intervention is possible, using failed state status as a pretext. The support shown for Russia's objectives by Ukraine, under President Yanukovych, was sealed in the joint declaration between him and Medvedev in May 2010. Both men signed a document that included details on the principles of Moldova's sovereignty and territorial integrity. This document also called for Transnistria to be accorded special status, with reliable guarantees. It also proposed decision-making powers with regard to the conflict (i.e. as part of a political solution) in order to alter the current situation with respect to military supervision, based on a mandate from the OSCE to provide a viable guarantee of peace. In practice, the Russian military presence represents a third type of guarantee within the unification process. In total contrast is the call by Moldova, with the support of the Western international community, for the immediate and complete withdrawal of Russian troops and weaponry as a precondition for finding a solution to the problem. Such a principled stance was evident in the Yushchenko plan of 2005, whose main aims were demilitarisation, democratisation and decriminalisation. This approach, in which demilitarisation was a precondition, rather than the end result of the process intended by Russia, was also highlighted in the demand, made by the international community in the shape of the OSCE, that Russia adhere to the so-called Istanbul Commitments of 1999. As a political countermove, at the end of 2007, after Russia's proposed solution (the Kozak plan) had been rejected and while Kosovo was preparing for independence – Russia suspended its participation in the CFE Treaty. The German initiative is an attempt to circumvent entrenched attitudes in negotiations. Moldova itself has said that its own principles should take priority, referring, for example, to the law enacted in 2005 that confirms its ability to grant Transnistria autonomy, but which rules out the possibility of a federal structure. Such a position, which gives precedence to principles and rule of law, has acted as a braking mechanism; this small country fears that Germany will yield to Russia's demands for a federal state structure.

Moldova has also proposed an OSCE-led civilian mission instead of the military peacekeeping operation. The Russian-Ukrainian declaration implies that there would still be international guarantees, ultimately military, under the scheme (including guarantees by Russia and Ukraine). In spring 2012, Russia made clear reference to the original peacekeeping arrangement. According to this arrangement, only Russia would maintain some sort of military capacity, in addition to the military presences of the two parties concerned. Together with a federal structure, this arrangement forms the bases of the solution advocated by Russia.

In the context of Russia's and the EU's broader interests, the Medvedev-Merkel dialogue has succeeded in opening the way for talks on Transnistria. Greater political input has been generated by the establishment of a committee to deal with ministerial-level political and security issues between the EU and Russia. However, since one of the key issues, missile defence, is in the hands of the USA, unravelling the tangle of problems relating to Transnistria is beyond the scope of EU-Russian relations. Russia is therefore awaiting developments, while keenly demonstrating its flexibility, for example, by refusing to support a further term of office for Transnistria's long-standing leader, I. Smirnov. In the current situation, Transnistria does not hold the kind of strategic importance for Russia that, say, Abkhazia has, although Moldova's accession to NATO, either directly or through Romania, would probably make the Nistru River the border between two military alliances, NATO and the CSTO. There is also internal pressure to safeguard the rights of the Russian population in Transnistria. Russia has insisted that the Russian language be officially recognised there. In the search for solutions, the deadlock in talks on the language issue is not as insurmountable as the impasse in the federation question, but it is of major symbolic significance, and could easily fuel confrontation and violence. Moldova's Liberal Government has distanced itself from rapid solutions, pointing out that unification depends on the democratisation of Transnistria. The coherence of the 5+2 talks and the optimistic messages they send out say more about relations between Russia and the EU – and the latter's large Member States – and their attempts to make the most of the momentary resumption of negotiations, than any progress on the issues lying at the heart of a solution. How significant a change of power in Transnistria would be remains an open question – in any case, the issue remains tied to Russia's policy choices. From Moldova's perspective, it already seems likely that unification will not be welcome unless substantial financial support is made available for the process.

Belarus

The greatest threats to Belarus are the country's situation with regard to democracy and its looming economic crisis. In 2011, Belarus was heading for complete economic collapse, President Lukashenko having raised public sector pay in the run-up to the presidential elections in 2010. The country lacked the necessary foreign currency reserves equivalent to the money printed. The Belarus rouble lost 50% of its value in six months and people began to buy foreign currency and consumer durables from abroad.

This led to widespread distrust of the Lukashenko regime, with the rapid printing of money insufficient to restore faith in the President's ability to run the country. This has done nothing to promote opportunities for Lukashenko, who is very unpopular in the West, to build relations with the EU. Russia has promised Belarus its support in its WTO application process, though this will not be sufficient, despite the fact that Russia is, by any standards, Belarus's closest partner. The countries are in a confederation and customs union, forming a common economic area with Kazakhstan, and their defence and security authorities have long been structurally integrated into a system of close cooperation. Belarus's location and position make it a buffer state between Russia itself and the West. Its economic collapse is therefore not in Russia's interests. The purchase of a gas pipeline company's end section has long been on Gazprom's agenda; it is regarded as a strategic deal that would bolster the reliability of energy supplies to the West. This clearly reflects Russia's ambitions to extend or strengthen its influence in certain areas of the former Soviet Union, as well as its purely financial interests in the export of oil and natural gas and the control of strategic industries. Relations between Russia and Belarus will probably continue on a pragmatic footing, despite the poor personal chemistry between Putin and Lukashenko. Russia is urging Belarus to carry out economic reforms, which, if they went ahead, would loosen Lukashenko's grip on the nation. At present, most Belarusians depend for their livelihood on the state, which controls 70–80% of the country's economy.

The global economic crisis has had a comparatively muted effect on Belarus, because the country's economy has been centrally managed in the style of a Soviet planned economy. However, the threat of an economic crisis in Belarus should not be underestimated: the country's industry mainly produces unwanted products and export levels are inadequate for bringing in foreign currency.

Elections will inevitably have an impact on Belarus's future, as shown by the presidential elections in December 2010 and the unrest that ensued. Belarus and Lukashenko, on the other hand, are attempting to strengthen their national identity in their relationship with Russia, while giving themselves room to breathe. This occasionally causes friction between the two countries. Russia does not want Belarus to draw too close to the EU. Relations with the EU have in any case cooled again, the thaw that began in 2008 having ended due to the fraudulent presidential elections of 2010 and the ensuing stifling of rivals and political opposition. At the moment, relations have been broken off at the highest political level, though in practice, the European Commission, the European External Action Service and many Member States continue to support NGOs and are investing time and money in opportunities for cooperation outside the human rights and democracy sectors (such as environmental issues and standardisation).

Ukraine

The potential for a crisis between Russia and Ukraine partly depends on developments within Russia – in other words, whether the Russian leadership considers it needs external images of hostility. Ukraine's importance to Russia's self-image cannot be underestimated: the independence referendum in Ukraine in 1991 was the final death blow for the whole Soviet Union. Furthermore, in Putin's plans in his first term as President, Ukraine had a major role as a partner of Russia. The Orange Revolution came as a shock for Russia, even though its effects proved to be less than had been feared.

Ukraine's bid to join NATO under the previous leadership was also a cause of friction between the countries. President Yanukovy's administration put an end to such ambitions. However, events during the NATO Summit in Bucharest in 2008 showed that Crimea could also become a problem if the Ukrainian leadership once again had ambitions to join NATO. Putin made it clear at Bucharest that Moscow would support Ukrainian unity only as long as the country remained militarily non-aligned. In Moscow's nightmare scenario, Ukraine as a member of NATO would mean Russian troops in Crimea being replaced by American forces and the border between Russia and Ukraine becoming another Iron Curtain, reminiscent of the Cold War. The chief consideration with regard to Ukraine's membership of NATO, however, is psychological. Whereas the gravest cause for concern in the West is Afghanistan, for the former communist countries, such as Poland, it is NATO's relationship with Russia. It would be a major setback for Russia if Ukraine joined a 'Western' alliance.

In its relations with the EU, Ukraine still has a long way to go before anyone can refer to genuine integration, or even potential integration. As long as Ukraine employs old, Soviet-style solutions in its internal policy (the jail sentence imposed on Tymoshenko and other former ministers is a case in point), rapprochement with the EU remains difficult. On the other hand, the free trade agreement as part of an Association Agreement would mean economic cooperation with the EU, and thus a factor increasing stability in relations with EU countries. Much Russian money remains in Ukraine, and experts wonder if adherence to international rules is in the interests of Russian capital. Membership of the WTO will probably provide solutions to this problem. Other major questions include the effects of the Eurasian Union and the opinions of the Ukraine situation, among the other CIS countries aiming for WTO membership.

The transit of gas is also a potential problem in Ukraine. A total of 80% of the Russian gas used by the European Union passes through Ukraine, and Russia and Ukraine have quarrelled over this gas on many occasions since the 1990s. However, the new gas pipeline projects – Nordstream, South Stream and Nabucco – have eased this friction. Furthermore, the EU has taken an active role in the matter. In 2009, the European Bank for Reconstruction and Development, the EU itself, the European Investment Bank and the World Bank agreed on a 30 million dollar loan to repair gas pipelines in Ukraine. Ukraine could draw down the loan by the end of 2012 if it fulfils the terms and conditions: reforms in the gas market and restructuring of the state gas company NAK NaftoGaz.

South Caucasus

Georgia

The war in August 2008 is considered a turning point and marks the return of Russia's influence in the South Caucasus. Although Russia had withdrawn from its military bases in Georgia in 2007, under the Istanbul Agreement, after the war it re-established an even greater military presence in the regions attempting to break free from Georgia. At present Russia has almost 4,000 soldiers in Abkhazia and South Ossetia. There is an air of permanence to the military infrastructure, which indicates that Russia has no intention of leaving in the near future. The obvious interpretation is that Russia will not accept any shake-up of the status quo or border changes in South Caucasus, which are against its interests. Russia achieved virtually all of its objectives in connection with the conflict: Georgia's possible membership of NATO was postponed long into the future, and returning Abkhazia and South Ossetia to Georgia seems an even more unrealistic option than ever, in the short-term at least. It can be assumed that the 2008 war served as a warning to those involved in the third separatist conflict in South Caucasus, Nagorno-Karabakh, i.e. Armenia, Azerbaijan and the Armenians of Nagorno-Karabakh.

The biggest risk to Russian security is the re-escalation of the conflicts. Most of the inhabitants of Abkhazia and South Ossetia have Russian passports, so in any conflict Russia would defend its own citizens. And Russia has recognised the independence of both countries and forged diplomatic relations with them, signing defence agreements which mean that Russia would ultimately guarantee their security. Although both regions are fully reliant on Russian economic aid, there has also been evidence of friction in relations between them and Russia. Increased Russian ownership in key sectors of the Abkhazian economy is not seen as being entirely appropriate, but the fear of Georgia stepping in has been greater than this smouldering sense of dissatisfaction with the Russians. In South Ossetia, the invalidation of opposition candidate Alla Dzhioyeva's surprising win in the presidential elections in December 2011 sparked widespread demonstrations and showed that Russia is fully able to dictate transfers of power, even in the most undemocratic separatist region.

Although some the current Georgian government is keen to see relations with Russia normalised, there is no great difference of opinion between the new opposition and the government regarding the priority of Euro-Atlantic integration in Georgian foreign policy. However, at the NATO Summit in Chicago no progress was made on Georgia's NATO membership and the country was merely promised what had already been offered at Lisbon: membership with no fixed timetable in sight, or an MAP programme preparing for membership. NATO would be closely following progress in Georgia, the forthcoming elections in particular. Georgia interpreted the statements made at the Summit as a sign that the next summit (possibly in 2014) would represent NATO's next round of enlargement, at which Georgian membership would be very difficult to postpone again until a later date.

Nevertheless, in the past two years, relations between Georgia and Russia have become less tense as a result of small, yet pragmatic, moves. Georgia and Russian electricity companies reached an understanding after the war, with regard to the share of production at the Enguri hydro-electric power plant on the Ankhazian border. Direct air routes have opened up between Moscow, Tbilisi and Batum. The land border between Russia and Georgia, closed since 2006, was reopened at Kazbegi in March 2010. Georgia has granted a visa waiver for all Russians entering the country; Georgians still need a visa to enter Russia. In December 2011, Georgia lifted its opposition to Russian membership of the WTO in a compromise brokered by the Swiss, in which Swiss companies will monitor border crossing points between Russia and Abkhazia and South Ossetia, reporting on movements of goods and people on the border with Georgia. There have also been discussions on access to Russian markets for Georgian mineral water.

A key risk factor for stability in Russia and the entire Caucasus region is Georgia's political endeavours with regard to the North Caucasus. Because Russia issued passports to the inhabitants of Abkhazia and South Ossetia, in October 2010, Georgia responded by granting a visa waiver for those living in the North Caucasus republics. In Russia, this was viewed as a way of making it easier for terrorists to cross the border. While Russia has recognised the independence of Abkhazia and South Ossetia, in a countermove, Georgia is the only country in the world formerly to acknowledge the massacre of the Circassians and has erected a memorial to the event on the border with Abkhazia, in a bid to make Russia look like an empire that has persecuted the peoples of the Caucasus throughout history (including the Abkhazians). Recognition of this act of genocide is also linked to the campaign opposing the Winter Olympics at Sochi, as some of the alleged massacre took place in the present Sochi area and Circassian activists say that the Olympic Charter forbids the games to be held in places where mass killings have occurred. The Sochi Winter Olympics are associated with the threat of a terrorist act, because Islamists in North Caucasus have said they will extend their acts of terror to areas outside the North Caucasus, including Sochi. The attacks in Stavropol in 2010 served as a warning of this. If successful, these terrorist acts could give the impression that the Georgian security services were acting in collaboration with the Islamists in North Caucasus, which would obviously push tensions between Russia and Georgia to the limit. Russia, meanwhile, is trying to avoid an escalation of conflict in the period leading up to the Winter Games in 2014, so that there is no repeat of the boycott of the 1980 Olympic Games in Moscow.

In September 2010, President Saakashvili presented his vision of a united Caucasus in a speech made to the UN. In this speech, he made reference to the fact that there is only one Caucasus in terms of its culture and the people who live there, and no separate North and South Caucasus. He said that the whole Caucasus region will one day join the family of European free states, following Georgia's example. For Russia, close connections between the North Caucasus republics and Georgia pose a risk to the region's democratisation. Closer economic ties with Tbilisi would also force Moscow to compete for control of the North Caucasus republics, based on Russian financial assistance. On the other hand, Georgia is itself completely dependent on external assistance. The four billion euro aid package promised after the 2008 war has mostly been used up, and economic difficulties in the EU and the USA dampen the prospects of aid being granted to Georgia in the future. Barely any progress has been achieved other than the establishment of a mechanism to prevent incidents between the parties to the conflict. Nevertheless, the Geneva Process is in itself a forum in which those parties can come together and talk. In the end, however, the chances of conflicts flaring up again are small, because in August 2008 Russia achieved virtually all of its military – and partly also political – objectives in its recognition of the independence of South Ossetia and Abkhazia. Furthermore, the question might be asked as to whether the toppling by force of Saakashvili or his successor would be in the interests of Russia under any circumstances, if, as a result, Tbilisi were to have a puppet government that could no longer control its own territory. This might well result in Georgia drifting into the sort of chaos reminiscent of the 1990s and failed state status, with inevitable repercussions for security in North Caucasus.

Armenia and Azerbaijan

The conflict in Nagorno-Karabakh has long been a source of tension and confrontations have increased in number in recent times, leading to the death of around 30 soldiers and civilians a year on average. The conflict between Armenia and Azerbaijan is made especially explosive by the fact that it is between states, and both have continued to arm themselves since the war, based on new technology and longer-range weapons. Azerbaijan and Armenia are caught up in an arms race, in which the former's defence budget, which has been increased with oil export revenues, has been larger than Armenia's entire state budget for some time. Furthermore, on several occasions Azerbaijan's President Ilham Aliev has said that his country reserves the right to resolve the stalemate by force, if no appreciable headway is made in the peace talks. The defence budgets, however, do not tell the entire truth about the power relations between the two, as Russia has relocated the weaponry it withdrew from Georgian bases in 2007 to bases in Armenia. Moreover, Russia, as an ally, is able, should it wish, to compensate for the lack of weapons in Armenia compared to Azerbaijan. For Russia, then, military support for Armenia is more of a logistical than an economic challenge.

In the conflict in Nagorno-Karabakh, Russia committed itself to defending Armenia under the CSTO agreement and bilateral defence treaties with Armenia. Conflict would cause problems for Russian stability, mainly if it were prolonged and involved outside actors. Russian mediation in the Nagorno-Karabakh conflict can be explained not only as a way of preventing its re-escalation but also because unresolved issues within the region put pressure on the Azeris at the same time. Following the war in Georgia in 2008, President Medvedev wanted Russia to play an active role as a mediator in the Nagorno-Karabakh conflict. The purpose was to show the international community that Russia was not merely a party in the prolonged conflicts in South Caucasus, but that in other forums it was actively trying to contribute to their resolution. The high-level Russian-brokered meetings between Armenia's President Serzh Sargsyan and the Azerbaijani President Ilham Aliev have not produced any more concrete results than the peace efforts of the co-chairs of the OSCE Minsk Group (Russia, France and the United States). In the declaration at the Sochi meeting, hosted by Medvedev, the parties to the conflict said that, among other things, they were committed to an increase in academic and intellectual contacts between the countries in the future. However, it is not clear whether Putin, as the re-elected President, intends to continue the conciliation process initiated by Medvedev or if he will act as peace broker at all.

Under the 'Madrid Principles' proposed by the Minsk Group, a solution to the conflict is being sought by means of a multi-phase process, the essential elements of which include: defining an interim status for Nagorno-Karabakh before a solution is reached regarding its eventual political status following a referendum; the gradual return of Azeri IDPs to the region and surrounding villages; giving the refugees international security guarantees; and the progressive withdrawal of Armenian troops, initially from the 'security belt', seven districts outside Nagorno-Karabakh proper, occupied by Armenian soldiers. The main disagreement relates to the criteria for the referendum: should the number of those eligible to vote be based on the 1988 population, in which case the result would be clearly to the advantage of the Armenians, or should the districts outside what is officially Nagorno-Karabakh be included? The other area of controversy is the future of the Lachin corridor, of vital importance to the Armenians in Nagorno-Karabakh, and which connects the enclave to Armenia.

There is a fear in Armenia that Russia might be prepared to force Armenia into a 'bad peace' with the Azeris, if the latter promise Russia more control in the energy sector. On the other hand, Armenia is also afraid that Georgia might privatise the gas pipeline that extends from Russia to Armenia via Georgia, the source of most of Armenia's badly needed gas. The fear in Armenia is that the pipeline will come under the ownership of Azerbaijan's state oil company, SOCAR.

When Russia tried to mediate with respect to relations between Turkey and Armenia, this appeared to be inconsistent with its general anti-NATO stance. But it can be explained, for example, by the fact that Russia is keen to have cordial relations with Turkey, which is a growing force in the Middle East, the Caucasus and Central Asia. Opening the border between Turkey and Armenia gave the latter new opportunities to integrate with the West and reduce its dependence on Russia. However, this does not seem probable in the short term, because, under pressure from Azerbaijan, Turkey linked the normalisation of relations with Armenia to concessions demanded from the latter in the conflict over Nagorno-Karabakh. Since Armenia itself regards the restoration of diplomatic relations as a separate issue from the conflict, the normalisation of relations between the two countries has been put on ice. From the Russian perspective, improved relations between Turkey and Armenia would mean growing NATO and EU ambitions on the part of a key ally, which would be damaging to Russia's interests in the South Caucasus.

The global economic crisis is having a direct impact on the South Caucasus. All of the countries are dependent on cash sent home by relatives working abroad: less available work and changes in currency values directly affect the living standards of the people. Armenia, the poorest country, is the most dependent on those seeking work abroad and its Diaspora. The world economic crisis has hit Armenia hardest and hastened emigration. It is estimated that 60,000 people a year leave the country, a large number in a country of three million inhabitants, considering that most of those departing are young men. This also has military implications, as Azerbaijan is essentially a more populous country, and the birth rate there is higher. There are thought to be a million Armenians in Russia alone, and several villages in Armenia are completely depleted of men. If this continues, emigration will affect Armenia's ability to mobilise in a crisis situation. Because the first to leave the country tend to be the younger, educated and more liberal-minded section of the population, it is the older and more nationalist-minded that are left behind. They are more conservative in outlook and less willing to reach a compromise over the conflict in Nagorno-Karabakh. Furthermore, a new generation has grown up in both Armenia and Azerbaijan that has no personal experience of the people who live in the neighbouring country. The information they receive is based on the one-sided image portrayed by the media, which even amounts to hate speech. Even if the presidents of the two countries reached an agreement on the conflict, it would be hard work selling it to people consumed by hatred.

Central Asia

Tajikistan

Afghanistan's proximity is the dominant factor in any examination of the situation in Tajikistan. The leaders of Tajikistan have availed themselves of tough measures to maintain political stability there since the civil war in 1992–1997. The peace settlement in 1997 was incorporated into a modern, moderate, Islamic parliamentary system, pushing the radical elements on both sides out of the country or underground. However, the radical Islamist movement has infiltrated the country again from Afghanistan and Pakistan; militant anti-Islamists have been able to rely on Uzbekistan, whose leaders would have liked to see the Islamists more clearly subdued in their neighbouring country. The Islamic movement of Uzbekistan (IMU) has been active in the Fergana area and Sughd Province. In recent years, it has splintered into several groups and has fostered relations with the Taliban. The global radical Muslim group, Hizb-ut Tahrir, is also active in the region. In the late summer and autumn of 2010, there were several violent clashes, including a large-scale jailbreak in the capital, Dushanbe, and an attack by rebels on an army convoy in the Rasht district, some 200 kilometres from the capital. Kyrgyzstan is traditionally Tajikistan's closest neighbouring country Around 50% of the border between the two, with all of its enclaves and exclaves, has been determined through treaties. Kyrgyzstan has complained that more intensive monitoring of internal security in Tajikistan is leading to the establishment of new drug trafficking routes in Kyrgyzstan's territory.

The border between Uzbekistan and Tajikistan is a high alert area. There are both historical and current political and economic reasons for this. When the Soviet Socialist Republic of Uzbekistan was established in 1924 – within which Tajikistan was an autonomous republic until 1929 – the cities of Bukhara and Samarkand, which are areas of cultural and historical importance to the Tajiks, remained part of Uzbekistan. After the civil war, there was fear of a coup with support from Uzbekistan. An open diplomatic conflict had arisen between the countries over the construction of the colossal hydro-electric power station at Rogun, which Uzbekistan viewed as a threat to its cotton fields. In recent years, the environmental impact of this project, under way since Soviet times, has been subjected to an investigation under the auspices of the World Bank. Tajikistan sees Uzbekistan's objections as stemming from the fact that the power plant would make Tajikistan, which suffers from a severe energy shortage, a net exporter, especially to Afghanistan. This would threaten Uzbekistan's position in the market. Tajikistan is also aiming for a share of the Northern Distribution Network, required for the international support lent to Afghanistan. When, at the end of 2011, Uzbekistan stopped 23 freight trains en route to Tajikistan's southern province, on the pretext of extended repair works on an iron bridge blown up in an act of sabotage, Tajikistan claimed that this was an attempt to cut the country off from the distribution network. Relations between the countries continue to be marred by similar cases of traffic being halted, suspicions and mutual accusations. Both have brought their mutual conflicts before international forums, Uzbekistan in the area of environmental impact in particular, with Tajikistan focusing attention on the humanitarian problems resulting from consignments of goods being held up (including food and grain for sowing). The United States has declared its support for electrical energy production in Tajikistan, in order to serve the needs of Afghanistan. Russia is developing its own areas of cooperation with Afghanistan, Tajikistan and Pakistan, in an attempt to establish economic development that would hinder extreme Islamist movements, terrorism and drug trafficking, as well as the infrastructure they rely on in the region.

The Afghan border has been a source of anxiety for Russia ever since the Russian border guard ended its 70-year presence in 2006, with only experts, in the main, staying behind. Since late 2010, Russia has been pressurising Tajikistan to allow Russian guards onto the border with Afghanistan, due to terrorism and the significant increase in drug trafficking in the region. Tajikistan is sharply critical of this proposal, citing the need to defend its sovereignty and to avoid giving the impression that it is a failed state. It has also argued that control of the border crossing points would not suffice to prevent drug smuggling. Tajikistan cites its initiative in the UN in 1998, regarding broad international cooperation in order to create a security zone around Afghanistan, as a barrier against the drug trade. It emphasises the need for broad-based international cooperation in the control of its southern border, thus hoping to ease the pressure on its relations with Russia respecting the border. Experts in Dushanbe have also argued that, in order to safeguard stability in the region, Russia should play a clearer direct role in the Afghanistan region. From Tajikistan's perspective, this would form a kind of forward defence on the part of Russia rather than the other way round. For Tajikistan's own threat management system, which dates back to the civil war, it would be advantageous if the international community were to invest as heavily as possible in security within Afghanistan. However, since, in its own backyard, Russia is viewed as a key military factor, it would naturally fall upon the EU to build up the civil infrastructure.

The US has anticipated the situation beyond 2014, by informing Russia that it has no plans to establish military bases or a long-term military presence in Central Asia. When Uzbekistan closed its American base in 2005, Russia was concerned about unconfirmed reports that Tajikistan may become the location of a new base. At the time, relations between Tajikistan and Russia were settled in talks at the Kremlin between Presidents Putin and Rahmon. Russia has criticised Tajikistan for taking advantage of competition between the great powers in an attempt to 'extort' economic resources. Friction in recent years has increased with the news that the US is building a military training centre close to Dushanbe. The US has announced that such training is intended to focus on the war on drugs and that it will not maintain a military presence in Afghanistan beyond 2014. Tajikistan, like Uzbekistan, Kyrgyzstan, and Kazakhstan, is a member of the Collective Security Treaty Organisation (CSTO), headed by Russia.

When, in September 2011, Russia ended its attempts to return to the Afghan border, the related talks resulted in an agreement on the continuing existence of the second largest military base beyond Russian territory during the Soviet era, Division 201, for another 49 years. Tajikistan hopes to receive a considerable sum in rent when the agreement is signed, as planned, in 2012. Russia has suggested that its assistance in strengthening the capacity of Tajikistan's army would be sufficient payment. Earlier, Russia had promised to build the power station at Rogun instead of paying rent, but this proposal was blocked due to Uzbekistan's opposition, and the related agreements, made at company level, were not binding on the Kremlin. Since the end of 2010, tense bilateral relations, connected with Russia's bid to return to the Afghan border and Tajikistan's future ability to control the type of unrest seen in autumn 2010, have therefore been eased by a provisional agreement, although some of the details remain unresolved and controversial.

Tajikistan's exports (aluminium and uranium) and its energy supply are still in the hands of giant Russian companies. However, China is the biggest investor in the country, followed by Iran. Tajikistan's greatest external economic dependence is on Russia, since cash flowing into the country from migrant workers in Russia equates to around half of the country's GDP.

Kyrgyzstan

After the break-up of the Soviet Union, Kyrgyzstan seemed to have promising prospects for democracy: the country was even called 'Central Asia's island of democracy'. Ethnic unrest in the southern Kyrgyz city of Osh in 1990 appeared to have been forgotten, until the Tulip Revolution in 2005 introduced tensions between the south and north back to the surface. The ruling 'tandem' agreed at the time and headed by President Kurmanbek Bakiyev and Prime Minister Felix Kulov lasted just a few months, and Bakiyev and the southern Kyrgyz clans took over until a further uprising in 2010. The situation came to a head in bloody clashes between Kyrgyz and Uzbek groups in Osh in summer 2010.

President Almaz Atambayev is the fourth president since 2005. The constitution, reformed in 2010, which established the first parliamentary republic in Central Asia, constitutes a bid to create stability in the country. On the other hand, Russia has publicly expressed its concern about the new constitution's impact on the country, fearing that Kyrgyzstan will become 'completely ungovernable.'

Kyrgyzstan's strategic importance to Russia is not as great as that of its larger neighbours, Uzbekistan and Kazakhstan. Nevertheless, Russia has a defence agreement with the country, and a military base at Kant, near Bishkek. This is in spite of the wrangling over the terms and conditions of maintaining the base there when, in spring 2012, President Atambayev demanded that Russia pay the 15 million dollars it owed in rent. Russia claims that no such rental agreement was ever made. In 1994, Kyrgyzstan formed a Central Asian economic and defence union with Kazakhstan and Uzbekistan. Since 2000, it has also had a military agreement on cooperation with the United States. Kyrgyzstan is the only country in the world that has both Russian and American military bases.

Compared with their predecessors, Kyrgyzstan's new rulers have been more restrained, even obdurate, in their dealings with Russia: This led to a visit to the country by Russian Foreign Minister Sergei Lavrov in April 2012. It is difficult, however, for a poor country like Kyrgyzstan to enact domestic policy without Russia's help, being dependent on joint energy projects as well as being badly in need of new (Russian) investment. In addition, massive, employment-based migration to Russia keeps Kyrgyzstan in thrall to the larger country.

The country's humanitarian situation has been problematic throughout the period, being catastrophic in years of poor harvests, since Kyrgyzstan is largely dependent on agriculture. The only important export is gold, from the mine at Kumtor. The disturbances in 2010 also led to economic problems that harmed Kyrgyzstan infrastructure and reduced trade. The country is heavily in debt, its financial problems giving Kazakhstan and Russia a major say in its domestic policy-making.

Kazakhstan

The frontiers of the Central Asia countries were drawn up in the 1920s. At that time, Kazakhstan acted as a buffer state providing stability in Soviet Central Asia. In Russia's eyes, it still has that role. Of the countries in Central Asia, Kazakhstan has the best relationship with Russia. Also, within the CIS, Kazakhstan is among Russia's closest partners, together with Armenia and Belarus. Since the mid-1990s, President Nursultan Nazarbayev has supported closer ties with the CIS, although Putin's bid for Eurasian integration has put Kazakhstan on the defensive. Russia actually called on Kazakhstan to sign the agreement to form the Eurasian Union as of 2015, but Kazakhstan has continually dodged the issue and has not agreed to sign. Kazakhstan's view of Eurasian integration is that it is merely an economic project, involving no surrender of sovereignty. Russia's relations with Central Asia are characterised by the 'dependency and resistance' principle – there are also signs of this in its relations with Kazakhstan. The relationship will thus function as long as Kazakhstan is not a democracy. On the other hand, Nursultan Nazarbayev is old, and the question of who succeeds him remains undecided. The issue is made all the more difficult by, for example, the fact that ethnic Russians (25% of the population) fear what will come after Nazarbayev. From the viewpoint of stability, the ideal scenario would be for power to change hands within the same family, as in the case of Azerbaijan, but this would not be possible in Kazakhstan. In the worst-case scenario, when Nazarbayev stands down there will be a bloody struggle for control of Kazakhstan's wealth of natural resources. Several factors point to this, including the unrest in December 2011 in the oil-producing areas of western Kazakhstan. It may be symptomatic of the row between clans and various districts that most of the revenue from oil flows to the clans in Astana and Almaty. Nowadays, Kazakhstan says that it intends to address the problem of regional inequality and will seek, for example, to diversify the economy of the country's monocities (monogorods).

Uzbekistan and Turkmenistan

Uzbekistan and Turkmenistan are among the world's most closed countries, with two of its most dictatorial governments. The human rights situation in both countries is of great concern to the West. The EU has frequently been accused of putting energy policy before human rights. A good example of this is the discussion on the Nabucco gas pipeline and whether the West can link human rights issues to the debate on the Caspian Sea gas pipeline.

Uzbekistan has huge reserves of natural gas, as well as a relatively good infrastructure for taking gas out of the country. When Vladimir Putin came to power, Gazprom and Uzbekneftegas signed a cooperation agreement on oil and gas, since when both Gazprom and Lukoil have been active in the country. Relations between Russia and Turkmenistan continue to be more dominated by natural gas, Turkmenistan's gas resources being the largest in the former Soviet Union after Russia. Turkmenistan's first president, Saparmurat Niyazov, established a system whereby, in practice, all exports of the country's natural gas were made via Russia. The new president, Gurbanguly Berdymuhamedov, has cautiously attempted to open up the country, which could be hugely important to the future of Russian relations. Berdymuhamedov has also made symbolic gestures towards democratising the country, such as permitting the existence of a multi-party system, albeit under the watchful eye of the state. The potential for crisis in both countries relates to movements within them. Some experts believe that the presidents and their clans, ruling over very closed societies through dictatorships that use exit visas to control the free movement of people, appear to have taken fright when the Arab Spring flared up. If the democratic movement were to spread next door to Iran, it would inevitably have an impact on Turkmenistan and Uzbekistan too. The latter has opened the door somewhat to the EU: President Islam Karimov has visited Brussels, and, as a result, Uzbekistan has agreed to open an EU delegation in Tashkent. Human rights activists are unhappy, however, as the bloodbath in Andizhan has still not been investigated.

4. Economic relations between the CIS countries and Russia

Economic integration

Since the break-up of the Soviet Union in 1991, trade and economic relations between Russia and the CIS countries have not resulted in any serious conflicts that were irresolvable through negotiation, either before any harmful measures were taken or fairly soon afterwards. The risk of conflict has diminished. In part, relations that are a legacy from the years of the Soviet planned economy as well as economic rapprochement, that began in the early 1990s and is based ever more on market conditions, have maintained and developed interaction between the CIS countries. This has happened via the developing joint institutions at the level of decisions taken by country leaders and officials and as a result of increased trade and other economic relations between people.

There are risks of internal crises within the separate CIS countries, associated with the economy. Unrest would be possible if the economy underwent a serious recession and unemployment grew significantly, or if there were a sudden, sharp rise in the prices of food in people's shopping baskets. In some of the poorest CIS countries, a recession, especially one in Russia, would weaken its situation, with the return of some of its migrant workers to their homeland.

The institutional processes of economic integration

Over the last 20 years, more than 1,000 intergovernmental agreements have been concluded between Russia and the CIS countries, and these have created arenas and networks shared by the countries' leaders and officials. Some of these trade and financial agreements have been intended for joint production and investment projects redolent of a planned economy, but, over time, the agreements have led the parties closer to a position where the participant countries have established frameworks of rules for normal, demand-led foreign trade and investment between companies. As in the case of the more global agreement systems, these agreements contain provisions on the settlement of disputes, which also reduce the risk of trade wars between members.

Russia and the CIS countries have only gradually established frameworks of rules for mutual trade. Free trade agreements were concluded back in 1993–94. Based on these agreements, the import of duty-free goods originating in a partner country has extended in scope over time. A new multilateral CIS Free Trade Agreement was signed at the end of 2011.

Relations between Russia, Kazakhstan and Belarus became all the closer when a customs union agreed between them in 1995 became a reality in 2010. The process, which has hitherto focused on mutual exemption from customs duty and a common external tariff, as well as the lowering of other barriers to trade in goods, continues: under an agreement made in 2000, the objective is a Eurasian Union, in which there would be freer movement of services, capital and labour, a common industrial policy, and even a macroeconomic policy (common currency and a state budget policy).

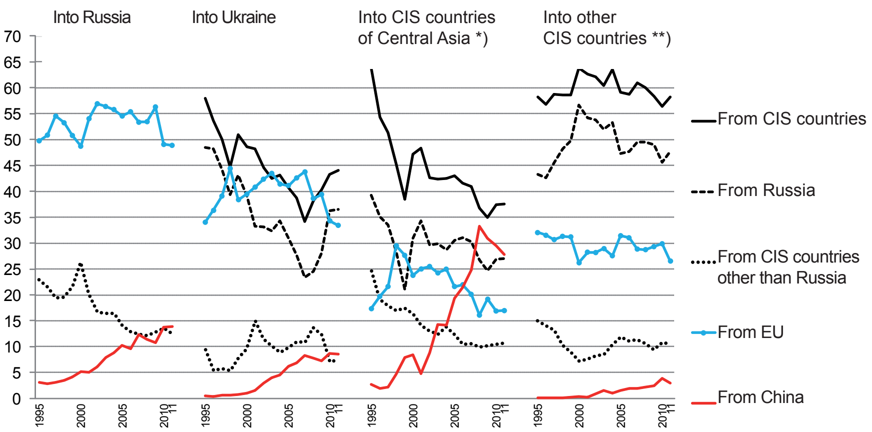
The Eurasian Union, above all, will be a political and economic process. If its members are in favour of such a development, the Union will automatically discriminate against and thus entice CIS countries that trade significantly with its members, to join. In addition, it is thought that the re-export of goods from certain neighbouring CIS countries of the customs union to member countries will become problematic. As part of a larger market area, opportunities for making foreign investment attractive will improve. Kyrgyzstan and Tajikistan are considering joining the union. With regard to foreign policy, the customs union will lock its members into a trade policy, and free trade with the outside world will only be possible if the entire union is a party to the arrangement. Ukraine, a country that is very important to Russia, has decided to stay out of the customs union and instead to sign a free trade agreement with the EU, that has now been negotiated. Moldova and Armenia have commenced talks on free trade with the EU. There are suggestions that the customs union will mean an increased risk of smuggled goods entering its area and, ultimately, Europe. On the other hand, it has so far been difficult to control Kazakhstan's long borders satisfactorily anyway.

The risk of trade wars between CIS countries is also diminished by Russia's accession to the WTO (in mid-2012, in all likelihood), which will make its bilateral relations with CIS countries already in the WTO subject to the WTO's provisions on the settlement of disputes, with respect to all Russia's WTO commitments (Ukraine and three other CIS countries are in the WTO, and Kazakhstan, Belarus and three other CIS countries outside the customs union are negotiating WTO membership). But most of the remaining CIS preferences will be lost. With respect to all members of the WTO outside the customs union, Russian WTO membership will reduce risks in trade policy for the entire union, since some of that policy will be subject to the WTO's rules on disputes. However, Russia only intends to sign up to the WTO agreement on public procurement at a later stage*.

Trade and investment

Custom duties and other trade barriers do not necessarily determine how trade fares (the external tariffs employed by the three CIS customs union are around 10% on average, which will fall very soon by around 2% after Russia joins the WTO). For now, the competitiveness of the CIS countries extends to the fact that they mostly trade in energy, metals and agricultural products between one another. As staples, they have not been, nor are they likely to be, the fastest growing segments in the foreign trade of CIS countries. The CIS countries have seen a decline in their share of the CIS market over the years, and the market share of countries other than Russia has plunged to around a tenth. While Russia and the CIS countries have been building institutional frameworks of rules on trade and other kinds of economic integration, it is especially China – even without Russia's WTO commitments and those of the CIS countries just heading in the direction of WTO membership, or its free trade agreements with the CIS countries – that has used its competitiveness to surround consumers with goods, as well as supplying companies to a growing extent, in Russia and the other CIS countries, just as it has done elsewhere in the world (see following figure). In some Central Asian countries, China now accounts for a third of all imports, and in Kyrgyzstan considerably more, if the re-export of Chinese products is included. Trade is bringing the nations closer, and, in general, interruptions in trade due to exceptional circumstances can be rectified relatively quickly.

Imports from various country groups, percentage shares
(according to export data for the exporting country)



*) Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan, Tajikistan
**) Belarus, Moldova, Armenia, Azerbaijan
Sources: IMF, Rosstat

The trade in energy is more problematic. Some CIS countries are very dependent on the others for the energy they import: Ukraine, Belarus and Moldova, which import all their gas along pipelines from Russia, are heavily dependent on imported gas for energy consumption. The situation is the same for nearly all of Armenia's gas. Kyrgyzstan and Tajikistan import all their gas from another single CIS country. There are risks attached to the reliability of the supply and flow of energy along pipes and cables – as there are with the transportation of other imports in countries with no suitable seaports. Even Russia, as a producer, has encountered transit problems with its gas in Ukraine, and has also linked pricing issues between Russia and Ukraine to the supply of gas, as a result of which there have been interruptions to the supply of gas to users in Europe. Certain energy pipeline projects in the CIS countries are establishing more transit routes within the CIS.

It is all too easy to interrupt the flow of energy and such disruptions are fairly difficult to predict: it often has non-economic motivations. It takes take time for energy users to find other alternatives. On the other hand, the use of energy and its transportation as a weapon also results in losses for the producer and transit country. Energy pipelines and cables can of course function as tools for the short-sighted marring of relations, but at the same time they represent ties between producer, transit and user country and tend to improve the way the countries interact with one another. Furthermore, some of the pipelines built in recent years, and to be built in the next few years, which run directly from the producer to users, eliminate the risks attached to the transportation of energy via a transit country. There would also be less risk of the non-availability of energy in the countries purchasing it if the energy producer country controlled its transportation through an unstable transit country. An example of this is Russia's state energy giant Gazprom, which owns transit companies in certain CIS countries. Russia has suggested to Ukraine too that it could provide the country with cheap gas in exchange for this arrangement, but Ukraine has so far been unwilling to accept the offer.

China, which needs ever more energy, is also changing the situation with respect to the trade in energy within the CIS countries. It has increased and continues with attempts to increase imports of energy from Russia (an oil pipeline is in operation and a gas pipeline is being negotiated) and from other CIS countries (an oil pipeline from Kazakhstan and a gas pipeline from Turkmenistan have been operating for a few years now). The China dimension in the east has weakened Russia's position as a transit country to the West, which Russia had previously used to its advantage by purchasing gas cheaply and selling it on at a higher price.

Russia and China are major sources of direct investment in some of the CIS countries. The extent of their presence varies. China has surpassed Russia in Kazakhstan and Kyrgyzstan, at least, but China's share for now is not as great as that of some of the largest industrialised countries. Given the experience gained till now by the CIS countries and others, as the parties involved become closer in terms of trade and mutual frameworks of integration, political, trade-related and legal solutions will need to be introduced, if necessary, to protect normal activity under foreign ownership. There is a danger of conflict if enterprises that were privately owned were to be nationalised in the country in which they were located.

Economic development

Amid the vagaries of the global economy, it is highly possible that the CIS economies slipping off their growth path over the next few years. Recessions in the key purchasing countries could easily spread to the fairly open economies of the CIS countries, their share of exports being so considerable (in six of the eleven CIS countries this accounts for at least half of GDP, and in three, 30-40%). Furthermore, a considerable proportion of the exports from these countries consists of staples, whose prices are prone to large fluctuations. Only the CIS countries of Central Asia have coped since the previous global recession in 2009, with no economic decline or halt in growth. Lower standards of living, as production and income and employment levels fall and the prices of staple commodities rise substantially, would place particular pressure on the leaders of countries where the standard of living is already low.

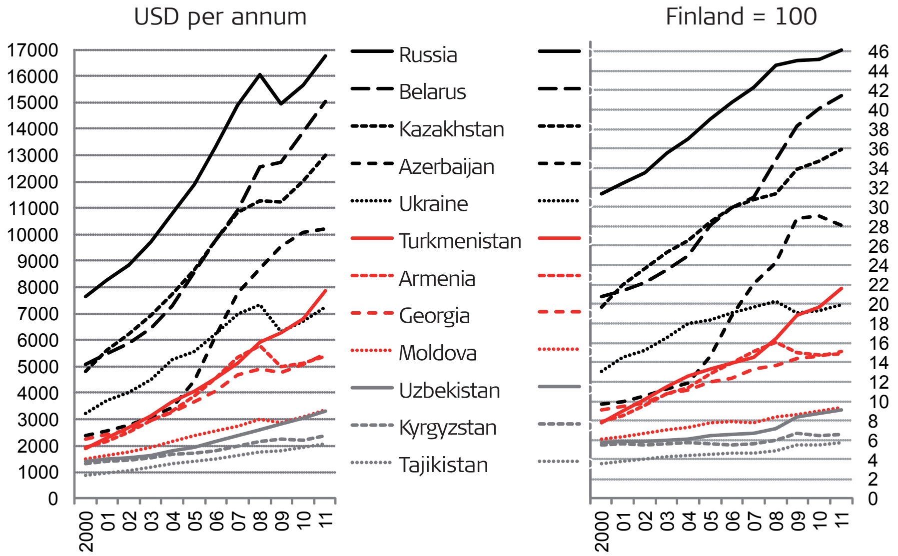
In recent years, the unemployed in CIS countries have accounted for 6-9% of the work force. The exceptions are Belarus and Uzbekistan, which keep the employment rate high by means of a partially planned economy. The other exception is Armenia, which has a very high rate of unemployment (the actual unemployment rate is difficult to estimate, as some of those registered as unemployed work unofficially, while some who want to work, at least in principle, are registered as being entirely outside the workforce, because they are not jobseekers). Unemployment benefit does not amount to much in the CIS countries, where standards of living are already low in any case, though differences in income are fairly considerable. In some CIS countries, the situation in the event of recession would be made worse by a reduction in the money flow consisting of the cash that those working abroad, mainly in Russia, send home. This accounts for as much as a quarter of GDP (Moldova and Kyrgyzstan), or even 40–50% (Tajikistan). Moreover, some migrant workers might return home in a recession, adding to the unemployment burden there. A fifth, a quarter or as much as a third of the labour force in these countries is employed abroad.

Risks attached to prices in the global economy are mainly declining for the time being, but risks of this kind will be associated with energy and agricultural products in the future. In countries with low living standards, staple commodities account for a large share of consumption (even in Russia, where per capita income is the highest across all the CIS countries, they account for almost 45%, with food alone accounting for 37%). Prior to the dramatic increase in global market prices for food and energy, for example, inflation had slowed down in all CIS countries to around 10%, but it sped up again in nearly all of them to 15–30% in 2008. The effect of a rise in energy prices would of course vary. The five CIS countries that are major net exporters of energy would benefit, as they have hitherto.

A fairly good rate of growth is predicted for the CIS economies generally, at least until the latter half of the current decade, as low productivity leaves plenty of scope for improvement. But issues of growth and development in the CIS countries are associated with the risk of internal crisis. Without industrial development, economic growth could slow down substantially or even come to a standstill, with relatively low standards of living, since only in a couple of the CIS countries could the economy's major reliance on the production of energy and other staple commodities boost the economy and appreciably raise the living standards of the population as a whole.

The diversification of the economy naturally requires investment in sectors other than those that produce staple commodities. This kind of investment accounts for very little of the total in the CIS economies, and in the global context, the CIS countries are at the centre of competition between companies for investment opportunities. Many densely populated Asian countries continue to compete through low salaries, though also with a better trained workforce. More and more countries in Asia and elsewhere have also been paying increasing attention to the improved business environment. With regard to this, in comparison, the CIS countries achieved mixed results but came out badly overall. For example, in the annual comparison of more than 180 countries undertaken by the World Bank, they ranked, with fairly even gaps between them, from 47 (Kazakhstan) to 166 (Uzbekistan). Holding back on much-needed reforms gradually increases the risk of a slow-down in economic growth and the creation of higher living standards (see following figure).

PPP per capita GDP



Source: IMF

5. Conclusions: the significance of the potential for crisis in Russia and the CIS countries, and its effects on Finland and the European Union

The western CIS countries

With regard to European security in general, if the situation becomes critical and NATO expands to include Moldova or Ukraine, Russia is likely to see a revival in old-style nationalistic attitudes and support for a strong armed forces. This would aggravate the political instability and general unpredictability beyond its borders. On the other hand, how Russia will view Ukraine's EU aspirations remains an open question. In terms of the EU-Russian relationship, however, non-compliance with the Copenhagen criteria is causing difficulties.

In any analysis of the situation with respect to Finnish security, the EU-Russian relationship is of paramount importance. However, it is also worth focusing attention, for example, on stability in Belarus: a change of government there, along with possible acts of violence, could mean refugees pouring into Finland via the Baltic countries. Belarus is a European country, economic collapse and/or internal violence would have an inevitable impact on Europe too. There are no border controls between Belarus and Russia. The EU would unquestionably have to respond and try to support any new, more democratic administration in Belarus, in the event that such a government arose there. Then again, the continuance of democratic elections in Ukraine could strengthen Russia's position.

The issue of Transnistria impacts on Finno-Russian relations, based on the positions adopted on the matter by Finland. A diplomatic conflict may arise if Finland, as part of its EU policy, adopts universal conventional policy positions, condemning Russian activity in the area. For the EU, a united Moldavia may either be considered a political defeat, in terms of the EU's inability to finally promote a solution to the conflict, or a victory gained at a high price (in euros). This would be a thankless task for the EU, by virtue of its relationship with Moldova, in that Russia would determine the political and economic price to be paid, while its participation in security arrangements within Europe could not be decided upon within the context of the EU.

What might be the effects of the Transnistria question on Russian stability? There would be a setback in the conflict resolution process if the dividing lines in European security were to become starker. Like I. Smirnov, J. Shevchuk, who was elected to lead the PMR (Pridnestrovskaja Moldavskaja Respublika) in December 2011, could propose that Iskander missiles be based in Transnistria, thus sending out a message on Russia's political options. But if the European security cooperation desired by Russia makes no progress and geopolitically motivated nationalist sentiment holds sway, it is possible that Russia will take steps to recognise the PMR's independence and, at the same time, (as in the case of Abkhazia and South Ossetia) continue to deepen cooperation in the region with federal subjects, harmonising legislation as appropriate. A development of this sort in Moldova would strengthen ties with Romania and further Moldova's attempt to join NATO. Since such a development does not accord with Russia's objectives, it would be in its interests to remain at the negotiating table, even if a federal structure and the accompanying right of veto in Moldova's security policy did not seem possible in the short term. But if Russian participation in building European security does not succeed in the hoped-for manner, recognition of Transnistrian independence is a very real alternative scenario. This is not a priority goal for Russia, but the details are already being prepared for such an outcome.

South Caucasus

What is of interest to Finland is how Russia treats its neighbours. Will it resort to military solutions or can tensions between Russia and Georgia, for example, be eased through increased trade and other kinds of interaction between them? There are also indirect effects associated with refugees. A recurrence of war in the South Caucasus would result in further streams of refugees, who might head for Finland. And if there were a visa waiver agreement between Finland/the EU and Russia, it could cause a wave of refugees to come in from Armenia and Azerbaijan in particular, as these countries have a visa waiver arrangement with Russia. For Finland, the potential risks linked to prolonged conflicts could escalate dramatically if Finland and Georgia decided to become members of NATO in the review period up to 2020, without the conflicts over Abkhazia and South Ossetia being resolved. In such a scenario, the re-escalation of the prolonged conflicts in Georgia would put Finland, as a new member of NATO and a neighbouring country of Russia, in an awkward position. However, as has been mentioned, the likelihood of another war is relatively small.

The European Union Monitoring Mission is now the only international actor in Georgia, the UN and the OSCE having had to leave in the aftermath of the war in 2008. If the conflict were to flare up again, the employees of the Mission would be in immediate danger. Its biggest current problem is its inability to fulfil its mandate or enter the regions in South Ossetia and Abkhazia controlled by Russia. This also contributes to the region's instability.

In the previous war, Russia did not damage the pipelines used for exports of oil and gas that passed through Georgia, though it showed that it could do so if it wished. Furthermore, if the conflict over Nagorno-Karabakh were to recur, this would have disastrous consequences for energy transportation routes in the region. This in turn would pose a threat to the EU's energy security, especially if Azerbaijan's gas export pipelines were connected to the European gas network.

The greatest threat to Russian stability lies in the troubled republics in the North Caucasus, in any development where either the conflicts in South Caucasus spill over or there is a major terrorist attack against those opposed to the extremist movements in North Caucasus (e.g. at the Sochi Winter Olympic). Then again, the quarrel between Israel/the USA and Iran over the latter's nuclear programme could create a link to the conflicts in South Caucasus, if Israel used air bases in Azerbaijan or its territory as a base for air strikes against Iran, and Iran responded to the attacks on its nuclear programme with military action against Azerbaijan (or even Georgia), and, in particular, Azerbaijan's energy infrastructure. Even if Iran did not attack Azerbaijan, the prolonged conflicts in South Caucasus could re-escalate in the shadow of clashes between Israel and Iran, as the world's attention would be fixed on the more dangerous conflict in global terms, and if the West had to commit its military capacity to protecting Israel from a counterstroke from Iran. If the crisis in Syria spread to Turkey, that could also have unforeseeable consequences for South Caucasus. In the period up to 2020, Russia's response to military threats in or from the CIS area would take the form of selective unilateral action, or a 'coalition of the willing' based on common interests.

Central Asia

The EU's key challenge in Central Asia lies in balancing energy interests with the situation in Afghanistan and political and human rights. All of these are significant factors in the EU's, and therefore Finland's, Central Asia policy. It should be realised, however, that the EU can only engage in any real human rights dialogue at present with Kyrgyzstan, Kazakhstan and Tajikistan. A major human rights crisis and/or internal conflict in the region (the Fergana valley being a possible cause) would affect the EU in terms of flows of refugees and the need for humanitarian aid and diplomatic assistance. In addition, any inability to control terrorism and drug trafficking in the region would have an impact on the security of Europe as a whole, including Finland.

Tajikistan is part of Russia's defence system, and this relates to the threat in Afghanistan. Russia has expressed its concern about the fact that, as the USA and NATO loosen their grip, the threat of terrorism in Afghanistan will increase via Uzbekistan and Tajikistan. Any strengthening of radical Islam would inevitably be reflected in the political situation in the North Caucasus, thereby impacting on Russian political stability.

More indirect risks to Russia' stability include the prospect of growing tensions between ethnic and religious groups resulting in clashes in Central Asia, especially if they become conflicts between countries, in which Russia would have to intervene, either alone or with a mandate/assistance from the CSTO or the Shanghai Cooperation Organisation. Factors increasing the potential for conflict include both Islamist radicalisation in Central Asia and drugs passing through the region, both of which could become more problematic for Russia, as the US and western countries gradually withdraw most of their troops from Afghanistan. Perhaps the most alarming scenario, from the perspective of security and stability in both Russia and the CIS, is the threat of a potential crisis relating to the control of natural resources and to ethnic-religious issues in Central Asia becoming more directly linked to growing instability in Afghanistan and a possible new civil war there. In such a scenario, the interests of Pakistan, India, Iran and China would extend into Central Asia.

A risk factor associated with Central Asia, particularly affecting Kyrgyzstan and Tajikistan, relates to natural disasters (earthquakes, drought) and humanitarian crises. From the EU's point of view, Kyrgyzstan is mainly a recipient of aid: there is relatively little trade with the country. The EU seeks to support the peaceful process of transition in Kyrgyzstan and is trying to help it to modernise its infrastructure and resolve humanitarian problems.

As for the most stable Central Asian country, Kazakhstan, the EU's key interests are connected with oil and other natural resources. The country's dire situation with respect to democracy, however, is causing friction. Kazakhstan's possible 'democratisation' will depend on factors within the CIS, movements in Belarus, standing up to Putin, and perhaps the situation in Kyrgyzstan. Kazakhstan is oriented towards Europe, i.e. it is keen to adopt European-style modernisation and technology, though not European democracy. The country is seeking a new PCA agreement with the EU, largely for reasons of status, in order to demonstrate that it is a leading country in Central Asia.

It is problematic for Finland's adopted human rights policy that Russia is using the position of migrant workers as a tactical political weapon in bilateral relations with Tajikistan. Finland could best promote ethical guidelines through multilateral diplomacy and organisations – guidelines that do not permit use of the worsening plight of migrant workers as a diplomatic sanction. Tajikistan is part of a zone of instability. In Russian eyes, by comparison the stability and problem-free nature of the frontier with Finland are worth preserving.

Conclusion

Finnish security is closely linked to the EU's relations with the CIS countries. For geographical and historical reasons, however, Finland enjoys special status in its relations with Russia and the CIS, and if conflicts on hold were to flare up into a state of war, or natural disasters or ethnic conflicts occurred in the region, these would also inevitably have an impact on Finland, in the shape of refugee streams and political challenges with respect to Russia. The region is also quick to react to cycles in global politics: economic crises and democratic movements of the type represented by the Arab Spring have an effect on the CIS countries, at least indirectly. For Finland and the EU generally, it would be important to monitor developments in the region on a systematic basis. Where possible, in order to minimise future threats, they should also participate in the region's general development, through diplomacy, cooperation and various types of assistance.