RUSSIA in GLOBAL AFFAIRS

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Islam Karimov has never made a secret of the fact that he does not separate the notions of 'Uzbekistan' and 'President.' Karimov's brainchild has gone through numerous harsh tests over the past two decades but now it is facing the harshest one. The challenges are too momentous to be matched by the experience of Soviet-era nomenklatura, even the one bolstered by the nationalistic aspirations that always go hand-in-glove with the construction of a new statehood.

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The divergence between reality and axioms generates chimerical categories, unrealistic in life, such as the "free market economy," "rational economic agents" or the "state of balance." These are hypothetical abstractions at best, but more often they are propaganda clichés. They are not found in nature and therefore are useless in practice.

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The end of the active stage of the crisis does not mean an automatic return to the old situation. We are likely to see a fundamental overhaul of the global economic system during the next few years. The role of the state as an initiator of development programs may grow to a level beyond which the free market idea may be invalid.

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New Problems and Old Mentality

Fyodor Lukyanov, Editor-in-Chief

The problems of national and global security have once again come to the fore in recent months. Russia, the United States and other leading states and their alliances (NATO and the Collective Security Treaty Organization) are trying to adapt to the constantly changing environment. In many cases, the reality outruns people's mentality, which remains a captive of views inherited from the past decades.

The recently adopted Military Doctrine of Russia continues to rank NATO first among probable "dangers" and insists on the preservation of mobilization capacities in case of a major conflict. Meanwhile, **Vitaly Shlykov** analyzes in this journal the rapid and unprecedented transformation of the Russian Armed Forces. He argues that the Soviet military organization, which was based on mass mobilization, has been replaced by a modern army capable of meeting 21st-century challenges. The architects of the military reform actually (but not officially) proceeded from the assumption that it is regional conflicts rather than world wars that threaten Russia, which is at variance with the new doctrine.

Sergei Karaganov examines why the international security agenda, now discussed in Moscow, Washington and European capitals, is reminiscent of discussions of 30 years ago and where it may lead. The "strategic havoc" was caused by the lack of understanding of how to respond to the fundamental changes taking place in the world.

Konstantin Kosachev writes about NATO-Russia relations, now being rethought by both parties. In his view, the negative experience gained by them during the Cold War and in the post-Cold War years is the only obstacle to their practical interaction. Objectively, Russia and the alliance have no disagreement about the perception of real threats or the interpretation of basic values. The author is convinced that Russia and NATO can create a stable security system in Europe and in the Northern Hemisphere as a whole only if they pool their efforts.

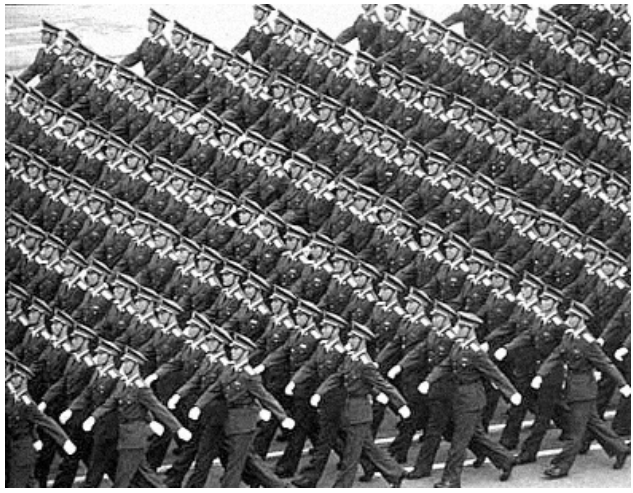
Nikolai Kapitonenko proposes opening a new page in relations between Moscow and Kyiv: Russia and Ukraine can stop being political antagonists and become close partners, if they recognize their mutual security needs. Then, the author is confident, the painful NATO membership issue will no longer be relevant. **Anton Lavrov**'s article about the deployment of Russian troops in Abkhazia and South Ossetia after the August 2008 war is a reminder of the "hottest" page in relations between Russia and Western countries in the recent past.

Still, the post-Soviet space remains an arena of geopolitical and economic competition. **Andrei Suzdaltsev** analyzes whether the Customs Union of the Eurasian Economic Community (EurAsEC), formally in effect since January 1, can stop the economic expansion of the European Union and China to former Soviet republics. He argues that the Customs Union is a half-baked project and that political motives behind it prevail over economic calculations. Turkish Foreign Minister **Ahmet Davutoglu** writes about regional conflicts and emphasizes that countries of a given region, rather than external forces, must play the leading role in their solution.

Alexei Bogaturov discusses the identity problem faced by newly independent states, specifically in Central Asia, which have to constantly maneuver between various centers of power. **Arkady Dubnov** analyzes the development of Uzbekistan since it gained independence and wonders why this country, which aspired to play a prominent role in Asia, now is experiencing serious political and economic problems. **Svyatoslav Kaspe** discusses why the paths taken by Russia and other former Soviet republics are diverging. He holds that this divergence will persist until Moscow stops clinging to the vestiges of the Soviet identity.

Although the acute phase of the global economic crisis is over, our authors continue studying its causes and consequences. **Maxim Shcherbakov** points out the impotence of economic science, which he explains by the habit of economic experts to apply old instruments of analysis to the basically new situation and to cling to "habitual axioms" instead of recognizing the reality. **Timofei Bordachev** notes that researchers do not have theoretical instruments yet that would let them analyze the global economy as deeply as they analyze global politics. **Vlad Ivanenko** holds that the scale and duration of economic problems have not been fully understood yet and this is especially dangerous for export-oriented countries, including Russia.

Grand Strategy



No use seeking military parity in today's world

“An influential segment of the Russian expert community shares the idea of a resumption of talks over a reduction of conventional forces in Europe. This is being done in spite of the fact that in the past such talks merely fanned mutual fears and brought to the fore a very artificial and harmful idea of a balance (equality) of forces in Europe and the sub-regions.”

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Strategic Havoc

Echoes of the Past Wars

Sergei Karaganov

Last year was quite eventful in military-strategic terms. Russia and the United States remained locked in tough-going talks over strategic arms reductions. The odds are they may soon deliver a treaty. Then there will follow a no easy period of ratification in the United States. The Republicans in the Senate will do their utmost to strip Barack Obama of this sign of success in the sphere of disarmament that the U.S. president had declared a priority. The more so since, as everybody knows, Russia has not made any major concessions – in contrast to the previous rounds of strategic arms cuts.

Nor has there been any "resetting" of Russian-U.S. relations – something a future treaty, if the official version is to be believed, was expected to help bring about. The chances of such resetting at some future date look very slim. Even in case the treaty is signed and successfully ratified, one can hope for nothing more but a further drift of Russian-American relations to normal, for a slightly warmer "Cold Peace."

That the degree of distrust remains high was seen in Russia's response to yet another noteworthy development of the past months on the military-strategic front.

SIGNS OF STRATEGIC CONFUSION

First, the United States ditched the Bush Administration's plans for placing a radar in the Czech Republic and a dozen or so interceptor missiles

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in Poland, which, in theory, might have been used against Russia's strategic forces. Those plans had invited a shower of criticism from Moscow, although similar missiles that have been deployed in Alaska have proven their inability to intercept anything more serious than targets flying along a path well-known beforehand. It looks like they were a sheer waste of money, the previous Administration's sacrifice to its own fanatical obsession with the idea of having an anti-missile umbrella overhead.

Pragmatic Obama and his very pragmatic Defense Secretary Robert Gates stopped toying with this scheme – not because they wished to make something nice for Moscow, or to "reset" relations with it. They just decided against pouring more money down the drain.

Pretty soon the U.S. Administration came up with its plans for creating and putting in place by 2015 some new interceptor missiles. As follows from what has been written and said about them so far, they will surely be designed to intercept not strategic but intermediate-range missiles. Hypothetically Iran may have these missiles some day, and the future interceptor missiles will be expected to down the still hypothetical Iranian weapons.

The interceptors may be stationed in Romania and Bulgaria. The weak and dependent leaders of these two countries have already declared with enthusiasm that the future weapon systems will be highly welcome. But they can have no idea of what exactly they are saying YES to.

Moreover, the Americans have declared that this new regional missile defense system of the future will be complemented with the Aegis ship-based BMD.

The news the American are planning to have a new missile defense system deployed in two countries in Southeastern Europe has raised many eyebrows in Russia. No official in Moscow had received any advance notice, contrary to the original promise not to take any unexpected moves.

In the semi-official expert circles some began to speculate that a future new system would be far more dangerous to Russia than the original one, designated for deployment in Poland and the Czech Republic. Such fears were voiced even though the new plans are still nothing but sheets of paper, and the chances they will materialize look vague. Moreover, we do not have any intermediate-range missiles for these intercep-

tor missiles to intercept. As for similar interceptors that have been operational in Japan for sometime already, they have never caused any fears in Russia in the past. Yet the Americans continue to be suspected of crafty designs.

I believe that a large segment of the expert community will get still more suspicious when it has leafed through the open version of the missile defense overview that the U.S. Department of Defense made public in February. True, it declares the intention to drop plans for some, most ineffective of the missile defense systems that have been researched into. Vague hints are made at the possibility of cooperation with Russia on missile defense issues. But the very same report contains some statements so inadequate and so openly aggressive that just reading them leaves one gaping for breath. For instance, the overview maintains that the missile threat has been growing quantitatively and qualitatively, and that this trend will persist. This is said at a time when the Russian missile potential has undergone tremendous reductions over the past decades. And one cannot but throw up hands in bewilderment at the news that the list of missile threats to the United States mentions other countries' efforts to better the protection of their own missiles from a pre-emptive strike. At a certain point, Russia's Security Council Secretary came under plenty of fire for just raising the question if it might be a sensible idea to consider a defense concept envisaging the possibility of a pre-emptive attack. The very same Americans who were quick to join their voices to that chorus of criticism now say in a very matter-of-fact way that the possibility of a pre-emptive strike is part and parcel of their own policy.

I will not bother the reader with further technical details or tell more scare stories about weirdly-sounding statements one can hear from the Pentagon, especially as the overview and the declared plans are not worth a lot, at least for now. The way I see it, both are intended to woo that part of the U.S. political elite that got furious over the Obama Administration's decision to call off the deployment of strategic missile defenses in Poland and the Czech Republic; also they are expected to intimidate the North Koreans and, what is still more important, the Iranians, who have come close to acquiring nuclear capability and been testing – rather unsuccessfully – their own intermediate-range missiles. (It remains unclear, though, how a missile defense system can deter

Iran. If some regime in that country or terrorists ever lay hands on nuclear arms and have an idea of using them in an aggressive scheme, say, for intimidation, missiles will hardly be their delivery vehicle of choice. It will be far easier for them to try to deliver the nuclear charge to the selected destination on board some ship.)

RE-MILITARIZATION INSTEAD OF DE-MILITARIZATION

The strange things about the latest military and strategic innovations are many, indeed. Here are some more.

To sugar the pill Poland had to swallow when it heard the humiliating news a missile defense system will not be deployed in its territory after all (and that happened after so many years spent on persuading Warsaw to agree to display solidarity with Big Brother America), that country was promised several air and missile defense systems of the older generation – the Patriots. The Poles said they wanted to have them for protection (a very ineffective means of protection that one would be) from the Iskander missiles Russia had promised to bring to its westernmost exclave region of Kaliningrad in retaliation for deployment of a strategic missile defense in Poland. Gone are the missile defense plans. There will be no Iskanders in Kaliningrad, either. But the Patriots will be delivered anyway. What for is anyone's guess.

The farther in, the deeper. In early February, the foreign ministers of Poland and Sweden – Radoslaw Sikorski and Carl Bildt – co-authored an article in which they urged Russia to withdraw tactical nuclear arms from regions neighboring the European Union, including the Kaliningrad Region – where there are none of them.

Nuclear warheads might have been used to arm the Iskander missiles, but there will be no Iskanders in the region now. Also, the two foreign ministers suggested entering into negotiations with the aim of either eliminating tactical nuclear arms altogether, or removing them from Europe. In their scheme of things for Russia it might be a good idea to take those arms to some place in Asia – to "improve" relations with the great neighbor in the East – China. Even before the publication of this article a call for eliminating all nuclear arms from Europe, including the remaining two hundred U.S. nuclear bombs still present in four Euro-

pean countries and Turkey, came from Germany's new ruling coalition of the Christian Democrats and the Free Democrats. The latter party is an arch foe of nuclear power as such. Also, it is pressing for a reduction of the German presence in Afghanistan. To prevent this from happening, as well as to rule out early closure of the still operating nuclear power plants (this would be a very unbeneficial development for Germany, should it take place) Chancellor Angela Merkel – in a bid to please her coalition partners – came out in support of the demand for removing the remaining nuclear arms from Europe.

In response, Western strategic planners voiced concerns over the risk of a further military-strategic rift between Europe and the United States, and also about the possibility the "new Europeans" – in case U.S. nuclear support starts wearing thin – will demand reinforcement of the conventional forces and their redeployment closer to Russia's borders. This is a quite logical supposition to make, if one proceeds from the twisted logic the entire strategic debate keeps following.

On the excuse of ruling out such scenarios calls have been made for entering into negotiations with Russia right away on the reduction and eventual elimination of tactical nuclear warheads. The advocates of such proposals are saying that the United States has far less such warheads than Russia. According to different estimates the United States has 1,200, including 500 combat-ready pieces, and two hundred of these in Europe. Russia, as follows from unofficial sources (no official statistics are available by tradition), has 5,400 warheads, including 2,000 combat ready ones, most of them in Europe.

The net effect of such "disarmament talks" is easy to guess. First, there will surface a "tactical nuclear gap" (surprise! surprise!) in Russia's favor. Then there will follow a shower of criticism. Russia will be accused of outdated mentality – in the best case, or of aggressiveness – in the worst. There have been some charges of the sort already. And also calls for unilateral cuts to equal levels, to zero, or by proportionate shares, say, by half. Russia would be expected to rid itself of a thousand warheads, and the Americans, of one hundred. If so, the Americans will still have a hundred warheads in Europe they will never need for any military purpose anyway. As for Russia, a large share of the warheads in question would be very vital – as a politically realistic deterrent of extra-European threats, and as a psy-

chological compensation for NATO's superiority in conventional forces in Europe. The more so, since NATO has already shown one and all at least once how it may go about the business of handling someone unarmed and defenseless. It did so when it bombed Yugoslavia. And then the United States and some of its allies invaded Iraq, thus proving that without a proper deterrent even the most good-natured and friendly defensive alliances of democracies may degrade into aggressive ones.

If formal strategic arms reduction talks ever get underway, another Pandora's Box will be unlocked and ever more threats, though not necessarily very real ones, will emerge from it. And they will certainly make the already intricate situation still worse, and many more specters of the past will start roaming around.

As a matter of fact, quite a few of such specters are roaming Europe already. They show up here and there and everywhere in the guise of agile and well-groomed retired old-timers, nostalgic about the days of their political youth. Some of them may suddenly discover a Russian threat in the Arctic and urge the emergence of an Arctic NATO. Others may spot it in the energy sphere and promptly call for an Energy NATO. They may turn a blind eye to such obvious things as Georgia's aggression against South Ossetia, but at the same time they accuse Russia of aggression and annexation. And they demand a come-back of military deterrence that was much in use in the good old days when they were young, especially as the NATO is in feverish search of a new official doctrine. The alliance's expansion tactic that filled the vacuum for the past fifteen years has run against Russia's firm military NO, and the attempts to give the alliance the job of the global policeman have suffered an obvious setback in Afghanistan.

In fairness, one has to admit that we, too, have our own old-timers, not so well-groomed ones, though. Here, too, they can raise support from a large share of the younger generation, scared of its own incompetence, non-competiveness and of a rapprochement with the West. Or, the other way round, eager to go ahead with unbridled piracy, in defiance of the code of conduct everybody there is expected to follow.

DO WE NEED A BALANCE OF FORCES?

These mosaic pieces are not the only ones that make the general picture look so complex and intricate. An influential segment of the Russian expert

community shares the idea of a resumption of talks over a reduction of conventional forces in Europe. This is precisely what their Western counterparts have been calling for all the way. These calls are issued in spite of the fact that in the past such talks merely fanned mutual fears and brought to the forefront a very artificial and as harmful idea of a balance (equality) of forces in Europe and the sub-regions. That idea contradicted any military, political or historical logic, but at the same time it created and reproduced the fear of a military threat. If such talks ever get underway again, yet another Pandora's Box will be opened up. In Russia, many will start yelling about NATO's multiple supremacy in conventional forces and demanding an end to the military reform, which is already re-orienting the armed forces from confrontation with NATO in Europe to providing flexible responses to any types of threats. They ignore the fact that NATO has proven its inability to wage large-scale military operations, that it has suffered a political loss in the war in Iraq, that it is fighting a losing battle in Afghanistan, and that it is threatening Russia only with the very instance of its expansion, which has already led to the military conflict in South Ossetia.

The tiny neighboring states like Georgia or the Baltic countries would be pointing to "huge Russian supremacy" over them and demanding counter-measures. As a result, the already observed trend of European politics towards re-militarization will receive a powerful boost.

The latest edition of Russia's military doctrine that came out in early February added to the general strategic confusion. I truly respect the experts who contributed to formulating the doctrine, and the President, who put his signature to it, but it cannot but produce a very strange impression.

Not because the nuclear part is ostensibly aggressive. In fact, it sounds even milder than the previous version. The reason is its vagueness and, in some places, literally unintelligible contradictions. Still worse, it is in stark contrast with the real reform that is underway in the Armed Forces, i.e. there is a glaring discrepancy between the official theory (doctrine) and official day-to-day practices.

MIRAGE OF NUCLEAR ZERO

And now the last but very telling detail to this incomplete and somewhat eclectic picture of strategic fantasies and havoc of the past few months I have been trying to piece together.

Nearly three years ago four outstanding theorists and practitioners of U.S. foreign policy, two former Secretaries of State Henry Kissinger and George Shutlz, former Chairman of the Senate's Armed Services Committee Sam Nunn, and former Secretary of Defense William Perry, published an article with a call for setting a specific goal of ridding the world of nuclear arms and for launching a massive campaign in support of Nuclear Zero.

That invitation aroused caustic sneers: "Those Americans are calling for Nuclear Zero only because they want to make the world absolutely vulnerable to their supremacy in conventional forces." My own response to the call was that of respect. I know those people and I am certain that their train of thought could not be so primitive. For the sake of trying to rid the world and their successors taking the high posts they had occupied once themselves of the tormenting moral dilemma – that of threatening to kill millions in order to prevent war, and being determined to act on their threats, should a war be started, and for the sake of stopping the world's slide into nuclear arms proliferation, those intellectuals and politicians in their autumn years dared put their reputation at risk. Throughout their lifetime each of them worked for the cause of nuclear deterrence, and, consequently, for the U.S. nuclear potential. Now they have called for an end to reliance on nuclear deterrence, because it is immoral and unreliable.

The movement for complete nuclear disarmament was set in motion. I must confess that yours truly, when approached by some very respected colleagues of mine, agreed to sign the call for Nuclear Zero. Although I am still certain that nuclear arms saved the world from a third world war when the Cold War was raging. They keep saving us today, although not so reliably as before, when the world, with its kaleidoscopic changes in the lineup of forces, dwindling controllability of international affairs and confusion of the public mind is probably in a situation as bad as the one that existed in August 1914, on the eve of World War I. I am saying again – I do believe that the human race, whose faith in God is waning and whose belief in Hell is gone, very much needs nuclear deterrence as a modern equivalent of the Sword of Damocles that will not let it plunge the world into an inferno again. (World history offers quite a few examples of how resourceful we, humans, can be in this respect.) Although I do agree that nuclear arms are inhumanly immoral.

U.S. President Barack Obama proclaimed movement towards Nuclear Zero, towards a nuclear weapons free world, as the official goal of U.S. policy. Many other leaders could not but offer their backing, for otherwise they would run the risk of being looked at as immoral reactionaries. Russia's president and prime minister welcomed the call, of course.

Three years after that first article, in January 2010, the very same quartet of authors published another essay. On the face of it, they looked committed to the Nuclear Zero rhetoric, as before, but at the same time they called for greater spending on the reliability and effectiveness of the U.S. nuclear potential and on updating its infrastructures.

I have had no chance yet of having a word with any of the highly respected senior colleagues. But I can point to two reasons why they issued this new call. Firstly, it is their concern over the under-financing of the U.S. nuclear arsenal over the past few years and its lower effectiveness. And, secondly, the awareness of the fact that the Genie is out of the bottle and on the loose and that nobody is in the mood of repudiating nuclear arms. After the two political defeats – in Iran and Afghanistan – U.S. non-nuclear supremacy can no longer convince, let alone scare anyone. The United States will have to preserve, if not increase, its reliance on nuclear containment. Or deterrence, if one is to resort to the political vocabulary of yesteryear.

Shortly after the publication of the quartet's latest article there followed a declaration by U.S. Vice-President Joe Biden to the effect that spending on support for and upgrading of the U.S. nuclear potential is to go up. Biden's standard role in the current administration is that of "the herald of bad news."

In general, one cannot but have the impression that all this flirtation with Nuclear Zero is almost over. So any debate over this catchphrase will look twice as hypocritical.

* * *

What sort of conclusions can I offer to the reader on the basis of this incredibly diverse and controversial mosaic I have tried to put together?

First, the world-class strategic players, including the main one – the United States – are getting ever more confused and dismayed as they lose the old bearings only to find no new ones. For this reason it would

be very wrong to see a threat behind any move, often taken on impulse – a threat of the sort many of us seem to have suspected behind the rather far-fetched plans for creating and deploying U.S. regional missile defense systems in countries like Romania and Bulgaria.

Second, the old-time Cold War stereotypes have not disappeared; on the contrary, they live on and tend to grow stronger. This is so largely because in the post-Cold War period its legacy failed to be eradicated.

The Cold War is still on. Europe is split. And the seeds of that poisonous legacy are beginning to germinate. That legacy almost caused a farce-like replay of the Cold War in the autumn of 2008. Tensions have been played down, of course, but a fundamental improvement of the situation is nowhere in sight.

Third, efforts to clear Europe of the Cold War legacy must be redoubled. This goal can be achieved by a new European security treaty, a package of treaties, or Russia's admission to NATO and fundamental transformation of that organization.

Fourth, time has been wasted, and the proliferation of nuclear arms has begun. India, Pakistan and North Korea have gone nuclear and got away with it. Still earlier there was Israel. And unprovoked attacks against Yugoslavia and Iraq prompt any country in its right mind, whenever it finds itself in a precarious geopolitical situation and at the same time has sufficient financial resources, to try to acquire nuclear arms. The question is how to control and restrict this process.

Fifth, there exists a major risk the very same tools that were once used to effectively start and maintain the Cold War will be employed with the aim to bring it to an end. A variety of so-called 'disarmament talks' is an example.

One should steer clear of the resumption of any talks over a reduction of conventional forces and armaments in Europe and the beginning of talks on tactical nuclear arms. If those forces are to be reduced, then the best way of doing that will be through unilateral steps and other confidence-building measures. The Pandora's Boxes of disarmament must stay tightly sealed.

Sixth, at a time when the military-political situation in the world is getting ever less predictable, the reform of general purpose conventional forces should be accelerated, their quality improved, their mobility

and flexibility increased and their readiness to respond to any threats ensured. And, what is most important, conditions should be created for improving the human resources of the Armed Forces. And what we should certainly avoid is backtracking, increasing the duration of conscription, curtailing the reform politically and psychologically and thereby burying the hope for having an effective general purpose force. In the meantime, there have been calls for extending the term of conscription again by some senior officials and experts.

Seventh, Russia will be forced to increasingly rely on nuclear arms in its military-political strategy to prevent major conflicts, to deter proliferators and conventional arms buildups in pursuit of supremacy, to curb the arms race in the sphere of missile defense in order to make it senseless, and lastly, to preserve its political status in a situation when the country's economic positions will get weaker due to the failure of attempts to upgrade society and the economy over the past few years. To this end, Russia will have to carry out a fundamental modernization of its nuclear potential and reduce, if possible, the tactical component of this potential.

And ***eighth,*** opportunities must be explored for maintaining security through joint efforts, first and foremost, with the United States, and even by creating a military-political alliance with it. True, the American side, even the super-progressive (by U.S. standards) Obama Administration has shown no real signs of readiness for joint efforts. But it is worth trying. And it is worth seeking concerted action with China – a third major, and so far mostly tacit, player in the world military-political scene. Regrettably, the military-political scene seems to be regaining much of its previous importance for the international agenda.

Values for the Sake of Unification

Russia, NATO and New Security Architecture

Konstantin Kosachev

Russia's initiative for the conclusion of a European Security Treaty can be safely described as a central theme of Russia's foreign policy in the past year and at the beginning of this year.

Hardly anyone in Moscow expected immediate and decisive progress in promoting its initiative and its unanimous approval by major actors. But the creation of a unified collective security system in Europe is a key issue for Russia (and not only for it), not least because it is linked, in one way or another, with the majority (if not all) of the problems of recent time. Whatever problem you take up – NATO's enlargement or the possible accession of Georgia and Ukraine to the alliance, local conflicts in the post-Soviet space or the problem of unrecognized states (just as the turning of the recognition issue into an independent political irritant), the deployment of elements of a U.S. missile defense system in Europe and the future of the CFE Treaty – all these issues have a direct relevance to the European security system or, rather, its absence. The essence of the problem is a very simple alternative: either such a system will exist and it will involve all countries, or it will not exist, and then there will inevitably be dividing lines, gaps in security, and an explosive difference of potentials.

NATO – NECESSARY BUT NOT SUFFICIENT

Years ago, the author of the "European idea," former French Foreign Minister Robert Schuman, invented this project for a group of Western European countries divided by the results of World War II, uniting them

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in the face of the Communist threat from the East. In the late 1980s, Western European politicians used the collapse of the world socialist system only for a mechanical *extension* of the European Union's and NATO's zones of action to the "new neighbors." There was no second Schuman in Europe at the time, and it was the concept of the Western European model's extension to the East, rather than *unification* of Europe on a truly mutually acceptable basis, that took the upper hand. Most importantly, this new "unified" Europe has had no place for Russia, with its specific geography, population structure, and history. Therefore, Russia's desire to change the situation is quite understandable. Its proposal to build a single insurance mechanism that would cover all countries, without exception, on the space "from Vancouver to Vladivostok" is dictated by objective reasons, rather than by some specific needs or claims of Russia.

It would be logical to assume that Russia's potential partners to a new treaty in the West should have a similar desire: they cannot fail to see that the old patterns do not work. Meanwhile, the reaction of the West (NATO) to the Russian proposal has been restrained. It is ready to discuss non-binding, optional programs, but whenever it comes to obligations and equitable efforts to address common issues, it displays caution and a desire to forward the issue, for example, to the OSCE (although everyone understands that this organization has been engaged not so much in security issues in recent years, as in the supervision of elections in "non-Western" countries).

When Russia and NATO were working on their Founding Act in the mid-1990s, they identified all the challenges that they should address together. All these challenges persist to date. Yet there is no serious, really joint work between the parties – and for one reason: NATO is not ready to accept Russia as an equal partner and, particularly, establish an alliance-to-alliance cooperation with it. In addition, it will not recognize the very fact of the existence of the Collective Security Treaty Organization, let alone conclude an interaction agreement with it. A recognition would imply admitting that "there is life (i.e. security for individual states) outside NATO," which would be at variance with the alliance's claims to monopoly positions in various regions, including Eurasia.

NATO's harsh reaction to Russia's actions in August 2008 was largely because Moscow patently demonstrated the possibility of receiving protection outside NATO's frameworks, which the latter holds "cannot be because it can never be." It is one thing when one speaks of a purely voluntary accession to NATO in conditions when there are actually no alternatives in the sphere of security (or even risks in the event of non-accession; when it is safer to join the alliance than not to join). And it is quite another thing when there is a real choice and when, to survive, a nation does not necessarily need to agree with Brussels and accept its geopolitical (including economic, internal-political and other) terms – especially as Russia's terms in reality (and not in propaganda interpretations) are often less burdensome for a country's national sovereignty.

NATO seeks to instill in other countries the idea that the more states join it, the less security problems they will have: those who are out will simply not risk arguing – the more so fighting – with the alliance or its "protégés."

However, this logic is poor: Russia protected its peacekeepers and the people of South Ossetia not because Georgia was not a NATO member but because there are situations when it is impossible not to interfere. Even the most sober minds in NATO must have understood this, which first led to the success of the Medvedev-Sarkozy mission and then to the appearance of the Tagliavini Commission's report. If Georgia had tried to solve its problems by force as a NATO member, that could have given a different scale to the conflict but would have hardly prevented it.

It is clear that no European security model will work *without NATO* or on the basis of *NATO alone* – even if all countries from Vancouver to Vladivostok are admitted to NATO, with the "small" exception of two nuclear powers – Russia and China, one of which occupies the larger part of Eurasia and the other has almost half of its population. These two countries will simply have to view a structure to which they are not admitted as a threat. The issue of Russia's or China's NATO membership is not on the agenda not least because each of them is an independent center of power. Should either of them enter the "Euro-Atlantic Club," it would completely change not only the alliance itself but even the entire global configuration.

But if we speak about a collective security system in Europe and the signing of a European Security Treaty in practical terms, rather than at the level of declarations, then prospects here decisively depend on whether or not Russia and NATO can find a common language. For now, things are not very good in this respect, although they are not as bad as they were at the end of 2008. However, to achieve a radical breakthrough, such as the building of a common security mechanism that would involve both Russia and NATO, the parties need more than just interaction on individual practical issues.

The relations between Russia and NATO have two important components – an objective and a subjective one. The objective component is our disagreement with the alliance's mistakes of the "post-bipolar" years (the use of force against Yugoslavia/Serbia; the demonstrative anti-Russian expansion to the East; and attempts to use the NATO shield to cover issues pertaining to energy security, the Arctic, etc.). The subjective component is the attitude of the Russian population to NATO as a Cold War rudiment. If the first wave of NATO's enlargement had not been postponed until 1997 (although the decision on the enlargement had been made in 1994 at Bill Clinton's meeting with the leaders of the Visegrad Group), there could have been a different president in Russia in 1996. This clearly shows what associations the acronym NATO brings up in Russians.

The West made a systemic mistake at the very beginning of the process of expanding its structures to the East: ***it should have started with Russia*** rather than its former allies. This does not mean that Russia should have been fully integrated into the West, as Poland or Lithuania were. But the parties could have jointly looked for some practical solutions and, most importantly, prospects, like those that Turkey still has, although civilizationally Turkey is much farther away from Europe than Russia is. However, the West left only two alternatives for Russia – "Either with us (i.e. under our thumb), or geopolitical solitude." It either is unable or does not want to change anything in its approach, and is not even trying to look into the day after tomorrow.

The expansionist logic, as a development goal, stands in the way of the "resetting" of Russia-NATO relations and the revision of the very concept of NATO. Advocates of the expansion view it, in a way, as a "vaccination" against rapprochement with Russia. We oppose the

expansion not because we ourselves have claims to some territories, but because the matter at issue is a military organization without our participation. It is difficult to say anything against the accession of Ukraine, Georgia or even Belarus to the EU (when the new leader of Ukraine, Victor Yanukovich, for example, speaks about EU membership as a priority of his presidency, his words do not cause protests from Russia).

But the point is not just that Russia, as a non-member of NATO, is doing its best so that there would be "less of NATO" both numerically and geographically. On the contrary, there are issues where it would be much easier for us to deal with NATO. I do not think that all NATO members were happy when the previous U.S. administration involved the alliance to achieve its goals and "unplugged" it when many Europeans in NATO objected to its reckless schemes. One can also recall the recent U.S. plans to deploy elements of the third position area of the U.S. strategic missile defense system in the Czech Republic and Poland.

Issues pertaining to strategic security in Europe should not be resolved on a bilateral basis. However, this is what actually happens so often (or is presented in such a way): as soon as there arise complications in the security sphere, we are advised to contact either Washington or some European capital, as if NATO has nothing to do with it. But this situation is not normal in nature: since the alliance members have placed Brussels in charge of security matters, it is Brussels that must be contacted and must be the negotiating partner.

At the same time, Russia could take a look at the situation from a somewhat different angle, which would help solve the problem and reach practical agreements on a European Security Treaty.

NOT TO FORGET ABOUT THE VALUES

The recently published new military doctrine of Russia has caused many discussions abroad. Among the main external *military dangers*, the doctrine first names the desire to impart global functions to NATO's military organization, in violation of international law, and to advance the military infrastructure of NATO member countries closer to Russia's borders, specifically by enlarging the bloc.

There are no doubts that this problem exists and that it directly affects Russia's geopolitical interests. But many of our partners in the

West ask why, for example, direct threats, such as the use of military force in territories adjacent to Russia, or the escalation of armed conflicts there, or the proliferation of international terrorism rank only 8th, 9th and 10th in Russia's ranking of threats. President Dmitry Medvedev recently even had to specially explain this issue in an interview to the French magazine *Paris Match*: "It is not about NATO, and our military doctrine does not treat NATO as the main military threat."

Incidentally, if we look at the approach of the West, the latter seeks to demonstrate its conspicuous peacefulness towards Moscow in words and in documents, despite the enlargements and deployments which evoke understandable concern in Russia. This is an interesting experience. Perhaps, it would really be more reasonable to give less cause for complaints about our words and documents and pay more attention to security in practice (developing new weapons, strengthening the Army's infrastructure, achieving military and political agreements with other countries, etc.). No doubt, it would be much easier for us to have strong armaments and reliable military-political allied ties and insist that our actions are not directed against anyone (as NATO or the United States do) than demonstrate verbal activity, while having a weak military potential (what Iran or North Korea do sometimes).

NATO was established in the conditions of an incipient Cold War, to which Russia and the bloc it led were one of the parties. Naturally, we came to view NATO through the prism of that confrontation. There is nothing surprising in the fact that today, too, some people have a desire to see NATO only in the context of our own relations with the "North-Atlanticists," sometimes reducing the very meaning and purpose of NATO to them. No operations in Afghanistan can shake the deep conviction of many Russians that the "aggressive bloc" still needs only Russia and that it persists and builds up its power solely to oppose it.

However, this is not so; similarly, it would be wrong to believe that NATO may be not interested in a state with the world's second largest nuclear potential. Of course, there are many NATO members (especially among the latest ones) that sought NATO membership allegedly for protection from Russia but actually for confrontation with it. For them, this is really a kind of "idée fixe." For them, problems of their "elder brothers" in the alliance, such as the Iranian nuclear program or the mis-

sion in Afghanistan, are in fact (but certainly not for the record) less than secondary. At best, this is an opportunity to demonstrate one's Atlantic loyalty – only to demand the same loyalty from the "big brothers" when one has to address one's own problems, first of all with Russia.

Proponents of NATO's expansion argued that it would bring stability to the borders of Russia and would appease its neighbors. However, neither has happened. NATO neophytes not only have not become appeased but, on the contrary, have demonstrated that they needed the alliance's "roof" not for protection from Russia but to bolster their own complaints about it. They have created a tough anti-Russian lobby in NATO, which has highly negatively affected the alliance and its relations with Russia (the "injection of Russophobia" has not become a vaccination strengthening immunity but, on the contrary, has largely infected the entire body). Actually, NATO before its enlargement and NATO after it are *two different organizations*. Relations with NATO-15 could have developed quite differently, and Russia could even have become its member, or a single structure with two centers could have been established between them.

But it would be wrong to assume that anti-Russian sentiments and forces prevail in NATO. They do exist and in some moments (like in August 2008) they dominate. The question is, do we want to reduce our interaction with NATO (and, thus, the future of a European Security Treaty) entirely to our attitude to these forces and individuals? There are two lines, two approaches to Russia in NATO, in Europe and the U.S. (even in the Obama administration), and they differ significantly. If we notice only the negative attitude (which does exist) and fail to see a desire (which exists too) to radically change the situation for the better, we risk getting stuck in the Cold War era for long (exactly what we accuse today's NATO of doing – not without grounds, though).

The Cold War specter appears now and again not only because the military bloc of the confrontation era has survived to this day. Part of the problem is that Russia does not participate in it, which recreates elements of conflict, because, as they saying goes, "it takes two to dance the tango." Yet, it would be a primitive mistake to consider such a conflict with Russia to be an end in itself for NATO.

When we say (and rightly) that the present safety mechanisms in Europe do not work, we ignore (consciously or not) one nuance: these

mechanisms do not work *outside* the Euro-Atlantic community but are quite effective *inside*. It is only logical that NATO members, regardless of their attitude towards Russia, do not hurry to swap something that works for something yet unknown. We are told that by proposing our initiative we want to impose certain weighty obligations on our partners, without becoming their ally and without sacrificing our sovereignty. Collective solutions of Europe are incompatible with Russia's sovereign decisions yet, and this is one of the main difficulties on the way to harmonizing our positions.

NATO was created to fulfill three tasks that were equally interesting to all the parties:

- counteracting the Soviet military threat (i.e. protection against external aggression);
- ruling out the use of military force in relations inside the bloc;
- ensuring military support for the newly built system of common values.

Importantly, this treble task of NATO, adjusted to the new conditions, is still relevant to its members. As for us, we make emphasis on task number one and view the alliance as our "personal" counterpart; therefore, we tend to believe that the collapse of the Warsaw Pact and the Soviet Union made the alliance's mission complete. But this is not so.

NATO's willingness to interact with us, including on the issue of a European Security Treaty, will depend on how willing we are to interact with NATO on all issues: not only as regards the removal of external threats but also in preventing conflicts, including in our immediate vicinity, and in protecting our truly common values.

We often – and undeservedly – underestimate the values factor, reducing everything to a mechanical insurance against threats in the sphere of "hard security." For NATO members, the solution of problems with such threats is based on agreement and mutual trust with regard to values. "Hard security" is not a problem between *allies* – it arises when it comes to protecting the community from foes.

The "values proviso" may be decisive for achieving the level of trust necessary for the creation of an effective collective security system in Europe. It is not accidental that all acute conflicts of today are geopolitical; for example, as regards prospects for the admission of Ukraine and

Georgia to NATO, our opponents intentionally present our disagreement with them as a purely ideological confrontation and a conflict of values. They say that they have no plans to tear strategically important Ukraine away from Russia in order to leave Moscow in geopolitical solitude. They say that the problem is the reluctance of "authoritarian" Russia to "put up with the existence of young democracies at its borders." They also insist that they make no attempts to artificially equate the Soviet system with Nazism but that contemporary Russia seeks to rehabilitate Stalinism.

We, on our part, believe (and for a good reason) that we have no conflict of values with the West; therefore we dismiss this issue as resolved and prefer to delve into the more "traditional" and seemingly more important problems of armaments. However, this approach is not entirely correct.

Problems with "hardware" cannot be solved without progress in "software." If we do not reach a complete understanding on values and do not agree that there are no grounds for conflict here but, on the contrary, there is an ideological platform for a future pan-European collective security system and for a treaty underlying it, we, at best, would end up building "peaceful coexistence" models patterned after the 1970s "détente." In the worst case, we will continue reproducing a "Cold War" in one format or another.

NATO already today operates beyond the geography inherent in its name. The nature of threats has objectively changed. The military alliance, created for a global confrontation with its antipode, now has to do quite different things. The need to reform it is dictated not by the wishes of individual politicians but by objective circumstances. But it would be a mistake if NATO reformed itself only in its own group interests, recreating its former format and relying on the idea of "military protectionism" (by analogy with protectionism in the economy and finance, which stands in the way of the solution of global economic problems). The result of such a "group therapy" would be a modified NATO with its former natural limiters in the form of the inevitable "Semi-Iron Curtain" in the East, the unsolved problem of collective security for the whole of Europe, the inability to prevent conflicts, and so on.

However, I would not say that Russia cannot participate in these Atlantic processes "by definition," because any European security

model without Russia is pure fiction. And we are hardly alone to think so. This means that we must listen to what is going on in the Euro-Atlantic structures and actively cooperate with the key figures that are pondering over the reform. But this must be a reform of not only NATO per se but of NATO viewed as part of a European collective security system, and a reform of the system as a whole.

It would make sense for Russia to support the reform of NATO – both in content and as regards its formal characteristics. We should not beg for concessions for ourselves but should outline prospects for a serious revision of our relations with a renovated structure of the West. Also, we should call for some kind of "redecoration" of NATO, up to changing its name in order to remove the subjective factor of the alliance's perception not only in Russia but also in other countries, where NATO evokes negative associations. Theoretically, one could even imagine the alliance, in its present form, formally dissolved – at least for one day for its current members – so as to invite all those wishing to join the new organization, including Russia.

The world has really changed, and objective circumstances are setting new requirements for the format of security structures and even for their name (What is the *Atlantic* organization doing in *Afghanistan*?). Russia is ready for a working dialogue on collective security issues, and I do not think that the West stands to gain from completely cutting Russia off from the discussion of NATO's future. Perhaps, this is the first time since the anti-Hitler coalition when we have a chance to find common ground – but on a fundamentally different basis, not forced by circumstances.

If Russia, which is one of the geopolitical centers of power in the contemporary world, proves that it is not claiming to be an ideological pole, it will elevate its interaction with the West to a basically new level, thus putting a final end to the Cold War and giving the final stroke to 20th-century politics.

The Secrets of Serdyukov's Blitzkrieg

Why It Took a Civilian Minister to Carry Out a Military Reform

Vitaly Shlykov

Russian Defense Minister Anatoly Serdyukov sent a report to the Commander-in-Chief of the Russian Armed Forces Dmitry Medvedev on December 1, 2009, in which he reported on progress in implementing the task, set before his ministry, of imparting a new, promising image to the Armed Forces. Two weeks earlier, on November 17, this issue was discussed by the Defense Ministry's Board. After the discussion, Serdyukov made a statement to the Russian mass media. He said that 85 army brigades, as well as strategic and operational commands, had been established over the past year. A new combat readiness system had been built, which enables sending any battalion or brigade to a combat area within an hour after the alert was issued, together with all organic equipment, without calling up reservists and without waiting for the supply of ammunition, fuel, food, etc. from depots. The whole Army had become fully combat-ready.

Those who did not closely watch what was happening in the army over the last year can hardly take the minister's words on trust. Merely a year ago, it was reported that combat-ready units accounted for only 17 percent of the Armed Forces and that even they required at least a day to become battle-ready. Vladimir Putin said in his address to the Federal Assembly in 2006: "In order to effectively repel the terrorists, we needed to put together a group of at least 65,000 men, but the combat-ready

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units in the entire army came to only 55,000 men, and they were scattered throughout the entire country. Our Armed Forces came to a total of 1,400,000 men but there were not enough men to fight."

It was decided in principle to set up constant-readiness units, capable of quickly engaging in combat, after the First Chechen War. All the subsequent defense ministers, from Pavel Grachev to Sergei Ivanov, tried hard to implement this decision. Each of them reported on successes achieved; however, not more than 20 percent of all Russian troops were combat-ready by the summer of 2008. State Secretary and Deputy Defense Minister Nikolai Pankov, who cited this figure at an expert round-table meeting at the State University–Higher School of Economics (November 25-26, 2009), said that by that time it had become obvious that the existing structure and composition of the Armed Forces prevented further enhancement of their combat readiness.

A REVOLUTION FROM ABOVE

On October 14, 2008, the Zvezda ("Star") TV channel, run by the Russian Defense Ministry, carried an 11-minute speech by Defense Minister Anatoly Serdyukov to half a dozen little-known reporters from military news outlets. The speech was a bolt from the blue for an overwhelming majority of military personnel. The shock was caused by Serdyukov's words about his ministry's plans to reduce the number of army and naval officers from 355,000 to 150,000 within the next three years.

Then Serdyukov cited even more impressive figures concerning the planned reduction of the number of military units. In particular, the present 1,980 military units in the Ground Forces are planned to be reduced to 172, i.e. by more than 11 times. The 340 Air Force units are to be cut to 180, while the Navy will have 123 military units left of its present 240 units. Furthermore, the minister announced a truly draconian drawdown of the number of senior officers (from major to colonel). While the number of generals is to be reduced relatively insignificantly – from 1,107 to 886, the number of colonels will be slashed from 25,665 to only 9,114. An even greater reduction is in store for majors whose number will shrink from 99,550 to 25,000. In order not to shock the audience still further, Serdyukov passed over in silence the scale of the planned reduction in the number of lieutenant-colonels. Simple calculations show that

they will be hit the hardest by the "optimization" – their number will decrease from 88,678 to 15,000, i.e. by almost six times. Captains were not "forgotten" either, whose number will be reduced from 90,000 to 40,000. In all, about 165,000 senior officers are planned to be discharged from service. Lieutenants and senior lieutenants are the only ones to gain from the reform, as their number is planned to be increased from the present 50,000 to 60,000.

Serdyukov compared the present rank hierarchy in the Russian Armed Forces to an egg, which is swelled in the middle, due to the disproportionately great number of senior officers. The minister promised to shape this "absurd" ratio between senior and junior officers into a "well-proportioned and well-aligned" pyramid. If implemented, this plan will leave only 10,000 generals and colonels at the top of the pyramid, while 100,000 junior officers (40,000 captains and 60,000 lieutenants) will form the pyramid's base. In the middle of the pyramid, there will be 40,000 majors and lieutenant-colonels.

The ministry also plans to reduce its Moscow-based administrative staff by 2.5 times. As of September 11, 2008, it comprised 21,813 people (10,523 people in the headquarters and 11,290 in central military command structures). The reform will cut their total number to 8,500 (3,500 in the Defense Ministry and 5,000 in military command structures). Actually, however, the reduction will be even greater as it will also embrace Moscow-based military units (more than 30,000 people) that serve the headquarters.

The reduction plans announced by Serdyukov seem to be in sharp contrast with the policies pursued by his predecessors. The previous defense ministers spoke about the need to preserve the number of officers. Major reductions in the Russian Armed Forces in previous years (from 2.8 million people in 1992 to 1.1 million in 2008) involved, above all, the rank and file and, to a much smaller degree, officers. Moreover, all the former defense ministers complained about the shortage of officers. Indeed, of the one million officers that served in the Soviet Army in 1991, there were about 700,000 left in the Russian Armed Forces after the Soviet Union's break-up. However, by the end of 1994, the Russian Army lacked 64,000 platoon and company commanders. This made 38 percent of the total demand for such commanders, estimated at 168,000 people.

To fill the shortage of junior officers, President Boris Yeltsin signed Executive Order 2113 on November 25, 1994, permitting the Defense Ministry every year to call up for two years reserve officers that had graduated from civilian institutions of higher education. Just as in the World War II years, a network of short-term training courses for junior lieutenants was opened in the country. Nevertheless, the shortage of officers kept growing, as officers resigned en masse. According to the Main Personnel Department of the Defense Ministry, 457,000 officers resigned between 1993 and 2002, of whom 337,000 (80 percent) did so without waiting until they were entitled to a long-service pension. Thirty percent of these were younger than 30. Every year, the military lost an average of 45,000 officers.

In a bid to stop the exodus of officers from the Armed Forces, the president, in his Executive Order 1237 of September 16, 1999, reduced the minimum length of service for promotion to the next rank – from three years to two years for lieutenants and senior lieutenants, from four years to three years for captains and majors, and from five years to four years for lieutenant-colonels. Yet, despite these measures and the increase in allocations for the military in the years of growing oil prices, the Armed Forces kept losing officers. For example, 38,500 officers resigned in 2002, of whom 30,000 resigned ahead of time.

In addition to raising salaries and reducing the minimum length of service for promotion, the Defense Ministry continued building up the training of lieutenants by military colleges. The latter produced 16,500 lieutenants in 2006 and 18,500 in the next year. Yet, this figure was decided to be increased to 20,000 a year. Reserve officers continued to be intensively trained at military departments of 223 civilian universities and institutes (50,000 lieutenants a year). A special executive order of President Yeltsin allowed the Armed Forces to call up 15,000 graduates from these institutes every year for a two-year military service.

The radical cuts announced by Serdyukov came as a bombshell to the military and society, especially as merely a month before the reform program was made public, on September 8, 2008, the Communist Party faction at the State Duma had demanded the defense minister's resignation. The main charge against him was a claim that "the shortage of officers has reached 40,000 people" since Serdyukov took the post and that

"there is no speaking about the Army's combat effectiveness in such circumstances."

In fact, the attempts by Serdyukov's critics to portray him as a ruthless persecutor of officers, while his predecessors had allegedly tried to preserve them and to interest them in military service, are quite hypocritical. Actually, the previous defense ministers had discharged or forced out of the Armed Forces several times more officers than Serdyukov is only planning to reduce. Indeed, Pavel Grachev, Igor Sergeyev and Sergei Ivanov never spoke about the need to reduce the officer corps. But, wittingly or unwittingly, they did much to get rid of as many officers as possible.

First, contract-based military service was introduced in Russia in 1993, which allowed officers to resign after five years after they graduated from a military educational institution, whereas in the Soviet Army an officer could resign only after 20 to 25 years of service.

Second, the list of legitimate reasons for an early resignation was markedly increased.

Third, various kinds of "incentives" were introduced to encourage officers to leave the force voluntarily. Combat training (exercises, air flights, and sailings) was actually terminated in many military units, which made the service largely senseless. Yet, the main motivation for resignations was the systematic non-payment of salaries, which began in the mid-1990s.

We have to recall this period as in the eyes of the military, society and the mass media the planned drawdown of the officer corps has overshadowed other, actually much more important items on Serdyukov's program.

The most radical part of the reform is that the Armed Forces in the nearest future will consist only of constant-readiness units, that is, units fully manned and capable of going into action within an hour or two. The so-called "cadre divisions" and reduced-strength units will be eliminated.

At present, some military units in the Russian Armed Forces have 500 officers and a company of soldiers (100 people). This situation is due to the mobilization system that has been inherited intact from the Soviet Union. The Soviet Army was built for long and large-scale warfare, where reserves were assigned the decisive role. For example, of 200 divi-

sions of the Soviet Ground Forces, only about 50 divisions of the so-called "Category A" were fully manned and armed and were ready to go into action in a few hours after receiving the order. The next 50 divisions ("Category B") needed several days to be fully manned with mobilized soldiers and officers. Another 50 divisions ("Category C") required about two weeks to become combat-ready. Finally, the remaining 50 divisions ("Category D") became fully operational within a month. A typical cadre division had about 1,000 personnel, mostly officers and warrant officers, and several thousand pieces of heavy military equipment, kept mothballed.

Despite significant reductions in their strength in previous years, Russia's Ground Forces remained a complete, although markedly degraded, copy of the Soviet Army in organization. According to the Commander-in-Chief of the Ground Forces, General Vladimir Boldyrev [who was discharged from service due to age in January 2010 – Ed.], only six divisions were considered combat-ready in 2008.

Now there is nothing left of the Soviet organization. The reform is not limited only to the disbandment of cadre divisions and reduced-strength units. Armies, corps, divisions and regiments will be abolished, and there will be only full-strength brigades left. The Air Force and the Navy will be reorganized in the same way. In the Air Force, for example, armies, corps, divisions and regiments will be abolished and Air Force bases consisting of squadrons will be established in their place.

The reduction of the military by more than 200,000 officers and warrant officers increases the percentage of enlisted personnel. As of January 1, 2008, the Armed Forces, which had a total strength of 1,118,800 people, included 355,300 officers, 140,000 warrant officers, and 623,500 sergeants and soldiers. By 2012, the Armed Forces are planned to comprise 150,000 officers and 850,000 sergeants and soldiers, including about 180,000 contract soldiers.

The reform will also introduce changes to the chain of command. The former four-tier structure – Military District-Army-Division-Regiment – will be replaced with a new, three-tier structure – Military District (Strategic Command)-Operational Command-Brigade.

In his afore-mentioned speech on October 14, Serdyukov also announced plans for a radical reform of higher military education. In

keeping with the Russian President's decision of July 21, 2008, the number of military educational institutions is to be reduced from the present 65 (15 academies, 4 universities and 46 military colleges and institutes) to 10 by the year 2013. They will include three military educational and research centers for the Ground Forces, the Air Force and the Navy, six military academies and one military university. This radical reduction in the number of military educational institutions is due, above all, to the sharp fall in the demand for officers after the state has decided not to keep a huge mobilization reserve. In the Soviet Union, this reserve included 15 to 20 million people and required the training of numerous officers. Soviet military colleges and academies annually produced about 60,000 lieutenants. Now that the regular officer corps and the mobilization reserve will be slashed (according to the General Staff, the latter will not exceed 800,000 people), the demand for new officers has collapsed. As a result, less than 3,000 students were enrolled in military educational institutions in 2009, compared with 18,000 to 19,000 students in previous years.

Finally, 140,000 warrant officers were to be discharged from the force or offered sergeant positions before the end of 2009. In short, not a single element of the Army or the Navy has remained unaffected by the reductions and the reorganization.

The measures to impart a "new image" to the Armed Forces, once they were started, aroused severe criticism from the mass media and smoldering discontent among the military. However, merely a year after the reform began, one can say that its main objectives, outlined by Serdyukov, have been achieved.

All the three services of the Armed Forces – the Ground Forces, the Air Force and the Navy – have completely changed their organization and force lists. Armies, corps, divisions and regiments are gone and have been replaced with brigades and air bases. In the Ground Forces, 85 brigades were formed by December 1, 2009, the target date for the completion of the transition to the new organizational tables. All of them are 95 to 100 percent staffed and fully armed, while in previous years only 17 percent of military units were considered combat-ready, according to the Chief of the General Staff Nikolai Makarov. (For comparison: in 2008, the U.S. Army had 68 combat brigades and 187 combat support and service support brigades.)

The mobilization reserve of the Ground Forces has been reduced, as well. Instead of hundreds of reduced-strength military units, 60 depots are being established for storing military equipment. In cases of war or mobilization, new brigades staffed with reservists will be deployed on the basis of these bases.

On December 1, 2009, the former structure of military aviation also became history. In place of armies, corps and divisions 33 air bases of three categories have been established, the largest of which have 5 to 10 squadrons. The Air Force officer corps will be reduced from 68,000 to 38,000 people, and the number of flying personnel will be cut from 12,000 to 7,000. Thirteen military space defense brigades have been established.

The "Autumn 2009" military maneuvers (the "Ladoga-2009" and "West-2009" exercises) have shown that the creation of a new, tripartite control system – Military District-Strategic Command-Brigade – is nearing completion. The new system is intended to make strategic commands capable, in the event of war, of going into action within an hour or two after the order is issued without resupplying subordinate troops with personnel and equipment. In this case, not only troops of the given military district, which is a structure of the Ground Forces, but also troops of other military and security agencies, as well as military units of the Air Force and the Navy that administratively are subordinate to the command of their own services of the Armed Forces, are placed under the authority of these commands.

The reform significantly enhances the role of military districts. For example, engineer brigades which formerly were subordinate to the Chief of the Engineer Troops, as well as the arsenals of the Main Missile and Artillery Directorate come under the authority of district commanders.

The first substantial steps have been made to reform the military education system. The Military Educational and Research Center of the Navy, the first of the three such super-centers intended for three different services of the Armed Forces, was established on July 15, 2009. The center's concept, approved by the defense minister on June 13, 2009, provides for its construction in Kronstadt on an area of 500 hectares. The number of students, teachers, researchers and support personnel at the new center will exceed 10,000 people. The construction of the center is planned to be completed in 2013.

For the first time in almost 100 years (since the Imperial Army was disbanded in 1917), Russia has begun the training of professional non-commissioned officers. In the Ground Forces, for example, candidates have been selected for admission to an NCO training center established at the Ryazan Higher Airborne Command School. The training term lasts 2 years and 10 months. The future NCOs sign a contract for the period of training and for five-year service in the Army after graduation. Cadets will be paid 15,000 rubles a month, and after they get an assignment in the Army upon graduation they are guaranteed a monthly pay of not less than 35,000 rubles.

RECIPE FOR SUCCESS

Why was Anatoly Serdyukov able to achieve what his predecessors had failed to do? Since Soviet times, they had set before themselves the majority of the tasks that he has now fulfilled. In particular, a transition to brigade-based Armed Forces was provided for by a military reform plan signed by Dmitry Yazov on October 19, 1990. Pavel Grachev also planned to increase the number of brigades by six times by the year 1995 due to a threefold reduction in the number of divisions. Grachev, and later Igor Sergeyev and Sergei Ivanov, made decisions on the establishment of strategic commands but had never established any. Also, all the previous ministers were ardent advocates of increasing the number of combat-ready military units. Suffice it to recall the much-touted (and later quietly shelved) Federal Target Program for 2003-2007 which provided for the establishment of several dozen constant-readiness units with a total strength of 144,000 people, entirely staffed by contract soldiers.

Of course, Serdyukov's personal qualities, above all his outstanding managerial skills, have played a major role in his success. Within a short period of time, he gained insight into the field that was new to him, made decisions that he deemed necessary and, without wasting time on experiments that his predecessors liked so much, achieved the fulfillment of his decisions.

Yet, the main factor in the record-fast radical renovation of the Armed Forces is of objective nature and is not directly linked with the minister's personal qualities. This factor is that Anatoly Serdyukov is the

first truly civilian defense minister of Russia. Let me explain my conclusion which may be unexpected for most readers.

In 1990, that is, before the Soviet Union's break-up, the Moscow-based Progress Publishers published a book entitled *The Army and Society* and printed in 10,000 copies. I wrote a chapter for the book, named "Principles of Army Building – International Experience." In it, I explained to the democratic public, which began to gain influence in the country then and which was fascinated by the idea of creating a "professional" Army patterned after the American model, that the principles of army building (conscription, voluntary service, etc.) were an insignificant issue compared with other obstacles to the reform of the Soviet Army. I wrote that the main obstacle was the absence of a full-fledged civilian defense minister in the country: "I am confident that unless civilians are appointed to all the key posts at the Soviet Ministry of Defense (except the posts of commanders of military units) and unless they are vested with real power, there will be no serious military reform in the Soviet Union."

My conviction of the need for a strong civilian Ministry of Defense was not just a sign of the democratic fashion in the country in those years, which made people daydream about civilian control over the Army. I proceeded from pragmatic considerations. Over years of service in the Main Intelligence Directorate of the Armed Forces' General Staff, I had studied in detail the armies of foreign countries and, naturally, their supreme bodies. In particular, the history of the establishment of the U.S. Department of Defense made me firmly believe that the absence of a civilian Ministry of Defense in the Soviet Union would bring no good for the country.

CLAN WARS – U.S. EXPERIENCE

The U.S. Department of Defense (DoD) was established in 1947 as a merger of the previously independent Department of War (renamed as the Department of the Army when it became part of DoD) and the Department of the Navy. The main purpose of the merger was not so much to strengthen civilian control over the military as stop interservice rivalry between the naval, land and air forces, which came to a head during World War II.

Each service had its own views on how the war should be waged and consistently implemented them. The Army, for example, believed that victory would be achieved by means of ground invasion into enemy territory. The Navy was convinced that a tight naval blockade would be enough. The Army Air Forces, formally a component of the U.S. Army then but actually an independent force, argued that the war could be won by heavy bombardment from the air.

None of them wanted to respect the interests of each other. For example, the AAF Command would not help the Navy fight enemy submarines and lay sea mines, although the effectiveness of such cooperation was evident. Harry Truman, the vice-president of the United States then, said that if the Army and the Navy had fought Germany as fiercely as they fought each other, the war would have ended much earlier. Demands for closer cooperation, sent to the commanders of the Armed Forces services by President Franklin Delano Roosevelt, yielded no results, as a rule.

The establishment of a unified Department of Defense, however, did not reduce the interservice rivalry. Moreover, this rivalry even increased, especially during the first decade since the introduction of the post of Secretary of Defense. This was explained by the initial weakness of the Department (the first Secretary's staff comprised only three civilian aides, since law prohibited military personnel from holding such posts) and the emergence of nuclear weapons and expensive means of their delivery. Both the Navy and the Air Force, which in 1947 became an independent military service, sought monopoly control over the Department and nuclear weapons in order to shape the entire military strategy alone.

The ruthlessness of methods used in the struggle for the right to be the main service of the Armed Forces and, therefore, win the lion's share of the defense budget can be illustrated by the following example.

The Navy Command realized that the emergence in the Air Force of powerful bomber aviation with a virtually unlimited operational range and armed with nuclear weapons could reduce the Navy's role to that of an ordinary carrier of troops and munitions to theaters of operations. Therefore, it sought to thwart the production of the B-36 intercontinental bomber capable of reaching any target in the Soviet Union's territo-

ry. Simultaneously, it set out to make the Navy also capable of striking targets deep in Soviet territory. Availing itself of the previous Navy Secretary record of the first Defense Secretary of the United States, James Forrestal, who continued to support the Navy in every way, the Navy leadership won Congressional approval for the allocation of money for the construction of a series of 12 "supercarriers" capable of carrying heavy bombers with nuclear weapons.

The keel of the first aircraft carrier, named USS *United States*, was formally laid down on April 18, 1949. However, merely a week later, on April 23, the newly appointed Secretary of Defense, Louis Johnson, who replaced the dismissed Forrestal, canceled the construction. The grounds for the cancellation were accusations from the Air Force that the Navy had understated the cost of the supercarriers' construction by more than three times in order to win the contract.

The Navy took the cancellation as an act of war from the Air Force and the Department of Defense. Secretary of the Navy John Sullivan immediately resigned in protest, while several Navy admirals publicly disagreed with the Secretary of Defense's decision. This episode came to be known as "the Revolt of the Admirals." Congressman James Van Zandt, who was a Naval Reserve officer, referring to an anonymous document, accused Secretary of Defense Johnson, Secretary of the Air Force Stuart Symington, Chief of Staff of the Air Force Hoyt Vandenberg, and some other Air Force officers that the Air Force B-36 program was corrupt. He also argued that the B-36 had unacceptable technical flaws. By the way, this happened on May 25, the day of the funeral of James Forrestal, who had committed suicide three days earlier.

At Van Zandt's request, the document was published in the *Congressional Record*, the official record of debates in the U.S. Congress, while the House Armed Services Committee began an investigation into the accusations. The Committee was headed by Carl Vinson, formerly the chairman of the House Naval Affairs Committee. Later, an aircraft carrier was named for him, the USS *Carl Vinson*. Van Zandt had a seat on the Armed Services Committee, too.

The anonymous document contained 55 counts against the Air Force leadership. The most scandalous counts accused Symington of approving the procurement of the bomber, full of deficiencies, for a bribe offered by

Floyd Odlum, CEO of Convair which designed the B-36, as well as for a promise to give Symington the post of Convair president in the future. Another count accused General Vandenberg of signing the contract because he had a love affair with Odlum's wife, famous aviatrix Jackie Cochran. The same accusation was made against Symington as well.

The Congressional investigation dragged on until August 25, 1949, and ended in a complete rehabilitation of the Air Force Command. With the help of the Federal Bureau of Investigation, the Air Force Counterintelligence (in the U.S., each Armed Forces service has its own counterintelligence division), using illegal methods, found the typewriter on which the anonymous document was written. It turned out that the typewriter belonged to an assistant to the Under Secretary of the Navy. The assistant confessed that all the charges were false but, he insisted, the naval command knew nothing about the document. As a result, the assistant was dismissed, and the mass production of the B-36 was given the green light. In the subsequent ten 10 years, the Navy did not challenge the Air Force's leading role in strategic armaments. Yet, it never stopped thinking of revenge, whose time came with the emergence of the Polaris submarine-launched ballistic missile.

There is nothing peculiarly American about the acute interservice rivalry. James Carroll, the author of the book *House of War* on the history of the Pentagon, writes that "Rivalry is built into the military ethos. Paratroopers believe they are the important element in the fighting force – they have to, in order to overcome a natural fear of jumping out of an airplane. Submariners and frogmen, fighter pilots and Marines, engineers and bombardiers – every fighting man, to be effective, must be convinced of the central significance of his role." (James Carroll. *House of War: The Pentagon and the Disastrous Rise of American Power*. New York, 2006, p.140). Keeping in check military commanders who pursue their own, often mutually incompatible, goals and coercing them into cooperation for the sake of national interests is an extremely difficult task. The current U.S. Secretary of Defense, Robert Gates, once said that, since the Department of Defense was established, "getting the military services to work together was a recurring battle that had to be addressed time and again". (*Military Review*, January – February 2008. Lecture at Kansas State University, November 26, 2007).

CLAN WARS – RUSSIAN EXPERIENCE

U.S. civilian defense secretaries have gradually learned to reduce the most obvious manifestations of egoism on the part of services. But Russian generals who made it to the post of Defense Minister could not be stopped from denying their rivals access to the defense budget and from reshaping the Armed Forces structure to meet their own preferences.

Pavel Grachev was the first to have fun. His main task, set by the president, was to reduce the Armed Forces as much as possible. Grachev came from the Airborne Troops, which had a relatively low strength, so he showed no mercy in cutting the other services. Over a mere four years, he reduced the strength of the Army and the Navy by 1,122,000 people. At the same time, he did his best to keep the Airborne Troops intact and even planned to make them into the main striking force of the Armed Forces.

Grachev proclaimed the goal of creating a Mobile Force as a new strategic unit that would include the Airborne Troops, marines, light units of the Ground Forces, part of military transport aviation, and other assets required for transporting, supporting and reinforcing troops. In order to enhance the role of the Airborne Troops, he created a heavy tank regiment within the Ulyanovsk-based 104th Airborne Division, although no country in the world has heavy tanks in its Airborne Forces.

On November 14, 1994, Boris Yeltsin told the Armed Forces top commanders that "the creation of the Mobile Force will soon be over." However, the sending of troops into Chechnya three weeks later showed how things really stood with their mobility.

On June 17, 1996, Grachev was dismissed and replaced with General Igor Rodionov, who had directly opposite views. He openly said that the decisive deterrent to any aggression would be not strategic nuclear forces, not precision-guided weapons and the more so not mobile forces, but a "high defense consciousness of the people." Given this consciousness, he assured, "we will defeat any aggressor with sticks." Of course, he did not plan to fight with sticks but with tanks and infantry; therefore he flatly refused to reduce both. Instead, he enthusiastically began to smash the Airborne Forces. He announced that five airborne divisions and eight airborne brigades were an unaffordable luxury for Russia, as even the United States had only two such divisions. In one of his first

executive orders, he ordered reducing the Airborne Forces and re-subordinating several airborne units to the commanders of military districts. The "formidable" airborne tank regiment was disbanded.

Rodionov's decisions led to defiance by airborne officers. On October 15, 1996, the Military Council of the Airborne Forces expressed its disagreement with the minister's executive order, which General Alexander Lebed, then Secretary of Russia's Security Council, described as a "criminal order." The Military Council met his words with shouts of approval and applause.

However, Rodionov failed to implement all his plans, as he was dismissed on May 22, 1997 – not because he wanted to sideline the Airborne Forces but because he demanded money for the military reform and was against large-scale troop reductions.

The vacant post was given to Igor Sergeyev, the former Commander-in-Chief of the Strategic Rocket Forces (RVSN). He opted not to repeat his predecessors' mistakes, so did not ask for money for reforms and unquestioningly fulfilled President Yeltsin's decree of July 16, 1997 on the reduction of the Armed Forces strength by 500,000 people within two years, bringing it to 1.2 million people by January 1, 1999.

The new minister began with the implementation of a long-standing idea of the RVSN Command – the incorporation of the Military Space Forces (VKS) and the Missile Space Defense Forces (RKO) into the RVSN. The General Staff had been studying proposals for merging these three services throughout the previous decade. These proposals had even been approved by the Academy of Military Sciences and had been repeatedly recommended by various commissions of the General Staff. However, they had never materialized due to resistance put up by the Command of the Air Defense Forces, which included the Missile Space Defense Forces, and the Command of the Military Space Forces, which had become an independent branch in 1982 (until then, they had been subordinate to the RVSN). Now that the RVSN had an insider as defense minister, it achieved its goal. Already in 1997, the RKO and the VKS were incorporated into the Strategic Rocket Forces.

Naturally, the minister justified the merger by the need to reduce the strength of the merged services and the cost of their maintenance. Vladimir Yakovlev, who replaced Sergeyev as RVSN Commander-in-

Chief, said that the merger helped to cut the total strength of the RVSN, the RKO and the VKS by 85,000 people, and annual expenses on their maintenance, by 20 per cent.

However, the main burden of the 500,000 strength reduction fell on the shoulders of other Armed Forces services. The Ground Forces, traditionally the main and largest component of the Armed Forces both in the Soviet Union and Russia, suffered the most. They were not only radically reduced but virtually eliminated as an independent service. The Ground Forces Chief Command was abolished and replaced with a Main Directorate of the Ground Forces, subordinate to the General Staff, with reduced position categories and rights. The Ground Forces themselves were subordinated to the commanders of military districts under the pretext of giving the latter the status of strategic commands in strategic areas. The Air Defense Forces were another independent service that was eliminated. Part of it (the RKO) merged with the Strategic Rocket Forces, while other units were incorporated into the Air Force.

The boundaries of military districts were radically redrawn, as well. This was done also in the name of reducing the administrative staff. It was argued, for example, that the merger of the Siberian and Trans-Baikal military districts released 5,000 servicemen, including 1,000 officers. For the same purpose of "optimizing" the Armed Forces strength, the 54,000-strong Railroad Troops were withdrawn from the Armed Forces from August 1, 1997.

Sergeyev carried out all these reductions and reorganizations without any open resistance from the leadership of the services affected by them. However, the situation changed dramatically when he encroached on the prerogatives of the General Staff. In November 1998, the defense minister proposed to the president transforming the Armed Forces in 1999 into a three-service structure that would comprise the Ground Forces, the Air Force and the Navy, and simultaneously creating a Joint High Command of Strategic Deterrence Forces. The Joint High Command would also include the RVSN and the 12th Main Directorate of the Ministry of Defense responsible for nuclear weapons. It would also have operational command over naval and airborne strategic nuclear forces, which were part of the Navy and the Air Force. The Comman-

der-in-Chief of the Strategic Deterrence Forces would ex-officio be First Deputy Minister of Defense.

Formally, according to Sergeyev's plan, the status of the Strategic Rocket Forces would decrease from an Armed Forces service to merely a branch. In fact, however, they would be the core of a new super-service in the person of the Joint High Command of Strategic Deterrence Forces, which would not be directly subordinate to the General Staff. Meanwhile, several decades before, the General Staff was placed in control over the use of strategic nuclear forces. Obviously, Sergeyev's proposal was unacceptable to the General Staff. The Commanders-in-Chief of the Air Force and the Navy did not support it, either, as they would lose operational control over strategic nuclear components of their forces. Finally, this confrontation escalated into an open conflict, in which the parties attacked each other even through the media. The bitterness of mutual accusations and the use of methods that were below the belt made Russian military leaders no better than their U.S. counterparts of the late 1940s who fought for control over nuclear weapons and for a bigger slice of the budget pie.

As a result, Sergeyev suffered a defeat, and support was given to an alternative reform plan which the Chief of the General Staff, Anatoly Kvashnin, submitted over Sergeyev's head to Russia's Security Council, headed then by Sergei Ivanov. It was Ivanov who took the post of defense minister in March 2001 after Sergeyev was dismissed. Although Ivanov declared himself a civilian minister and pointedly gave up his rank of lieutenant-general of the Federal Security Service (FSB) – which did not prevent him from becoming a reserve colonel-general later – initially he acted like a typical military minister. He decided against creating civilian administrative structures, saying that "the military must hold an overwhelming majority of posts" in his ministry. And later he simply annulled most of his predecessor's decisions.

Already on March 24, 2001, he reinstated the Main Directorate of the Ground Forces, abolished in 1998. The 2nd Directorate of the Main Operational Directorate of the General Staff, which had performed the functions of the Main Directorate of the Ground Forces, was incorporated into the reinstated Ground Forces Chief Command. The Military Space Forces and the Missile Space Defense Forces were

withdrawn from the RVSN, while the latter were downgraded to an Armed Forces arm. In a bid to restore the former structures, Ivanov went further and further. On the same day, March 24, 2001, the president's executive order created, for the second time, the Volga-Ural Military District. The Volga Military District and the Ural Military District were first merged back in 1989, but three years later, in 1992, Pavel Grachev restored their independence.

By taking sides with one military faction against another, Ivanov sowed seeds of discord among generals, which Anatoly Serdyukov now has to settle, in addition to addressing the difficult task of imparting a new image to the Armed Forces. Now the Ground Forces and the Airborne Troops are increasingly demanding a return of army (helicopter) aviation that Ivanov had taken away from the Army and given to the Air Force, which was contrary to international practices. The Air Force insists that everything that flies must be under one command.

Certainly, it is not an evil wizard who makes the military of one and the same country attack each other like fighting cocks but the inherent properties of the military profession, about which James Carroll wrote. They can be cooled down only by an arbiter in the person of a civilian minister, free from any clan or professional bias and relying on qualified staff and independent experts.

The dangers posed by the Russian tradition of appointing active or reserve military officers to the post of defense minister can be illustrated by the example of the ongoing negotiations on a follow-on agreement to the Strategic Arms Reduction Treaty (START-1). Now, when Russian negotiators are struggling with their U.S. counterparts for every warhead and launcher, few people remember that Anatoly Kvashnin, in the heat of his struggle with Igor Sergeyev, proposed slashing the Strategic Rocket Forces from 19 to 2(!) divisions. Had he become the defense minister, what would we be discussing with Barack Obama now? And what would have been left of the Armed Force, had it seen two or three more military ministers of defense?

Fortunately, the ruinous practice has been stopped. The depth of the recent changes will be best seen from the fact that Russia now has the first combat-ready peacetime army over almost 150 years (since the reforms of Minister of War Dmitry Milyutin in 1861-1881), that is, an army that can do without cadre divisions and reduced-strength units.

"IF YOU DON'T KNOW WHAT TO DO, LEARN FROM OTHERS"

There is another, subjective reason that has enabled Anatoly Serdyukov to carry out his reforms within a very short period of time. He was the first to lift the taboo on the study and use of the foreign experience of military organization.

Serdyukov, an outsider without a purely military mindset, hardly had views of his own on how to reform the army. When he saw that generals had no answers to his questions and that the so-called reforms of the last 20 years were simply destroying the Armed Forces, he decided to use foreign experience, a method repeatedly proven in Russian history by military reformers. Three centuries ago, Peter the Great, who laid the foundations of one of the best and most victorious armies of the 18th century, when Russia was still a relatively poor and sparsely populated country (14 million people, compared with 20 million people in France), gave a formula as to how to resolve such situations: "If you do not know what to do, learn from others." And not just copy a foreign army that you like but synthesize foreign experience, borrowing from it what is the best and what is best suited to your national conditions.

Of course, every country follows its own way in building its armed forces, taking account of its national specifics. As a result, modern armies of the world are very diverse. However, there are methods of military organization that have long become axiomatic, that have been adopted in all leading rule-of-law states and that do not require extensive predictive studies, experiments or the development of new doctrines. These methods can be introduced without additional discussions, because they have been accumulated and tested for decades and have no alternatives in terms of the normal functioning of combat-ready armies and navies in most diverse conditions.

It was such an approach that the Council on Foreign and Defense Policy proposed to the Ministry of Defense in 2004 in an extensive report entitled "Military Organization and Modernization of the Armed Forces of Russia." The report included a list (drawn up by the author of this article, who headed the writing team) of half a dozen characteristics that were common to all armies of the world and that were absent in the Russian Armed Forces. In particular, the Council proposed a radical reduc-

tion of the officer corps, the abolition of warrant officers, the introduction of the institution of career sergeants and military police, as well as many other measures, some of which have already been implemented, and, of course, the creation of a full-scale civilian Ministry of Defense.

The General Staff rudely rejected the proposals then. It accused the Council of trying to push the army onto NATO's tracks, and called the phrase from the report that "all CIS countries have long been studying foreign experience, and only Russia remains aloof" a provocation. The General Staff insisted that the report should in no case be sent to the president, although the Council did not plan to do that anyway.

Nevertheless, the Council showed restraint, holding that any dialogue with the military is useful. As a result, it prepared eight versions of the report, trying to take into account their points of view. Each new version made the report worse and worse. For example, the list of common features of foreign armies was moved from the beginning of the report to its very end. But the basic provisions were retained.

Naturally, neither my colleagues nor I claim the authorship of Serdyukov's innovations. I even tend to believe that most of them were proposed by generals themselves, because all the innovations were dictated solely by common sense, which many generals do have. But what they often did not have in the past was ministers ready to heed sound advice. At first, Serdyukov probably did not realize the scale of the reforms he launched. But now the avalanche has started, and the first changes will inevitably be followed by others.

It is important, of course, not to confuse combat readiness – that is, the level of the army's wartime strength – with its combat capabilities. At present, only ten percent of equipment in service with the Russian army is new and meets the best world standards. President Dmitry Medvedev has expressed his concerns to this effect as well. During his October 26, 2009 visit to Reutov, near Moscow, he said that "the structural reorganization of the Armed Forces will be complete in two months time" and added: "The next task is more complex – providing the Armed Forces with modern arms and equipment." To fulfill this task, common sense alone will not be enough.

After the War

The Postwar Settlement of Russia's Armed Forces in Abkhazia and South Ossetia

Anton Lavrov

Upon the completion of the Five-Day War in August 2008 but before Russia withdrew its troops from Georgian territory, Moscow announced its recognition of the independence of the two breakaway regions of Georgia – Abkhazia and South Ossetia. Since the Georgian government did not give up its plans to regain control over the self-proclaimed regions, including by force if necessary, the existence of the newly recognized republics could be guaranteed only by deploying Russian troops in them. In accordance with agreements signed by the two republics with Russia, they have provided, free of charge, land for Russian military bases for a term of 99 years in South Ossetia and 49 years in Abkhazia.

Initially, the permanent strength of the troops to be deployed at each Russian base was set at 3,800 people. However, the new state of things after the recognition of the republics' independence allows Russia to freely maneuver and build up its force there in advance in case of a threat from Georgia or an aggravation of relations with it. This is particularly important in case of South Ossetia which Russian troops can enter only through the Roki Tunnel in the mountains and where the roads have a low traffic capacity.

During the first few postwar months, the actual strength of Russian troops in Abkhazia and South Ossetia was higher and their composition

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was different than it was initially planned. In addition to the newly established 4th and 7th Military Bases of the Russian Army, Russia brought various engineer units into the republics; it also used Air Force and Air Defense units and brought additional artillery, for example, the 944th Guards Self-Propelled Artillery Regiment from the 20th Motorized Rifle Division (Volgograd) and 220-mm Uragan 9P140 multiple launch rocket systems. Also, Russia deployed various special-purpose units in the two regions.

RUSSIAN MILITARY BASES IN ABKHAZIA

If Georgia tries to attack Abkhazia, Russian and Abkhazian troops will have to defend a long (about 60 kilometers) lowland border, which, however, will not be very difficult to do as the border lies along the Inguri River. In addition, the capital of Abkhazia, the majority of its cities and major military bases are located far from the border and are exempt from the danger of being suddenly shelled from Georgian territory or of ground invasion. The part of the border with Georgia in the Kodori Gorge can be effectively defended by a small force, as the terrain there highly limits the use of heavy equipment. Other parts of Abkhazia's border with Georgia lie in mountainous terrain of difficult access, which rules out any possibility of the use of large Georgian forces or military equipment there and which greatly facilitates their defense.

After the Five-Day War, Russia's 7th Military Base was formed in Abkhazia on the basis of the 131st Separate Motorized Rifle Brigade of the 58th Army. Earlier, the brigade had been deployed in Maikop and had been known for heavy losses sustained during the storming of Chechnya's capital Grozny in January 1995 in the First Chechen War. Before the conflict with Georgia, individual units of the 131st Brigade had performed peacekeeping functions in Abkhazia, but after the Five-Day War the brigade was deployed in Abkhazia in full strength on a permanent basis. The brigade's redeployment began already in mid-August 2008 and was largely completed by the end of September 2008. The brigade is based at an old Soviet military airfield, Bombora, near the town of Gudauta. On November 17, 2008, the Abkhazian parliament allotted land there for the Russian base. In all, the brigade is deployed on an area of about 150 hectares.

The brigade's personnel put up tents and deployed equipment and storage facilities right at the airfield's runway. Gudauta is more than 100 kilometers away from the border with Georgia that lies along the Inguri River; therefore, the brigade has deployed its forward battalion in hardened defensive positions in Abkhazia's Gali District in direct proximity to the Abkhazian-Georgian border, while a reinforced company of the brigade has been deployed in the Kodori Gorge. Their positions were equipped by the forces of the base, as well as by two Russian separate engineering battalions and a separate engineering company, which were withdrawn from Abkhazia in 2009.

In mid-March 2009, the tank battalion of the 131st Separate Motorized Rifle Brigade was fully re-equipped: its T-72B battle tanks were replaced with new T-90A tanks produced in 2008. According to the battalion's new table of organization, it has 41 T-90A tanks. This number of tanks allows the brigade to effectively counter Georgia's modernized T-72 tanks, even if the latter have numerical superiority. The new tanks have been widely used in the brigade's exercises since April 2009.

In addition, the military base has over 150 BTR-80 armored personnel carriers (these are planned to be replaced with better-armed BTR-80A APCs); two battalions of 152-mm self-propelled 2S3 Acacia howitzers; one battalion of 122-mm BM-21 Grad multiple launch rocket systems; Osa-AKM, 3SU-23-4 Shilka and 2S6M Tunguska air defense missile systems; and other weapons.

In the autumn of 2008, the territory of Abkhazia began to be integrated into Russia's air defense system. In November 2008, Russia sent to Abkhazia several S-300PS surface-to-air missile systems from a cadre air defense missile regiment based near Moscow, and deployed there radar formations equipped with Fundament automated systems for Elint company control posts and other equipment.

Immediately after the recognition of Abkhazia's independence, plans were announced to establish a Russian naval base in it. It will be located at the port of Ochamchira, which in Soviet times hosted a brigade of border guard ships and a training detachment of naval ships. This small port can receive ships 85 meters long. The navigable depth there is 12 meters, but over the years of the port's disuse the navigating channel has shoaled to 5 meters. After the port is cleared of sunken

ships, its water area and navigating channel are dredged, and the coastal infrastructure is restored at least partially, the port will be able to permanently host three to five small warships of Russia's Black Sea Fleet (these may include small-size missile or antisubmarine ships, or missile boats) and ten patrol ships and boats of the Russian Coast Guard. Such a force would reliably defend the Abkhazian coast. In August 2009, Russia began dredging in the port of Ochamchira.

In May 2009, a Russian Defense Ministry official said that the strength of the Russian military base in Abkhazia could be reduced by relocating half of the personnel to bases in Russia because of substandard living conditions for Russian troops in Gudauta. The personnel continued living in tents, which was highly uncomfortable, especially in wintertime and spring/autumn, given the high humidity, abundant precipitation and sea wind in the region, although the climate in Abkhazia is rather mild. In the winter of 2008/2009, the problem was aggravated by irregular firewood supplies and electricity disruptions. Despite the conclusion of contracts with Abkhazian forest management authorities, the Russian military still had to cut trees around the base and burn the wood to warm themselves. The construction of modular prefabricated homes began only in August 2009.

A temporary transfer of part of the troops and equipment to bases in Russia can simplify the solution of the problem of poor living conditions and would make possible force rotation. An effective border guard system, the forces of the 7th Russian base using fortified strong points, and combat-effective Abkhazian Armed Forces would be able to contain a possible Georgian aggression until reinforcements come from Russia. Such a possibility is being considered, but the redeployment of troops has not yet begun.

RUSSIAN MILITARY BASES IN SOUTH OSSETIA

South Ossetia is a territory that is difficult to defend. Its capital Tskhinval, the largest town in the republic, is within the reach of artillery, mortar and even small-arms fire from the territory of Georgia. The Leningor District of South Ossetia is isolated and is linked to the republic's mainland by a mountain road with a low traffic capacity, which becomes impassable in wintertime and in heavy rainfall. For example, pouring rains in June 2009 washed out part of the road, cutting off transport links with the region. Rus-

sian troops stationed in the area had to be supplied by helicopter for several days. It takes four to six hours to reach Leningor by this road.
South Ossetia is linked to Russia by one asphalt two-lane mountain road and the Roki Tunnel, which limits its throughput capacity. In addition, this road is often blocked by avalanches for a day or more in wintertime and partially in autumn and spring. This factor essentially complicates the sending of reinforcements from Russia. In contrast, Georgia, using a well-developed network of roads and the proximity of its military bases, can quickly and effectively concentrate its troops against South Ossetia, which it demonstrated in the Five-Day War.

Therefore, to fulfill its commitments, Russia has had to deploy in South Ossetia a force capable of autonomously resisting the Georgian Army for a period of time required for sending reinforcements and/or organizing other measures to counter an act of aggression by Georgia. To this end, immediately after the end of the war, it was decided to establish the 4th Military Base of Russia in South Ossetia. The base hosts the 693rd Separate Motorized Rifle Brigade, deployed according to a new table of organization. The brigade was formed from the 693rd Motorized Rifle Regiment of the 19th Motorized Rifle Division, which had earlier been deployed near Vladikavkaz, Russia's North Ossetia. In addition to the regiment, the brigade includes one battalion from the disbanded 135th Motorized Rifle Regiment of the same division and one battalion of multiple launch rocket systems.

The base now has 41 T-72B(M) battle tanks, more than 150 BMP-2 infantry fighting vehicles, two battalions of 152-mm 2S3 Acacia self-propelled howitzers, one battalion of 122-mm BM-21 Grad multiple launch rocket systems, Buk-M1 and 2S6M Tunguska air defense systems, and other weapons. The larger part of the brigade's equipment has undergone maintenance and modernization.

The 4th Military Base is stationed in three military communities, whose construction began even before the war for Russian and South Ossetian peacekeeping forces. The first community, NQ 47/1, is located on the northwestern outskirts of Tskhinval. Its construction was almost completed when the war began, except for interior design and service lines. During the war, the empty houses were not damaged – luckily, they did not come under aimed fire and the territory was only hit by a few random Georgian rockets and artillery shells.

After the war, the construction efforts continued, and by February 2009 a large part of the new base was put into operation, including barracks, apartment houses, social and cultural facilities, equipment bays, and a helipad. Efforts to bring the base into line with the new requirements continued throughout 2009, and additional construction is planned for 2010. A major drawback of this community is that it is located just a few kilometers away from the South Ossetian-Georgian border, and in case of a new conflict the Russian troops and equipment there may come under sudden massive artillery fire from Georgian territory.

Another community is located 1.5 kilometers west of the town of Dzhava, near the village of Ugardanta. In addition to residential quarters, NQ 47/2 hosts storage facilities for missiles, munitions and engineering equipment. Immediately after the war, a paved helipad was built near the base for 10 to 15 helicopters. There are reserves of fuel and lubricants on the helipad for more helicopters, which could be sent from Russia if necessary, so that they could be effectively used in combat from the territory of South Ossetia – a possibility Russian troops lacked during the first few days of the war.

There is a problem that is common to all the new Russian military communities in South Ossetia – this is their insufficient capacity, as they were built for a limited peacekeeping force and were not intended for the deployment of a full-scale motorized rifle brigade. The command had to install bunk beds in the barracks to accommodate more soldiers. Also, there are not enough bays for the brigade's combat equipment, which by far outnumbers the equipment of a peacekeeping force. The space shortage problem has been solved by placing about half of the base personnel on the territory of the 4th Military Base in the city of Vladikavkaz, North Ossetia. The personnel rotation takes place once every six months.

In addition, small military units of Russia stationed in the remote Leningor, Znaur and Dzhava Districts of South Ossetia have for more than a year been living in tents, with a minimum of comfort and sometimes running short of supplies. The difficult living conditions in Russian garrisons in the region have caused several Russian soldiers to desert to Georgia. This problem can be partially solved by the construction of modular prefabricated homes, which has already begun.

A large force of the 4th Military Base is stationed in the Leningor District. As this area is isolated and vulnerable to attacks, the Russian

command has deployed a motorized rifle company task force at the village of Kancheviti in the district, which has been reinforced by tanks, artillery, multiple launch rocket systems, and air defense systems. In cases when the situation in the area became aggravated, Russia sent additional troops to the area.

THE DEVELOPMENT OF THE TRANSPORT INFRASTRUCTURE IN THE TWO REPUBLICS

An effective defense of South Ossetia is impossible without uninterrupted transport services between this region and Russia. Therefore, the improvement of South Ossetia's transport infrastructure is a top priority, as it will enable sending more troops, if necessary, and ensure uninterrupted supplies for Russian troops stationed in the republic. To this end, it has been decided to ensure year-round operation of the Transcaucasian Highway, which is often blocked in the winter by avalanches. A program has been drawn up to build three tunnels, six kilometers of avalanche galleries, and mudslide channels and reconstruct bridges on the highway over the next few years. The reconstruction of the strategically important Roki Tunnel leading from Russia to South Ossetia has already begun.

The remote Leningor District will also be reached by a new mountain macadam road whose construction began before the war. The surface of other roads damaged by the movement of troops has been restored. The Zar bypass earth road has been asphalted. A survey is under way to find a location for the construction of an airfield in South Ossetia that would be capable of accepting military-transport aircraft.

Transport links between Abkhazia and Russia are much more reliable. They are linked by a highway and a railway; also, there are two large airfields in Abkhazia capable of handling heavy transport aircraft, including the An-124. Troops and cargoes can also be sent via Abkhazian ports on the Black Sea. Russia and Abkhazia have signed an agreement to place Abkhazian railways and the Sukhum airport under the management of Russian companies for a term of ten years.

The Russian Railways Company, which has received the management of Abkhazian railways, plans to carry out an overhaul of the tracks and fully restore overhead lines. This will increase the throughput capacity of Abkhazian railways and help to speed up the movement of troops, if necessary.

The Sukhum airport, which was already actively used in August 2008 for the delivery of Russian airborne troops and supplies to Abkhazia, is now planned to be used as a permanent base for a Russian mixed air group, including attack aircraft, fighter aircraft and helicopters. Placing the airport under Russia's control will help to increase its throughput capacity. The airfield in Gudauta cannot be used by aviation now as it accommodates the main facilities of the 7th Military Base. It only houses helicopters that support the Russian force.

BORDER INFRASTRUCTURE DEVELOPMENT

As a medium-term goal, Russia has announced the creation of maximum transparent borders with Abkhazia and South Ossetia, like those between countries of the European Union. In order to avoid the emergence of weak points on the Russian border, it was imperative to establish and equip full-fledged state borders between the two newly recognized republics and Georgia, patterned after the Russian border.

In January 2009, Russia began to demarcate and delimit the borders of South Ossetia and Abkhazia with Georgia. In doing so, it relied, in particular, on documents of 1921 that established the administrative border of South Ossetia. Georgia reacted by saying that Russia's efforts were illegitimate and that it would not recognize those borders. Nevertheless, on April 30, 2009, Russia signed agreements with the Republic of Abkhazia and the Republic of South Ossetia on joint efforts to protect the borders. According to these agreements, to ensure the protection of the borders of Abkhazia and South Ossetia with Georgia, Russian border guard troops will be placed in these countries on a permanent basis. Their strength will not be included in the total strength of the Russian military bases. These troops are planned to remain in the two republics until the formation of Abkhazian and South Ossetian border guard services. They will help train local border guards, after which they will be withdrawn from the region. No specific timing for the withdrawal has been set yet; so potentially the Russian border guard troops may remain in South Ossetia and Abkhazia indefinitely.

To guard the borders of the two republics, Russia's Federal Security Service has established two new border guard departments – in Abkhazia and South Ossetia. The department in Abkhazia will guard more than 160

kilometers of land border and about 200 kilometers of sea border. To this end, 20 border posts and a Maritime Department will be established in the republic, and the total strength of border guards will be about 1,500 people. About 20 border posts will be established in South Ossetia, as well. The strength of border guards there will exceed 1,000 people.

Immediately after the agreement was signed, on May 1, 2009, Russia began to send its border guards to the republics and place them on the borders. The first phase of the deployment was over by the end of May in Abkhazia and by mid-June in South Ossetia. At present, the border guards are deployed in the field; however, standard border guard facilities are planned to be built in the two regions before the end of 2011. The facilities will be like those built en masse in Chechnya, Ingushetia, Dagestan and other southern regions of Russia in recent years. Such border posts are autonomous facilities providing for comfortable living even in the most isolated areas and enabling remote control over the state border with the help of technical means. A network of helipads has been built in Abkhazia and South Ossetia for border guard aviation to supply the border guard posts.

In South Ossetia, in addition to Tskhinval, Russia's border guard posts will be located at the towns and villages of Artsevi, Akhmadzhi, Balaani, Balta, Vakhtana, Velit, Grom, Dzhava, Disev, Dmenis, Edis, Znaur, Kvaisa, Largvis, Leningor, Muguti, Orchasan, Sinagur and Tsinagar. Thus, they will cover not only areas that have good transport links with Georgia but also mountainous areas of difficult access along the entire perimeter of this republic.

Already in 2009, there arose a need for an early protection of Abkhazia's sea border and navigation in this area of the Black Sea. After the war, maritime traffic between Abkhazia and Turkey intensified. From Georgia's point of view, this is a violation of Georgian laws and ships entering Abkhazian waters without Georgian approval are smugglers. This is why Georgia is seeking to prevent other countries' sea links with Abkhazia. In 2009, the Coast Guard of Georgia seized more than 20 civilian ships that were heading for Abkhazia or returning from it. The ships were escorted to Georgian ports where the owners of some of them had to pay heavy fines, while in other cases the cargoes carried by the ships and even the ships themselves were confiscated and crew members were sentenced to long prison terms.

The attempt to impose a naval blockade on Abkhazia has necessitated the formation of a division of up to ten Russian border guard ships for its protection, which will be based in the port of Ochamchira. The division will include large coast guard ships and high-speed boats – Mangust (Project 12150) and Sobol (Project 12200). The division began to be formed in September 2009 and is expected to be brought up to strength by the summer of 2010. Its base in Ochamchira is scheduled for completion in 2012.

It should be noted that large border guard ships of Russia carry powerful artillery armament, including the 76-mm AK-176M gun and the 30-mm AK-630 rapid-fire gun, as well as advanced fire control systems. This gives them full superiority over any boat in service with the Georgian Coast Guard, whose most powerful weapon today is an obsolete 37-mm gun. As for the small fast boats in the Russian division, they are intended to counter raids by Georgia's new high-speed lightly armed boats, built in Turkey, and promptly respond to emerging threats to civilian shipping. Russia's Coast Guard will also help create a unified system of radar control over the territorial waters of Abkhazia and adjacent sea areas.

In addition to their main function of guarding the borders, the deployment of the Russian border guard troops in the two republics is of major military importance. The Russian border guards in Abkhazia and South Ossetia are well-trained and fully equipped contract soldiers. Armaments in service with the Russian border guards include advanced small arms, mortars, light armored vehicles, combat helicopters and sophisticated surveillance technologies, including unmanned aerial vehicles, thermal imagers and radars. In all, about 2,500 Russian border guards will be deployed in Abkhazia and South Ossetia. They will monitor the border zone of Georgia and, if necessary, will fight Georgian reconnaissance and sabotage groups. If Georgia launches another attack on the republics, the Russian border guards will be the first line of defense and prevent Georgia's rapid offensive.

COMBAT TRAINING

The Russian troops brought into Abkhazia and South Ossetia after the Five-Day War were limited in terms of combat training. During the first few months of their stay in the two republics, the troops had to focus on

settlement matters, which left them no time for combat training. In Abkhazia, where a large peacekeeping force had been deployed before the war and where there still remain well-developed elements of the Soviet military infrastructure, this stage proceeded easier and faster than in South Ossetia, where it lasted until the early spring of 2009.

After the problem of deploying large forces at the new bases was solved, the Russian troops faced another problem – the absence of ranges for combat training. It did not take much time to organize firing ranges for small arms, but it proved to be a much more difficult task to find areas for tank and artillery ranges. The small size of the two republics and the lots of land allotted for the ranges does not make it possible to conduct full-scale exercises at the battalion level and higher, especially field firing exercises. To conduct certain types of tank, artillery and surface-to-air missile firing exercises, the personnel and equipment of the military bases have to be moved to firing ranges of Russia's North Caucasian Military District, which reduces the defense capacity of the Russian troops deployed in Abkhazia and South Ossetia. The situation is particularly difficult in South Ossetia. A firing range at the village of Dzartsemi allows only field firing by infantry fighting vehicles. Tanks have to move to the Tarskoye range in North Ossetia for live firing.

In late June-early July 2009, the North Caucasian Military District held a traditional annual strategic exercise, Caucasus-2009, which also involved the Russian troops stationed in the newly recognized republics. One of the goals of the exercise was to practice how the forces of the district could assist these troops. Although the exercise organizers had said the exercise would take into account the experience of the 2008 war and that the new, brigade-based structure of the troops would be tested in practice, the scenario of the Caucasus-2009 exercise was only slightly different from the preceding Caucasus-2008 exercise. Russia used approximately the same forces and equipment in the exercise as in previous years. The exercise was held at several geographically dispersed ranges, which did not make it possible to practice interaction of brigades and other units between themselves. There was no large-scale movement of the district's troops, nor operational build-up of troops from other districts there. Also, the exercise agenda did not include the movement of troops to the newly recognized republics to build up Russian forces there.

Russian troops stationed in Abkhazia and South Ossetia took only a limited part in Caucasus-2009, mainly in command and staff training, because of the danger of diverting large forces of the Russian military bases there from the border with Georgia. The armed forces of the new states themselves did not participate in the exercise, either. The exercise did not demonstrate large-scale use of the district's new military equipment, even equipment that entered service in the previous year, which may indicate that the troops are not trained well in its use yet.

Over the time that has passed since the war, all conscript soldiers that took part in it and who gained some combat experience there have been demobilized. Many experienced contract soldiers have left the regions, as well – because of the failure of Russia's Defense Ministry to fulfill its promise to pay for the service in the two republics, and because of the difficult living conditions at the Russian bases there. The number of soldiers doing military service under contract at the 7th Military Base in Abkhazia has decreased to about 20 percent. Numerous reorganizations of the bases' structure have resulted in the replacement of a large number of the senior and middle ranking officers that took part in the war.

The above developments suggest the conclusion that the time that has passed since the war has seen no essential growth of the combat effectiveness and combat training of the Russian troops deployed in Abkhazia and South Ossetia. At present, their training standards approximately correspond to those of the Russian troops that were involved in the Five-Day War.

THE IMPORTANCE OF THE BASES

The overall strength of the Russian military bases in Abkhazia and South Ossetia insignificantly exceeds the strength of the Russian peacekeeping forces that were deployed in the regions before the Five-Day War. Major growth has taken place only in South Ossetia, where the strength of Russian troops has increased from 1,000 (including a North Ossetian peacekeeping battalion) to 3,500 people. In Abkhazia, there were already almost 3,000 troops when the war began, including a large part of the 131st Motorized Rifle Brigade.

Nevertheless, the combat capabilities of the Russian troops in the republics have increased dramatically over the last year and a half due to

the deployment of a large number of heavy weapons which the peacekeeping mandate did not allow the peacekeepers to have. Now there are dozens of Russian tanks (including the T-90A) and heavy self-propelled artillery there, which leave the Georgian army no chance of routing the troops deployed there and invading large parts of the republics' territories.

Russia's military bases alone cannot rebuff a full-scale offensive by the much stronger Georgian army, which can be further reinforced by reservists. However, if they delay a Georgian offensive, the Russian Army will be able to use the improved transport infrastructure and promptly send additional troops from Russia for a counterattack. The situation for Georgia is now complicated by the fact that it can no longer concentrate the whole of its army against one of the two breakaway republics, as happened in the Five-Day War. Georgia will inevitably have to keep a large part of its forces to block Russian troops deployed in the other republic.

The deployment of Russian troops in the young states reduces the risk of small-scale conflicts. The Georgian leadership understands that an attempt to carry out even a limited military operation against Abkhazia or South Ossetia may trigger a full-scale and very quick response from the Russian troops stationed in the republics, which are no longer limited by the frameworks of peacekeeping operations and "coercion of Georgia to peace." If the situation develops according to a worst-case scenario and escalates into a new major conflict between Russia and Georgia, the Russian bases can be reinforced by other Russian troops.

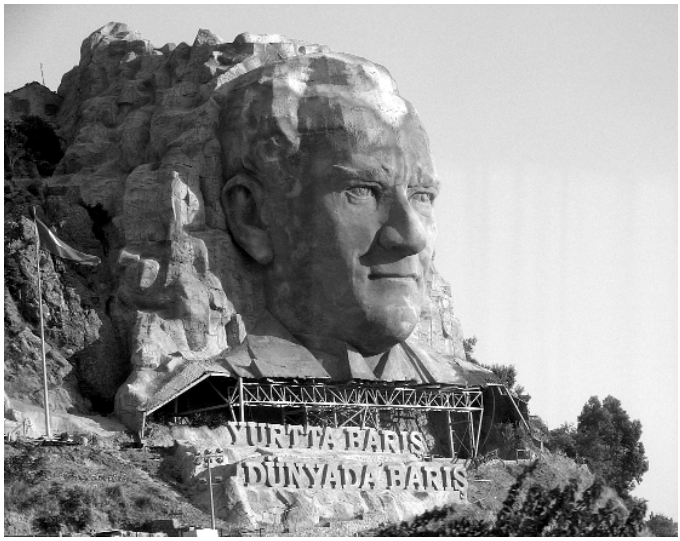
The base in South Ossetia, which still is the most vulnerable, is supported by Russian troops stationed in North Ossetia and neighboring regions. Within the frameworks of the Russian Armed Forces' reform, the 19th Separate Motorized Rifle Brigade has been established in Vladikavkaz as a constant-readiness unit on the basis of the former 19th Motorized Rifle Division. The brigade is armed with new combat equipment, including T-90A tanks. In case of a new conflict, the brigade will be the first Russian reserve to be sent to South Ossetia, which will be done within a day.

New and modernized armaments are also supplied to other units of the North Caucasian Military District that can be used if a new conflict erupts. The obsolete T-62 tanks in service with the 17th and 18th

Separate Motorized Rifle Brigades (created on the basis of the former 42nd Motorized Rifle Division and deployed in Chechnya) have been replaced with T-72B tanks. The brigades also have new MT-LB 6MB tracked armored personnel carriers. The 20th Separate Motorized Rifle Brigade in Volgograd, created on the basis of the former 20th Motorized Rifle Division, has been rearmed with BMP-3 infantry fighting vehicles and earlier models of T-90 tanks. The 6,971st Air Base stationed in Budyonnovsk (it comprises the former 368th Attack Air Regiment and the 487th Separate Helicopter Regiment) has received another batch of modernized Su-25SM attack aircraft and eight new Mi-28N combat helicopters.

Since the time when the Russian military bases were deployed in South Ossetia and Abkhazia, the number of conflicts and cross-border skirmishes between Georgia and the new states, which it refuses to recognize, has decreased, and their intensity has declined greatly. Not a single civilian has died in cross-border conflicts since the end of the war. The rhetoric of the Georgian leadership vis-à-vis Abkhazia and South Ossetia has become less aggressive. Tbilisi avoids mentioning a possibility of returning its breakaway republics by force or any definite timeframe for a "reunification" with them. Nevertheless, Georgia has not given up plans to "return" the two regions yet, which still creates prerequisites for a new armed conflict with Russia.

Russia and the Neighborhood



A monument to Kemal Ataturk in Izmir, Turkey

“The Russian political groups that are ready to reorient themselves towards external sources of values have not produced a single Ataturk (even Yeltsin failed to be one, although it is not clear whether he really desired such a role). This is the reason – albeit not the only one – why the defeat of radical pro-Western forces can hardly be reversed in the near future.”

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Post-Soviet Nations in the Garden of Forking Paths

Values as Variables of Comparative Analysis

Svyatoslav Kaspe

It is no longer acceptable to apply the notion of "democratic transition" to the changes that started in Soviet bloc countries twenty years ago and which still continue in many of them to this day. Using this notion has become a sign of bad taste not only in the opinion of those who sourly grin at the epithet "democratic," but also in the opinion of quite impartial observers. Criticism of democratic transition theories is fair, by and large, as is criticism of any social theories that gradually become too rigorous and start being peddled as universal master keys to any tricky issue. The classical concepts of modernization had the same plight. This analogy is not accidental, since "democratic transition" may be viewed as one variant of the modernization scheme.

Yet attempts to totally renounce the idea of an analytically traced (rather than politically imputed) common vector for the evolution of different – and not only Western – societies from pre-modern to modern ones have proven to be unconvincing. These concepts played a positive role in improving and making more sophisticated the instruments of research that use the notion of modernization. An illustrative exam-

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ple is the comparison between Eisenstadt's concept of multiple modernities and his own earlier constructs that were far less subtle.

The situation with "democratic transition" is much the same: one has to admit that *something big* started to happen twenty years ago. Specialists may argue about the correct name for this process, but people who feel the earth shake under their feet are not very interested in the terms used by seismologists to denote one or another type of a tectonic shift. More important is, first, that this *something* should correlate directly with democracy – both as a value and as a political method; and, second, that the processes which had many similarities at the initial stage in the polities it engulfed (from the first institutional changes to visual reflections in the mass media) have produced largely dissimilar, albeit obviously inconclusive, results.

This is where the field for a comparative analysis opens up: the comparability of the objects being researched; the specificity of individual cases and groups of cases represented in this field, such as Eastern European or Baltic countries, the former Soviet republics (with their internal subdivisions) and, last but not least, Russia itself. The parameters determining this specificity are quite clear, too. They include the generational factor (i.e. the number of generations of people whose lives developed under a totalitarian regime, or the presence of generations who at least have some recollections about alternative ways of social existence); the presence or absence of a pre-Soviet independent statehood tradition, its content and historical profoundness; the fundamental difference between nation-building strategies that can be used in the core of an empire and in its provinces (as is well-known, after an empire's collapse, its former provinces encounter fewer self-identity problems than the former core of the empire).

Yet the selection of variables for a further comparison of the destinies of the polities that were moved from their places by the tectonic shifts of the late 1980s and the early 1990s is far from being a purely technical issue. Any solution will predetermine to a great degree the heuristic proficiency of numerous works written in this genre, the conclusions that follow from them and the ensuing recommendations.

The number of possible variables is quite large and includes: economic indicators; specifics of the constitutional system and territorial dimensions; variants of electoral laws and the party system; the ethnic

and confessional composition of the population; neighborly relations and the structure of foreign policy orientations. Researchers who operate these notions to one or more degree of sophistication produce more or less convincing hypotheses about the causes of significant differences in the evolutionary trends displayed by post-Soviet polities. However, there is one variable that is given little consideration – values.

IT'S BETTER TO BE RICH, BUT HEALTHY...

I undertook a comprehensive analysis of the correlations between and conjunction of the sphere of values and the sphere of politics, as well as the methods and mechanisms of the political operationalization of values in the context of nation-building in Parts I and II of my article "The Political Nation and the Choice of Values: The General Provisions and Russia's Specificity" (*Politeia*, No. 2, 4/2009 – Russ. Ed). Herein the notion of values implies – in line with what I believe to be a prematurely forgotten tradition of structural functionalism (Talcott Parsons, Edward Shils et al.) – the models of interaction, which according to Parsons prove that "attachment to common values means, motivationally considered, that the actors have common 'sentiments' in support of the value patterns, which may be defined as meaning that conformity with the relevant expectations is treated as a 'good thing' relatively independently of any specific instrumental 'advantage' to be gained from such conformity. [...]Furthermore, this attachment to common values, while it may fit the immediate gratificational needs of the actor, always has also a 'moral' aspect". Jan van Deth and Elinor Scarbrough write that "values are non-empirical – that is, not directly observable – conceptions of the desirable, used in moral discourse, with a particular relevance for behavior."

I've offered the following conclusions from the first, theoretical part of my article:

- A political nation is possible only as a community united by certain values;
- As a sociological category, values refer to the sphere of the moral, the sacral, and the universal; they are the factors of society that point to what lies beyond its boundaries and, generally, beyond the boundaries of this world;
- Only the acquisition of values enables a political nation to express itself and thus to convincingly legitimize its own existence;

• Self-identification within the space of values is implemented as a choice and a sacrifice, as you have to pay with a loss of one set of instrumental benefits for the acquisition of another set;

• A political nation can emerge only through carving its central system of values out of the pool of values accessible historically or by virtue of the situation for mobilization in the name of nation-building, and also as a result of building a central institutional system, which is inevitably secondary and ancillary to the central system of values, since it is the values that can legitimize the institutions but not vice versa.

Before we proceed it is important to make one more provision. The values discussed here are not only – and not so much – mass imperatives, stereotypes or preferences. The latter three happen to be the subjects of meticulous research (see, first and foremost, the huge, long-term project *World Values Survey* supervised by Ronald Inglehart (http://www.worldvaluessurvey.org); in Russia, this is primarily found in the works of Vladimir Magun). Yet these cross-national comparisons mostly register rather than explain things. This is because values (at least politically relevant ones) are produced not by the macro-social periphery; they are the products of the macro-social center in Shils' sense. Shils described it as a "phenomenon of the realm of values and beliefs." This is a kind of center of symbols, values and beliefs that rule the world. Liah Greenfeld and Michel Martin call it a "metaphor" designating "a core importance in the value system of a society, the irreducible, critical elements of this system." The center in this context is denoted as "the central value system." Understood this way, the center plays a crucial role in ensuring society's integration.

This means that the variables offered for analysis do not relate to all values empirically found in a society. They relate only to those that determine the choice (or many choices) made by society – its institutional setup, political programs and guidelines, and friends and foes. With a great degree of approximation we may say that the actors effectuating a choice of this kind are the political or intellectual elites and the subject authorizing this choice (even in cases of silent consent or full apathy) are the masses of people. But the most important thing is to identify the *sources* of the values exploited by the elites, their contents (since people forget sometimes that values may differ greatly) and the intensity of their appreciation. There are grounds to believe that differ-

ent compositions of the sources of values' set for post-Soviet political polities are the main factor behind their drift away from each other after the collapse of the communist universe.

This set happened to be the most complete in Eastern European and Baltic countries. By and large, these states (except for the former Yugoslavia and, with certain reservations, Czechoslovakia, where difficulties emerged from the patchy ethnic composition of those countries) met the crucial condition formulated by Juan Linz and Alfred Stepan: "The question of the legitimacy of the state [...] is of fundamental theoretical and political importance for democracy. In fact, agreements about stateness are logically prior to the creations of democratic institutions." Logically they are, but in reality the sequence of events sometimes happens to be completely the opposite (like in Russia, which will be discussed below). And when pragmatism coincides with logic, the whole thing gets much easier. In those countries the democratic institutions were built quite rapidly and started operating quite effectively, since from the very start of democratic transition they had the role of a secondary value (or even not a value but a technique). The primary value was the restoration of political nations that were presented – with various degree of convincingness – exclusively as the victims of external totalitarian forces, not the internal dysfunctions of any kind. The nations' pre-Soviet past, which was largely "invented," according to Eric Hobsbawm, or "imagined," according to Benedict Anderson, and hence lavishly embellished (there is not a sliver of rebuke here since nation-building boils down to imagining, inventing and reifying), happened to provide an extraordinary powerful source of values.

The second source, quite comparable in strength, was the dual center embodied by the European Union and the U.S., or "the empire of the West" as the external source of legitimacy making up for the lack of internal sources. This is what the Russian scholar Alexei Salmin wrote about it in 2003: "The new elites that came to power in Eastern European countries knew perfectly well – and the decisive majorities of societies quickly understood – where to go. Naturally, it was to go westwards – in the sense that it required making an unequivocal choice in favor of the existing European, Atlantic, and global institutions of every color. [...] Many East Europeans viewed these institutions as a train of some kind, thinking it was enough just

to get into any carriage, albeit the last one, to join other passengers on the trip along the main track in the right direction. Add to this Western investments and the renunciation of national control over the economy. Naturally, this instrumental solution needs some kind of justification, and the latter was found in the form of appeals – more or less well-grounded and more or less questionable – to the European (obviously meaning West European) identity of Eastern European cultures."

This is how Eastern European countries attained stable democratic institutions and procedures. They obtained legitimacy as the tools that ensured the functioning of restored nations that were joyfully reuniting "with the family of free nations" (once again, the case in hand is a dominant perception of social reality, not reality as such; but as the famous Thomas theorem suggests, "If men define situations as real, they are real in their consequences"). The institutions were not positioned as the only (and hence quite dubious) essence of a nation's existence. In this way, democratic institutions and procedures were exempted from the sphere of political discussions and turned into their commonly recognized formal framework. That is why even the acutest polical clashes and interparty squabbles that may at times reach the verge of mass violence – something that happened in Hungary in autumn 2006 – do not entangle the foundations of the institutional design: the most radical demands do not go beyond resignations and/or early elections.

...THAN TO BE POOR AND SICK

Things were different in the countries where emphasis was placed not on restoration, but revolution; that is, where a transition to a previously unknown state and status took place and where the parties to the process realized its newness. The countries that have at least a small opportunity to imitate the polities of the first group (Georgia, Moldova and Ukraine) vehemently copy their strategies and do it quite unsuccessfully, which is easy to explain. They do not have a pre-Soviet political tradition or else it is next to ephimeric. The external center of gravity is located too far away, the attitude to it is far from consensually positive, and the position of the center regarding the integration of these countries is ambiguous.

The states that do not have such opportunities display highly variegated lines of behavior. Some of them (Azerbaijan and Armenia) para-

doxically consolidate each other by a suspended, yet unfinished war (and draw the main source of their values from a recent heroic past). Other states, like the countries of Central Asia (not including Turkmenistan, which has turned into a completely enigmatic object because of its alienation from the others, making any speculations about it groundless), are building very interesting multilayer political systems. Outside observers do not offer their profound understanding enough. Works by Leonid Blyakher are one of the few rare exceptions. These systems combine in a variable measure the traditional lifestyle, the rudiments of Soviet social and political practices, the clan/clientele credibility networks, and the impact of external centers (of the very same West, Russia, China, Turkey and "the Islamic factor"). All these layers play the role of interfering sources of values. As for democratic institutions, they mostly function like façade constructions, although quite efficient ones. No one, except for the few intellectual groups, regard them as primary or even secondary values. Still, they perform their main function quite successfully, as they furnish Central Asian countries with a temporary "shield along the borders," inside of which there is a tedious search for an authentic value-related synthesis (a separate synthesis for each country). The contours of such syntheses are extremely vague, their attainment is not guaranteed in any way, and the probability of seeing more or less substantial elements of the "democratic canon" in the foreseeable future and in any recognizable form look very slim. Their transition may turn out to be quite undemocratic and this will make it possible for theoreticians of democratic transition to sigh with relief, as it will save them from many methodological and ideological problems.

The situation in Belarus looks much the same, although in this case the utmost proximity of two crucial external centers (Russia and the EU) and the absence of any meaningful internal sources of values, on the one hand, broaden the opportunities for balancing between the East and the West, prolonging the period of a state of indecision; and on the other hand, lead to a conclusion that it will inevitably end one day – with greater chances that the West will gain the upper hand.

Why so? Because Russia's set of values, at least the way it looks now, is insufficient even for this country, to say nothing of letting it play effectively the role of a donor of values for other polities.

Three years ago I listed the symptoms of "a substantive deficiency of Russia's actual statehood" in one of my works. They are: the problem of "fellow-countrymen" and ex-Soviet compatriots; the uncertainty (to put it mildly) concerning the correctness of Russia's borders and the very composition of its political body; the dubiousness of state symbols (including rituals and holidays); the vagueness of assessments of the Soviet and pre-Soviet past; the obscurity of a desirable future – both with regard to domestic life and the place in the world; and the absence of a commonly accepted name for the people themselves ('*Rossiyane*' as people identifying themselves with Russia as a state, or '*Russkiye*' as the people associating themselves with the ethnicity, history and culture of the Russian nation). All of these symptoms remain topical today and some of them have become more acute. Quite illustrative in this sense were the frantic discussions of the "memory policy;" above all, memory about Stalinism.

The generational factor does not make it possible to fully exploit the source of the pre-Soviet political tradition. In the absence of living eyewitnesses, it boils down to entertaining events like the formal guard mounting parades in the Kremlin. The hopes of certain quarters have not come to pass that "a second Russia," arising out of emigration, could play at least some mediatory role between the pre-Soviet past and the post-Soviet present. One might assume – purely theoretically of course – that the problem could be partly resolved by restoring the monarchy. Under certain conditions – and not necessarily fantastic ones – this scenario might consolidate elite groups, without provoking repulsion from the majority of the nation; the Communist opposition to this would be quite noticeable and even outrageous but, most probably, powerless. However, the discontinuance of the dynasty (which is not synonymous to the Imperial House), the absence of an absolutely or even conventionally legitimate heir to the throne makes restoration infeasible. Genuine monarchy is too serious an institution to be substituted with simulacra projects like "Prince Michael of Kent," however amusing.

The external source of values – the West – is inaccessible, too. A Mustafa Kemal-Pasha Ataturk is needed to reorient the core (not the periphery) of an empire to the Western political standards after it has lost in a political standoff with the West. Also, some supplementary conditions are required, like the historically prolonged period of the empire's

existence in the completely obvious (to itself, in the first place) status of a "sick European" (the word European is essential). One way or another, an Ataturk is a mandatory element, although even his presence in Turkey made the remote results of Turkey's westernization, radical and successful without parallel, very different from what was expected in the beginning. The doors of the EU remain closed to Turkey, and Islamists seem to be gradually gaining the upper hand over its armed forces – the only surviving bulwark of Kemalism.

The Russian political groups that are ready to reorient themselves towards external sources of values have not produced a single Ataturk (even Yeltsin failed to be one, although it is not clear whether he really desired such a role). This is the reason – albeit not the only one – why the defeat of radical pro-Western forces can hardly be reversed in the near future. That is why attempts to present the "democratic canon" as a universal human value needing no institutional backup from whatever macro-social center (internal or external) are invalid. An analyst must be as naïve as Ian Shapiro to treat democracy as a normative ideal needing no actor (after analyzing in detail the views of Thomas Hobbes, John Locke, Jeremy Bentham, Karl Marx, John Rawls, Edmund Burke, Richard Rorty, and some other authors – all of them quite concrete actors – in the six chapters of his book *The Moral Foundations of Politics*, the author unexpectedly ascribes "democracy in general" to all of them in the seventh chapter). On the contrary, it is enough to have elementary knowledge of the history and actual state of democracy to understand that it arises in societies (and sometimes in their neighborhood) that have the right people to create and support it. This, in fact, does not make democracy in any way different from other political forms.

Russian polity has an immense thirst for values, which represents quite a realistic danger acknowledged by the authorities. Greenfeld and Martin defined the central institutional system like "the authoritative institutions and persons who often express and embody the central value system". If the latter is absent, the institutional system loses its function and legitimacy, and transforms into an alliance of usurpers. Hence the unending attempts to mobilize the last acceptable resource of value-based power – not the pre-Soviet, but the *Soviet* past. The line of reasoning is clear – the Soviet past is still very close to us and it is still emanating some energy (it is

well-known that dead bodies can produce a strong impact on those who are alive). Yet this approach can only lead into an impasse where Tantalus's tortures will be guaranteed to us: "Whenever he bends down to drink, the water slips away, and nothing remains but the black mud at his feet."

The entire incumbent Russian statehood derives from the downfall of Soviet power that partly occurred in the form of self-disbandment and partly as a result of a conscientious revolt against it. Rehabilitation of the Soviet past is directly proportional to a disavowal of the Russian past: the higher the red banner flies, the lower the tricolor – and, consequently, the status of the people who hold the flagstaff, whatever illusions they may harbor. There can be no intermediate solutions: the totalizing nature of Soviet values rules out their inclusion in any politico-cultural synthesis. In other words, they do not fit into the "integrating formula" that, according to Alexei Salmin, "embodies the political culture of society for a relatively long time." On the contrary, any other values forcibly combined with these quickly get spoiled or eroded. In this case, the process has begun already.

The closest analogy to this – although not a mirror-like one – is the experience of the so-called "popular democracies" of the late 1940s that rapidly degraded into something very undemocratic. This unnatural hybrid of a hedgehog and a grass snake (the crisscrossing of which produces barbed wire, as is well known) was imposed on them by an external force. Replaying the same scenario by Russia on its own would only mean that history is capable of playing ironic tricks and, moreover, bitter sarcastic tricks, as well. It would be a pity to see it pushed towards this scenario.

The politico-cultural synthesis becomes possible when someone takes a responsible decision – i.e. a decision coordinated with the instance of the moral duty – on what values will be encompassed or left out. Simple decisions making it possible to lay a solid groundwork for the Russian political nation are non-existent. Hence we must look for complicated ones. One way or another, it appears that until a method is found for generating a *non-Soviet* (different from the restoration of the pre-Soviet) central system of values, democratic institutions and practices will remain weak. Moreover, the vectors of movement for post-Soviet polities, which twenty years ago were labeled as a "democratic transition" in a burst of overly audacious hope, will remain forking paths.

Cooperation Instead of Containment

Reflections on the Potential of Russian-Ukrainian Strategic Partnership

Nikolai Kapitonenko

Building an acceptable system of security in Europe is at the center of the new Ukrainian president's political agenda. The solution to this problem can be untapped by defining a mutually acceptable format of relations with Russia – Ukraine's largest neighbor, a source of potential challenges and a potential partner in achieving the tricky goal of saving Europe from the risks of a new Cold War.

How is it possible to impart real content in cooperation with Russia? What is Ukraine ready to sacrifice for the sake of this goal and what concessions can it expect from Russia? Last but not least, what new principles of cooperation should be accepted (since old slogans unsupported by concrete decisions will bring new problems rather than any acceptable foreign policy vectors)?

I will try to formulate the starting points for the dialogue, discussion and mutual understanding concerning the challenging questions poised above.

POSITIONS VS INTERESTS

Apart from the significance that relations with Russia per ser have for Ukraine, they have a distinct influence on the processes of transforming

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the European security system. It is precisely in this sphere that prospects for broad cooperation are opening for the two countries – on the condition that they map out the scope of identical interests and define common elements in envisioning Europe's future. It is also here that the biggest risks may emerge should Ukrainian-Russian relations turn into a zero-sum game. Despite the seeming incompatibility of Moscow's and Kyiv's positions on certain key issues of European security, the sides should discern the interests lying behind them. This is critical for finding a way to possible compromises.

It is also essential that Russia and Ukraine understand that their interests are not directed against each other. This means that from the very start they must renounce marginal attitudes aimed at weakening the partner, or questioning its sovereignty or territorial integrity. Unless this is done both countries will seek answers outside the framework of bilateral relations, which is insufficient for fruitful interaction. In addition to ruling out apparently unacceptable attitudes, Russia and Ukraine must focus their attention and efforts on the spheres where they can look for and find joint solutions.

Generally, the fundamental strategic interest for both countries is preventing an increase in the risk of conflicts in Europe; as a growing risk of conflicts creates essential threats, albeit somewhat different in character. For Russia, a new Cold War would mean huge internal risks and a high probability of finding itself on the wayside of global social, economic and political processes, and a mounting risk of disintegration. For Ukraine, it may bring about a loss of statehood in one form or another. Apart from the essential risks, a resumption of the confrontation in Europe may affect other Russian and Ukrainian interests and result in economic losses, political instability, and the weakening of positions in the global competitive struggle.

In the meantime, the two sides view the resolution of this strategic problem differently. Russia believes that averting imbalances of force offers the best guarantee for preventing a new standoff on the continent. It is exactly in this light that Moscow views, for instance, the expansion of NATO or the zone of its responsibility. Ukraine sees the main danger in the shortage of reliable instruments for defending its own interests in relations with stronger partners rather than in the upsetting of continen-

tal balances. It perceives NATO – like all other institutions of multilateral cooperation – as an opportunity to make up for this asymmetry.

Russia's interests in the current geostrategic situation were formulated by President Dmitry Medvedev in June 2008. His initiative envisions setting up a broad security zone that would span the entire territory of Europe and its proliferation to all the key spheres – political, military, energy and economic. The change in the rules of the game in Europe offered by Russia embraces the solution to the following fundamental problems:

- resolving the controversies between the right of people to self-determination and the territorial integrity of states;
- defining the limits to and conditions for the use of humanitarian interventions in conflicts;
- formulating the principles for the functioning of military and military/political unions on the continent.

Each of these problems has been an obstacle in the way of implementing Russia's geopolitical priorities for quite some time and has been serving as a source of double standards in international politics. And whereas the eradication of the latter meets the interests of European countries in general, the forms and methods by which Moscow hopes to achieve its objectives, especially in the wake of the 2008 events, give rise to many questions.

Kyiv, too, has its own questions and apprehensions. How are the accents placed in the Russian plan? If talk about law and non-use of force serves as a mere veil for turning international security in Europe onto the track of *Realpolitik* envisioning the division of spheres of influence and non-interference, a plan of this kind is unacceptable not only for Ukraine, but for the whole of 21st-century Europe. It would push European politics back many years to the times of rival alliances and antagonistic interests. In this case, the incumbent system of European security, however imperfect, better meets the needs of the mutually inter-dependent European structure.

If Russia really wants to make the mechanisms of a multilateral system of ensuring stability more efficient, its efforts should be supported and its plan should be discussed at multilateral talks. In Ukraine's view, the areas for improvement may include:

• Specifying the principles for the settlement of regional and local conflicts, including the correlation between nations' right to self-determination and the states' territorial integrity. Since Kyiv is concerned about settling certain conflicts in the territory of the former Soviet Union, especially the conflict in the Dniester region, it deems it important that its considerations on the issue be heard.

• Determining the mechanisms of interaction among various international organizations in maintaining stability in Europe. For this it would make sense to reject the idea of non-interference in conflicts and fix the principle of maximum possible cooperation between all the existing institutions, with each of them making a contribution to the settlement.

• Mapping out the general format of main approaches to the settlement of local and regional conflicts, determining a set of other admissible measures for conflict resolution and procedures for involving third parties;

• Detailing Russia's proposals in the field of energy security. More than a year and a half have elapsed since Medvedev announced his initiatives and this period was quite eventful for energy markets, resulting in the rise of a new format of Ukrainian participation in the energy security system; establishing to what degree the position taken by Russia today reflects its readiness to work for the emergence of a transparent, united energy system that would account for the interests of suppliers, transit operators and consumers. This is the key task for formulating Russia's proposals.

Russia's initiative is useful in the sense that it aims towards facilitating efforts in finding multilateral compromise mechanisms for ensuring security in Europe. Development of its major elements, including in the format of Russian-Ukrainian bilateral cooperation, may lead to building a common vision of the European security architecture.

THE PROBLEM OF NATO

In the same way that Russian-Ukrainian relations offer a clue to building the European security architecture, the NATO problem largely determines their relations. The first step towards easing mutual misunderstanding in that area could be defining the two countries' interests that are affected by Ukraine's prospective accession to NATO, and the second one, shifting discussions from the emotional to the pragmatic plain.

The second step seems to be simpler to make, but in practice it is not. The discussion of the NATO problem seldom avoids an outburst of passions, and this refers to all quarters, be it academic, political or public. The overcharge of emotions and values adds to the knottiness of the problem and creates dividing barriers, turning the problem into a zero sum game. NATO is a matter of the ideological choice, a self-styled historical and civilizational Rubicon for many people in both Russia and Ukraine. In essence, democratic values are part and parcel of the North-Atlantic alliance as such and an element of common identity of the countries making it up. Neither Russia nor Ukraine calls these values into question and this means that discussions of the problem should be limited to the issues of security, strategy and geopolitics. The more often they succeed in doing so, the less often they will find themselves at cross-purposes.

When discussed in the pragmatic plain, this problem involves interests that both Moscow and Kyiv regard as top priority and this explains why it is hard to achieve a compromise. Russia considers NATO's expansion as a slashing of its own zone of interests and an immediate strategic threat. This stance stems from Moscow's axiomatic treatment of NATO as an anti-Russian pact per se, and this specific perception provides the clue to understanding the interests that underlie Russia's "No to NATO's expansion."

For Ukraine, accession to NATO is the most efficacious way to guarantee its own security and the only mechanism that it can use to make up for its weakness in relations with its neighbors. NATO membership, its structure and procedures of adopting decisions could furnish Ukraine with a real influence on the process of ensuring European security – without the reciprocal need to make unimaginable sacrifices. These considerations prove that Ukraine's willingness for a closer cooperation with NATO cannot be explained exclusively by ex-President Victor Yushchenko's personal partiality – something that analysts often do. Given the current picture of threats, interaction with the alliance will always present a special value for Ukraine under any president. This value is contingent on the structural specificity of the international system in Europe today. Yet Russia, too, will not stand idly aside watching. If it takes aggressive or unilateral actions, it will naturally augment the anti-Russian component of Ukraine's North-Atlantic aspirations and

will facilitate their intensification in general. A vice versa demonstration of a fruitful approach by Russia and its participation in multilateral formats of security maintenance may considerably reduce Ukraine's need for NATO.

Even if the two countries succeed in minimizing the emotional component – which meets the interests of both countries – considerations of national and regional security will remain. Ukraine will continue to regard them as guidelines and they will keep pushing it towards NATO until some realistic alternatives emerge. One has to admit that there are no such alternatives today and no other collective security organization can give Ukraine equally reliable guarantees without infringing on the basic values and freedoms at the same time. Neutrality, which is peddled in Ukraine as an alternative to the NATO choice, is the worst option in fact – from both the economic and political angle. In spite of numerous problems and complications, NATO continues to inspire confidence as the most efficient mechanism of ensuring regional security – a fact that is of crucial importance for Ukrainian interests.

As for Russia, it could benefit greatly from Ukraine's refusal to join NATO. The benefits would be felt on the bilateral, regional and global levels – in geostrategic and political terms, and in terms of international image. Unfortunately, today's Russia cannot offer Ukraine anything of equal value for attaining the parity of mutual benefits. The high priority of that problem in the foreign policy agendas of both countries will most likely rule out its early resolution.

This does not mean, however, there is no field for compromise.

FIELD FOR POSSIBLE COMPROMISES

Rebuilding Russian-Ukrainian relations may be achieved through implementing the idea of expanding the areas of their relationship.

For its implementation one must realize what the two countries expect of each other, what issues have vital importance for them and what issues are of secondary importance. Also, both sides must be ready to make mutual concessions. The spectrum of mutual interests is broad enough and the degree of their interdependence is big enough too. This factor raises the value of compromise solutions and heightens the risks inherent in confrontation.

The list of Russia's vital interests includes:

1. Maintaining influence in the territory of the former Soviet Union, including cases where it has to rule out whatever military threat from post-Soviet countries (except for the Baltic region, which has been lost in that sense).

2. Drawing maximum economic benefits from post-Soviet territory, effective use of ties in the spheres of production, transport and trade opportunities.

3. Stabilization of the post-Soviet territory so as to minimize the potential threats posed by Islamic fundamentalism, international terrorism and other manifestations of extremism.

4. Consolidation, if possible, of the country's geopolitical positions in Europe and Central Asia; and the ensuing strengthening of influence on developments in East Asia and the Middle East. In other words, using the potential of the post-Soviet territory for strengthening Russia's role in world politics.

One can easily see that Ukraine has a unique significance for the implementation of a greater part of Russia's immediate interests. For instance, Moscow cannot achieve any satisfactory results on any of the above items – with the possible exception of the third one – without Ukraine's participation. Furthermore, it is obvious that items two and three meet Ukrainian national interests as well, thus opening up the vistas for the broadest possible cooperation. Obstacles may arise only in a situation where Ukraine starts viewing Russia's continued strengthening as a threat to its own security or, in other words, when the classical "security hoax" gets into play in Ukrainian-Russian relations. The theory of international relations prompts that security hoaxes are most successfully eliminated through the establishment of long-term cooperation and its repetitive supporting forms. This means that both countries should look for and develop the repetitive forms of this kind. They will have a good impact on the dynamics of relations between the two sides.

Some of Russia's vital foreign policy interests are not relevant for Ukraine; for instance, it is not interested in the consolidation of Russia's political influence or it may even be interested in weakening its influence, as long as the security hoax persists. To dispel the problem it is necessary to demonstrate in every possible way that neither side threat-

ens the other in any way. Apart from that they must be ready to make concessions. An exchange of concessions in the issues that have primary importance for one side and secondary importance for the other side might be the best strategy.

For Ukraine the priority interests are:

1. Maintenance of a pluralistic system of security in Europe and preventing its slide towards bipolarity.

2. Defense of regional stability and the security and settlement of frozen conflicts, especially in Moldova's breakaway Dniester region.

3. The maximum possible involvement in the processes of European integration from the strongest possible positions; maximizing profits from Ukraine's transit transportation capabilities.

It is clear that Moscow can exert an impact on the implementation of Ukraine's priority interests. It is also obvious that there are no dramatic differences in the strategic goals, although there are differences in the approaches, and this is plainly visible in the sphere of regional conflicts. The discrepancies in Ukraine's and Russia's positions on how the multipolar system of security should work have been analyzed above, but the very presence of this common interest may become a driving force for cooperation.

There is no doubt that both Moscow and Kyiv are interested in maximizing the benefits from economic cooperation and in strengthening positions in their relationships with the EU. The differences on the issues of tactics that emerge from time to time should look insignificant against the background of coinciding strategic interests. Placed in the context of what has been said above, today's source of conflicts and tensions in bilateral relations – the natural gas issue – could serve as a model for establishing mutually beneficial cooperation on the European scale.

Other sources for boosting strategic partnership include mutual satisfaction of each other's priority interests by dropping one's own secondary interests.

The sets of each country's secondary interests are quite variegated and multidirectional. Still some of them could lay the groundwork for compromise solutions. They are:

1. The activity of the CIS Collective Security Treaty Organization (CSTO).

2. The status and deployment of Russia's Black Sea Fleet on Ukrainian territory.

3. The future of the CIS as an instrument of collective security and the operations of other regional interstate regimes.

The sides put different stakes on implementing these interests. For Russia, they matter largely in terms of defense of priority interests, but they do not rank among the priorities as such. For Ukraine, the same issues are tied to the "security hoax" and to the controversial attitude towards Russia's growing role in the territory of the former Soviet Union.

Combining the two groups' interests generates a broad spectrum of opportunities for possible compromise solutions. Taken in its maximized form, this program could even involve Kyiv's renunciation of the idea of joining NATO. However, this step would require the removal of the "security hoax" and Russia's taking effective measures to guarantee Ukraine's sovereignty and security, as well as the maximum possible contribution to regional stability. At this point, the CSTO fails to meet such requirements.

Less extreme versions of the compromise may include Ukraine's consent to extend the period of the Black Sea Fleet's deployment in Sevastopol; stepping up partnerships with post-Soviet countries in counteracting transnational threats and terrorism; the deepening of economic cooperation and the development of free trade (including lobbying in Russia's interests in the World Trade Organization); and the renunciation of any steps that Moscow may view as threats to itself (like the deployment of elements of the U.S. missile defense system on Ukrainian territory). The Kremlin could reciprocate by extending the guarantees for energy cooperation to meet both countries' interests (including the renunciation of attempts to establish control over the Ukrainian pipeline network); Russia's more active engagement in multilateral regional formats; and elaboration of common approaches to settling problems of regional stability. On the whole, the movement towards meeting each other might become the quintessence of this approach. Ukraine would thus demonstrate a greater understanding of Russia's global aspirations, while Russia would make a contribution to the implementation of Ukraine's regional interests.

Like what happens with any bilateral relations complicated by shared history, the sides should begin with mutual concessions in the spheres that are most sensitive and emblematic – culture, humanitarian issues and language. Compromises in these spheres bring up the smallest possible risks, but help build the most durable mutual trust.

Russian-Ukrainian relations have been uneasy and irrational for several years and have hindered the implementation of both countries' interests in full. These complications have tangible implications, as they intensify mutual suspicions and aggravate the "security hoax." This, in turn, subjugates bilateral relations to the logic of political realism. Meanwhile, they would gain much greater benefits from a strategic partnership of the neo-Liberal paradigm. Whether Russia and Ukraine manage to cope with the implacable logic of realism at a new stage in their relationship is crucial for the fate of all of Europe.

Politics Ahead of the Economy

Risks and Prospects of the EurAsEC Customs Union

Andrei Suzdaltsev

The notion of 'integration' occupies a special place in the political vocabulary in the post-Soviet space. Citizens of former Soviet republics feel positive about pro-integration rhetoric, as many of them associate it with the golden age of the relative Soviet-era affluence. That is why politicians often exploit the favorable image of integration, applying the term to any forms of interstate relations and gaining scores by doing so. In addition, the ruling quarters of the Commonwealth of Independent States view integration initiatives as one of the few instruments for bargaining in foreign policy since the entire territory formerly occupied by the Soviet Union is a field of contention of different geopolitical and geo-economic projects now.

The presence of an actor of world politics or the world economy is a mandatory condition for the viability of any integration project, and only the Russian Federation has had this status in the post-Soviet space to date. Objectively speaking, it is Russia that has to carry the burden of responsibility for integration processes in the region. These processes in their turn should be used in the interests of Russian economic modernization and national security. Moscow's ability to become the center of gravity for neighboring countries is vital for Russia's prospects in the arising multipolar world in many senses.

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In the meantime, there is no speaking of the success of integration efforts in the post-Soviet space yet. The economies of CIS countries made up an integrated economic complex a mere two decades ago, and yet not a single integration project has currently moved farther than the first or second stage of implementation. The Customs Union, established by the Eurasian Economic Community (EurAsEC) and in effect since January 1, 2010, adds up to an attempt to make a breakthrough towards real integration.

THE PAINFUL EXPERIENCE OF INTEGRATION

Immediately after the Soviet Union's disintegration (1991 to 1996), the new independent states were interested in maintaining a unified economic space because its collapse (especially in such sectors as transport, telecommunications, energy supplies, etc.) could deal a crushing blow to their economies. The CIS countries sought to restore cooperative ties between industries in former fellow Soviet republics and to use their neighbors' markets for saving their own industrial sectors. Simultaneously, national economic models were taking shape quickly in each country, which hindered real integration.

A tendency towards a bigger rapprochement emerged in 1996 and 1997. It had a different basis and took account of the political and economic reality of the day. It became clear by then that a universal approach, which would unite the entire former Soviet Union, was impossible. This gave way to an idea of different-pace integration that was embodied in practical terms in several integration initiatives, primarily in the Common Economic Space (CES) and the Eurasian Economic Community (EurAsEC). A project implying a political and economic status – the Russia-Belarus Union State – was launched at the end of the 1990s. At the turn of the century, the CIS Collective Security Treaty Organization (CSTO) began to take the contours of a genuine military and political alliance.

The European economic integration saw four phases of the process – the organization of a free trade zone, a customs union, a common economic space, and an economic union (including in the monetary sphere). However, the bulk of integration projects in the post-Soviet space have not moved beyond the second phase of integration (the Cus-

toms Union in the format of the Russia-Belarus Union State). The development of the latter Union State – the only project that provides for a full-fledged political integration – was blocked in 2002-2006.

The failures stemmed from a range of objective factors. As the new countries were rising up, their national elites faced the challenge of consolidating the recently acquired sovereignty and statehood, and this in turn implied control over the economy, albeit to the detriment of purely economic feasibility. The post-Soviet leaders supported integration in words, but in reality they discerned a threat to their own sovereign rights in integration initiatives, especially those that came from Russia, whose economic and political potential hugely exceeded that of all other countries.

Back in the 1990s, there emerged two groups of countries with obviously conflicting interests. These were energy-deficient states interested in integration for getting oil and gas at the exporting countries' domestic prices, and exporter countries which needed integration to ensure energy transit. However, the formation of a unified energy sector complex is the third phase of economic integration that is possible only if the first two stages are completed.

In the meantime, this has not happened in the region. For instance, Kyiv grew alienated from the CES project after it learned that it would not get crude and natural gas from Russia at the latter country's domestic prices. Considering this experience, the project of EurAsEC's common economic space embraces the energy sector in full. Furthermore, the fact that the share of products that Kazakhstan and Belarus can make from local raw materials and components does not exceed 10 percent of the country's total production volume and that there are no formal barriers to trade within EurAsEC (while they number more than 300 on the territory of the CIS) makes EurAsEC the most appropriate project for the first stage of economic integration.

The idea of a customs union inside EurAsEC provided for creating a united customs territory, lifting customs control on the internal borders between the member states, and unifying mechanisms for regulating the economy and trade. It was formalized in the Treaty on the Customs Union and the Common Economic Space, which the leaders of Russia, Belarus, Kazakhstan, Kyrgyzstan, and Tajikistan signed in 1999 and which laid the groundwork for the creation of EurAsEC in 2000.

At a joint CIS-OSCE-EurAsEC summit in Dushanbe in the fall of 2007, Vladimir Putin announced plans to establish a customs union and a supra-national commission in charge of customs regulations. He also said the parties to the future customs union had agreed to concentrate negotiations on the EurAsEC platform and to refrain from creating a separate organization. As a result, the summit passed a decision to form the EurAsEC Customs Union comprising Russia, Belarus and Kazakhstan.

The Customs Union project that was announced before the onset of the global economic and financial crisis has become especially important now. The desire to protect internal markets from cheap imports stems from the low competitiveness of the goods produced by the participating countries and from the fact that these products are in demand only on the post-Soviet markets. One more reason for the revival of the "customs troika" idea was the realization that the united customs zone within the borders of Russia and Belarus had proved to be of low efficiency. Also, Moscow simply could not ignore the emergence of a contending European project – the plans to create a free trade zone affiliated with the EU and conceived in the format of the EU's Eastern Partnership initiative, which Azerbaijan, Armenia, Belarus, Georgia, Moldova and Ukraine were invited to join as participants.

RUSSIA-BELARUS CUSTOMS ZONE

Russia and Belarus have gained their own, largely deplorable experience with their bilateral customs zone, opened in February 1995. Belarusian state-controlled industries that had gotten used to financial and tax support from the government received a practically unlimited access to the Russian market. The Russian manufacturers of tractors, agricultural machinery, trucks, sugar, and dairy products felt the impact almost immediately. A tentative result of this could be seen in the vanishing of the tractor industry in Russia. On the other hand, it turned out that the Belarusian government blocked access to its own market for Russian manufacturers by highly composite non-tariff restrictions.

Uncoordinated customs tariffs pose another lingering problem. Even in April 2009, or 14 years after the inauguration of the customs zone, customs tariffs between the two countries remained 95 percent coordi-

nated, according to Alexander Shpilevsky, the chairman of Belarus's State Customs Committee. The disputed five percent refers to positions that are highly sensitive for the Belarusian side.

As a result, a massive inflow of contraband into the Russian customs territory began as of 1995. Experts usually illustrate this by referring to the company Torgexpo, which used the Belarusian authorities' umbrella to organize an amassed import of Polish alcoholic beverages to Russia. Russian researcher Irina Selivanova estimated the customs fees levied by Belarus in 1997 alone for the cargoes hauled across the Belarusian section of the Union State border at around $100 million, while estimated losses from the non-delivery of cargoes crossing the same section of the border and bound for destinations in Russia reached $600 million. In 1996, the same losses reportedly stood at around $1 billion. Other assessments say Russia's losses totaled about $4 billion from April 1995 through April 1997. Consignments of tropical fruit and cane sugar with certificates of Belarusian origin would regularly surface on the Russian-Belarusian border.

In 1998, the Russian authorities installed customs control posts on the border between the two countries to stop the inflow of commodities from third countries to the Russian customs territory from Belarus. Russia did manage to attain at least some degree of order, but various trade wars – the sugar, meet, confectionary, and dairy ones – began since then.

Belarusian customs officials misused the imperfections of the customs zone law to grab the right to control the Russian customs space. The confiscations of transit goods and transport vehicles at the turn of the century assumed a scale huge enough to enable the Belarusians to open a chain of Confiscated Goods stores in Minsk. The peak of this activity fell on 2005 when the value of confiscated goods reached more than $200 million. The presence of Russian customs officials in Brest did not cool down the confiscatory zeal of their Belarusian counterparts. On several occasions, works of art and antiques were expropriated by Belarusian customs officers and border guards in Brest and consigned to Belarusian museums, which caused a stir among the public. Although no customs formalities are exercised on the Russian side of the border in Smolensk, in keeping with the customs zone law, the return of the values to Russia has never been discussed.

On the whole, the customs zone within the format of the Union State has proven to be inefficient. The structure and regulations of the zone gave unilateral benefits to the Belarusian side, which has brought the economic integration between Moscow and Minsk to a halt.

THE ROAD TO THE CUSTOMS UNION

The pitiable experience of the Russian-Belarusian customs zone should be taken into account in creating the EurAsEC Customs Union. Against the background of Russia's yet another failure in getting membership of the World Trade Organization, the political rationality of an efficacious regional integration initiative has apparently grown, and the Customs Union project has been a top priority since spring 2008.

A supranational body of the Customs Union – the Customs Union Commission – was established on December 12, 2008. A body of this kind was absent in the Russian-Belarusian customs zone. The member states reached agreement on a unified customs tariff in June 2009 and endorsed a schedule for creating a unified customs territory. As of January 1, 2010, the Customs Union is functioning on the basis of the unified customs tariff, and a unified Customs Code goes into effect as of July 1, 2010.

President Dmitry Medvedev, who spoke at a session of the EurAsEC Interstate Council on November 27, 2009, welcomed the signing of the trilateral Customs Union founding documents by the presidents of Russia, Belarus and Kazakhstan. "This is indeed a very significant event, a long-awaited one, and the product of some very difficult negotiations," he said. "Despite all the difficulties that we have encountered in this process, we have now reached a new stage of cooperation within the framework of the Eurasian Economic Community."

Russian politician Sergei Glazyev, one of the main promoters of the Customs Union idea, believes that economic integration with neighbors in the post-Soviet space will rescue the Russian economy. For instance, as he spoke about the Russian leadership's policies in the conditions of the crisis, he mentioned the importance of setting up "a settlement and payment system and a common payment space for the EurAsEC member-states, with the participation of the CIS Interstate Bank." This means his plan suggests skipping three steps of economic integration and getting closer to a monetary union – the last economic stage after which political integration follows.

Glazyev proposes sweeping integration measures as a remedy for the economic crisis, including the removal of barriers between CIS countries, the abolition of all exemptions from free trade in bilateral agreements between CIS countries, and the creation of a common transport and energy space. Glazyev also proposes ruling out protectionist measures in trade inside the CIS, introducing a common railway tariff, ensuring the national regime for pipeline transport for enterprises domiciled in EurAsEC countries, and mutually recognizing national product quality certificates, technical regulations, and sanitary and phytosanitary norms. The bulk of these measures have been taken into account in creating the Customs Union. The only exception is a common transport and energy space. Integration in the energy sector is part and parcel of the Common Economic Space, or the third phase of economic integration.

It looks like the experts just did not have enough time to examine the project in the format conventional for the academic community, given the project's political significance. In essence, Glazyev proposes repeating the methodological error of the Russia-Belarus Union State, as skipping stages was one of the causes of its stagnation – the partner states mired down in the free trade zone (the second stage out of five) and simultaneously tried to step up their political integration, which is the highest form of unification.

THE FIRST PROBLEMS

The main problems that surfaced in the initial phase of the functioning of the unified customs territory can be classified into economic and political ones. It makes sense to analyze the political problems first, since they quickly acquired the quality of inter-state crises. The Belarusian leadership displayed the biggest zeal towards gaining immediate benefits from the Customs Union. Minsk demanded that Moscow supply it with 21.5 million tons of crude oil free of customs duties, which would be tantamount to a subsidy of $5.5 to 6.0 billion on the part of Russia.

The issues of regulating exports of energy resources lie outside the sphere of the Customs Union's operations. In the first phases of the Union's activity and with due account of the gap between internal and international prices, this kind of trade in energy resources and strategic raw materials, including non-ferrous metals, would imply a covert subsi-

dizing of CIS countries by Russia. Agreements signed in November and December 2009 moved the 'hydrocarbon issue' to the domain of the CES. Still, this did not prevent Kazakhstan and Belarus from demanding an immediate and sharp reduction of fees for the transit of Kazakhstani crude to Belarusian oil refineries. "Kazakhstan confirms that the creation of the Customs Union opens broad opportunities for the transportation of Kazakhstani oil to two oil refineries in Belarus," Anatoly Smirnov, Kazakhstan's ambassador to Minsk, said in January 2010.

On January 27, the Belarusian government agreed to sign protocols on the supply of Russian crude oil to Belarus and on oil transits via the Belarusian territory on Russia's terms. Yet Belarus proposes revising the documents after July 1, 2010, when the Customs Union countries endorse the unified customs tariffs and enact the Unified Customs Code. Minsk hopes that the Union will enable it to re-export Russian hydrocarbons. "We must develop friendly relations with Belarus, particularly in line with the decisions taken by our Customs Union between Russia, Belarus, and Kazakhstan," Dmitry Medvedev said commenting on the signing of the protocols. "We are currently working on a package of new procedures. We will have a unified customs tariff, a Customs Code, and ultimately, we are working towards laying the foundation for the Common Economic Space's operation."

The very fact of joining the Customs Union stirred up the activity of anti-Russian oppositionist and nationalistic forces in both Belarus and Kazakhstan. Oppositionists in Minsk have voiced apprehensions that the Union will restrain Minsk's opportunities within the EU's Eastern Partnership program, which Minsk joined on May 7, 2009. In Kazakhstan, some quarters claim the country is not ready for the second stage of economic integration. "Kazakhstani industries must take steps to defend themselves against strong pressure on the part of Russian businessmen," Kazakhstani analyst Dosym Satpayev believes. "Russia's huge natural resources, the relatively well-developed industrial sector and competitive products will most likely gain preferential positions on Kazakhstan's markets over the next three to four years."

The Customs Union has become an economic reality, although it has only one instrument – coordinated customs duties. The coordination techniques were not transparent and mostly took account of the interests

of Kazakhstani and Belarusian producers rather than the Russian market, whose volume exceeds 90 percent of the aggregate market of the Customs Union. For instance, the customs duty for agricultural machinery (harvesters) was defined with account of the interests of the Belarusian company Gomselmash, not Russia's Rostselmash.

The future of the Unified Customs Code is obscure. Under the formal Action Plan for the Introduction of the Customs Code, which the EurAsEC Interstate Council endorsed on November 27, 2009, the document goes into effect on July 1, 2010. Until that date, the customs services of the member-states should act in accordance with their national customs legislations. In other words, the unified customs territory lacks a coordinated policy.

For instance, the emergence of the unified customs space on July 1, 2010, means that all customs offices at the Russian-Belarusian and Russian-Kazakhstani borders must be removed while the customs control formalities will transfer to the Union's outer borders. In theory, this should bring into existence mixed Russian-Belarusian and Russian-Kazakhstani controls. Yet it appears that only the Kazakhstani and Belarusian customs officers will guard the outer borders of the Union for the time being, thus replicating the situation within the Russian-Belarusian customs territory in the second half of the 1990s. Russia, in fact, once again relegates control over the outer borders to its neighbors, counting on their good faith.

Access to the databanks of Belarus and Kazakhstan's National Customs Committees – most likely in the framework of an Integrated Information System (INS) – will not solve the problem of control for Russia: in the first place, because the INS has not been created so far; and, in the second, due to the doubts that the information uploaded in those databanks reflects the actual commodity flows crossing the outer border of the Customs Union from the west and from the east.

The first tendencies in the functioning of the unified customs zone came forth by the end of January 2010. They were generally unfavorable or even dangerous for the Russian budget. In the first place, a problem emerged concerning the difference in the minimum customs values of various commodity groups in the member-states. For instance, according to the document No. PR 6402121000 of the Federal Customs Service, the difference for footwear is measured by an order of magnitude, and this has

already diverted Chinese shoe exports from Russia to the customs offices of Kazakhstan and Belarus. In addition, the VAT rate in Kazakhstan is 13 percent versus 18 percent in Russia. As early as July 1, Belarus and Kazakhstan will be able to launch the re-export of non-energy raw materials, the export duties for which are higher in Russia than in the other two countries. For instance, Russian export duties for round timber are planned to be increased to the prohibitive level of 80 percent from the current 20 percent.

The Unified Register of Goods subject to bans or restrictions for imports to or exports from the EurAsEC Customs Union in the process of trade with third countries took effect on January 1, 2010, along with the Guidelines for the Imposition of Restrictions. For this reason, the import of electronic and high-frequency equipment practically stopped in January, as the procedures for the issuance of import permits for these technologies remained unsettled. The situation began to improve only in the first days of February.

In the field of non-tariff regulation, the parties have coordinated the Unified Register of Goods subject to bans for imports from or exports to third countries, and regulations for applying restrictions to the goods specified in the register. Nonetheless, the practices of monopolistic "special importers" (Belarus) who can bypass any restrictions persist and are even growing. It is not clear, for instance, how the Russian market can be protected against the inflow of Georgian wines that are sold absolutely freely in Belarus.

Russia, Belarus and Kazakhstan have not yet agreed how they will distribute import duties among themselves. Astana and Minsk expect sizable tax payments to their national budgets due to their transit status. To solve this problem, on December 27, 2010, Russia put forward an idea to establish a supranational Customs Union Treasury. The proposal reflects Russia's concern over the viability of mechanisms for distributing the monies to be remitted to the countries' budgets after the collection of customs duties.

Of special concern are regulations for the activity of the CIS' first supranational integration body – the Customs Union Commission, made up of representatives of the three participating nations. It is believed that decisions on crucial issues should be taken by the commission by consensus. Yet the list of such issues has already climbed to a fig-

ure of 600, according to Belarusian President Alexander Lukashenko, who seems to be quite content with the fact, although it makes the operation of the supranational agency meaningless. In fact, Russia, whose market forms the backbone of the Customs Union, has found itself in the position of a junior partner of the two transit countries. Nonetheless, it has already submitted proposals to the Commission for changing four positions of the unified customs tariff (January 25, 2010).

The launch of the Customs Union's operation has revived hopes for quick profits in both Belarus and Kazakhstan, which are reviving old contraband schemes, making calculations and figuring out new routes. The lifting of customs control on the Russian borders will open "a window of opportunities" for a massive commodity intervention. In this connection, the rising activity of customs agencies in Kazakhstan and Belarus deserves attention. For instance, the Belarusian customs agency hopes to regain the powers to regulate supplies of transit goods to the Russian market. It is actively leasing warehouses for the future storage of confiscated goods.

The Customs Union is being formed hastily and on the basis of contradictory written and verbal agreements. The process is clearly politically biased. Integration in this case is used as a political drive engine for external political trends (problems with Russia's accession to the WTO, certain pressures on the EU, etc.) and internal ones. In the meantime, an error made during the creation of the Customs Union within EurAsEC may have a huge price and serious political – aside from economic – consequences. The tsunami of cheap run-of-the-mill goods from third countries, which may fall upon Russia via Belarus and Kazakhstan on July 1, 2010, may turn this country into a huge bazaar with low-quality merchandise and ruin a big part of Russia's small and medium-sized businesses.

Integration does not tolerate vociferous political campaigning. It is a double-edged weapon that can bring sizable benefits and heavy political and economic aftermaths likewise. These aftermaths will have to be eliminated at the price of the huge loss of resources and a political crisis. A collapse of the Customs Union project, which is not ruled out if the project is poorly conceived, will mean Russia's loss of the status of the main force steering integration processes in the post-Soviet space. This will push the CIS into the sphere of integration processes designed by external forces – the EU, China, etc.

Regional Priorities

Oath to the Motherland monument unveiled in 2010 in Tashkent to replace the Soviet Monument to the Defenders of the Southern Frontiers of the Motherland

“The post-Soviet times have come to an end. The previous experience, especially the one that is as specific as the experience of leaders called up from the fringes of the Soviet past, is quite often not merely useless. It is detrimental for an appropriate perception of reality, particularly if an equation mark is placed between Personality and Statehood.”

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Fostering a Culture of Harmony

Turkish Foreign Policy and Russia

Ahmet Davutoglu

The end of the Cold War promised to open a new chapter of peace and stability in world history. By eliminating the risk of a direct clash between two opposing blocs, it did remove the existential threat to humanity. However, the disappearance of the danger of a global nuclear holocaust did not bring in a new and stable world order. Instead, we ended up with deep geopolitical fault lines cracking open in many corners of the world, with some of them spawning devastating wars and conflicts. With hindsight, it now becomes more apparent that the post-Cold War era was – and is – an interim period of transition to a more permanent international system, although this system is still in its early phase and keeps evolving.

Having shed the old world order and having taken a path towards a new one, our planet is once again going through the pains of transformation and restructuring. As the distribution of power in the international political system keeps changing, albeit incrementally, towards a more level-playing field and a multipolar world slowly emerges, demands for translating these trends into formal structures are also getting more vocal. Calls for action – from reforming the United Nations to making the global financial governance more representative – can be heard in every domain of international relations. There is no question that we should all be better off with a more inclusive, effective and humane world order capable of tackling entrenched problems ranging

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from poverty to global warming. The question is how willing we are to act, how we can mobilize and coordinate our efforts and how soon we can get there.

TURKEY'S FOREIGN POLICY GUIDELINES

Turkey believes that it is possible to build an equitable and sustainable order which will benefit every country, every society and every individual. The road to that future, in our view, should start with laying out local and regional building blocs and go through to developing a sense of ownership of regional problems, promoting dialogue and mutual confidence, and giving everyone a stake in cooperating with each other. These are the key elements of such a strategy. We can and must make a difference for the better by overcoming any psychological inhibitions that may hold us back, by opening up our hearts and minds to one another, and by pooling our resources.

Guided by such a vision, Turkey has been actively working to contribute to security, stability and prosperity in regions that lie beyond its immediate neighborhood. The results that we have obtained so far speak for themselves. To understand these outcomes better, it might be useful to take a look at the conceptual framework that underlies our efforts.

Six principles are currently shaping Turkish foreign policy.

The first principle is to strike a balance between freedom and security. If security is good for one nation and for an individual, it is also good for others. We should not maintain security to the detriment of freedoms and vice-versa; therefore we need to find an appropriate balance between them.

The second principle envisions an enhanced regional engagement. We pursue a policy of "zero problems" in our neighborhood. We believe that this is an achievable goal, if enough trust and confidence can be generated among the relevant parties.

The third principle envisions an effective diplomacy towards neighboring regions. Our goal is to maximize cooperation and mutual benefits with all of our neighbors. In order to achieve that goal, we build our relations with them on the principles of "security for all," "high-level political dialogue," "economic interdependence" and "cultural harmony and mutual respect."

As a member of the United Nations Security Council for the period 2009-2010 and a responsible member of the international community which has to deal with a wide range of issues, Turkey seek complementarity with global actors and this constitutes the fourth principle of its foreign policy.

Our fifth principle is the effective use of international forums and new initiatives in order to galvanize action on matters of common concern. Our growing profile in international organizations such as the United Nations, the North Atlantic Treaty Organization, the Organization of the Islamic Conference and the newly established relations with many other organizations have to be evaluated from this perspective. It should be mentioned that Turkey has also acquired an observer status in a number of leading regional organizations such as the African Union, the Arab League, the Association of Caribbean States (ACS) and the Organization of the American States (OAS).

The sixth and final principle of our foreign policy is to create a "new perception of Turkey" through an increased focus on public diplomacy.

In essence, our approach aims to end disputes and increase stability in the region by seeking innovative mechanisms and channels to resolve conflicts, by encouraging positive change and by building cross-cultural bridges of dialogue and understanding.

To sum up, Turkey's foreign policy has three main characteristics: it is vision-oriented, not crisis-oriented; it is proactive, not reactive; and it is integrated and systemic, operating across a 360 degree horizon.

Today, Turkey pursues a truly multidimensional and omnipresent foreign policy and is engaged in diverse areas ranging from Africa to South America and from East Asia and the sub-continent to the Caribbean. Furthermore, Turkey is also keen to promote peaceful coexistence, mutual respect, friendship, harmony and cooperation between different cultures and faith systems. Five years ago, Turkey and Spain jointly launched the "Alliance of Civilizations" initiative under the auspices of the United Nations. This project is on its way to becoming the flagship of global efforts aimed at promoting intercultural dialogue and countering extremism. With its rich cultural heritage and diversity, the Russian Federation is also well-placed to make a substantive contribution to this historic enterprise.

As a G20 member, Turkey joins the endeavors to reform the structure of international and sustainable finance and to adopt new global standards that would ensure a more stable economic environment and sustainable growth. On the other hand, as an emerging donor country, Turkey is also extending a helping hand to developing nations and making its contribution to the achievement of the UN's Millennium Development Goals. In these critical areas, too, greater Turkish-Russian cooperation is possible and desirable.

Turkey's current Chairmanship of the Southeast European Cooperative Initiative (SEECP) and our upcoming Presidencies of the Conference on Interaction and Confidence-Building Measures in Asia (CICA) and the Committee of Ministers of the Council of Europe later this year are important opportunities for boosting regional cooperation. Turkey and the Russian Federation can work together on all these fronts to promote a sense of solidarity in addressing cross-cutting regional issues.

One should not forget that Turkish foreign policy is predicated on a unique historical experience and geography which brings with it a sense of responsibility.

Such a historic responsibility motivates Turkey's interest in a neighborhood which spans the Caucasus, the Caspian basin, the Black Sea, the Balkans, the Eastern Mediterranean, and the Middle East from the Gulf to North Africa. In this context I want to elaborate in more detail on Turkish-Russian relations and on the South Caucasus.

TURKISH-RUSSIAN RELATIONS

Turkey has exemplary good neighborly relations with Russia, and there are currently no bilateral problems between our countries. Relations are developing on a mutually beneficial basis and we are highly satisfied with the momentum achieved in all fields of Turkish-Russian relations over the last nineteen years. Turkey views Russia as an invaluable partner, an important global power and a key player in terms of regional cooperation. I would like to emphasize that further promoting our cooperation based on mutual interest, confidence and transparency is among the priorities of Turkish foreign policy. Turkish-Russian relations constitute an integral component of Turkey's multi-dimensional foreign policy.

We think that Turkey and Russia are key actors contributing to peace and stability in the region. Our concerns on major international issues coincide to a large extent; we understand each other and take into consideration each other's sensitivities. We would like to continue our sincere and genuine dialogue with Russia about the developments in our region.

High-level visits in the last couple of years have also significantly contributed to our relations. President Gül paid a state visit to Russia in February 2009; Prime Minister Erdogan visited Sochi last May, Prime Minister Putin paid a working visit to Turkey in August 2009, Prime Minister Erdogan visited Moscow on 12-13 January this year and I accompanied him. I also visited Moscow last July. These visits have surely given additional momentum to our relations.

President Gül's visit constituted the first-ever state visit by a Turkish President to Russia. It had also an additional positive feature, being the first visit of a Turkish President to Tatarstan, an important region of the Russian Federation with cultural and historic links to Turkey. The leaders of the two countries signed a Joint Declaration during the visit. This Declaration does not simply outline a framework for relations; it is a political document defining a road map for the future of our cooperation in almost all bilateral and regional issues. This new Declaration has confirmed that the target set in the Joint Declaration dated 2004 to carry our relationship to the level of "***multi-dimensional enhanced partnership***" had been reached and it also displays, at the highest level, the political will "***to move relations to a new stage and deepen them.***"

In this context, Turkey and Russia have decided to establish an intergovernmental mechanism (High-Level Cooperation Council) at the highest political level. We believe this Council will further develop our bilateral relations with Russia and contribute to regional stability. The first meeting of this Council is planned to be held in the first half of 2010.

Since the beginning of the 1990s, cooperation in economic and energy fields constitutes the driving force behind Turkish-Russian relations. Although we proudly pronounce that the trade volume between our countries has reached impressive levels, and in this vein Russia has become our first trading partner in 2008 (38 billion dollars), and the second biggest trading partner in 2009 (approximately 22 billion dollars, including 3 billion dollars for export and 19 billion dollars for import),

unfortunately Turkey has a significant trade deficit, mainly due to our energy imports (in 2009, Turkey imported over half of its gas and one forth of its oil from Russia). Therefore, we attach importance to achieving a more balanced trade and aim at product diversification in our trade relations with Russia. The decrease of our trade is mainly due to the global financial crisis. But we are confident that the negative effect of the global financial crisis on our bilateral trade will be overcome in 2010. Furthermore, we believe that as envisaged by our Prime Ministers at their meeting on January 13 in Ankara, bilateral trade volume is expected to reach 100 billion dollars by 2015.

Other economic areas are noteworthy for Turkish-Russian relations, too. The total value of the projects undertaken by Turkish contractors in Russia has reached 30 billion dollars. Turkish direct investments in Russia surpassed 6 billion dollars. Russian direct investments in Turkey have totaled 4 billion dollars. In 2008 and 2009, 2.8 and 2.6 million Russian tourists have visited Turkey. Furthermore, we are pleased to see the growing interest by Russian firms in energy infrastructure projects and the tourism sector in Turkey. Cooperation in the energy sector is also an important aspect of Turkish-Russian relations. Russia is the major energy supplier of Turkey. The Blue Stream Natural Gas Pipeline project has brought energy cooperation to a new strategic level; and new energy projects with the participation of Russia, like building a nuclear power plant in Turkey, and the Russian involvement in the Samsun-Ceyhan oil pipeline project are on the top of our bilateral agenda.

I believe bilateral relations and cooperation with Russia in the political, economic and energy fields, and also in the cultural and educational spheres, will further intensify. Our dialogue on regional and international issues will also continue. Our overall relations with Russia are most promising and we will do our utmost to further develop and deepen them, as was stated by our Presidents in the Joint Declaration they signed in February 2009.

THE SOUTH CAUCASUS

Turkey and Russia are the pillars of stability and a source of economic dynamism. The corridor stretching from the north in Russia to Turkey in the south includes in its center a region in dire need of conflict resolu-

tion and economic development. This is the Caucasus. We can easily compare this situation in West Asia to the current impasse in the Korean Peninsula, a region between two East Asian giants, China and Japan. Therefore, while looking at Turkish-Russian relations, we also have to see its wider implication and contribution to the Eurasian continent.

Being one of the crossroads between East and West, as well as North and South for centuries, and a home to a multitude of different peoples, ethnicities, languages and religions, the South Caucasus is certainly one of the most challenging regions in the political landscape.

An immediate neighbor to Turkey and Russia, the South Caucasus has always been of particular importance for Turks and Russians alike and has had a privileged place in the diplomatic agenda of our countries.

Today, as a region of enhanced strategic importance, where peace, stability and regional cooperation are most needed, the South Caucasus occupies a specific place in Turkey's quest for peace, security and prosperity in its entire neighborhood. This is so not only because Turkey enjoys significant historical and cultural similarities and humanitarian bonds with the peoples of the Caucasus, but also because this small region, regrettably, continues to be destabilized and weakened by three major conflicts of the greater OSCE area, all of which remain unresolved for almost two decades now.

Turkey's approach to the region has been characterized by the desire to promote peace, stability and prosperity. Turkey was one of the first countries to recognize the independence of all the three young South Caucasian republics, including Armenia. However, the occupation of Azeri lands by Armenia which later led to the conflict of Nagorno-Karabakh between the two countries hindered the prospects of cooperation on the regional level and on a more comprehensive scale.

Turkey's relations with Azerbaijan have always been unique due to special bonds between the two peoples, which stem from common history, language and culture. Hence we enjoy significant political relations with Azerbaijan, as shown by the frequency of bilateral visits and the constant dialogue and solidarity on issues of common interest for both countries. Similarly, our economic relations display an upward trend with the current trade volume amounting to around 2.5 billion dollars and Turkey having the lead in foreign investments in Azerbaijan.

We are pleased to see Azerbaijan developing democracy, economy, human capital and natural resources, and it becoming a significant center of attraction in the Caucasus. However, the unresolved conflict over Nagorno-Karabakh and the resulting occupation of 20 percent of its territory by Armenia continue to impede Azerbaijan – and the region at large – from exploiting the great potential for living in peace and security.

As a member of the OSCE Minsk Group, Turkey has always actively supported peaceful settlement of this conflict through negotiations between Armenia and Azerbaijan. We deeply regret that this mechanism, almost as old as the conflict itself, has failed to bring about any tangible results so far. The recent momentum gained in the negotiation process between Presidents Aliyev and Sargsyan emphasizes the need to achieve concrete results through mutual and target-oriented dialogue at a time when history presents a unique opportunity. Nevertheless, the Minsk Group remains the sole international instrument which can encourage the parties to take concrete steps towards ironing out their differences and eventually building peace.

For well-known reasons, Turkey's relations with Armenia followed a different path and remained the missing part of the picture that we would like to see emerging in the South Caucasus. However, we have never lost the hope of eventually mending ties with Armenia, and we accordingly employed unilateral confidence-building measures to this end. A confidential diplomatic track was established back in 2007 between the high-ranking officials of the two countries in a bid to establish normal bilateral relations.

These efforts bore fruit in 2009 when decision-makers in both countries came to the conclusion that the momentum to start a comprehensive Turkish-Armenian reconciliation was ripe. We proceeded in a determined way against the backdrop of intense criticisms at the domestic level, and our hard work and intensive negotiations eventually culminated in two Protocols signed in Zurich on October 10, 2009. The signing of the Protocols is an unprecedented step towards eradicating legal and mental barriers that have been dividing the two neighboring peoples.

However, throughout the entire process of dialogue with Armenia, we were never mistaken to believe that Turkish-Armenian reconciliation alone would not suffice to bring the long-awaited peace and stability to

this troubled region. Our conviction was that progress in the Turkish-Armenian normalization process should be complemented and reinforced with concrete progress in settling the Nagorno-Karabakh conflict between Armenia and Azerbaijan. Only a comprehensive normalization at the regional level can sustain the atmosphere of reconciliation and remove the remaining barriers to dialogue, cooperation and peace in the region. This certainly requires political will and courage.

Upon signing, the two Protocols were without delay submitted to the Turkish Parliament for ratification. The opinion of the Constitutional Court of Armenia concerning the Protocols was an unexpected hurdle that needs to be overcome. If all parties concerned act with responsibility and do their utmost to contribute to the implementation of comprehensive peace in the South Caucasus, the Turkish Parliament would not have much difficulty in ratifying the Protocols. What we need is not to erect impediments to achieving a comprehensive peace and stability in the region under the smokescreen of legal barriers that are untenable.

As for Georgia, the deep-rooted historical and cultural ties of our peoples, a common border, large-scale transport and energy infrastructures interconnecting our countries and beyond, and the existence of citizens of Georgian and Abkhazian origin in Turkey are major factors behind our intensive relations and cooperation with Georgia.

Turkey supports the independence, sovereignty and territorial integrity of all the countries of the South Caucasus. Georgia is not an exception. This has been our principled position since these countries got independence and we continue to support this established policy. Given our excellent relations and multi-dimensional partnership with Russia, it is not difficult to imagine that Turkey was among the countries most disturbed by the events of August 2008.

Today, Turkey and Russia, as well as Armenia, Azerbaijan and Georgia have – as never before – a common interest in making this region an area of comprehensive peace. We have a common interest in resolving persisting conflicts, which, in turn, will bolster regional ownership and responsibility; we have a common interest in reinforcing humanitarian ties, which will mend wounds; we have a common interest in consciously choosing to forget past enmities and hostilities, which will pave the way for projecting to the future the positive aspects of our common his-

tory; and, most importantly, we have a common interest in building together a prosperous future for the South Caucasus.

With the understanding that lasting peace and stability in the region is impossible without finding sustainable solutions to current conflicts in the South Caucasus, we have proposed establishing a new regional forum, the Caucasus Stability and Cooperation Platform (CSCP), for facilitating the resolution of these conflicts. The idea is to bring the five states of the region – Armenia, Azerbaijan, Georgia, Russia and Turkey – around a table to address regional problems with a view to building confidence among them.

As we acknowledged when we first initiated the idea, the CSCP is not an easy process as the presence of conflicts are both the reason for and the obstacle to it. Moreover, it is not the first proposal for the formation of some kind of a Caucasian body: since the 1990s, there has been an array of proposals that failed to materialize despite good intentions. Being also aware of these past failures, we envisage the CSCP as a platform that would enable dialogue, exchange of ideas and eventual confidence-building among the major actors of the region, and regard it as a process, not as a one-time activity. We believe that the Platform idea provides a promising future alternative to resorting to violence as a means for settling conflict situations in the region.

Whatever the outcome of our efforts for building sustainable peace and stability in the South Caucasus, it is certain that Turkey will remain actively engaged in resolving issues facing this region and will continue to look for lasting, constructive and cooperative partnership with Russia in its policies concerning this region.

* * *

The Cold War ended twenty years ago, and the globalization process is entering a new stage nowadays. Until the 1990s, conditions determining the world political order were much clearer, although they were quite tense and sometimes frightening. Today, we live in a different, globalized world. Democracy, human rights and market economy have become the foundations of the international system. The foes of the past have become partners in today's highly interdependent global economy. In this new environment, Turkey's relationship with Russia has become a structural factor for the region and beyond.

Turkish-Russian relations started out as a modest trade relationship but quickly evolved into new areas of cooperation; now they constitute a genuinely integral component of Turkey's multidimensional foreign policy. I am deeply satisfied to witness our relationship acquire a strategic dimension today. Indeed, multifold challenges such as organized and transnational crime, illegal migration, cross-cultural and religious intolerance, extremism and terrorism require a growing cooperation between Turkey and the Russian Federation.

This is also valid for regional issues. ***Both Turkey and the Russian Federation have historical and moral responsibility for standing united for peace, security, stability and prosperity in the South Caucasus and we would be better placed to fulfill this responsibility by cooperating with each other on the basis of a common vision***. I am confident that by cultivating compromise and good-neighborly relations in the South Caucasus we will foster reconciliation, a culture of harmony and understanding in the world. This is what we should do to shape the present and the future of our common region.

Delayed Neutrality?

Central Asia in International Politics

Alexei Bogaturov

The increasing interest that powerful countries are showing in Central Asia is an indication that the region is returning to the focus of international politics. The current Central Asia is the successor, but not the equivalent, of the Soviet-era Central Asia. The political-geographic use of the word embraces not only the former Soviet republics in Central Asia (Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan), but also Kazakhstan. Furthermore, the modern notion of Central Asia implies that China's Xinjiang-Uyghur Autonomous Region and northern Afghanistan are part of it too. In reports analyzing the energy aspects of the situation around the Caspian Sea, the discourse on Central Asia includes Russia's territories bordering on Kazakhstan – the Astrakhan region in the west and the Altai Territory in the east.

THE INTERNATIONAL POLITICAL ENVIRONMENT OF CENTRAL ASIA

In the world, the place of the sub-system of relations between the countries of a region depends on its present-day and potential role in the production and transportation of fuels. Energy resources are both a blessing for Central Asia and a burden. Neither Russia nor the West has been able to establish control over natural resources in Central Asian states since the breakup of the former Soviet Union, although they have had an opportunity to influence their energy policy. The possession of mineral

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wealth, revenue from fuel exports, and an ability to exploit the competition between Russian and Western companies ensure a major foreign policy resource for smaller fuel-exporting countries.

Countries lacking such a resource have significance for the region due to their spatial-geographic characteristics which enable them to influence the security of adjacent transit territories through which pipelines run or will run. The spatial dimension of Central Asia is now perceived as a zone of energy arteries, through which a flow of hydrocarbons can be diverted westward (to Europe and the Atlantic Ocean), southward (to the Indian Ocean), and eastward (to China, Japan and the Pacific shore).

Along with pipeline diplomacy, the railway network in this part of the world may appear to be another geopolitical factor. Since the collapse of the Soviet Union the old Soviet railway network has extended beyond the European and Siberian parts of Russia. Kazakhstan built a stretch linking it with the Xinjiang-Uyghur Autonomous Region (Urumchi). If it proves profitable, cargo flows could be delivered from Central Asia to the East not only via Russia's old Trans-Siberian route, but also through China.

Turkmenistan also built a railway link to Iran's Mashhad in the 1990s, opening a direct transportation route to the south. After decades of isolation from its southern and eastern neighbors, the region opened up and received a technical opportunity – for the first time in history – of a direct link not only to the north and west, but also to southern and eastern areas. This change did not re-orient the ties of Central Asian states, but the opening of eastern and southern routes strengthened the psychological prerequisites for the countries of the region to pursue a policy of multi-sided cooperation.

Central Asia is a center for the illegal production of local narcotics (above all, in the Fergana Valley). Also, it has been the largest route for trafficking drugs of Afghan origin since the breakup of the Soviet Union and the overthrow of the pro-Soviet government. The drugs, partially accumulated in Russia, are brought west to European Union countries.

Money from drug sales is a source of tremendous illegal income for those involved. It is not distributed evenly. Ordinary drug couriers often remain poor throughout their lives, as their earnings are siphoned off on

numerous relatives. However, this "lumpen" stratum of drug traffickers is the largest and has a considerable socio-political significance, especially in conditions of the slow expansion of civil rights through "the controlled democracy guided from above."

"The drug-trafficking proletariat" cannot but have natural reasons to sympathize with drug dealers, seeing in this activity the only source of income. At the same time, this stratum is the most explosion-prone. On the one hand, it regards the government's crackdowns on drug trafficking as encroachments on its very existence. It is easy for drug barons to direct the indignation of the local population against the authorities and provoke "drug" or "color" revolutions.

On the other hand, the more educated stratum of low-income residents rightfully see economic and social reforms as the tool to combat drug trafficking, which might draw the population of "the drug areas" away from criminal business. A lack of such reforms generates discontent in the population too.

Both trends, amidst personal, political, clan and other legal kinds of infighting – often invisible to analysts – create a complex system of public and political interaction. The difficulties in the internal development of the countries of the region are seen in their foreign policies. The unstable Uzbek-Tajik relations, the mutual suspicions between Tajikistan and Afghanistan, the chronic confrontation between the authorities and criminals in the Fergana Valley and the "throbbing" instability in Kyrgyzstan defy an analysis beyond the context of the conflict role of narcotics.

Control over drug-trafficking is a source of struggle between the governments of Central Asian countries and criminal groups, as well as between various drug cartels. "The drug factor" and attempts by local criminal groups to usher their men into Central Asian governments are part of the local political, socio-economic and ideological setup.

Finally, the crucial feature of the regional environment is that its problems are inseparable from the security issues of Afghanistan, Pakistan and Iran. In Central Asia, this inseparability is not committed to documents. It is rooted not in cultures or values, but in geographic reality. Due to the specifics of terrain in Central Asia and the Middle East, the distribution of water resources and the ethnic mix, the contours of

the political borders, unlike in Europe, do not fit the political-geographic interests of security of various countries.

In the Fergana oasis, the Tajik-Afghan border zone or the stretch of land on the Afghan-Pakistani border inhabited by Pashtun tribes, it is impossible to separate the security interests of neighboring countries. Any clear accords are unlikely, as they would be unable to take into account the complexity of real relations between ethnic groups and countries in situations where their interests overlap.

THE POLITICAL-PSYCHOLOGICAL BACKGROUND

Apparently, the "inseparable security" option is an objective element in the traditional mentality of residents in this part of the world. Southern peoples (Uzbeks, Tajiks, Kyrgyz and Turkmens) are noted for their "oasis thinking" based on identification with the territory of residence rather than one's ethnic group. People traditionally settled close to a water basin. Water resources in deserts and mountains are scarce, so there were not many relocation opportunities. Residents of oases involuntarily developed a tolerance for other ethnic groups. Even if the owner of a water resource belonged to a different ethnic group, he could be tolerated as long as he did not bar access to water.

The population of Central Asia, before it became part of the Soviet Union and was subjected to ethnic and territorial division, was unaware of "nation states" in the European sense of the term. The prevailing form of organization was a territorial-political formation based on the supra-ethnicity principle. From the position of European science, the Emirates of Bukhara and Kabul, and the Khiva and Kokand kingdoms were motley oasis empires, united by the communal possession of land and water resources and the ideology of religious solidarity. In such an ideological-political environment, ethnic strife could not evolve into the doctrines of ethnic or racial superiority the way it did during the upsurge of "national self-determination" in Europe or Japan in the late 19th and the first half of the 20th centuries.

However, this background could hardly make things easier. The dividing line between the "we-they" and "friend-alien" notions was far vaguer than in the cultures from which Max Weber's concepts sprang.

The relativity of notions mirrored the relativity of reality. In Europe, the preciseness of the notions of "a friend" and "an alien" materialized into the firm prejudice that countries had to necessarily respect each other's borders, as a legal and ethical norm.

The mutual ethnic tolerance in Central Asia, the relativity of the lexical difference between "a friend" and "an alien" resulted in an immunity to the Europe-born principles of respect for the borders of other states and non-interference in their internal affairs. Does Tajikistan view Afghan affairs as "foreign" if there are more Tajiks living in Afghanistan than in Tajikistan? Which of the two states should an average Tajik view as native (according to Weber)? Similar self-identification problems arise for Uzbeks and Tajiks in northern Tajikistan (Khudzhand), the Uzbek towns of Samarqand and Bukhara, and the Uzbeks, Tajiks and Kyrgyz of the Fergana Valley.

The paramilitary formations fighting the Uzbek government still move through mountain passes and paths from Uzbek territory to Tajikistan, Kyrgyzstan and back, avoiding clashes with the local population. The same routes are used to lead drug-trafficking caravans. Do they go on their own or have gangs to protect them? Drug- and weapons-trafficking, and anti-government movements have common interests, and the parameters of their cooperation change rapidly.

The conflict in the Uzbek part of the Fergana Valley (Andijan) in the spring of 2005 was part of the anti-government unrest in Kyrgyzstan, rooted in Fergana districts. Similarly, the "seeping" of the Afghan conflict (from Afghanistan's Uzbek and Tajik regions) into Tajikistan and Uzbekistan is a stable feature of the regional situation. Did Bishkek have a "tulip" or a "poppy" revolution in 2005? Some think that it should sport both flowers on its emblem.

THE FACTOR OF POLITICAL REFORM

The reform of the political system is crucial for Central Asia. The enduring traditional self-regulation of local communities through regional, tribal, clan and other traditional-communal ties affects the shaping of politics in these countries. Seven decades of modernization of Central Asian communities as parts of the Soviet Union, and another two decades of reforms as independent states have changed the social nature of the region. The

establishment of the Soviet order and the authoritarian-pluralistic models after the 1990s (according to Robert Scalapino) changed the political look of these countries and laid the groundwork for their development along the path of illiberal democracy (according to Fareed Zakaria).

However, traditional self-regulating structures managed to withstand the blow from the Bolshevik modernization in 1920-1940. They survived thanks to a decade of the "thaw" of 1953-1963, and adapted to the conditions of the Soviet Union in 1970-1980. The traditional structures found their niche in the political system of Soviet society, having learned to cooperate with the Soviet party bureaucracy, helping it to mobilize the masses for major projects, and occasionally finding opportunities to forge local unions.

The formal government systems in Kazakhstan and Central Asian republics looked Soviet, but in actual fact the governance ran along two tracks: the formal track of the Soviet party system and the informal track of the regional and clan system. The Central Committee of the Communist Party gave adequate evaluations of the situation and tried to change it, not so much through eradicating tradition, but as learning to use local tradition to control the situation.

By the second half of the 20th century this part of the Soviet Union had developed a "dual" public-political system – much earlier than other Soviet regions. Two somewhat independent ways of life co-existed within local communities. The first one reflected the Soviet (modern) lifestyle, while the second one was tribal/clan, ethnic/group, and regional (i.e. traditional) in nature. The second lifestyle was comprised of customs, legal precedents, codes of behavioral prohibitions and rules, and religious procedures. The habit of receiving higher education, engaging in economic, public and political activities, and having skills in arranging elections was a manifestation of the first lifestyle.

In private life people reciprocally moved from one lifestyle to another. The secular was combined with the religious – Islamic, pre-Islamic and non-Islamic (Christian, Judaic and pagan). In the modern market business it is customary to help one's unqualified relatives and fellow countrymen find employment.

The Western-consumption lifestyle was combined with the traditional way of life. In politics it manifested itself after 1991 as a habit of tak-

ing part in elections and political struggle, and voting in accordance with the advice of the "elders;" i.e. officials, clan or group leaders, Muslim clerics and elder male relatives.

The mechanism to maintain social order was complex but reliable. In the early 1990s, the enclave-conglomeration system in all republics, with the exception of Tajikistan, protected them from wars and disintegration. Incidentally, the civil war in Tajikistan was caused by excessive political changes under the onslaught of the incomplete "Islamic democratic revolution," which dismantled the old mechanism regulating relations between rival regional groups in the former Tajik Soviet Socialist Republic.

The failure of the "Islamic democracy" experiment frightened Tajikistan's neighbors so much that their leaders resorted to measures to fight the Islamic and secular opposition, including by force. Consequently, the reforms in Central Asia – to the extent of the changes possible in the region – were diverted into a conservative vein. The civil war compromised the concept of instantaneous democratization based on the Western model. The next decade was used for stabilization and gradual modernization. The Soviet state machine was replaced by a form of government that combined the official institutions of the presidential system with informal traditional regulation.

The Western forms of democratic governance imposed on the local traditionalism gave rise to Central Asian versions of illiberal democracy. In the political systems of Central Asia, the ratio between the "norm" and "pathology" is no more and no less than in the public and government systems of India, South Korea or Japan at the early stages of the development of their respective democratic models.

The liberalization of the political systems of Central Asia cannot happen ahead of changes in regional cultures; i.e. shifts in the basic concepts of sufficiency or excess, the attractiveness of "freedom" or "non-freedom," individual competition or communal-corporate solidarity, personal responsibility (and equality) or patronage (and subordination).

This is not to say that Central Asia can afford to suspend its reforms. The upcoming spate of natural replacements of local leaders indicates the necessity of continuing modernization. But forced democratization can be as dangerous as attempts to remain within the paradigm of surface changes, whose stabilizing potential has been largely expended.

ETHNIC-POLITICAL CORRELATIONS IN THE REGION

The development of Central Asia, like that of almost the entire central and eastern part of Eurasia, was influenced by the interaction of settled and nomadic tribes. The settled cultures quickly evolved into states. The nomadic lifestyle, little suited for organized exploitation in traditional forms, was an age-long alternative to statehood. However, nomads found an option of adapting to a state through symbiotic relationship. For example, the descendants of nomads in the Emirate of Bukhara made up a "specialized clan" – a stratum (or, rather, a tribe) of professional warriors.

Some of the conquerors integrated into the new ruling elites; another part mixed with the population, but did not necessarily merge, forming the lowest tier in the social hierarchy. In a number of cases "the ethnic specialization" of various groups of the population could continue for centuries: the conquered groups tended to keep their economic activities (farming, craftsmanship, construction of fortresses and canals, and trade), while the conquerors preferred to remain or become warriors, low-key executives, and even traders at a later time. Of course, the diffusion of initially ethnic trades was mutual. But the ethnic archetypes of economic behavior (according to Max Weber and Alexander Akhiezer) are clearly seen in Central Asia states even today, characterizing the economic activities of "indigenous" peoples and "the newcomers" (Russians, Ukrainians, Armenians, Ashkenazi Jews and Greeks). Understandably, these terms are approximations: over the two centuries since Russians and Ukrainians relocated to Central Asia, they have taken root there and have become natives in Central Asian countries, in all senses save the historical.

The Russian element began to prevail in the government bodies of the annexed territories. After the 1917 Russian Revolution and Bukhara's and Khiva's subsequent affiliation with the Soviet Union, the composition of the political-administrative regional elite became more diverse. Jewish and Armenian ethnic groups were a solid addition to the Russian and Ukrainian element, along with local groups that secured a broader access to power.

"The Soviet elite" in Central Asia was multiethnic. In this sense, the mechanism of its formation conformed to the traditional ethnic toler-

ance and the oasis-imperial ideology. As a rule, Moscow appointed top officials in the republics of Soviet Central Asia and Kazakhstan – from natives or newcomers from other parts of the Soviet Union. There were changes in the region once Central Asia became part of the Soviet Union: Kazakhstan and Kyrgyzstan took up a settled lifestyle, and there was water and land reform in the southern part of the region. As a result of enforcing the ways of the settled population, some Kazakh and Kyrgyz clans fled to China's Xinjiang.

The crucial political consequence of water and land reform was the destruction of the rural portion of the Russian community in Central Asia. Confronted with Soviet-era changes, the Cossack community that had taken root in the Semirechye area sided with the anti-Bolshevik movement. In the course of the civil war, Cossacks and their families were destroyed, subjected to reprisals or fled to Xinjiang as did some of the Kazakhs and Kyrgyz before them.

During World War II, three to five million people from the European part of the Soviet Union were evacuated to Central Asia and Kazakhstan. They were mostly well-educated people, who helped the region resolve a number of large social problems and cultural tasks. They made a major contribution to the elimination of illiteracy and created the groundwork for a modern health care system, modern theater and music arts, literature and a university education system.

The expulsion of persecuted ethnic groups from the Volga region, the Crimea and the North Caucasus (Germans, Crimean Tartars, Balkars, Karachais, Greeks, Chechens and Ingush) worked out about the same. Later, waves of political émigrés from Greece reached the region. Following the restoration work after the Tashkent earthquake in 1966, some workers from various ethnic groups decided to settle in the region.

FOREIGN POLICY SPECIFICS OF CENTRAL ASIAN COUNTRIES

The novelty of the international political environment in Central Asia is the liberation of smaller nations from their passive role as objects of influence by large states. These countries have formed a rational foreign policy in the two decades since the collapse of the Soviet Union. Most of them have been able to formulate more or less viable foreign policy

concepts, even if some lacked official status – be they different versions of the permanent neutrality of Turkmenistan or Kyrgyzstan, the doctrines of regional leadership of Kazakhstan and Uzbekistan, or Tajikistan's national security concept.

Smaller nations pursue three types of foreign policy towards larger states. The first is the agent's type ("I'm your younger brother and agent, my land is your bastion and fortress"; this type replaced the earlier conduct of liegeman or subject.) The second is that of protector ("You're my enemy and I'm preparing for a struggle against you; you're the one who's attacking or may want to attack"). The third is that of nominal partner ("We don't owe anything to each other and try to cooperate not only with each other, but with all countries, despite different potentials").

The first type envisions closer association with a powerful state, with a view to getting certain privileges in exchange for allegiance. Under the second, smaller countries may aggravate relations with a more powerful country in a bid to draw the attention of the global community, decrying the threats allegedly emanating from the larger state. Under the third option, smaller countries try to carefully distance themselves from all powerful states, while taking efforts to keep good relations with them and win at least a small autonomous space for themselves.

The so-called satellites tend to prefer the first option. The second option is for unsuccessful or diffident states (from North Korea and Venezuela to Georgia). The third is characteristic of neutral and non-aligned states, which show varied forms of foreign policy; from India's nuclear non-alignment to the restrained and flexible "anti-nuclear neutrality" of Malaysia, Indonesia and Vietnam.

Central Asian states seem to prefer the third option. It matches their opportunities and the specifics of international conditions in which they are developing. The key condition is the loose international environment, in which Russia, China and the U.S. have had no opportunity or desire in the past two decades to peg countries of the region to their military-political strategies.

Central Asian states avoid excesses. While making efforts to distance themselves from Russia and the image of "parts of the former Soviet Union," they avoided the temptation to proclaim themselves "part of the West." The initial enthusiasm about Turkey, and later China, did not

provoke them into "going in China's wake" or embarking upon the road to turn into elements of "the pan-Turkish space."

Having limited Russia's influence, the countries of the region did not allow relations with it to degrade and preserved the opportunity to use its resources in case of necessity. In return, they let Russia use their spatial-geopolitical potential and, partly, mineral resources. Local nationalism, tinged with Islam and local pre-Islamic cultures, never evolved into religious extremism, secular xenophobia or chauvinism. Here a positive role was played by the powerful Soviet enlightenment and cultural-atheistic heritage, the tradition of supra-ethnic and socio-group solidarity in combination with the oasis culture of tolerance for foreign language speakers.

Using partly similar strategies, Central Asian states are trying to lessen their dependence on Russia as a buyer of their fuels and a transit country. But this does not prevent them from wishing to remain under the "umbrella" of the Collective Security Treaty Organization (CSTO), which largely remains a political institution rather than military.

In general, the situation motivates smaller nations to pursue a policy characterized by pragmatism, flexibility, maneuvering, evasion of burdensome commitments, and the wish to secure the aid of richer countries. They bargain over concessions with Russia, the U.S., India, China or rich Islamic countries for the sake of foreign aid.

This does not mean that Russia's Central Asian neighbors are treacherous. This term is more fitting in describing the countries whose leaders, having outwitted Boris Yeltsin in 1991, destroyed the Soviet Union. At that time Central Asian states desired more freedom in their relations with Moscow, not the complete secession from Russia.

A more important point is that pragmatism in the policy of Central Asian countries stands next to historical memory, in which negative associations are offset by a complex of ideas about the positive heritage of relations with Russia. The rapid increase in the cultural and educational level, the establishment of health care systems, and the groundwork to form a modern political system are the fruits of the Central Asian states' membership in the Soviet Union.

The Soviet system was as despotic in Central Asia as elsewhere in the Soviet Union. However, despite its faults, it prepared Central Asian

countries very well for the selective assimilation of the novelties in the 1990s, when the former Soviet republics proclaimed independence. This system enabled the local authorities to contain the growth of the population's unrest, divert Islamization into a moderate vein and rebuff the onslaught of the trans-national criminal-contraband groups allied with local and foreign extremists. The scenarios of the partitioning of Tajikistan, the break up of Kyrgyzstan and the formation of the criminal Fergana caliphate did not materialize, and attempts to stage an Islamic revolution did not yield depressing results, as it did in Afghanistan.

THE DELAYED NEUTRALITY CONCEPT

Geographically, and partially politically, the middle of Central Asia, if viewed from Russia, would be located between Astana and Tashkent. However, from the position of raw-materials/fuels diplomacy in its foreign versions, the focal place in regional affairs is occupied by the Caspian region, or rather its eastern coast, as well as the gas fields of Turkmenistan.

Yet even in this outlook for the region, U.S. and EU politicians tend to evaluate the situation through the prism of potential advantages or dangers. A considerable number of Russian and Chinese statesmen actually stick to similar positions, adjusted for Russia and China, respectively. Small or mid-sized states were of little interest as players in international politics.

At best, analysts tried to find out to what extent they could foil or facilitate the realization of larger countries' objectives in the region. Each larger state tried to shape the concept of what levers would be needed to expand its influence on the regional situation. The U.S. believed that democratization was an all-powerful tool, which envisioned revolutions: first "Islamic-democratic" and then "color" ones. Russian and Chinese political scientists called for conservative reforms of the economic systems of Central Asian countries and their political systems.

Smaller nations have to avoid taking sides. But the maneuvering vector did not make up all of their foreign policies. Regional states tend to be neutral. In the 1990s, Turkmenistan and Kyrgyzstan announced their neutrality officially. Yet, their neutrality differs from the classical version

practiced by Switzerland and Sweden. Sources of threats remain in the region – from Afghanistan, Fergana extremists and potential instability in the Islamic districts of China. The experience of Uzbekistan, Tajikistan and Kyrgyzstan shows that classic neutrality is hardly possible in this part of the world.

That is why Central Asian states, in considering the prospects for neutrality, can hope for "moderately armed neutrality" along the lines of ASEAN states. In certain circumstances this option would suit all countries in the region, including Kazakhstan and Turkmenistan. But due to military-political conditions, it cannot be immediately realized. The countries of the region are participants in multiparty relations with Russia through the CSTO, and with Russia and China through the Shanghai Cooperation Organization (SCO). Admittedly, the flexibility of the commitments under these treaties and the immature practice of their use enable the member-states to pursue quite independent foreign policies. Both treaties are mechanisms of coordination to prevent threats, rather than clubs of combatants capable of quick mobilization of their resources.

At the same time, the availability of these organizations provides the desired guarantees of internal and international security for smaller nations. They also retain the opportunity to determine, at their discretion, the scope of their practical participation in cooperation with Russia, without giving up balancing and the orientation toward neutrality in principle.

The convergence of the course towards cooperation with Russia and China in Central Asian foreign policy on the one hand, and the desire to develop cooperation with the U.S. and the EU, and involvement in military cooperation at the minimally required level on the other, is characteristic of the type of foreign policy which can be described as potential or delayed neutrality. In actual fact, this principle has become a system-making element in international relations in Central Asia.

"L'Etat, C'Est Lui!"

The House that Islam Karimov Built

Arkady Dubnov

This century is drastically redrawing the map of old strategic priorities, moving some parts of the world into the shadows and bringing other parts into the limelight. Eurasia has become an arena where the diverse interests of global powers intersect, while small and medium-sized regional countries are turning into the subjects of big policy-making. Yet not everyone is content with a passive role for themselves and the ambitious leaders of a number of states are seeking to make their own game, both with their equals, for instance their neighbors, and with the grand players of international politics – Russia, the U.S., China and the European Union. Uzbek President Islam Karimov is definitely one such leader.

Karimov, the permanent head of an independent Uzbekistan, is the doyen of the entire corps of post-Soviet leaders both in terms of age (he is 72 years old) and time in the presidential office. On March 24, 2010 it will have been twenty years since Uzbekistan's Supreme Soviet voted to introduce the post of president in the then-Soviet republic and elected Karimov to the job. Prior to that there had been only one president in the Soviet Union – Mikhail Gorbachev – and even that all-Union post had just been introduced at the time. Karimov blazed a path towards the presidency for all other leaders of Soviet republics, formerly ordinary local Communist party bosses who rushed to copy their Uzbek counterpart's example. Eyewitnesses recall Gorbachev's displeasure. "On March 29, 1990, during talks in the corridors of the congress of the Soviet Young Communist League, Gorbachev said that Karimov's move was

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premature. However, he himself had lost influence on the situation in the republics by that time, so his attitude remained within the boundaries of personal perception," writes Uzmetronom.com, a website uncensored by the Uzbek authorities.

Islam Karimov has never made it a secret that he does not separate the notions of "Uzbekistan" and "president." The state that has been built there is in essence his personal project. Karimov's brainchild has gone through numerous harsh tests over the past two decades, yet now the country is facing its most difficult trial. The fundamental geopolitical shift taking place in the world is forcing him to renounce post-Soviet practices. The challenges are too momentous to be dealt with using the experience of Soviet-era nomenklatura, even if bolstered by the nationalistic vehemence that always goes hand-in-glove with the construction of a new statehood.

CREATION OF THE FORM

"In view of age, I'm approaching the line where I must think more about who will carry on the model of Uzbekistan's development that I founded in 1991," President Karimov said more than eight years ago, in January 2002, as he explained the necessity of a referendum on introducing a two-chamber parliament and extending the presidential term from five to seven years.

Since then he seems to have become oblivious to the importance of thinking about a successor. "I'll live for a long time," he said once as he was beginning yet another term. His words were taken then as a clear signal to everyone who might aspire to the presidency. It sounded like "You won't live to see it happen." Some people did not.

Karimov stopped thinking long ago about assaults from critics on his de facto legalized presidency for life. With the exception of the 1990 elections, he has held presidential elections only three times over the past twenty years – in 1991, 2000 and 2007. His powers were extended in a referendum in 1995 and one more plebiscite – in 2002 – prolonged the constitutional presidential mandate from five to seven years. Three years later it "appeared" that this provision applied to the incumbent head of state, although the questions included in the polling had not implied that.

Back in October 1998 when the author of this article interviewed Karimov, he claimed: "Here in Uzbekistan the constitution clearly fixes the timeframe for the duties of the legislature and the president and we won't play all these games with a prolongation or curtailment of terms of office, as this would call into question the stability of the constitution itself." He said then that stability of the constitution guarantees stability in the country as such. Karimov claimed further in the same interview that Uzbekistan had created a system "under which parliamentary and presidential elections are held at practically the same time [...] so that the moods of the people when they elect members of parliament should not differ much from the moods or problems they have when electing the president." "I hope this system will remain for a long time here in Uzbekistan," he said. His hopes have proven short-lived, since the system slid into history soon after that.

It is worth recalling that Karimov's remarks were in response to a decision by Kazakh President Nursultan Nazarbayev to hold an early presidential election in January 1999.

One more mishap typical of the Uzbek legal system and demonstrating the way in which "stability of the constitution as a guarantee of stability in the country as such" is understood occurred in 2007. Under the country's basic law, presidential elections are held the same year that the term of the incumbent president expires – on the first Sunday between December 20 and December 31. The last time Karimov took the presidential oath before that was at a session of parliament on January 21, 2000. This meant that holding an election in December 23 (the first Sunday between December 20 and December 31) would contravene Article 90 of the constitution, which stipulates a seven-year presidential term. Karimov's powers were thus extended for eleven months.

Human rights activist Djakhongir Shosalimov attempted to call the Constitution Court's attention to the fact. He never got an answer, although the law obliges the Court to answer citizens' petitions within a period of ten days. The Uzbek opposition, and many international observers in their wake, sized upon the extra eleven months of Karimov's stay in office as an illegal usurpation of power. But the presidential administration did not bat an eye, all the more so that the accusations

went politely unnoticed by the leading global powers – in Washington, Brussels, Berlin and Moscow.

Whether intentional or not, Karimov himself brought up the collision several months later in February 2008 when he visited Moscow just a month before the presidential election in Russia. Speaking in the Kremlin he said that he had "always advocated a situation where Vladimir Vladimirovich [Putin] would agree to a proposal coming from – among others – him [Karimov] and bring up his candidacy for a third term." "I feel satisfied before my own consciousness knowing that an option like this could materialize and I am confident that nobody would have any regrets about it in the future," the Uzbek leader said as he shared his emotions with the audience. "If someone were to say something about it, they would realize everything over time and this would be the most acceptable solution," he added.

It seemed that everyone sitting in the hall felt somewhat confused, since it was clear that Karimov was speaking more about himself than about Putin. He himself needed a justification for the previous year's decision to run for a third term in spite of the constitutional ban.

In Uzbekistan Karimov has had no one to report to for quite some time. He had to listen to "instructions from the voters" only once – in the city of Namangan in December 1991. That city in the Fergana Valley in the country's south has a deeply-rooted Islamic tradition. On the eve of the first election Karimov made a courageous and almost unguarded trip to the city that had been virtually under the full control of the Islamic movement Adolat (Fairness), led by Tohir Yoldoshev and Juma Namangani. The two men would later command the Islamic Movement of Uzbekistan.

Karimov later would never admit that he had had to kneel together with other Muslims while Yoldoshev recited a surah from the Koran. The talks were held in the regional committee building of the Communist Party that had been seized by Islamic fundamentalists. Karimov listened to ten demands, including guarantees for declaring Uzbekistan an Islamic state. Whatever one may say, he did fulfill at least one condition – he placed his hands on both the constitution and the Koran when he took the presidential oath.

On the other hand, the Uzbek president no longer needs support to prove the legitimacy of his rule, since he is confident that he is the only

person capable of maintaining stability in the country. "Everything closes on me and that's not accidental," Karimov told *Nezavisimaya Gazeta* in 2005. "We've gone through a fairly difficult period of development when we had to respond to many knotty challenges of the time, and I simply had to carry all of the burdens on my shoulders," he said. "Yet the situation will be changing gradually and we must generate a generation of people who will replace us."

Karimov tried to convince the audience and himself that the formation of a professional two-chamber parliament would furnish the authorities with an instrument enabling them to "strongly foster people's rule and the foundations of civic society, which will result in the emergence of a democratic state." The last option would allegedly "rule out the possibility of a dictatorship," which in turn implied "a tyranny" and "a diktat by one person or by one element of power." The president dwelt on justice that should be sought and quoted a popular saying that suggests: "Let the one who has power have a conscience and be fair." Then he uttered a passage that can be viewed as the quintessence of Uzbekistan's philosophy of state construction: "We're still creating the form and the main thing is to flesh it out with content. The same way that America has been filling in its constitution with content for over 200 years." And he immediately issued an instruction to his state apparatus: "These categories of thinking should be assimilated by the members of the new parliament, ministers and judiciary officials." Uzbekistan's ruling elite has learned Karimov's categories by heart over the past twenty years as it realizes that the creation of all of these "democratic institutions" does not go beyond the form. The MPs, ministers and other administrators seem to feel undisturbed in expectation of an order from the top to start molding the content. The task has been set for 200 years after all.

Karimov shared his reflections on "the internal protest potential that has been building up for many years" and on "the importance of a durable contact between the government and the population and the evidence of whether or not they keep up a normal dialogue." "The worst happens when relations between the authorities and the people come to resemble a conversation of the mute... when the protest moods reach the extreme point, or when the vapor is hot enough to rip off the valves." He

rushed to add: "No kind of America and no kind of Europe are able to target the events correctly if society itself doesn't crave abrupt changes."

THE ANDIJAN TURNS

Where did all these wise conclusions disappear to three and a half months later when the "overheated boiler" exploded in Andijan, where the authorities had failed to heed the voice of the people demanding justice and fair treatment by the officials? The sentence that the authorities passed on the popular rebellion, albeit somewhat controllable, was unequivocal: all the people who took to the streets in protest against the unabated arbitrariness of local bosses were categorized as "terrorists and criminals trained in camps outside Uzbekistan and paid by its enemies." All the journalists and human rights activists who told the world about the manslaughter organized in Andijan by the Uzbek forces of law and order were portrayed as "the stooges of Western secret services."

Karimov, who visited Andijan at the time, claimed: "Not a single peaceful civilian was killed there, just gangsters. Firearms were always near their bodies."

The official death toll of 187 that the authorities made public several days after the tragedy was never corrected afterwards. Either the government in Uzbekistan never makes any mistakes and was able to establish the exact number of casualties right at the peak of events or else it is afraid to name the actual number of the dead. In the meantime, human rights activists and independent observers say that no less than 500 people were killed in Andijan.

Islam Karimov has never recognized any mistakes on the part of the authorities, including the regional bosses in Andijan. This is quite logical: if "everything closes on him" he bears personal responsibility for everything. Karimov's personal authority simply cannot be subject to doubt.

Yet the rest of the world was shocked. Even Moscow, which traditionally did not let itself criticize its CIS allies except for Georgia and Ukraine, aired notes of criticism. "A complicated social and economic situation and a certain weakness of state power... plus the presence of the Islamic factor and people's discontent with living standards predetermines the volatility of the situation," Moscow-based Mayak radio said

on May 15, 2005, quoting Russia's Deputy Foreign Minister Valery Loshchinin. It is true, though, that the tone of assessments changed after a telephone conversation between Karimov and Vladimir Putin. Foreign Minister Sergei Lavrov, who admitted that "many civilians died as a result of an incursion into Uzbekistan and we don't have information about how this happened," threw the responsibility on external forces. "It's important to conduct a most thorough investigation over who gathered the group of people and told them to create a situation of this kind in Uzbekistan," he said. These words were targeted at the external factor, but if you think about them, they could also have been addressed to the people who had been steering the country for many years.

The events in Andijan brought about a sharp turn in Uzbekistan's foreign policy. The UN General Assembly issued a resolution condemning the government's reluctance to view the incident from any other angle than that of the country's internal affair. Tashkent vehemently turned down U.S. and EU demands to conduct an independent international investigation of the May 2005 tragedy. Washington and Brussels implemented sanctions against Uzbekistan, accusing its leadership of the disproportionate use of force while suppressing unrest. In contrast, Moscow and Beijing met the situation with understanding at the top level and that is why China was the first country Karimov visited after May 25.

The Uzbek authorities retaliated to Washington's harsh reaction by forcing the U.S. to pull its troops out of the Karshi-Khanabad military base that was set up in September 2001 in the run-up to the campaign in Afghanistan. As regards Russia's support, Tashkent had to pay for it. The withdrawal of the U.S. forces was followed by the signing on November 14, 2005, of a Russian-Uzbek agreement on an allied relationship that envisions the reciprocal allotment of military installations. In January 2006, Uzbekistan joined the Eurasian Economic Community (EurAsEC) and finally, after a long téte-a-téte meeting with Vladimir Putin in Sochi in August 2006, Karimov signed a protocol On the Resumption of Uzbekistan's Membership in the CIS Collective Security Treaty Organization. Karimov signed the document after it was ratified by parliament.

It must be said, however, that the word 'resumption' is somewhat inappropriate, since Uzbekistan has never been a member in the strictest

sense of the word. The CSTO formally came into existence in 2002, but three years before that Uzbekistan – along with Azerbaijan and Georgia – had refused to sign a protocol on prolonging its affiliation with an organization uniting the countries that signed the May 1992 Tashkent Treaty on Collective Security in the CIS. The Uzbek leadership explained the decision then by its disapproval of Russia's policies in the South Caucasus (unilateral supplies of weapons to Armenia) and Central Asia (the increased Russian military presence in Tajikistan), as well as Moscow's willingness to attend a unified position among CIS countries on all the issues – from NATO expansion to the situation in Kosovo to the war against Iraq. "Why should we unite again under one cap?" Karimov asked with indignation. "We're a sovereign country and we have our own position on each issue."

Uzbekistan's joining EurAsEC and the "resumption" of its membership in the CSTO was met by many with a mixture of skepticism and enthusiasm. Its regional neighbors, above all Tajikistan, hoped this would lead to the opening of their borders with Uzbekistan for the free movement of commodities and people. Tashkent had promised to sign relevant agreements in the framework of EurAsEC by the end of 2006, but this has not taken place to date. Moreover, some sections of the border still remain mined. Tashkent said in November 2008, less than three years after joining EurAsEC, that it was suspending its membership in that organization. Karimov explained this position by saying that EurAsEC's operations overlapped in many ways with those of the CIS and the CSTO. Also, it had contradictions with other members regarding the Customs Union, Karimov said.

There is a different explanation for this move, too. It had become clear by the end of 2008 that the EU was getting ready to lift the sanctions it had imposed on Uzbekistan in the wake of the Andijan events, and signs appeared of a thaw in relations with Washington, which inspired hope for an improvement in relations with the West on the whole. Consequently, Tashkent had to decrease its slant towards Moscow in a bid to restore the balance.

As for the "resumption" of Uzbekistan's membership in the CSTO, one would see quite clearly in two years' time, or at the beginning of 2009, that this had been a forced move on the part of Tashkent taken

amid a complicated geopolitical situation after the events in Andijan. Uzbekistan refused to take part in the setting up of the Collective Rapid Reaction Force (CRRF) in the format of the CSTO when the organization decided to set it up at Russia's initiative. Specifically, Uzbek officials found it impossible to agree to the principle of decision-making on deployment of the CRRF by a majority vote rather than by a consensus. This reaction, though, was quite natural if one recalls the level of hostility between Uzbekistan and neighboring countries. Hypothetically, a majority of CRRF countries may want to use armed units to interfere in developments inside Uzbekistan.

GOOD-NEIGHBORLINESS IS STILL A DREAM

The pitiful experience of Tashkent's membership in EurAsEC was not a surprise. Most officials, and not only Russian ones, thought that Uzbekistan's accession would bring all regional problems into the organization, as Tashkent had not built relations of trust with any of its neighboring countries over the two decades of its post-Soviet existence. There are numerous reasons for this. The lack of experience for an independent existence among the former Soviet Central Asian republics within the borders randomly drawn by the Soviet government was augmented with ethnic egotism. One of the acute problems of the region is the integrated economic and water-distribution complex that was built during the Soviet era and that is extremely difficult to split into five independent parts. The difficulties could be settled in some manner were it not for a subjective but crucial factor – a rather thorny record of Karimov's personal relations with the leaders of practically all Central Asian countries (this refers to a lesser degree to President Gurbanguly Berdimuhamedow, who recently came to power in Turkmenistan).

The vast majority of experts believe that a real opportunity for cooperation will surface no sooner than the rule of the incumbent leaders of Uzbekistan, Kazakhstan and Tajikistan becomes an asset of the past. Until then, Tashkent will continue responding with a categorical "No" to any integration proposals. For instance, Karimov said in Astana in April 2008 in response to the Kazakh president's proposal to set up a Central Asian Union that the potential of the member-states "should be comparable at least to some degree." Besides, he

said, "the politics and guidelines the leaders of the states promulgate should be comparable but not conflicting with each other, especially when it comes down to reforms and the envisioning of national development prospects."

The validity of these statements can hardly be challenged and yet the "politics and guidelines" promulgated by the leaders of regional countries, given all the differences of their economic potentials, differ mostly as to the degree of authoritarianism. Regimes of this type have practically zero negotiability as they destroy the culture of discussion. Instead, they cultivate reciprocal suspicions and spy mania. A ridiculous, but quite typical, feature of the atmosphere generated in Uzbekistan is the long jail terms for espionage for Tajikistan that were issued a couple of years ago to women who wormed out Uzbek defense secrets "under the guise of prostitutes." The situation in Tajikistan mirrors that of Uzbekistan. In February 2010, the Uzbek authorities passed an unexpected decision limiting visits by Kyrgyz citizens to no more than once every three months.

MENTALITY AND POLITICS

At the president's behest, the Uzbeks have developed a habit of making references to the age-old mentality of the Uzbek people as a substantiation of current policy. A recent example is the court case of the famous Uzbek photographer and documentary filmmaker Umida Akhmedova. The case had a resounding international impact. The accusations against her claimed that her films *The Burden of Virginity* and *Men and Women in Rites and Rituals*, as well as her book of photographs *Women and Men: From Dawn to Sunset*, slandered and insulted the Uzbek nation. Akhmedova showed in her film the tragedies women suffer due to the centuries-old tradition of hanging up in public the sheets stained with virginal blood after the wedding night. Akhmedova's camera exposed not only the official happiness on Uzbek faces, but also their hard and far from happy daily life. The judges established that the details of the private lives of individuals were insulting to the whole nation, which incidentally consists of the very same individuals. International public protests saved Akhmedova from a prison term – the court found her guilty of all the offenses she

was charged with, but granted her amnesty because it was the 18th anniversary of Uzbekistan's independence. Quite in line with the Soviet tradition, which the ideologists of the Uzbek regime reject so rigorously, the artist was charged with parasitism – she allegedly "did not engage in socially useful labor."

As the country's main ideologist, the president sees his task in rebuffing the influences contradicting the Uzbek ethnic mentality and the people promulgating them. Whom official Tashkent has in mind can be seen from the official explanation given in 2008 for the ban on Igor Vorontsov, a representative of Human Rights Watch, to return to Uzbekistan and get accreditation. The authorities claimed Vorontsov was "unfamiliar with the Uzbek people's mentality and was unable to estimate the reforms carried out by the country's authorities." Unofficially, the organization received a tip from Tashkent saying the authorities might consider a different candidacy, but he or she "should not be an ethnic Russian."

The sensitive ethnic issue often emerges under the most unexpected pretexts. You may get the impression that it pertains to the personal emotional experiences of the president, an extraordinary, temperamental and sincere person (if the notion of "sincerity" applies to a professional politician at all) rather than to interstate relations. "The Empire [the Soviet government] looked at us as if we were second-rate people," Karimov said in an interview. He remembers perfectly well how humiliating the so-called Uzbek cotton case, exposed by Moscow-based investigators Telman Gdlyan and Nikolai Ivanov at the end of the 1980s, was for public opinion in Uzbekistan. Many years ago Karimov told the author of this article that the events related to the case produced a profoundly traumatic impression on him back then. Along with this, he complained that accusations of Russophobia were deeply insulting to him. "I grew up amid Russian culture, I attended a Russian school and I could recite Pushkin's *Eugene Onegin* by heart." Karimov only began to speak fluent Uzbek once he became president.

Russia's long-time popular pop singer Iosif Kobzon told me how Karimov explained the banning of his concerts in Uzbekistan. "Your songs make me feel as if I were a Soviet man again and I don't want that." At a ceremony in Tashkent in January 2010, when the Oath to the

Motherland monument was unveiled in central Tashkent in place of the Monument to the Defenders of the Southern Frontiers of the Motherland, the president said that the old monument, built in 1975 to mark the 30th anniversary of victory over Nazism, "reflected the ideology of the old regime." On the contrary, the new, purely Uzbek monument, the design of which was produced with Karimov's personal involvement, "will remain here forever and unto the ages of ages."

The dismantling of a monument to Soviet soldiers in Tashkent on a November night last year got resounding coverage in the Russian media. Moscow decided to stay away from official condemnations – contrary to what it did in similar situations in Estonia and Georgia, but the pro-Kremlin youth movement Nashi picketed the Uzbek embassy in Moscow. The situation forced the Uzbek ambassador to Russia to make a statement that the old monument had been taken down for reconstruction and that it would be returned in early May when post-Soviet countries would be celebrating the 65th anniversary of the victory of Nazism. Barely two months had passed, however, when the obvious was confirmed – the ambassador's promises were but a mere diplomatic hitch aimed at cooling off the scandal that had started gathering pace in Russia.

One can only wonder what Karimov was guided by when he launched this demarche. There may be many root causes – from displeasure over a somewhat vague and disloyal stance that Moscow had taken on the fresh water supply and energy problems of the Central Asian region to irritation with the Russian leadership's indifference towards Uzbek initiatives on a peace settlement in Afghanistan.

Tashkent has always found the Afghan issue to be sensitive and central in terms of formulating its foreign policy course. Karimov considers himself a savant of Afghan realities and he tries to demonstrate his knowledge in conversations with any high-ranking official. His last initiative was aired at the NATO summit in Bucharest in 2008. It suggested a resumption of activity of the contact group on Afghanistan in the Six-Plus-Two format (Afghanistan's neighbors or friends – Iran, China, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Russia and the U.S.) and its subsequent transformation into a Six-Plus-Three formula (with the inclusion of NATO). The idea did not get any clear support, above

all due to the absence of Afghanistan itself in it, although the Afghan government is recognized by the rest of the world. One cannot rule out that by putting forward this initiative Tashkent sought to reaffirm its role of a major country in the transit of cargo to Afghanistan and a party claiming to have special interests in Afghanistan's north.

Quite possibly the demarche with the monument signaled another turn in foreign policy, this time towards the West. First, the complete lifting of sanctions by the EU last autumn could not but inspire the Uzbek president. Second, cooperation with the U.S. on the Afghan problem is picking up pace. Tashkent is getting commercial orders for building railways in northern Afghanistan and has been invited to join other projects too.

There was an intriguing coincidence in time. On the eve of the January 12 speech at the unveiling of the Oath to the Motherland monument where Karimov rebuked "the ideology of the old regime," he signed a plan of action for strengthening Uzbek-U.S. cooperation in 2010. The meticulously specified list of 31 items envisions measures "in the sphere of politics, security, economic development, human dimension and in ensuring peace and stability in Afghanistan." The document provides for visits to Tashkent by U.S. Secretary of State Hillary Clinton, members of Congress and U.S. Special Representative for Afghanistan and Pakistan, Richard Holbrooke. Uzbek officers will train in the United States, and some U.S. military hardware will be shipped to Tashkent. Consultations will be held on repealing the Jackson-Vanik amendment as regards Uzbekistan. On top of all that, Tashkent will assist the U.S. in the latter's participation in the summit of the Shanghai Cooperation Organization (SCO) that Uzbekistan will host in June.

The last item spotlights the evolution that has occurred in Uzbek-U.S. relations since the SCO summit in 2005 in Astana where the member states, backed by Karimov's strong support, demanded unambiguously that the U.S. pull its military bases out of Central Asia. Given the fact that Uzbekistan has the SCO's rotating presidency this year, its plans to throw a rope to the U.S. may challenge Beijing, especially if one recalls the aggravation of Chinese-U.S. tensions.

Incidentally, Uzbekistan's presidency strangely coincided with the absence of the SCO Secretary General, former Kyrgyz Foreign Minister

Muratbek Imanaliev, from a high-level international conference on Afghanistan that was held in London at the end of January. Uzbek Foreign Minister Vladimir Norov did not turn up there either. Unlike the Iranian government that ignored the conference as well, the Uzbek authorities did not offer any explanations at all.

The next day, after the media had published the plan for Uzbek-U.S. cooperation signed by Karimov, U.S. Ambassador Richard Norland had to make it clear that Secretary of State Clinton was not going to visit Uzbekistan – if ever – on the dates specified by Karimov. Another few days passed and the Uzbek Justice Ministry removed the almost strictly confidential plan from its open database where the document had been mysteriously uploaded.

* * *

"Islam Karimov is a typical Central Asian politician. His sophisticated mind of a discerning psychologist, ability for subtle mathematical calculus and the will that paralyzes the suite combine with the limitless personal ambitions of an individual who is confident of his historic mission. Hence Tamerlane as the historical symbol of today's Uzbekistan," the well-known Uzbek journalist Sergei Yezhkov writes about Karimov. "Over the past twenty years, powers from both the West and East have more than once stumbled over Karimov. He does not let anyone step over him. He makes them reckon with himself and with the country he stands at the helm of."

"A classical tactic of Karimov's foreign policy: he first brings relations with an inconvenient partner to the boiling (freezing) point and then comes up with an initiative to cool them off to an acceptable level, or to warm them up to it," Yezhkov writes.

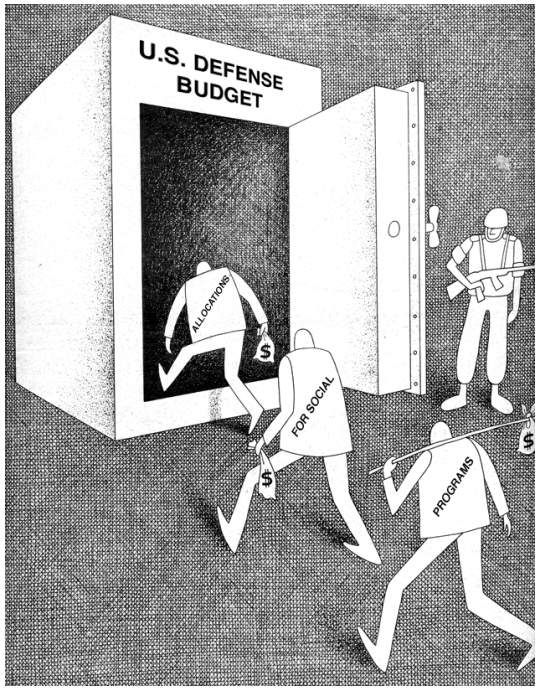
However, it is well known both from physics and human experience that a sharp change in temperature badly affects the things subjected to it and may bring about a lethal finale.

A truly historic responsibility rests with the generation of leaders to whom Islam Karimov belongs. The unexpected breakup of a huge empire forced the leaders of the newly independent states to seek methods of survival for themselves and for their nations. Looking back it is easy to find deficiencies and fatal blunders, yet it is far more difficult to

make correct decisions during a general collapse. They created what they could, drawing on their own experience, knowledge and understanding of the ongoing developments.

But the post-Soviet era has come to an end. Global politics is getting less and less controllable and this poses an unprecedented intellectual challenge to all countries and their leaders. The countries that fairly recently were called "the newly independent states" are again facing the problem of survival – in a completely different environment and due to totally different challenges. Previous experience, especially as peculiar as that characteristic of Soviet-era leaders, is not just useless; it is often detrimental for an appropriate perception of reality. Particularly if an equal sign is placed between Personality and Statehood.

Insights into the Crisis



Krokodil magazine, 1974

“As the Anglo-American global economic model loses its appeal, the leading nations are starting to rethink their development strategies. Countries which hitherto have stuck to the export development model will probably be the worst hit. This concerns Russia, too, as it is a major oil supplier.”

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A Pre-Westphalian World Economy

Rethinking Formats of the Global Economic Governance

Timofei Bordachev

It is quite possible that the global economic crisis, which began in 2008, provides the latest testimony to the fact that the world economy is acquiring an ability to act independently; i.e. to determine its own development and the behavior of its constituent elements. If this is true and if these elements are not states, then all current attempts to pull the world economy out of the crisis will produce only a temporary stabilization at best.

Although everyone acknowledges the emergence of a global economic system, we are still unable to clearly define elements forming its structure. But unless we define them as points of reference for our analysis, all political and scientific discourse about ways to reinvigorate the global market will turn into a discussion of peripheral issues, while the problems that must be resolved in earnest are far from being peripheral.

It has long been recognized that the system of international political relations can act independently and sovereign states play the role of its constituent elements. This role was granted to them legally by the agreements that brought the Thirty Years War (1618-1648) to an end and generally completed the political picture of the world. The arrival of numerous non-state players in the 20th century – international institutions, multinational non-governmental organizations and others – did not bring any dramatic changes to the situation.

The state remains the only international player that has the right of force. The fight against international terrorism has clearly shown what happens to those who claim to perform the same functions. An attempt by

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a non-state player – Al Qaeda – to effectuate a mass killing of peaceful civilians, that is, to make a claim to an exclusive prerogative of the state and establish control over a sizable territory, albeit located in the backwoods of the Middle East, resulted in a hitherto unseen unanimity among different countries regardless of the diversity of their internal political organization.

Another axiom is that national security as the main concern of any state is a derivative from international relations. The steadier the state's structure; i.e. the more reliable the position of the element-states and the correlation of forces between them, the smaller the threat the structure poses to the survival of each country. Is it possible to raise the same question with regard to the world economy and is the viability of each separate economic agent (as the closest analog to a country's national security) a derivative from the structure of the global economy? This remains to be seen.

SYSTEM AND STRUCTURE

The rise of the notions of 'system' and 'structure' as phenomena in their own right – that is, independent of the will of states and state leaders – led to the modern science of international relations. A resolute step towards separating international relations from foreign policy science became possible due to the recognition of the fact that the system of international relations has its own laws and rules (U.S. political scientist Kenneth Waltz was a trailblazer in the area). These rules can be comprehended in a theoretical discussion which actually makes the theory applicable to practical reality. Yet these rules are not directly related to the individual preferences of countries and politicians, which, in turn, facilitates scientists' efforts.

The recognition of the world economic system as an actor with analogous properties may form the foundation for a new field of research that will enable researchers to give up an exclusively national perspective and go over to a higher level of abstraction. The importance of this is obvious, as the absence of a general theory makes analysis haphazard and unable to address crucial questions.

At present, however, any freshman student of economics will state with confidence that the global economy is the sum of national economies augmented with globalization and the international division of labor. Even the most authoritative scholars analyzing the causes and the development of the current economic crisis tend to describe the mistakes and successes of

the economic policy of separate countries, and mention the so far poorly-studied, but apparently bad impact of financial globalization.

There also exists an understanding of the world economy as a general universal interconnection between national economies or as a system of international economic relations. In this case the world economy that has a universal character is seen only as a type of relations between states (national economies) and hence functions according to the laws of international political relations.

In the meantime, even a beginning political scientist knows that the definition of international relations as the combination of foreign policies of all countries, or a sum of political relations between countries, could only have been possible in Machiavelli's time. Over the 500 years that have elapsed since the days of the great Florentine, the world and our perception of the world have become extremely sophisticated: there emerged norms and notions shared by significant scientific communities. Yet modern economic science does not have even a vague understanding of the general laws of global economic development.

CHAOS AND ORDER

The main thing that amazes an expert on international political relations as he watches the discussion of the ways to overcome the global economic crisis is the chaotic character of the debates. No one, including Nobel Prize winners, seems to be able to provide a comprehensive explanation of why the crisis has stricken the entire globe or of what factors make sectoral and regional problems spread beyond their natural borders.

Even less certainty can be seen in what concerns the recipes that experts propose. As a rule, the proposals boil down to recommendations to act exclusively within the bounds of a regional or an economic sector. The policies pursued by various countries do not show any larger degree of integrity. Decisions made at G-20 meetings – the 'concert' of 21st century economic powers – can at the very best lead to a coordination of national policies. Incidentally, this only increases the scale of the government's intervention in the economy and the sovereignization of markets.

The imposition of total governmental control over economic activity, even though it looks totally unacceptable today, seems to offer the most radical response to the situation. It is true that separate arguments

suggesting that the world economic system may hypothetically rely on isolated elements appeared in discussions a year of two before the outbreak of the global economic crisis. For instance, French political scientist Thierry de Montbrial wrote: "Is a less dramatic scenario possible? I think it is. For a start, one can plug the channels for free flow of capital, and it is technically feasible."

In terms of the degree of the clarity of notions and elements, the global economic system is now in a state similar to that of the system of international political relations a hundred years or so ago. Moreover, in the early 20th century world politics already had some clearly identifiable elements.

The all-embracing character of the economic crisis and the ensuing depression raises an issue bigger than the integrity of the world economy. Much more important is the possibility of its potential independence from national governments and top management of the largest market players and ordinary economic agents. Economic science and practice are not able to clearly define the scope of elements of the system and, consequently, to take relevant measures to stabilize them. This inevitably brings about chaos and, as recent Russian history teaches us, limits the freedom of individual and collective players as a reaction to chaos.

World War I was the result of chaos in world politics. By the beginning of the 20th century, the formation of structural elements of the system of international relations – the sovereign states – reached the final phase. In subsequent periods, the main challenge was to impose and maintain the balance in relations between the great powers and curb any attempts by one of them to establish hegemony. First a multipolar and then a bipolar structure of world politics emerged. Following a brief period of global unipolarity in the early 1990s, the multipolar structure returned to world politics.

The system of international relations per se has become an independent actor; that is, it is now able to determine its own development and the conduct of its constituent elements independently. The independent character of the system's functioning lies in the uniformity of its elements, or sovereign states, and the main objective of the system is to support international stability – the balance of forces between leading countries. The latter, in their turn, determine the global military and political structure and ways to govern the processes taking place in it. The crucial task of this collective governance is to maintain peace and stability.

It should be noted, however, that the world's governability – even in its most efficient manifestations – essentially boils down to a country's ability to refrain from turning competition – an unending struggle for hegemony – into military confrontation. International treaties with limited terms of validity, indefinite-term treaties likes those that ended the Thirty Years War and went down in historical annals as the Westphalian System, international institutions, and political/legislative mechanisms have traditionally played the role of containment instruments. In all cases, their emergence was linked to the attainment of a certain balance by the international actors.

THE SEARCH FOR A RELIABLE ELEMENT

Nothing of this kind can be seen in the world economy, although the Bretton Woods system and the Western economic model of the Cold War era could have served as prototypes for a universal structure. Some signs of universalism can now be traced in individual economic sectors, specifically in finance and trade. Yet here, too, the duplicity of players and their interests – for example, in finance – impedes the formation of a unified structure. Dr. Vladimir Yevstigneyev writes: "[...] An independent player acts in the name of consumers of services, while large companies act on behalf of producers (suppliers of services), and the duplicity is insurmountable on the whole. There can never be uniformity here."

It is precisely for this reason that universal financial institutions represent only one category of actors in the international financial system – sovereign states. They cannot claim to have features similar to those of sectoral institutions, such as the International Labor Organization (ILO), simply for the fact that there is no other actor that could have the same degree of influence on the labor market than they do, except for national governments (since it is they that set priorities for ILO policies). On the contrary, if you look at finance or trade, the degree of real influence of multinational corporations – or their private investors – compares well with or exceeds the governments' influence in a number of cases. At this point, at least.

As a result, international financial institutions, be it the World Trade Organization or the IMF, cannot claim universality, even as an assumption. By the degree of involvement of the most significant participants in the system, they stand much closer to such political "institutions" as the

inter-dynastical marriages of the Middle Ages than the Rhine Navigation Commission set up at the Vienna Congress of 1815.

Matrimonial unions between European courts only influenced the relations between the ruling dynasties and their policies towards each other, but they could not put up obstacles in any way, say, to private wars between French, English or German barons. In much the same manner, the IMF can influence the financial policies of governments, but cannot influence other aspects of state regulation that are closely related to finance, to say nothing of influencing the spheres of the global economy. A redistribution of votes between the member-states will not be of any special help here. Moreover, it may be perceived first and foremost as a political victory of the countries that do not yet enjoy formal rights. Also, treated first as "an increase in the quality of international economic governance" it may be interpreted as a "buildup of power and prestige" (by China, India, Brazil, etc.).

As regards the world economy as a whole, experts continue to consider it as an aggregate of national economies augmented with globalization and the international division of labor. They use precisely this archaic understanding to find the causes of the crisis and to offer ways out of it. With much the same success, one could propose a marriage between the U.S. president's daughter and the Russian president's son as the best possible instrument for untangling the problems existing between Russia and the U.S. Simplistic solutions of this kind, whether good or bad, stopped delivering results in international politics in the late 16th century, but we can still see their semblances in the resolutions passed by the G-20 and the G8 Plus, if one compares the number of negotiating parties with the real number of actors in international economic relations.

Hence it is not surprising that these resolutions have the effect described by Dr. Sergei Karaganov, a leading Russian expert on international relations: "The Group of Twenty regularly declares that measures against protectionism should be taken. Hundreds of experts and politicians keep saying protectionism not only damages and impedes growth and economic development, but it also contains other dangers. Yet eighteen of the twenty countries have resorted to protectionist measures with the hope of defending their producers and the interests of their own population."

The global economy has properties – uniformity and integrity – that cannot emerge in international politics in principle. Nobel Prize-winning

economist Paul Krugman writes in this connection that after the disintegration of the Soviet Union "[...] we've been living in a world where the rights to ownership and free markets are looked at as fundamental principles rather than forcible instruments for achieving one or another goal. The unpleasant sides of the market system (inequality, unemployment, injustices) are perceived as hard facts of life. In the same way, Victorian capitalism showed viability not only because it demonstrated its successfulness, but also because no one was able to offer a reasonable alternative."

The capitalist method of production triumphed across the board with the exception of a few marginal cases. Its integrity was multiplied by globalization in the last quarter of the 20th century, when the proliferation of IT and telecommunications really unified the global market. Financial globalization became the first challenge brought about by the rise of these technologies.

Olga Butorina, a Russian expert on international finance, points to a new quality of capital flow liberalization. "While in 1976 the obligations under Article VIII of the IMF Charter (that bans restrictions on current payments, discriminatory currency regulations and barriers to the repatriation of capital by foreign investors) were observed by 41 countries, in 2006 a total of 165 of the 185 IMF member-states fulfilled them," she writes.

Liberalization of capital flows and the changeover of financial systems to the international digital system of communications, data processing and storage lubricated a withdrawal of the majority of financial institutions operating on the market from the sphere of state control. This is how the independence of the financial system's operation grew, which, in turn, meant weaker sensitivity to national regulatory mechanisms.

The processes related to globalization involve more traditional spheres too. Experts say that the most significant tendency determining the dynamics of the energy market, which Russia puts considerable stakes on today, is the shrinking opportunities for controlling the prices of products on the part of the state and private corporations.

The mounting role of speculative capital, the gradual rise of financial multipolarity and the reduction of inter-governmental institutions' capabilities forms an exclusively volatile environment. The markets' supra-national nature (or speaking figuratively, "the end of geography") puts sovereign states in the face of a problem of exercising the current control and, above all, strategic governing of the processes developing on their territories.

As Montbrial puts it, the freedom of movement of capital grew along with the advance of information and communication technologies; it overcame borders, simultaneously wiping out differences between the forms of capital investment and private ownership, on which monetary systems and economic theories had been based previously. This means doubts were cast not only over the ability of the world's leading countries to keep the processes related to the movement of capital in check, but also over the very possibility of determining at the national level the principles of development of financial and some other markets in the future.

The synchronism of national and international economic cycles provides the boldest expression of the independent nature of the world economic system. Forecasts predict that synchronism will grow further in the upcoming fifteen to twenty years. The inevitable openness to the impacts of the global economy is fraught with the risk of a slowdown in growth rates and crisis phenomena that cannot stay within the bounds of a single economic sector in the current conditions. It will be impossible to keep up dynamic growth rates in the national economies if a new global crisis or recession occurs – unless different countries transfer to autarchic models of development and establish a state monopoly over all types of commodities and services.

However, the world economic system has failed to produce uniformity of elements. Unlike countries, each of which has a government, borders and a police force, world economic agents are not uniform in terms of their basic features, not least because of the international division of labor. Even if national governments do control the activity of major corporations, no economist will agree to recognize the state as the only actor on the international economic arena. Practically everyone down to an ordinary person making purchases via the Internet is an actor on it, to say nothing of large and small international corporations.

In other words, while the number of participants in international politics is limited to sovereign states, the world economic system may have billions of elements and thus it does not have the material to build a balanced structure for itself.

THE ORDERLINESS OF WORLD POLITICS

Unlike the world economy, dominated by a uniform mode of production, countries determine their social and political organization inde-

pendently of each other. There are republics, various types of monarchies, dictatorships and democracies. Political institutions are not transborder by nature; regiments, divisions and missile systems cannot move from one place to another like financial flows. Democracy has failed to triumph in many parts of the globe in spite of the efforts of four U.S. administrations after the Cold War. Cultural differences remain a reliable guarantee against global political uniformity.

If one considers interdependence, which is one of the basic features of the integral world economy, it existed in politics only in the form of a mutually assured destruction of the Soviet Union and the U.S. before 1991. After the transfer of this factor into a purely theoretical domain and the emergence of new international players like China, India and some other countries, the idea of forming an integral system of international political relations has become unrealistic.

A comparative analysis of the international economic and political systems leads us to the following conclusion: the world economy is integral due to the uniformity of the participants and the large degree of their interdependence. However, it cannot operate independently as yet, at least in the way political and expert communities understand it. The international political system, in turn, has absolutely no integrity, but has a strong property of acting independently – so strong that it starts playing the same role in the field of economy, subjugating the uncustomary elements of the existing system and dictating the Westphalian rules of the game.

So far, the problem of insufficient independence of action of the global economy has been resolved through the imposing of an organizational structure of international political relations on it. It is not surprising then that as the diversity of the world's political picture continued to grow, the states interfered in the economy more and more actively. The soil was fertilized for this during the rise of the liberal global economy. Paul Krugman said that by the beginning of the 2000s the economy had become increasingly dominated by giant corporations, run not by romantic innovators, but by bureaucrats who were often government officials.

This substitution is unlikely to bring any major benefits in the future. First, international relations are highly prone to generating conflicts and, second, the objectives of both systems and of their major participants remain very different: the world economy is aimed at meeting the

demand and getting profits, while international relations focus on the balances of forces, power and prestige.

THE "BLACK HOLE" OF ECONOMIC SCIENCE

Determining the elements of the world economy – the most important ones in terms of influence on the stability of the system – is complicated by the failure of scientific discourse in this field. Despite rich historical experience, economic science has failed to comprehensively address the comprehensive crisis that has engulfed not only poorly governed states or unbalanced economic sectors, but the entire global system. It engulfed the economy that had gained considerable independence from the actions of the government or corporations even if they were quite professional.

It is hard to admit the global bankruptcy of economic science; it is still more difficult to venture a breakthrough and an expansion of the notions and theories that were formed over centuries. Yet renunciation of a search for new methods or the inability to look for them will lead to a steep rise in the role that governments play in regulating and running the world economy, which is fraught with hard consequences.

The problems facing the global economy can scarcely be resolved within existing international formats, as all institutions regulate – albeit on an international scale – separate sectors like finance, trade and so on. Or else they discuss government interference in economic activity, as was the case with the G8, the G8 Plus that emerged after the summit in L'Aquila, and the G-20. The efficaciousness of their decisions is limited by the inner controversy of joint statements and their violations on the part of participants themselves.

Dr. Sergei Karaganov said: "The G-20 has played a fruitful role in preventing panic." Regular conferences of leaders of the major industrialized nations have convinced consumers and manufacturers that politicians closely watch the course of the economic crisis and will take joint efforts to prevent a collapse.

Yet all of the practical steps proposed within this format provide for measures to be taken either within national borders or separate sectors, for instance, in finance. They cannot influence the world economy as a whole. Attempts to restructure existing institutions through an increase in mem-

bership or through a redistribution of votes can hardly be successful. They can slow down particularly ominous processes, calm down the public quarters or raise the prestige of individual states, but all of this is only distantly related to the desired stability of the international economic system.

GLOBAL ECONOMIC RESPONSIBILITY

A span of 94 years separates World War I from the first global economic crisis in which the collapse of the mortgage loan market played the role of the "first shot in Sarajevo." In both cases dramatic events on a global scale proved that the system of international political and economic relations had reached a degree of maturity signifying that global events are no longer the result of the actions of governments or economic agents. This means that a way out of the situation cannot be found exclusively at the national, regional or sectoral level.

Establishing global governance institutions such as an Economic League of Nations might offer a response to the challenge that arises from the growing independence of the global economy. Such institutions should regulate the entire world economy in the same way that they regulate individual economic sectors. The scope of regulation should not be limited to a narrow group of countries, be it the G-20 or the G8 with an indefinite number of participants. Today multilateral formats of global economic governance stay at the level of the European concert of powers in the first half of the 19th century. Similar changes must take place in scientific discussions and also involve the expansion of theoretical notions and research.

The degree of success of these institutions may turn out to be comparable with the catastrophic results of Woodrow Wilson's initiative, but given the young age of the global economic system (compared with world politics), the rise of something resembling the UN in its best years will take a long time. Remarkably, world politics, too, needed the nightmare of World War II to push countries to take resolute decisions. The wars and conflicts that had happened in the previous two thousand years or more did not prove enough for this. The world economy today is showing certain signs of recovery and a global disaster might have been averted. This is good as it has always been good each time there was peace after a war. However, the bad thing is that the peace did not last for very long.

The Sum of Crises

The World Recession and the Impotence of Economic Science

Maxim Shcherbakov

Getting an insight into the ongoing crisis is rather difficult because we have a mix of several crises. The crisis of the financial system launched a crisis of globalized productions. These two highlighted a crisis of the dollar as a world currency. The anti-crisis measures had little effect due to a crisis of national and international institutions. Embedded within this "*matryoshka*" is a crisis of obsolete, yet quite popular world outlooks. Consequently, the scope of what is happening is much greater than the depth of its comprehension, and it influences the adequacy of responses.

CRISIS No.1: THE WORLD FINANCIAL SYSTEM

By the summer of 2008, the value of the aggregate sum of financial contracts (i.e. the world financial system) was estimated at around one quadrillion dollars, or 15 to 17 world Gross Domestic Products. This system was comprised of two unequal parts: primary instruments and derivatives. The primary instruments (bonds, bank loans, stock) accounted for 150 to 200 trillion dollars, while the derivatives were worth about 750 trillion dollars in nominal value (excluding the derivates from currencies, precious metals and raw materials in exchange trade). The mass of derivative contracts exceeded that of primary ones by at least four-fold, making up some 80 percent of the overall value: 77 trillion dollars that changed hands on exchanges and another 684 trillion dollars in non-exchange trade.

The world financial system has grown at least 20-fold in the past two decades, largely outside the exchange floors or balances monitored by

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regulators. Its growth was accompanied by a sharp increase in concentration: five commercial U.S. banks accounted for 26 percent of non-exchange derivatives, while the market leader, J.P. Morgan Chase, with a capital of 133 billion dollars, held 90.4 trillion dollars of derivative contracts, i.e. more than 10 percent of the world's total.

Surprisingly, no one is trying to analyze the world financial system as one single whole.

First, its size. No one knows for sure how big it really is. There is no system in registration or the inventory-taking of instruments. All the data are approximations, as are the margins of error. Second, its structure. The world financial system comprises a smaller zone which has been studied and is regulated, and a greater, little known zone. Third, dynamics: The larger the price fluctuations of primary instruments, the higher the prices of their derivatives, which skyrocket in the times of market instability. And since more than 80 percent of the world financial system consists of derivatives, it "breathes" with a much higher amplitude.

This raises the issue of sufficient liquidity and capital.

As for ***liquidity***, each dollar the financial authorities turn out "multiplies" at the first stage, turning into several dollars of credit, and then derivatives have a free hand in further bloating this sum. At the ascending, euphoric stage of the cycle, a relatively small amount of liquidity boosts the aggregate volume of financial contracts to a considerable extent, in a possible proportion of 1:50 or more. When upward trends are reversed, the turnover of money slows down, while the mass of payments on all contracts keeps growing, so the mass of liquidity needed to service transactions increases dramatically. Now the required volume of liquidity should make up 1/15 of all assets, i.e. three times as much, but it is unavailable. The financial system thus comes to a dead halt, and the world generally assumes that a massive injection of liquidity would be the panacea for the crisis.

Now about ***capital***. Derivatives are either off-balance assets, where capital supply norms are missing by definition (in the above example, J.P. Morgan would have lost its entire capital in case of a 0.15 percent shift in its positions), or they are placed on the balance sheet at their historical cost. In both cases, there is no complete picture of the real obligations under derivatives as of the moment of redemption. One might argue about the amount of the required backup capital, but its size would

be considerable in any case. For example, with the Basel norms of 8 percent, the world financial system would require at least 12 to 16 trillion dollars of capital to back up primary instruments. Applying a 2 percent norm to derivatives, we need another 15 trillion dollars, so the figure doubles to some 30 trillion dollars, or 60 percent of the world's GDP.

The volume of risky trade, which does not lead to the re-location of capital, has exceeded the volume of capital movement by several times, with the markets of capitals turning into markets of risks. Eighty percent of the world financial system is unseen and unregulated. It performs its primary function of channeling savings into investments only as a second priority, focusing instead on capitalizing on money flows within itself. This kind of financial system is more interdependent and less diversified than two decades ago. Its requirements for capital would match the world's GDP, but its available capital is unspecified, and it has no clear fund-raising sources to compensate for major losses. Such a system creates excessive demand for liquidity and, in downward trends, it can absorb all of it.

The present-day financial system has outgrown the real economy and competes with it for liquidity and capital, which are the same the world over in all industries and sectors. This rivalry leaves a narrow corridor for balance, within which liquidity is not excessive for the manufacturing economy and does not generate inflation. At the same time, it is sufficient for the financial sector, and does not cause "blood clots." Outside this corridor, the available liquidity and capital are still sufficient for the manufacturing economy, but not for the financial system, which is fraught with the risk of collapse. If the financial sector has enough liquidity and capital, prices in other sectors start bubbling up. In the autumn of 2008, we witnessed this state transition.

Consider the following example: suppose gluttony has fattened your liver to 800 kilograms, ten times your weight. That it is bigger than your bed and that your body has assumed an odd size and shape is just one problem; more importantly, you require much more blood – five liters for the body and another fifty liters for your liver. A healthy liver circulates blood like a powerful pump, with pulse at 200, pressure 400 x 350, and vigorous pulses throbbing even at hair tips. When the liver ails, it draws more blood, increasing the intake by a "mere" five percent and leaving hardly

two liters for the rest of the body. The symptoms would be a slow and thready pulse, a semi-conscious state, asthenia, and lack of appetite.

The reason behind the acute financial crisis is more trivial, simpler and deeper than hedge-funds' speculations or offshore schemes: it had grown beyond all limits. One of the crucial tasks of the regulators is to reshape it to a reasonable and optimal size. But no one is setting this task or even trying to find out its precise dimensions.

No breakthroughs have occurred since anti-crisis measures were launched two years ago.

1. The financial system has swallowed up all the liquidity provided by governments; this money flowed onto the markets of assets but never reached the manufacturing sectors anywhere in the world;

2. The amount of capital within the financial system after write-offs and injections remains unknown;

3. No obstacles have been put up to the uncontrolled growth of the financial system;

4. The financial system has not become any more transparent; neither its size nor structure has become any clearer;

5. Toxic assets have remained, and their value is unknown.

Two dangers have emerged. First, the crisis may continue indefinitely, despite the massive injections by governments. If, at one point, the amount of toxic assets exceeds the bailout sum for the financial sector – regardless of how big this sum is – things will get much worse. Second, massive injections can undermine money circulation and money per se as an institution.

These two dangers raise an unpleasant question: What if the sum, required for the full-fledged re-capitalization of the world financial system, proves big enough to destroy confidence in money as an economic and social phenomenon?

The world needs entirely different anti- and post-crisis approaches.

Balances should be rid of toxic assets without recourse to money: for example, by directly exchanging problematic primary – and only primary – assets (citizens' mortgage loans, credit card debts, etc.) for new obligations of specially created state-run collector agencies to pay out a share of collected debts. The payment should be due only after debts have been collected: it is important that these obligations are not exploited in derivative trade, or for securitization, as this would create a new market, with new

demand for liquidity and capital. The normalization of primary assets will rebuild confidence and optimize the prices of all their derivatives.

The key measure is to determine the exact size of the financial system and then scale it down. All the players must report to the regulators within a short term about the available financial instruments at their disposal and on- and off-balance contracts. It is necessary to introduce a rule for the players to disclose all their off-balance contracts and obligations when presenting their balance sheets. This will enable the world to see the whole financial system in real time.

Another measure is to prevent the possibility of an uncontrolled increase in the mass of derivatives. This goal is attainable if each released instrument or contract is registered, as every car, ship or plane is registered, and backed up by capital. The security requirements should increase progressively, to make derivatives, starting from third, fourth and subsequent tiers, prohibitively expensive for the holder. The idea is to make the ownership of derivatives senseless when their expansion creates a system risk.

It is not necessary to set up new agencies to fulfill these tasks: the existing regulators are more than enough in all countries, but they must take concerted actions and pursue the same goals, approaches and standards, i.e. they must unite into a network. Thus they will be able to overhaul the financial system.

CRISIS No.2: GLOBALIZED COMMODITY MARKETS

The objective of the globalization is to finalize the division of labor. Ideally, each country would specialize in and focus on the production of goods that give it a competitive edge, and everybody would trade in one market, where an invisible hand would keep everything right. As a result, expenses would be minimized, while effectiveness and profits would reach the maximum level. Adam Smith is rightfully regarded as the minstrel of such harmony.

In practice, however, there is no balance between the structures of supply and demand in each participating country. This imbalance increases as world trade grows. In other words, in the globalized economy, supply and demand are only balanced at the global level, and never at the national one.

The degree of disparity between supply and demand in an "average" country is indicated by a ratio of the world trade turnover to the world's GDP. In 2008, world trade turnover reached 64 percent of the world's GDP, versus 42 percent in 1980. For the G-7 and Russia, these indicators are much lower, 47 percent and 45 percent, respectively. For the new industrialized countries in Asia, this ratio stands at a staggering 184 percent! Assuming that the share of added value in the cost of all produced goods in the world reaches 70 percent, 45 percent of goods on average (in current dollar prices) are consumed outside of the countries of origin.

Such globalized commodity markets can stably exist and grow in a reliable multilevel system that balances supply and demand in the world at any given moment. The present world system is insufficient and unstable.

Globalization undermines the potential of anti-crisis maneuvers by national governments. Each country has a specific threshold value of specialization beyond which its government (especially if it has limited money issuing capabilities) – when the world's demand for national goods is shrinking – can no longer compensate for the loss by artificially boosting domestic demand. There are no stimuli capable of boosting the demand for oil in Russia, the demand for electric appliances in Malaysia or the demand for financial services in Britain to offset a slump in the demand for these goods on international markets. Objectives like these require long-term strategies, national programs, planning and other measures that would differ from strategies of the world's energy-, electronic- or financial superpowers. Otherwise, a national government will be unable to ensure a "soft landing" of its economy in case of the international system's breakdown.

In the age of globalization, effective anti-crisis measures by governments increasingly often exceed national boundaries and reach the international level, where no agency would take responsibility for them. That is why sporadic instinctive protectionism grows during all crises – and the worse the crisis, the higher the protectionism. In 2009, the World Trade Organization predicted a 9 percent decrease in world exports, the maximum decline in the past 60 years. (Regional trade blocs ease the situation a little, acting as anti-globalization buffers: in a trade bloc, the gap in the structure of supply and demand is lower than in its members taken separately by the value of trade turnover within the bloc.)

The cause behind the severity of crisis No 2 is that the increased country specialization and the permanent imbalance between national supplies and demands were not accompanied by the expansion of either inter-country systemity or anti-crisis capabilities of national governments. And the reason behind the particular acuteness of the global commodity crisis is that the hypertrophied financial system takes away liquidity and capital from the rest of the economy precisely at a time when they are needed most of all.

To secure greater stability of the national economy, it must be less dependent on the world market, or there should be more systemity in the world. The following conditions are required:

- permanent structural balance of the national economy within the world economy;
- participation in a large trade bloc, whose members account for a substantial portion of trade (this option is preferable);
- large-scale coordinated reaction by national and international institutions at the time of recession.

Every responsible government must give honest answers to the following questions:

- What size of the gap between supply and demand, i.e. share of the trade turnover, is admissible from the point of view of national security, taking into account the de facto existing (rather than imaginary or desirable) level of systemity in the world? This is a matter of the degree of a country's participation in globalization, which would not make it highly vulnerable during global recessions;
- Who should strengthen the world's systemity and how? And what portion of its sovereignty should a country be prepared to forfeit for its predictable and reliable (rather than desirable or possible) growth, which would enable it to enjoy the fruits of globalization and remain secure from its harmful consequences? It is a risky investment decision, where sovereignty is exchanged for a possible but not guaranteed growth of stability in the future.

Answers to these questions should be prompt and non-contradictory: one cannot advocate an open economy while refusing to delegate one's sovereignty – it is like driving with acceleration under increasingly vague rules or almost without any rules.

An adequate stimulation of the world's demand requires 5 to 8 percent of the GDP, or three to five trillion dollars, reasonably divided among countries and industries. Of this sum, 3 to 5 percent can be obtained in the form of national budget deficits, and another 2 to 3 percent should be provided at the international level. To this end, the world would require a global treasury, sort of a global Finance Ministry to pursue a counter-cycle policy: to create reserves by means of deductions from the participating countries and loans in fat years, and spend them in lean years. Its regional branches should perform the same functions at the level of regional trade blocs. Simultaneously, it is necessary to encourage any regional integration initiative, be it in Asia in general, in the Gulf region, the Commonwealth of Independent States or the Shanghai Cooperation Organization. It is only regional integration organizations that can fill part of the vacuum between the growing impotence of national governments and the unpreparedness of international institutions.

CRISIS No.3: WORLD CURRENCY

The third crisis is the failure of the unsecured paper money issued by one country to safely serve the world economy. It is also the crisis of the dollar as a world currency.

Unsecured money is nothing more than a public accord. But this accord is not committed to paper. No restrictions are placed on the issuer and it has a free hand in its actions. It prints currency for its own needs in the first place and only then, possibly, for the rest of the world. The Federal Reserve System is not obliged to secure or regulate the international money supply, and hence there are neither stimuli nor instruments for that.

The lack of both security and restrictions implies the beginning of an era of absolute financial relativity. Tons of money is exchanged for tons of assets, and the value of either is set depending on their ratio to each other. It is evident from the example of the dollar-oil fluctuations in recent years. Meanwhile, the nature of money and assets is not the same. There occurs an attractive exchange of the limited quantity of material values of all kinds for an unlimited quantity of paper money.

The key feature of this exchange is the possibility (and hence the inevitability, sooner or later) of deriving issue income. In the period from 2000 to 2007, the aggregate currency reserves in the world increased from

2 trillion to 7.5 trillion dollars. The increment of reserves over these seven fat years exceeded all the reserves the mankind had saved before 2000 by two times! The dollar-denominated reserves accounted for over 70 percent of this sum. This means that dollar reserves were growing by 500 billion dollars a year, on average. This is the U.S. issue income, or "victory dividend," as the Americans would call it. In the 2000s, this income made up some 4 percent of the U.S. GDP and exceeded its real growth. Substantively, the issue income is a kind of tax the U.S. imposes on other countries: the more reserves they build, the higher the tax. The consumption of the issue income in the U.S., as was noted above, artificially boosted demand in the world and led to an excessive supply of capacities.

The issue income worsens the conflict of interests between numerous groups within the issuer country, who draw financial benefit from it, and the issuer's unwritten obligations with respect to the outside world concerning the provision of international money supply and the stability of exchange rates. The conflict is always resolved in favor of the domestic agenda, as there is no disciplinary pressure of voters on the U.S. administration in the outside world. It is the U.S. national interests therefore that determine the supply of world currency.

This is the essence of the crisis of the dollar as the world currency, and it cannot be remedied. The U.S. Treasury planned to borrow two trillion dollars in 2009. It has already spent 700 billion dollars to bail out the banking system and another 787 billion dollars on tax incentives. The Federal Reserve meanwhile should buy out 1.5 trillion dollars of Fannie Mae and Freddie Mac's debts. This makes up five trillion dollars, or more than one third of the U.S. GDP. The world is nearly stuffed with dollars, but there is not enough of them to meet U.S. needs. This means the dollar's volatility will enter a new level soon.

In a longer term, unsecured money is vulnerable from the most unexpected side – energy. For the modern money system, the main and tremendous threat is the inevitable and forthcoming passage of the peak of oil extraction in the world. Pessimists expect this to happen in 2010, and optimists in 2040. The world will witness unprecedented developments then: the demand for oil in industries will continue to grow, while the supply, limited by natural factors, will keep decreasing regardless of the amount of investment or expenditure. Given this different-vectored

movement of demand and supply, the amplitude of oil price fluctuations will have no limits. Sudden and frequent fluctuations of the price of the key source of energy, measured by unsecured money, are a mirror image of the fluctuations of the value of this unsecured money. This will send the paper money system into a spin.

This situation was rehearsed in the first half of the 1970s, when the U.S. unpegged the dollar from gold and OPEC immediately quadrupled oil prices. After this blow, the world currency system only regained its balance by the middle of the 1980s, after two economic crises, the devastation of Latin America and the bringing of half of the world to the edge of bankruptcy. Passing the peak of oil production will have more serious consequences for the dynamics of oil prices and the value of money than OPEC's actions in the 1970s, because there was no shortage of oil at that time, unlike at present.

Aside from the volatility of the prices of commodities and assets, the world currency crisis increases the volatility of their indicators, thus enhancing the general volatility of everything the world over. The dollar fluctuates against the euro by 20 to 30 percent a year and by over 100 percent a year against oil, which, at best, means a ±12 to 15 percent margin of error in dollar value measurement, versus the profitability in many sectors at less than 10 percent. This money cannot be either the yardstick of value or effectiveness, or a reliable reserve. Nevertheless, the United States and the world at large have become hostages to the role of the dollar, and it is unlikely that they will wish to change it. Two thirds of cash dollars are outside the United States, and in case this currency stops performing its role, they cannot return home en masse without generating hyperinflation there, which is unacceptable. The dollar will remain the world currency for a long time, because the outright refusal to use it as such would be more expensive than the cost of maintaining the status quo over an indefinite period of time. How can this problem be solved?

There is just one solution: namely, the monetary authorities must reach an accord and adopt self-restrictions and self-discipline.

There are several alternatives:

- returning to real, fully secured money, i.e. gold or its analogue;
- reaching an agreement on the dollar;
- reaching an agreement on an unsecured alternative to the dollar;

• reaching an agreement on synthetic supranational money, such as Special Drawing Rights (SDR).

None of the alternatives is ideal, but any of them is better than nothing. The only practical and ready-to-use option is the euro. The 16-nation currency, as an idea and movement, has its origin in the previous system crisis after the gold default of the dollar in 1971, when there emerged a need to respond to the sharply increased instability of money, coupled with an oil shock. The main virtue of the euro is that it is an established currency that does not require fine-tuning: it has functioned for almost two decades, so it seems the Maastricht criteria have proven adequate.

The countries that agreed in Maastricht in 1992 on membership in a European Monetary Union undertook five voluntary restrictions. These are restrictions of state budget deficit, national debt, inflation and interest rates on government bonds plus a two-year trial period. The Maastricht Treaty fixes the difference between the euro and the dollar: the euro has its limitations spelled out, while dollar regulation wholly depends on U.S. national interests.

The euro's turning into a full-fledged world currency would be of benefit in every way. It is an insurance against a possible collapse of the dollar; in addition, it will put competitive pressure on the dollar and will induce the U.S. to practice self-restriction in its monetary policy. The euro, as the second full-fledged world currency, can put the money system on both feet, which would make it certainly more stable than when it stands on one foot. This decision does not require a world consensus (like gold or SDR) and can be taken by states gradually, as they become ready. There are no other quick variants with the same merits.

This alternative could be followed up with euro-like agreements within other trade blocs or regional monetary unions, and with interaction between their central banks. The Bank for International Settlements, or its analogue, could be responsible for the "fine-tuning" and ultimate money supply-and-demand regulation. To this end, it should acquire the functions of issuer. Such a "union" of major regional currencies, interlinked by a package of agreements and daily interaction between monetary authorities, would be the most stable and flexible system of world currency for a long term.

CRISIS No.4: INSTITUTIONS

The unparalleled depth and globality of the on-going crisis were caused by unprecedented imbalances and critical gaps between the commodity, financial and monetary systems of the world, which had been growing over the past 30 years. The commodity system is truly and evenly global; the financial system is global too, albeit hypertrophied and concentrated; while the monetary system is actually national and, far from linking the first two systems, it only pulls them further apart. Eliminating these imbalances would signal a victory over the crisis.

It is clear what should be done and how: it is necessary to restore structural proportions between the commodity, financial and monetary systems of the world economy and within each of them.

The world financial system must shrink and become more secured by capital. All the instruments must be registered and all standards made uniform, while the capacity of each participant to issue financial instruments must be limited.

The world commodity markets should become more liberal, and regional trade unions – broader and more profound. The world economy requires global and regional counter-cyclic "finance ministries" capable of stimulating a demand of 3 percent of the world's GDP in case of shrinking.

The world currency supply should be more disciplined and geographically distributed. The world needs an international bank to coordinate the activity of central banks and balance the demand for and supply of money in the world, which would also be able to issue money for correcting imbalances.

Who will handle this issue and how?

Separately, national governments are unable to cope with this task. Their size and resources are smaller than the phenomena they want to harness. They are always late. They are ideologized, immersed in conflicts and political and corporate interests, and compete with each other.

Bringing national governments together can complicate things rather than help. Some states will gain from a change of the status quo and therefore they are actively demanding these changes, while others seek to retain the status quo because they stand to lose from changes. Most governments do not influence anything and only seek to show their significance in one way or another. But a minority of countries do have

influence and want to capitalize on it. Each proceeds from his own world outlook, which often does not match others'.

The transfer of macro-regulation from the national level to the international one is absolutely inevitable, provided all the trends of the past few decades are not reversed, as was the case in the 1930s. The Yalta and Bretton Woods institutions will be unable to cope with these tasks. The United Nations is crushed, the International Monetary Fund and the World Bank were created for other times, when those who are now on the defensive, were forging ahead. To attain new objectives, these institutions need such a serious overhaul that its implementation is doubtful. It is better to create new institutions from scratch than try to reanimate the old ones from less than scratch.

In other words, there is little confidence that repair work within the framework of the current political process and modern culture will be effective. Since no other process or culture are available, new ones should be created.

How should a nation state – an invention of the Duke of Richelieu – mutate in order to meet the present-day realities? How much sovereignty can it delegate without losing its essence? What institutions are needed to keep the globalizing world stable? How should all these hypothetical agencies interact after they are created? To whom will the new bureaucracy be accountable and who will discipline it? What levers should be used to balance the emergence of the new bureaucracy with a reduction of national regulation and national bureaucracies and to prevent their growth and conflicts with them? Would it be tantamount to a world government, opposed and feared by many – and for good reason?

The year that has passed since the beginning of the global crisis has not brought any answers. The world needs a new level of understanding of fundamental processes and a common working platform that would help find compromises, make decisions and implement them. "Problems that we face cannot be solved at the same level of thinking we were at when we created them" – these words by Albert Einstein have become a cliché, yet they are relevant today as never before. The lack of an adequate frame of reference, common for all, while there is a need for democratic consensus, turns any practical issue into an issue of outlook. This situation is well illustrated in the classical tale of *The Three Little*

Pigs whose characters had different ideas of the nature and scope of possible challenges and built their strategies accordingly. As a result, they ended up with different chances for further existence and quality of life.

CRISIS No.5: THEORIES AND VIEWS

Since World War II and since Wassily Leontief and John Keynes, economic science has said nothing basically new. Marxists have been arguing with classics for 150 years about which is more important – labor or capital. For 70 years, Keynesians have been locked in a dispute with classics over whether market equilibrium restores itself or whether it should be assisted. For 30 years, monetarists and Keynesians have been at odds over which is more important – money supply or demand for goods.

The prevailing evaluations are much simpler – if not more primitive – than the increasingly complex reality that they are trying to reflect. There are at least two reasons: the subject which the economy describes, and the method it employs to this end.

About the ***subject***: over the past 50 years, the world economy and the variety of ties within it have outpaced the development of economic science. All the basic economic "scriptures" – classical, Marxist or Keynesian ones – describe a world where production and consumption are primary, and trade and finance are subordinate/secondary in terms of size and function and are intended to serve production and consumption. The national economy is the main object in this world, while the world economy is a derived complement. In addition, money in this world is firm and stable.

It was the world of our grandfathers, but it no longer exists. Instead, we now have a developed and mature global capitalism, where huge capital markets, based on "elastic" money, seek capital gains; where industrial profit is not the only and not the main source of development; and which has nowhere to expand. Economic science prefers not to notice these changes.

Things are no better with the ***method*** used to describe the economy: the modern system of economic views is based on assumptions that have not been revised since the Enlightenment. They are maxims accepted without proof by default.

- It is assumed that all economic relations stem from barter. Everything has one root. While looking into how a plough can be swapped for

millet, one can easily understand how the computer components market works or problems of the World Trade Organization.

• Man, *homo economicus*, is the basic element of the economy; he always acts rationally, seeking to maximize his monetary and other gains.

• The purpose of economic activity is economic progress, which means profit-making at micro-level, and GDP growth at macro-level. Everyone's efforts to get maximum personal profit automatically lead to the maximum overall result.

• Money is inviolable; it enables rational economic agents to make objective and comparable evaluations.

• Markets are effective; information is spread all over the world evenly and simultaneously, allowing for the most rational use of resources.

• Man is negligibly small compared to Nature. The Man-Nature system is open: Man can extract resources from Nature at the cost of extraction and dump waste at zero cost ad infinitum.

None of the above maxims finds proof today. The establishment of market relations in their present shape never proceeded by itself and was a very cruel process everywhere. Geopolitical rent, monopolies, arbitration, and outright robbery turned out to be as good for capital accumulation as a free exchange of the fruits of one's labor. Man, after a certain degree of satiety, becomes much less rational and more sophisticated than a mere economic channel for resources.

Economic and other decisions have long been made and implemented not by individual people but by groups devoid of reason; they "think" and "behave" differently than "ordinary people" of whom they consist. The ideas these people and collectives have about what is going on are extremely flexible and subject to manipulation, but they determine their actions and are the same factors of "progress" as the so-called objective reasons.

The miraculous effectiveness of the "invisible hand" of the market is still just a beautiful metaphor, as it was at its birth 200 years ago, but not a proven theorem. Once every decade, for two centuries already, an economic crisis rocks the world, during which no one ever gives any chance to the "invisible hand" to put everything right. It is rather the opposite. Nor has anyone proven the assertion that maximum personal profits lead to a maximum aggregate result. The absence of money backed by gold has resulted in the absence of an objective yardstick, which is unlikely to

appear any time soon. In a majority of countries, national accounts remain unbalanced for decades. The economy is global, and it is reasonable to suspect that it has been so in all times. Mankind has become a factor of Nature and affects it with comparable force. Natural resources are shrinking and becoming ever more expensive, while mankind's waste is assuming tremendous proportions and becoming more and more expensive as well.

This divergence between reality and axioms generates chimerical categories, unrealistic in life, such as the "free market economy," "rational economic agents" or the "state of balance." These are hypothetical abstractions at best, but more often they are propaganda clichés. They are not found in nature and therefore are useless in practice. Economists try to mend the increasing gap between science and life with more and more complicated mathematical models, but it is unclear what physical reality they describe. Attempts to directly use models for the purpose of gaining profit have repeatedly resulted in direct losses.

Given such a frame of mind, discussions of economic problems – within the framework of the G20 or other formats – are nothing more than an exchange of illusions, with general conclusions about the usefulness of economic freedoms, the pooling of efforts, and the need for a further search for solutions. This is dangerous because it may lead to destabilizing solutions, such as actions of the Federal Reserve in late 2007-early 2008.

The world needs a science of a different level of complexity and uniformity, which would view the world as one single whole, which would study qualitative differences within phenomena, processes and societies that appear similar, which would take into account the finiteness of natural resources and the full cost of their use and restoration, which would tie the economy with energy and thermodynamics into a non-contradictory system, and which would understand the essence and dynamics of human capital in its diversity and inconsistency. In short, the world needs a science that would not be at variance with the reality surrounding us.

One can say that theories have become obsolete or that the world has become more complex, but the essence of these statements is the same. Yet this is not what should be said. We must honestly say what we know for sure, what we know approximately, and what we do not know at all – and try to get more knowledge.

Russia's Positioning Amid Global Uncertainty

Choosing Between Economic Development Models

Vlad Ivanenko

Any crisis, especially one as complex as the current financial crisis, creates uncertainty that inseparably links opportunities with dangers. For Russia, which has been searching for a development strategy for a long time, it is particularly important to conduct an adequate assessment of the situation's potential and the ongoing processes.

DISTINGUISHING FEATURES OF THE 2009 ECONOMIC ORDER

The rearrangement of the global economic order, which began spontaneously in the autumn of 2008, entered a sluggish phase in the winter of 2009-2010. It can be characterized by three factors.

First, the low liquidity of major banks in countries with a stable trade deficit (Great Britain and the United States) paralyzed the world financial system in September and October 2008. Balance of payments is based on the double counting principle, therefore an increase in the deficit on the current balance of goods and services is supposed to occur simultaneously with an increase in operations with financial instruments. This was the case until 2008, when U.S. banks had been investing incoming capital in long-term assets (U.S. mortgage loans for example, which seemed attractive at the time).

Investors closed their positions as the value of these funds fell. This resulted in an outflow of money from those U.S. banks that had been reinvesting on the security of mortgage loans. Trying to normalize liq-

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uidity, the loss-making banks began to sell their foreign assets, thereby rocking the banking systems of other countries. In order to avoid the financial chaos caused by the spontaneous re-distribution of liquidity, governments – above all, the U.S. administration – had to resort to providing massive loans to national banking systems.

This yielded certain results. By November 2009, the liquidity of the trans-Atlantic banking system was as good as restored, as shown by the decreasing difference between interest rates on inter-bank loans in London and rates on Treasury bills in Washington (TED spread), which fell to the pre-crisis level of early 2007.

Second, world trade turnover fell as the crisis hit the banking system. According to the Organization for Economic Cooperation and Development (OCED), the aggregate monthly trade turnover of OECD member-states and the eight OECD candidates, including Russia, plummeted from $2.32 trillion in July 2008 to $1.47 trillion in February 2009. The balances of net importers and net exporters decreased considerably, as the balance coefficient of variation fell to an all-time low since 2003. The latter fact indicates that the countries take measures to balance their trade.

Third, active government interference in the affairs of creditors and debtors, hitherto regarded as private, indicated an actual change in the economic paradigm in the United States, whose economic model underlies the modern world economy. Massive injections of government money – first in the banking system, and then in the car manufacturing industry and energy infrastructure – meant de-facto renouncement by the bureaucratic Washington of free market tradition and a transfer to the "manual control" model, which Russia knows so well.

UNCERTAINTIES OF THE CRISIS

The tentative economic stabilization does not imply that the world has become less ambiguous. On the contrary, the governments of several countries are mulling difficult decisions that they will have to make in the near future.

Washington is facing the biggest difficulties because it has not yet decided how to get out of the budget trap. The U.S. Treasury says the government debt grew from $9.646 trillion in late August 2008 to

$11.813 trillion in late August 2009, and that the monthly growth rate never slowed until recently. The breakdown of the holders of the U.S. government debt shows that private investors, including foreigners, are making additional acquisitions. Since this category of investors behaves unpredictably, Washington may soon find itself in a situation where loans on the market will only be available at high interest rates. The government could decide to raise interest rates, but that is fraught with the risk of arranging a financial pyramid of its bonds or the government could be forced to print money, which could fuel an inflationary spiral.

The second option looks less damaging for the U.S. economy in the short-term. If the U.S. dollar's exchange rate falls, a considerable portion of losses will be carried by the foreign holders of U.S. bonds in China, Japan, oil exporting Arab countries and the offshore centers located in the Caribbean and Great Britain. But the inflationary redistribution of welfare will affect the United States as well: pension funds will depreciate and it is anybody's guess how the U.S. middle class, the backbone of American democracy, will react to the loss of their lifelong savings. In addition, the gap between the incomes of residents in relatively well-to-do states and impoverished ones will increase, thus testing the limits of intra-American solidarity.

Aside from the budget deficit problem, Washington will have to come to grips with the economic development model, whose earlier, free-market version was spontaneously swapped under pressure from last year's debts. Although the U.S. government openly claims that the reprivatization of "temporarily" nationalized assets is inevitable, above all in banking and auto manufacturing, one gets the impression that private companies have begun to tailor their investment plans to government programs in earnest. Therefore, even if the government puts up its stakes in companies for sale, national private players may be unwilling to buy them without a considerable discount and the promise of continued government support. Most likely, Washington will show the foreign contenders the door, citing the "strategic importance" of assets. But will this not preclude the return to lost economic ideals?

The problem of the foreign trade imbalance and a possible revision of the development model by Washington have considerable repercussions for countries that have selected an export strategy, such as the

Eastern economies (China and Japan), Germany, and Russia, to a certain extent. A distinguishing feature of this group is the overt and covert specialization in servicing the markets of larger and richer states. To excel within this model, the supplier needs to have his exports grow permanently, but according to the OECD's data of November 2009, exports have not yet restored to the global highs. The new uncertainty challenges the expedience of the export model, which eventually may make Berlin, Moscow, Beijing and Tokyo revise their development ideology.

At the same time, the rapid growth of U.S. government spending is beginning to worry foreign creditors. China, which is particularly concerned, began to withdraw from the federal bonds market in June 2009, according to the U.S. Treasury. For now, Washington has found a replacement for China in more loyal investors from Japan, Hong Kong and Great Britain (including the offshore zones), but this game cannot continue without solving the problem of the U.S. budget deficit. If this is solved through an increase in money supply, other countries will face a dilemma: they will either follow Washington, which will result in world price hikes, or develop innovative methods to defend their national economies from the consequences of the dollar's downfall.

For Russia to convert all the dangers and opportunities that have emerged in the world over the past 12 months into practical use, it should determine in the first place what objectives it sets for itself as a federal Eurasian state.

In identifying national priorities, a country may use the method of democratic choice. In this case, political parties offer reference points for development and the most popular of them will get the benefit of voters' trust in an election. On the whole, this method suits Russia, whose citizens have the right to vote, if not the right to set objectives before the government. The Russian specifics are such that the program of the United Russia party – the winner of the 2007 elections (Putin's plan) – has not been fully explained in detail. It leaves much room for various interpretations. Still, the actions taken by the Russian authorities after the elections and opinion polls suggest that the elite and the "silent majority" opt for two main objectives:

- the preservation of a single Russian cultural space, which implies independent domestic and foreign policies;

• the development of the economy and infrastructure, sufficient for sustaining the state and a high standard of living.

In practice, it means defining and fixing the borders of this space with neighboring civilization blocs and a more rapid growth of Russia's welfare compared with other countries. Let us consider how favorable the current situation is for the above priorities and what measures might contribute to their realization.

CULTURAL SPACE BOUNDARIES SET BY ECONOMIC REALITY

Although there are several ways to interpret the commonness of culture, economically it can be defined as the identical patterns of behavior by business people, government employees, producers and consumers in neighboring territories in creating goods and services with market value. Such similarities in behavior make contacts easier, or "reduce transaction costs" to put it in economic jargon. Therefore, a single civilization space, be it Russian or someone else's, differs from adjacent territories not only by the commonness of formal laws, but also by an increased volume of trade, a closer interweaving in terms of technological and marketing chains and trends towards "special" relations between its formally independent members.

In my article published in this journal two years ago (No. 2/2007), I raised the issue of identifying the natural borders of Russia's space on the basis of data on mutual trade between Eurasian countries. Using the gravitational model, I calculated the temporal changes in the "distance" between Russia and its trading partners as a ratio between the Gross Domestic Product and mutual exports in 1997-2005. The shorter the distance, the higher the gravity. Since the figures showed that Russia was in closest proximity to Belarus, Kazakhstan and Ukraine, these four conceivably form a common economic space.

New data have appeared which can be used to check the result obtained for consistency. An analysis of the new data shows that the distance between Russia and the above-mentioned countries continued to rapidly decrease in 2006-2008, despite repeated reports about their "trade wars." Such a development of relations may make it possible to identify a cultural bloc made up of Belarus, Kazakhstan, Russia and Ukraine.

At the same time, Russia's trade ties were rapidly expanding with the North European (Finland) and Central European (Germany, Italy, the Netherlands) civilization blocs. A more detailed analysis of trading flows shows that a dramatic decrease in the distance between Russia and these countries is taking place thanks to Russian exports of fuel in the first place, in exchange for a broad range of highly-processed goods. This setup of trade flows shows Russia's fledging integration in the economic space of part of the EU through the Russian energy sector, which is becoming increasingly transnational. The same applies to Kazakhstan, whose oil industry is being gradually embedded into the European market.

Another indicator of integration, this time technological, is trade data for semi-finished products; a list can be found on the UN Statistics Division's website. These products include goods with a small degree of processing (e.g. semi-products of ferrous and non-ferrous metals), and highly tailored goods, such as electronic components. The market for these goods is less developed than the markets of raw materials or end-demand products, since their producers depend on buyers to a greater extent. Therefore, an increased share of intermediate goods in a country's exports is a sign of the integration of its national producers in foreign technological and marketing chains.

The share of intermediary goods in Russia's exports amounted to 15 percent in 2008; i.e. the country's integration in world industrial conglomerates was insignificant (except for metallurgy, which is mostly aimed at servicing consumers the world over). On the other hand, semi-finished products in Russia's imports accounted for 30 percent in 2008, which might indicate that foreign supplies potentially have been included in local technological and marketing chains.

A more detailed study of supplies to Russia from CIS countries shows that integration processes are not homogenous. For example, Ukraine has a high share in supplies of intermediate goods. However, iron and steel products make up the bulk of its exports to other states, in even greater quantities compared with Russia. Integration processes in Belarusian supplies are more obvious, especially in car manufacturing and electrical equipment. Like Russia, Kazakhstan is heavily oriented towards the production of raw materials; the presence of its companies in Russian or foreign technological and marketing chains is minor,

except for metallurgical companies. Therefore it follows that the production setup of modern Russia conforms more within its national borders than to the putative single cultural space.

Voting results at international organizations can be viewed as indicators of the similarity in the views of national elites on global political problems. The UN keeps track of voting at the General Assembly; its statistics on the results of 249 polls for the period from 2006-2008 shows that Russia's position most frequently matches that of Belarus and three Central Asian countries (Kazakhstan, Kyrgyzstan and Uzbekistan), while often at odds with Ukraine, which sides with EU countries. Thus, one might assume that there is mutual understanding between the elites in Russia and some of its neighboring states except for Ukraine. Kyiv's choice, however, can be explained more by certain opportunistic factors than by any principled position, because it is the EU's opinion that mostly prevails during UN General Assembly voting.

All these observations lead us to the conclusion that Russian aspirations to the status of a regional center are only partially supported by facts. Furthermore, in certain fields the country traverses the boundaries of its hypothetical civilization bloc, while in others it is smaller than its boundaries.

AN ECONOMIC MODEL TO BOOST RUSSIA'S WELFARE

The selection of a development strategy is roughly a choice between the export model of development and a model of economic growth that stimulates domestic demand.

As we noted above, the first model implies specialization in the production of the most competitive products within the country, where it steps up output, eliminating foreign rivals. This can be achieved with natural factors; for example, unique natural resources or climate, or cheap labor. As a result, the producing country can sell its products at dumping prices; or, due to innovations, the national product makes it the leader in quality.

The second model is suitable for countries that are unable for some reason to launch exports (due to high transportation costs for example), or whose economy has outgrown the markets of their erstwhile influen-

tial partners. In this event economic agents focus on servicing the most important domestic markets in the region, thus generating secondary demand for additional products and services. Foreign trade relations acquire secondary status because these countries need export revenue not so much to pay for the procurements of consumer goods, as for the import of raw materials and goods required for domestic investments projects.

Both the export model and its alternative have pros and cons. The export model is easier to launch, but it is effective when the markets of potential importers are quite large and when they can afford to pay for supplies. On the other hand, the domestic demand model is trickier to handle; its success depends on the presence of what is called "the spirit of entrepreneurship."

Entrepreneurship, or the capability to discover and capture new markets, is probably one of the most elusive factors in a nation's bid to secure success. Advice on how to excel in this undertaking normally boils down to a set of rules for governments, aimed at creating "a favorable business climate." This implies that entrepreneurship would only flourish in artificial conditions arranged by the state, not in the shaping of the institutional environment favorable for conducting business. This assumption contradicts historical observations which link the economic success of the domestic demand model with the intensity of entrepreneurial activity rather than government support of business. It should be noted that small businesses indeed react to the environment created by the state and society, because their small size forces them to adjust to preset conditions.

The modern Russian development model can be classified as a variant of export development. Chosen in the 1970s on the basis of oil and gas exports, it launched and established a stable exchange of Russian hydrocarbons for Europe's consumer goods. Admittedly, a country can rely on the export model in order to increase its welfare. The results of the past decade show that Russia, with its $16,000 per capita in 2008 (by purchasing power parity) differs little from new members of the European Union. One might hope that it will reach the welfare level of Portugal, the poorest country of the "old" EU, with $23,000 per capita, within the next decade if oil prices remain high.

Exports need to be diversified in order to optimize the export model; i.e. expand the range of exports to Europe by investing in the production of such intermediate products as, for example, flat-roll iron, wood sawn, or fertilizers. In this case Russian exports would be less dependent on world oil prices, a positive factor for Russian personal incomes. On the other hand, improving welfare through exports means that Russia actually has to give up its other objective; i.e. sustaining a cultural space which is different from the European Union. Trade growth leads to interdependence between Greater Europe and Russia, and, consequently, erodes the border of the Russian cultural space.

The internal development model is therefore better suited to the task of raising living standards, while at the same time preserving national identity. Admittedly, it would be more difficult to realize. Data suggest that private entrepreneurship, for which the groundwork was laid in Russia in 1992, has not become an effective form of economic activity and not necessarily because of the restrictions placed on business by outside forces. According to the World Bank, which evaluates the quality of the business environment, Russian businessmen are happier with the performance of those government agencies, which are found to be more venal. It follows that a Russian entrepreneur would be pleased with the possibility to break rules rather than seek opportunities to play by these rules. This is confirmed by World Economic Forum reports on Russia's dubious achievements in business ethics.

An additional factor that casts doubts on the effectiveness of Russia's private market is information about the income inequality, which is the highest among G8 countries (except for the United States). According to information from the Federal State Statistics Service for 2008, the Gini coefficient, which indicates the degree of inequality, was 42.3 for Russia compared to 43.9 for the United States (2007), and it is continuing to increase. This kind of redistribution of GDP cannot be explained by differences in "human capital," since Russians have approximately the same level of education on average. Most likely, the existing conditions for engaging in private business in Russia are such as to enable a few to gain profit at others' expense.

The situation with inflation is not clear either. The inflation rate remains high despite Moscow's attempts to limit price hikes by using

classic monetary instruments. One gets the impression that a Russian entrepreneur would rather acquire monopolistic privileges than maximize profits by reducing costs and improving quality.

RUSSIA'S OPPORTUNITIES IN THE CRISIS SITUATION

A comparison of possible scenarios for the economic crisis and behavior options for Russia points to both emerging opportunities and potential dangers.

As the Anglo-American global economic model loses its appeal, the leading nations are starting to rethink their development strategies. Countries which hitherto have stuck to the export development model will probably be the worst hit. This concerns Russia, too, as it is a major oil supplier. However, the relative inflexibility in demand for oil means that although the potential volatility in world prices will affect the stability of Russia's export revenues, the degree of the maximum drop in prices will be lower than in other commodity groups. In this respect, a change of the paradigm implies much more serious consequences for another potential member of the common Russian space – Ukraine – which could lose a considerable portion of the iron and steel market, its main product. Therefore, the crisis is contributing to the reorientation of Ukraine's economic interests towards integration with its eastern and northern neighbors.

The crisis has exposed the limits of the markets' ability for self-regulation, which will entail a major overhaul of the relations between private companies and the state in favor of the latter. Many believe that government programs to stimulate the market, launched in the autumn of 2008, will be around for a long time. In these conditions, Russia will remain competitive if its government takes full responsibility for national development. It does not need to bet on state-run corporations as the locomotives of growth. The government has to set the parameters and offer financial guarantees in such large-scale investment programs as housing construction, modernizing its infrastructure or conducting technological retooling to start up the development of the domestic market.

The growing influence of the state in crisis conditions strengthens the quality requirements for state governance, rated traditionally low for

Russia (according to World Economic Forum figures for 2006, Russia was ranked 110th out of 117 countries according to the "legibility" of government instructions). The expected increase in the role of officials as customers of new national development programs underlines the necessity to limit, at the very least, the opportunities for the venal squandering of allocated funds, but this is a topic for a separate discussion.

The new threats caused by the crisis also include the potential devaluation of the world's major currency – the U.S. dollar – which leads to the depreciation of the dollar-denominated savings of net exporters. At present, the world community believes it is not yet necessary to start looking for safer alternatives to preserve the value of its export savings that continue to be absorbed in the form of U.S. financial assets. It looks as if many countries are trying to keep the parity of their currencies with the dollar, while secretly hoping that the notorious spirit of U.S. entrepreneurship will help the U.S. emerge from the recession.

It is a risky approach as it does not take into account the fact that the American recession could drag on for years if not decades. This scenario may lead to a sudden surge in world commodity inflation and the ensuing painful redistribution processes worldwide, similar to those a majority of Russians experienced in 1991-1998. The side effects of price hikes will likely be favorable for Russia as an exporter of increasingly-expensive raw materials and it could save the country from the upheavals related to the depreciation of dollar-denominated savings.

The end of the active stage of the crisis does not mean an automatic return to the old situation. We are likely to see a fundamental overhaul of the global economic system during the next few years. The role of the state as an initiator of development programs may grow to a level beyond which the free market idea may be invalid. Amid conditions of increasing uncertainty, Russia, as any other country, had better stick to the old sailor's saying: "If you sail out into the sea, don't bend to the whims of nature; just stay the original course."

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