

Russian Neo-Mercantilism

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Introduction

Ever since 9/11, western policy-making has been on auto-pilot, and focused as it is on finding millionaire misfits training terrorists, elusive weapons of mass destruction and renegade dictators, state security is in jeopardy because policy-making has overlooked the obvious; Russia is back. What are the underlying trends that permit us to say that its re-emergence will challenge the status quo?

This paper will seek to answer that question. Russia is on the verge of becoming the new hegemon in Eastern and Central Europe, an area intersecting with the interests of EU and NATO member states. The macro-strategic postulate is that a new world order is dawning before us.

A prognosis of what the **post-9/11 era** might look like is therefore in order. The analysis starts with a brief overview of the two previous eras (post-Cold War and 9/11 eras) since 1989. The background trend this overview provides is the basis against which we can judge Russian resurgence. It also provides the opportunity to reassess earlier work dealing with Russian reform.¹ The hypothesis is that the nature of Russian resurgence is based on two important features borne out of each era, which together conspire to make Russia a temporarily effective power based on the 19th century model of the mercantilist state.

Authoritarianism and market economy have combined to produce a coherent and purposeful political and economic policy that could have undesired effects in the Euro-Atlantic sphere. This has been made possible by the permissive features of the current international relations climate; the recession of tolerance consequential of the war on terror, and the increasing weakness of international regimes in framing interstate relations. To ascertain the potential for Russian hegemony, we need to ascertain the rise in capabilities, how a permissive environment fosters this rise, and how it translates into intent. Here, we agree with the premise given by Hendrik Spruyt; “the interaction between broad-based systemic factors and domestic variables is key. Systemic trends affect both the capability of imperial governments to control their peripheries, as well as their will to do so.”² According to Barry Buzan

[Mercantilists] seek to make the international economy fit with the patterns of fragmentation in the political system by reducing the scope of the global market. They emphasize the integrity of the national economy and the primacy of state goals (military,

¹ See Frederic Labarre: “Russian Military Reform: An Overview” in *Baltic Defence Review*, #6, 2001, and “NATO-Russia Relations and Enlargement” in *Baltic Defence Review*, Number 5, 2001, pp. 59-71.

² Hendrik Spruyt, “The Breakup of the Soviet Union in Larger Perspective: Centrifugal Forces and Modes of Disengagement”, Johns Hopkins SAIS, Russian Area and East European Studies Program, (date unknown, ca. 2000), p. 4. We agree with Spruyt’s premise, but not with his conclusions. Or rather, his conclusions seem to hold for the post-Cold War and 9/11 eras, but they do not apply for the post-9/11 era in which we now live.

welfare, societal). They advocate protection as a way of preserving integrity, but may be attracted to the construction of their own economy dominating at the centre.³

I define *neo-mercantilism* much in the same way, but with a domestic government consolidating power and centralising state control over natural resources and the military-industrial complex. This centralisation is equated with applicable capability. Applicable capability, in turn, is potential intent at seeking control of extra-territorial resources or markets to fuel economic growth, which feeds central power.

The permissiveness of the environment making this capability applicable is characterised by crumbling international legal norms of behaviour. Capability becomes intent when the successfully reformed military receives and obeys its marching orders to enforce central economic and commercial policy, handed down by a strong presidential apparatus.

This paper examines in turn the characteristics of the post-Cold War and 9/11 eras in relation to Russian reforms (understood as economic, social and military reform). It then proceeds to show how neo-mercantilism emerged following a shift from economic *interdependence to independence*. Thereafter, the Russian experience is demonstrated as one of consolidation of control over gas and oil reserves and distribution, military production and sales, coupled with the collapse of international legal arrangements that had helped guarantee post-Cold War stability, which corresponds with worldwide trends to the right of the political spectrum, associated with the war on terror and a relaxation of tolerance. In the Russian experience, control over military doctrine and national security concepts demonstrate a stated purpose when linked to control over the military.⁴ We argue this also translates *applicable capability into intent*.

1. The post-Cold War and 9/11 eras and Russian reform: The retreat of the State and the coming of interdependence

In terms of NATO/US/EU-Russia relations, the post-Cold War era can be traced roughly from the fall of the Berlin Wall in 1989 to New Year's Eve 1999, when Boris Yeltsin handed the reins over to Vladimir Putin.

This era was characterised by a liberal approach to international relation problems, manifested by the institutionalisation of multilateralism and cooperative norms of behaviour, and the consequential emergence of a civil society (NGOs, pressure groups and other non-state/non-militant actors) associated with an important wave

³ Barry Buzan, *People, States and Fear*, p. 252.

⁴ Marcel de Haas, "Russia's Upcoming Revised Military Doctrine", 26 February 2007, *Power and Interest News Report online* http://www.pinr.com/report.php?ac=view_report&report_id=622

of democratization. At the same time, the freedom brought about by democratization has also generated claims for self-determination that is conservative in nature.

Blood-soaked separatism in the former USSR, ex-Yugoslavia (and elsewhere) pressed international organizations into action, sometimes led by a vanguard drawn from civil society. But multilateralism proved a disappointment; the momentum of traditional international relations based on states as sole legitimate actors of the international arena could not cope with the initiative of grass roots movements thirsting for decisive action. The difference between the two agendas was usually put in contrast by the uncompromising light of the media. In effect, the system tried to break away from its self-help logic, beyond the limits of the nation-state, at the very moment it sought to accommodate new sovereign members. Within this complex, Russia was living a triple alienation; the abandonment of ideology, its secession from the USSR and the partition of a territory made expansive by Catherine the Great.

In the West, freedom from the arms race enabled societies to recognize it for what it was – a folly – and attempt to reap the peace dividend. In the East, freedom from Communism initially confirmed the moral and economical bankruptcy of ideology. Both worlds could be united under the same liberal economic banner, and each could benefit from a vast degree of freedom and contestation, enabling states to escape their superpower oppressor or sponsor, and giving murderous license to groups and ethnic minorities seeking self-determination, while the international political economy and trade made a fiction of national boundaries. All this contributed to the retreat of the state as sole legitimate actor of international relations and to the elevation of various levels of multilateralism, and confirmed the validity of the common economic model.

The rise of civil society in domestic politics (the creation of new democracies worldwide), functional institutionalism and multilateralism (the presence and activities of pressure groups and non-state actors like NGOs, IOs and public figures) and the globalisation of trade (not only in terms of geographical and market interpenetration, but in terms of public participation to the global economy either by virtue of dissolving borders or ease of capital transfers) all necessitate **interdependence**, supported by transparency and openness. For Russia, this meant continuation of Mr. Gorbachev's policies.

The rise of nationalism on the other hand, while permitted by the emancipation of previously captive constituencies, is built on a notion of the state harking back to the 19th century. It calls for a cohesive relationship between a people and its government over a controlled territory, for the primacy of the nation-state over the international institutions it creates, in other words, **independence**, both from international customs and other states.

Russia had to navigate its reform against the pressures of movements of *interdependence and independence*, or what Spruyt would call conflicting inclinations oscillating between free trade and empire. While Spruyt is right to say that protectionism and mercantilist practices make no sense in an economically interdependent world, he also cites historical examples where such protectionism and preferential trade could offset the closure of markets and economic isolation.⁵ Ultimately, free market is about demand, not necessarily obedience to liberal ideology. We see now that Russia has managed to *nominally* adhere to free market rules while consolidating government power over strategic industries such as attractive natural resources. Contrary to what Spruyt would claim, a shrinking share of other markets is a secondary hindrance when ownership of desirable resources is geographically located to specialise the economy of a country.⁶ In addition, market liberalization has been socially costly in Russia. The decrease in industrial output has often been blamed on “savage capitalism”, leading Russian economists and politicians to believe that by continuing to obey World Trade Organization (WTO) membership conditions, Russia’s national production would continue declining.⁷

1999-2001 were transition years that would have signified the end of the post-Cold War era even in the absence of apocalyptic terrorism. 1999 had started on a bad note, with serious NATO/US/EU-Russia disagreements over Kosovo that continue to this day. This transition period ends with the May 2001 “meeting of minds” in Ljubljana, Slovenia, of Mr. Bush and Mr. Putin. It can be said that the democratic and market experience of Russia was already showing signs of strain, and Russia must have been already moving towards a more interventionist posture to alleviate the assaults of savage capitalism and structural imbalances.

The 9/11 era lasted a mere five year, between that fateful day, and the deaths of Aleksander Litvinenko and Anna Politkovskaya in late 2006. There is no official or scientific proof to link these murders to some sinister plot from the Kremlin, but this is hardly the point. What matters is that the principle of killing political opponents or dissenters is regaining currency in society, with all the negative consequences for the further blossoming of democracy.

Looking at this brief sketch, we can ask ourselves whether reform means the same thing to the Russians as it means to us. When Russia dumped the Soviet experience, the only alternative possible was the implementation of a neo-liberal economic model. This was vindication for a self-righteous West, and validation of a model that had manifestly bestowed material wealth to those who enjoyed it.

⁵ Spruyt, “The Breakup of the Soviet Union...”, p. 6.

⁶ *Ibid.*, p. 6.

⁷ Evgenia Bessonova, Konstantin Kozlov, Ksenia Yudaeva, “Trade Liberalization, Foreign Direct Investment, and Productivity of Russian Firms”, paper presented at the CEFIR Conference “Negotiating Russia’s WTO Accession: Strategic Lessons from Multilateral Trade Liberalization and Club Enlargement”, 1 December 2002, p.4.

The new multilateralism aims at common currencies, borderless markets, in short, a deep level of political and economic integration. Russia aimed at integrating into these structures as a way towards reform, but WTO membership being conditional to reform, Russian reform amounted mimicking Western standards.

The structural problems of Russia as it came out of the Cold War were tantamount to a war economy feeding a defence imbalance, where the social sector is neglected in favour of an inefficient military-industrial complex. Since arms manufacturing and sales occurs outside market norms, the inefficiencies and structural differences pose a major problem when transition is supposed to take place. Much has been written on this for the last 15 years, and there is no need to go back on such a central theme. The corollary problem is that the transition meant that important resources and attention would now be diverted away from a sector of society that had grown dependent upon it to the point of becoming a state within the state. The armed forces of the Russian Federation were filled with people who had high expectations for social advancement, let alone preferential treatment. The bulk of the problem would be of maintaining stability as the transition was taking place. The end of the Cold War meant that the unnecessary military posture yielded a split within society, between the civilian and the military establishments, both clamouring for their due.

It is only between 1999 and 2001, the years of transition that a clear plan emerged, from the hand of Mr. Putin. The first order of the day was to release a national strategy that showed a departure from the West-friendly posture we had become accustomed to. Second was a national plan to re-establish order in research and development, spending, and production of materiel. This was the only way to resolve the defence-integration catch-22.

According to Owen Worth, democratisation in Russia, became a way of pacifying competing conceptions of economic development within the state.⁸ Putin's Russia was grappling with the failure of Yeltsin's reforms, and calls for greater social services, endemic street manifestations, and the rise of industrial barons free from domestic market regulation. Financial clout having become political clout, even a regime like that of Vladimir Putin's, based on a portion of the armed forces of Russia, could be the prey of ever-feuding oligarchs.⁹ Mr. Putin would need to neutralize any potential opposition.¹⁰ The question can rightfully be asked, why is this necessary? Why can't fiscal and domestic legislation, coupled with electoral regulations, ensure political stability as the transition to a market economy takes place? The answer lies in the Russian's relationship with power.

⁸ Owen Worth, *Hegemony, the International Political Economy and Post-Communist Russia*, (Hants, UK: Ashgate, 2005). See also Robert Service, *A History of Modern Russia from Nicholas II to Vladimir Putin*, (Cambridge, MA: Harvard University Press, 2003), ch. 26.

⁹ See David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, (New York: PublicAffairs, 2003).

¹⁰ Stephen J. Blank, *Rosoboronekspert: Arms Sales and the Structure of Russian Defence Industry*, (Carlisle, PA: Strategic Studies Institute, November 2006), p. 8.

In view of the narrow which has always characterised Russian political thought and activity, the penalty for failure in Russian political life, at crucial moments, can very well be destruction at the hands of others.¹¹

The nature of the Russian character, his attitude to authority and to power, made all the difference in how structural reform took place. The habit of arbitrary violence, meaningless legislation (because it only had a rhetorical value) meant that the rule of law could take hold with great difficulty, and thus provided a form of pernicious continuity in Russian politics. The growing discredit of interdependence as a means to bolster productive performance, Russia's frustrated WTO membership application became decisive in its economic development thinking; it would develop the economy *internally*, but efforts to integrate comprehensively with the rest of the world would proceed cautiously if not reluctantly.

2. Permitting Neo-Mercantilism: The Postulate of Failing International Norms in the 9/11 Era

The 9/11 era became witness to the disintegration of constructivist, regime-based international relations. It reintroduced power as the principal standard of communication between states. For example, should Islamic radicals and insurgents be afforded the protection of the Geneva Conventions? The U.S. Government answers in the negative, and illustrations of the consequences are tangible from Guantanamo to Abu Ghraib, by way of secret prisons in Eastern Europe. More generally, should NATO's article 5 be invoked to pursue the Global War on Terror (GWOT)? When Washington opted for a coalition it could control rather than the more powerful, but limiting North Atlantic Alliance, it reduced the appeal of formal multilateralism in exchange for muscular unilateralism, the very feature that is so dangerous to international relations, and against which intricate multilateralism was supposed to guard.

Another case in point is the abrogation of the ABM Treaty in December 2002 by the Bush Administration. This move is doubtfully related to the GWOT, but it participates to the general disintegration of the Cold War structure of agreements that helped maintain peace. The point here is that it is not because the Cold War is over that we can discard the tools that enabled us to avoid a hot war.

Elsewhere in the world, the EU is manifesting "integration fatigue". The failure to adopt an EU Constitution in October 2004 is symptomatic of a trend where member countries try to preserve as much of their sovereign autonomy as possible. It is therefore not surprising to see Russia impose a moratorium on the Conventional

¹¹ George F. Kennan, *Russia and the West under Lenin and Stalin*, (Boston: Little-Brown, 1961), p. 4.

Forces in Europe agreement.¹² Defection from the CFE Treaty can be linked directly to the deployment of ABM systems in Poland and the Czech Republic, two countries whose policies remain vigilant towards Russia, for historical reasons.

Crumbling international legal norms and regimes created a permissive atmosphere for the continued disintegration of these norms. Norms and rules mean interdependence. It would be difficult for Russia to withdraw from the CFE Treaty if the ABM Treaty were still in force. Instead self-help *is the new norm*. The more norms disintegrate, the more the state needs to step in the vacuum to adopt measures to preserve or increase its security. As John Mearsheimer once anticipated, we are back to the future.¹³

Great Russian revival is indeed unthinkable in a climate where the state (any state) is held hostage to rules of behaviour; in a sense, many readers may think that Russia's application to WTO membership contradicts the claim we've been making, but this is far from the case. The behaviour and decisions of the Russian government in the sphere of economic, commercial and defence policy is generating protectionist and preferential policies at odds with globalism. Western policies have resulted in Russian "forced non-integration" into the global financial and economic system. A corporatist/statist demeanour, associated with mercantilist leanings is therefore an efficient way to reconcile the need for domestic economic development and the public's taste for national revival. In Russia, the cautious economic development seems to be a consequence of leaders' fear of the political autonomy this could bring to the beneficiaries of growth, and the limitations on the powers of local governors. This explains why the regions lag so far behind, and why the best laid plans are only slowly implemented.¹⁴

3. Russian hegemony and Euro-Atlantic security: The return of the State and the coming of independence

It is historical continuity and the habits of leadership that are most to blame for the lack of reform in Russia. The constant fear of further social and territorial collapse required a reconciliation of interests based on political and coercive strength.

Mr. Gorbachev and Mr. Yeltsin tried to hammer the Stalinist coffin shut, they could only do so using increasing authoritarianism, much like the Bolsheviks of old found themselves replicating, not revolutionizing, the methods of the Tsarist regime. Mr.

¹² "Russia Proclaims Moratorium on CFE Treaty", *Kommersant*, 23/05/2007, www.kommersant.com

¹³ John J. Mearsheimer. "Back to the future: instability in Europe after the Cold War", in *International Security*, 15:1, Summer 1990, pp. 5-56.

¹⁴ See Thomas Rutherford and David Tarr, "Regional Impacts of Russia's Accession to the WTO", www.worldbank.org, 23 June 2007, for an assessment of the growth potential under WTO participation. <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:20273889~menuPK:207652~pagePK:148956~piPK:216618~theSitePK:239071,00.html>

Putin, acknowledging the nostalgia and plight of both the military and certain sectors of society, shaped an image of Russia based on resurgence and independence. He did so by reviving a number of important Soviet-era symbols, such as the melody of the national anthem, a relativist stance on the Soviet past, and frequent references to familiar themes and terminology.¹⁵

Mr. Putin's achievements in the economic and military sphere are nothing short of astounding, a mere ten years after the economic crash, but it comes at a cost. The Russian economy has become mercantilist. The barons of industry now work hand in hand to supply the central authorities with the revenue they need to ensure the basic minimum in terms of social services. Should adversarial relations with Russia were to become the norm with the Euro-Atlantic world, Russia's position would only strengthen as the gap in interests increased between the two, and as Russia takes advantage of the fragmentation in the market.¹⁶ An analysis of some indicators supporting this hypothesis can be found below.

Mercantilism revisited: Indicators

"The winding down of the Cold War strengthens the predominance of welfare over warfare motives for economic nationalism, a development particularly to be welcomed in the Soviet Union..."¹⁷ This presumes that the Russian government exists for the welfare of the constituency, and not the other way around. However, post-Cold War examples of cavalier disregard for the welfare of the citizens speak legions about the kind of relationship existing between the Russian people and those who represent them; the manner in which the Nord-Ost and Beslan hostage (and other lesser known) crises were managed, Mr. Putin's attitude towards the Kursk disaster, speak volumes of the value of a human life, versus the value of power and order in Russian life.

According to Jacques Nagels, the application of a neo-liberal economic model (the way Mr. Yeltsin tried to impose it) was tantamount to propelling Russia into the Third World. Dr. Nagels and others (Marie Lavigne) saw that there had to be an alternative to avoid any further societal implosion. There has to be a mix of public and private, or rather, public-towards-private especially in the provision of social services of education and health care. The population would never tolerate encroachments on these privileges. Condemning the "too many cooks" of the Yeltsin

¹⁵ CSPAN, 28 April 2007: Final "State of the Union Address" by the President of Russia, Mr. Vladimir Putin. Use of 5-year increments for economic developments, copious use of self-congratulatory statistics, and sheepish (if not staged) applause from the audience are reminiscent of Soviet days.

¹⁶ An example of fragmentation would be the current imbalance in energy production and consumption in Europe, or foreign direct investment oriented towards civilian consumption in Russia, enabling the state to establish its control over strategic resources essential to the wielding of traditional state power; the mere demand of energy in Europe and the demand for armaments by countries that the United States or its allies will not sell to is sufficiently strong to blind purchasing nations to the realities of the power shift in international relations.

¹⁷ Barry Buzan, *People, States and Fear*, 2nd ed., (Boulder CO: Lynne-Rienner, 1992), p. 261.

era, Nagels called for a “strong government”.¹⁸ A strong, centralised, “hard-boiled” authority would ground its legitimacy in force more than in parliamentary legitimacy; that is the Russian way. State intervention in the economy will marry itself to private sector reform of existing industries. Mr. Putin’s approach to leading Russia would be one of pragmatic rationalisation in domestic and foreign policy.

The strong links between Russian captains of industry and the central government have been investigated elsewhere.¹⁹ Mr. Putin has coerced many of them into submission (the case of Mr. Berezovsky and Khodorkovsky come to mind), and has co-opted a great many others, among which Aleksei Miller, now leading GazProm. This link ensured unity of command of the economy, without divorcing it from the market. This has led to the “majority Russian ownership norm”, meaning that Russia still needs foreign capital, and is willing to share in the dividends, but not to the expense of control. This tendency has manifested itself in the oil and gas sector, but is more common in the manufacturing and retail sales sector.²⁰ An interview published in France’s *Diplomatie* concurs; many regional economic development projects take place with the help of foreign countries, but conflict owes to the tensions between oil well owners, but the population at large is not interested in issues of control.²¹ But in strategic sectors, “the regime’s overall preference for putatively autarchic development, inhibit the growth of foreign contract and sales.”²²

Controlling natural resource exploitation

Natural resources have, without a doubt, taken centre stage in the modern state’s preoccupations. As Michael T. Klare writes, energy security for importers means security of distribution, whereas energy security for the owners of resources mean territorial security.²³ This is why we have to disagree with Spruyt when he suggests that control of the Russian near-abroad is “far less crucial than in earlier eras.”²⁴ Writing in the post-Cold War era, this may have made sense, but in the post-9/11 era, \$4 trillion dollars worth of reserves locked up in the Caspian Sea basin tell a different story.²⁵ Some of the more recent activity in this sector of the Russian economy should serve as a convincing indicator.

¹⁸ Jacques Nagels, *La tiers-mondisation de l’ex-URSS?* (Brussels : Éditions de l’Université de Bruxelles, 1992), p. 186-187.

¹⁹ David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, (New York: PublicAffairs, 2003).

²⁰ Evguenia Bessonova, Konstantin Kozlov and Ksenia Yudaeva, “Trade Liberalization, Foreign Direct Investment, and Productivity of Russian Firms”, 1 December 2002, paper presented for the CEFIR Conference “Negotiating Russia’s WTO Accession: Strategic Lessons from Multilateral Trade Liberalization and Club Enlargement”, <http://www.nes.ru/english/about/10th-Anniversary/papers-pdf/Yudaeva.pdf>, pp. 4-5, what the authors call the “demonstration effect” requires penetration of the domestic market by foreign firms, thereby enabling domestic production to become more competitive and responsive to the domestic and global markets.

²¹ Sophie Clairet, “La Recherche russe pour un Développement harmonieux”, *Diplomatie*, #26, June-Juillet 2007, p. 45.

²² Stephen J. Blank, *Rosoboroneksport...* p. 31. See also Yudaeva *et al*, “Trade Liberalization, Foreign Direct Investment, and Productivity of Russian Firms”, p. 16.

²³ Michael T. Klare, *Resource Wars*, (NY: Metropolitan Books), pp. 34-35.

²⁴ Spruyt, “The Breakup of the Soviet Union...”, p. 14.

²⁵ Klare, *op. cit.*, p. 35. Those estimates are from the U.S. Department of Energy and date back to 1997. With a threefold increase of the price of the barrel, the value of the resources there could reach up to \$12 trillion.

In March 2007, a joint venture between British Petroleum (TNK-BP) and Russian investors in the development of Siberian gas fields became threatened when the output failed to reach expected levels stipulated in the license agreement. The project had been in development to supply the Russian domestic market, and transported by GazProm's network. But since the transportation schedule and the consumption rhythms are out of the consortium's hands, it is difficult for TNK-BP's Russia Petroleum and its Russian partners to increase production up to the level stipulated in the license agreement. Therefore, a cause for revoking BP's license has emerged, enabling other actors (such as GazProm) to gain interest in the venture and buy it out.

While BP's subsidiary companies in Russia have argued that the output could be directed towards the Asian market, Russian authorities, GazProm in the lead, have said that it is the output of the *Sakhalin II* fields, another venture recently seized by Russian interests, that would go to the Asian market instead.²⁶ GazProm has acquired control of Sakhalin II after two years of protracted pressure on Dutch Shell, Mitsui and Mitsubishi, for majority control of the largest combined oil and gas field in the world. Every shareholder's participation has dropped by 50%, enabling Gazprom to take over 50% of the shares therein plus one vote, amid accusations by the Russian natural resources ministry that the project had damaged the environment for an estimated cost of 5 billion USD.²⁷

The acquisition spree does not end there. GazProm has also manifested interest in buying the Sakhalin I project's total gas production. While RosNeft, a subsidiary of GazProm, only has a minority stake in that project, this would nevertheless mean that Russia's GazProm gas network and the strong links between the Kremlin and that company could decide where the totality of the production from Sakhalin I goes, strengthening Moscow's capability of extracting political concessions for energy, or dictating world prices. ExxonMobil and its subsidiary, ExxonNeftegaz operate the deepest extended-reach drilling well in the world at 7 miles (11.3 km).²⁸ It is unclear if GazProm will seek majority shareholding in the Sakhalin I project also. In late June 2007, it was reported that GazProm had, after long last, acquired a 50% share in Beltransgaz, the Belarusian company, giving it substantial control over the fate of the

²⁶ "Russian agencies at odds on East Siberian Gas Plan", *Alexander's Oil and Gas Connections*, 12:8, 24 April 2007 (source: MosNews), accessed 4 June 2007 at http://www.gasandoil.com/goc/frame_cnr_company.htm. A similar strategy was used to deny Franco-Belgian group Total stakes in the Kharyanginskoi reserves. See Emmanuel Grynszpan, "La Russie ne porte pas chance à Total", *Le Courrier de Russie*, 4 June 2007, <http://www.lecourrierderussie.ru/fr/magazine/?artId=1918>

²⁷ "Shell and Gazprom close books on Sakhalin-II feud", (source: Moscow Times) and "Gazprom lands in Sakhalin-II", *Alexander's Oil and Gas Connections*, 12:9, May 10 2007, accessed 4 June 2007 at http://www.gasandoil.com/goc/frame_cnr_company.htm (source: Kommersant)

²⁸ "ExxonMobil announces drilling of world-record well on Sakhalin Island", and "Gazprom eyes exclusive purchase of Sakhalin-I gas", *Alexander's Oil and Gas Connections*, 12:10, May 31 2007, accessed 4 June 2007 at http://www.gasandoil.com/goc/frame_cnr_company.htm

Belarusian pipelines, owing to the fact that Belarusian president Lukashenko was supported directly by GazProm as far back as 1994.²⁹ LukOil, the largest independent oil and gas producer in Russia, wants to be number 2 in the world of gas production only to GazProm, and plans on doing this by exploiting fields in Uzbekistan, while a similar deal between Chinese refining company Sinopec and the Uzbek government has recently fallen apart. LukOil is independently owned and operated, and was allowed to live in part because it offered the model of vertical management that enabled the restructuring of large behemoths like Gazprom in the first place, and also because it helped bring down Mikhail Khodorkovsky's Yukos empire.³⁰ Subsidiary companies and independent actors such as LukOil are sometimes used as proxies to fuel speculation, or to use its capital to complete the dismantlement of Yukos.³¹

Contrary to what Spruyt believes, the importance for Russia of controlling the near-abroad for Russia is vital, there is no denying that the political courtship of both the West and Russia is taking place in that region within the framework of oil and gas delivery security.³² To supplement domestic sources, Russia is also looking at off-shore reserves.³³ What I have outlined here is but a sample of what has happened since the beginning of 2007, a manifest intention of consolidating control over the extraction, production and transfer of oil and gas in Russia towards external markets. There have been some signs that major powers are raising concerns about Russian behaviour, but the weakness of the pronouncements only goes to show that attention is firmly focused on troubles in the Middle East, or that the pronouncements are coming too late; at a moment when U.S. power is declining faster than Russia's is rising.³⁴

The rise in the price of oil and gas has helped the central authorities in financing the Russian recovery. It has centralized revenue and essentially by-passed freedom of the market; essentially, Russian oil and gas workers are *de facto* state employees. Their performance ensures a steady stream of revenue to the state that helps pay their salaries and fund hitherto lacking social programs in health, education and pension. This is essential in view of the fact that the degree of poverty of the average Russian prevents efficient taxation. Therefore, alternative sources of revenue must fill this gap, and also generate domestic production.

²⁹ "Gazprom Signs Agreement to Purchase Part of Beltransgaz", *Alexander's Oil and Gas Connections*, 12:12, June 29 2007, <http://www.gasandoil.com/goc/history/welcome.html>

³⁰ Daniel E. Hoffman, *The Oligarchs*, pp. 299-318.

³¹ "Independent Russian gas producer Novatek in cooperation with Gazprom", *Alexander's Oil and Gas Connections*, 12:9, May 10 2007, (source: Sergei Blagov, Eurasia Daily Monitor), accessed 4 June 2007 at 12:9, May 10 2007, accessed 4 June 2007 at http://www.gasandoil.com/goc/frame_cnr_company.htm.

³² "Kazakhstan and Russia to By-pass BTC Pipeline", and "Russia, Turkmen and Kazakh Leaders Agree on Caspian Pipeline", *Alexander's Oil and Gas Connections*, 12:11, June 14 2007, <http://www.gasandoil.com/goc/history/welcome.html>

³³ "Russian Companies Start Gas Exploration in Myanmar", *Alexander's Oil and Gas Connections*, 12:11, June 14 2007, and "Russia and Venezuela to Cooperate in Gas Industry Development", *Alexander's Oil and Gas Connections*, 12:12, June 29 2007 <http://www.gasandoil.com/goc/history/welcome.html>

³⁴ "Russians Can't Shut Doors on Foreign Partners", *Alexander's Oil and Gas Connections*, 12:15, 21 August 2007, http://www.gasandoil.com/goc/frame_ntr_news.htm

Consolidating the military-industrial complex

As stated above, the other important industry in Russia is arms manufacturing. There too, a consolidation aimed at exportation has occurred, enabling lacklustre industries to rejuvenate or otherwise survive. In 2000, President Putin created by decree Rosoboronexport, a governmental firm acting as a clearinghouse for Russian arms manufacturers.³⁵ Headed since 2004 by a close Putin ally (from German Democratic Republic days), Sergei Chermov. Rosoboronexport's director general has further defence industry consolidation plans, uniting explosive producers in Russia under its aegis³⁶, this, after it had already acquired majority stakes in civilian car and titanium producing companies.³⁷ As Nocetti explains, Rosoboronexport is removing the market potential (and the risk of corresponding foreign ownership) of hitherto private firms by gaining majority shares in famed design bureaux such as Mikoyan, Sukhoi and others. In effect, it is becoming the GazProm of the defence industry. By purchasing factories producing dual-use vehicles, it is enlarging the public manufacturing sector. Just as in the case of GazProm, Rosneft and Transneft, people working for AvtoVaz, for example, are becoming state employees.³⁸

In addition to the trade in commodities, Russia now benefits from a large share of what used to be American and European market for arms transfers, and this can be possible only in the post-Cold War world, where ideology doesn't automatically determine producer and consumer of such goods.³⁹ To make matters worse, the United States' penchant for extraterritorial legislation compounds Russian arms transfers into rogue regions, or in markets where U.S. and European producers used to predominate.⁴⁰

Because the arms industry in Russia is the direct inheritor of a structure supporting a (former) socialist country in a permanent state of war, hitherto neglected manufactures and factories sprinkled all over the territory are finding a new lease on life under the leadership of Rosoboronexport, but also the foreign demand for Russian arms is indirectly triggering local revenue fallouts. At an annual average of 6

³⁵ Presidential decree #1834, 4 Nov. 2000, accessed at http://www.roe.ru/roe_ru/predpr/predpr_plus/predpr_1_1.html

³⁶ "Rosoboronexport to Unite Explosives Producers", *Kommersant*, 25 May 2007, accessed 4 June 2007

http://www.kommersant.com/p768572/r_529/Rosoboronexport_Explosives_Ammunition/

³⁷ Julien Nocetti, « Rosoboronexport cherche de nouveaux marchés », *Le Courrier de Russie*, 4 June 2007,

<http://www.lecourrierderussie.ru/fr/magazine/?artId=2144>

³⁸ Blank, *Rosoboroneksport*, p. 10.

³⁹ Stephen J. Blank, "Russian Proliferation in the Middle East and its Strategic Implications", in *Defence Studies*, 1:3, Autumn 2001, p. 50.

⁴⁰ For example, whereas the International Trade in Armaments Regulations (ITARs) from the State Department aim at avoiding American weapons turning against America, or otherwise affecting regional balances to the detriment of regional interests, Rosoboronexport has exactly the opposite mandate; to fill the vacuum left by American non-involvement in the markets of rogue regions.

billion USD⁴¹, Rosoboronexport is not only a clearinghouse for the defence industry market, it also acts as distributor of wealth for many medium-sized cities away from Moscow and St. Petersburg. For the next 8 years, 55% of government armament program funds will be spent on new items, according to Stephen Blank, making the Russian state an important client of Rosoboronexport, but also using the budding military industrial complex and arms purchases as an indirect method of injecting funds in society as opposed to welfare programs.⁴²

Russian arms transfers have increased in value, and have triggered revenue for the state, and the transfers in question focus mainly on Asia, the Middle East and the CIS. According to SIPRI, Russia has totalled 46.8 billion USD (1990 prices) in transfers between 1995 and 2005.⁴³ Between the all-time low hit in 1998 at 2 billion USD, and 1999, at the end of which Mr. Putin became President, arms transfers nearly doubled to 3.8 billion⁴⁴, no doubt helped by sales to Iran, in defiance of the Gore-Chernomyrdin accord reached in 1995, whereby Russia would not sell technology or weaponry to Iran after 31 December 1999.⁴⁵ Ever since then, transfers have steadily risen to an average of 6 billion USD.⁴⁶ China and India have been Russia's principal clients in 2006, followed closely by Algeria.

Although analysts such as Stephen Blank doubt the economic efficiency and business wisdom of the vast degree of consolidation of the former Soviet arms industry under the President (through Rosoboronexport), the results of the MAKS-2007 air show held near Moscow in August 2007 paint a different story. If revenue from weapon sales have peaked around \$5-6 billion dollars, MAKS-2007 is said to have generated \$400 million in military-technical cooperation contracts (whereby foreign know-how is allowed to pollinate Russian industry).⁴⁷ Such contract link limited participation foreign participants (or subsidiary companies) with Russian design bureaux in such a manner to attract R&D and foreign competence without, evidently, relinquishing Russian control of projects. Furthermore, other reports hint that MAKS-2007 was the most successful sales outlet ever for Russian weapons; the value of sales is approaching \$3 billion. Although this is still a paltry sum in comparison to the sales

⁴¹ Konstantin Makienko, Dmitri Vasiliev, "Russia on the Arms Market 2006", in *Moscow Defence Brief*, 2:8, 2007, <http://mdb.cast.ru/mdb/2-2007/item3/item1/>. This figure is an average from the projected 2007 figures and the 2006 results. Note the optimism of the authors for orders totalling up to 30 billion USD in the coming years.

⁴² Blank, *Rosoboroneksport*, p. 34. This is a replication of an oft-used method in America of injecting funds in areas at risk of unemployment. Although Blank casts an important doubt on this assertion by claiming on p. 47 "only 10-20 parent factories of the approximately 1700 defense plants ever received actual export orders from *Rosoboroneksport*." I think it is evident that Russia's opaque actuarial practices are to blame here, by Blank's own admission.

⁴³ SIPRI Arms Transfer Database (3 March 2006) Trend indicator Value of Russian Arms Transfers 1995-2005 accessed at <http://www.sipri.org/contents/armstrad/access.html#rus>

⁴⁴ *Ibid.*

⁴⁵ Stephen J. Blank, "Russian Proliferation in the Middle East...", pp. 37-43.

⁴⁶ SIPRI Arms Transfer Database (3 March 2006) Trend indicator Value of Russian Arms Transfers 1995-2005 accessed at <http://www.sipri.org/contents/armstrad/access.html#rus>

⁴⁷ "\$400 million worth of military-technical cooperation contracts inked at MAKS-2007", *Interfax*, 23/08/2007, www.interfax.ru

generated by Europe and the United States, the point is that this represents a threefold increase from earlier years.⁴⁸

Debt payment as freedom from commitments and conditions

There are other trends that may help reveal how Russia managed to turn things around in less than ten years. For example, Russia is the only country to exchange arms for debt. In other words, it is paying off the bilateral debt by transferring armaments as currency.⁴⁹ Russia used arms transfer to settle debt claims owed to Afghanistan, Austria, China, the Czech Republic, Finland, Hungary, Kazakhstan, Slovakia and South Korea in the amount of more than 1.422 billion USD since 1995.⁵⁰ The need to service bilateral debt is not only a matter of common sense after the catastrophic devaluation of the Ruble in 1997; it is also a matter of nationalistic philosophy. The Ruble devaluation meant that Russia was unable to supply the domestic demand with foreign goods, which meant that less expensive domestic production had to answer that demand. Many experts credit this catastrophe for the rapid turnaround in the Russian economy, because it stimulated a national sentiment of self-sufficiency that is echoed in the desire to be independent of creditors at the central level. In other words, Russia fears the ill-effects of interdependence, and cutting free from obligations by trading arms for debt is an expeditious and lucrative way of doing this (remember that hi-tech weaponry is usually high-maintenance, has a low shelf life, and it is in Rosoboronexport's mission statement to provide turnkey products, maintenance and training expertise).

This desire to break free from the shackles of debt has also manifested itself at the multilateral level. Before oil and gas prices started their ascension, Russia negotiated a 34.5% debt forgiveness package which included 21 billion USD in new Eurobonds, yet Mr. Putin and Prime Minister Kasyanov pressed for a full 50% debt reduction in early 2000.⁵¹ In May 2005, Russia offered to prepay 15 billion USD of its debt to Club of Paris creditors, bringing by then the total amount to some 40 billion USD. Such moves demonstrate Russia's desire to shield itself from inflationary pressures and to continue distancing itself from its major creditors.⁵² The country to whom Russia owes most is its former enemy, Germany, at some 20 billion USD.⁵³ On the 50th anniversary of the Paris Club, in August 2006, Russia paid back the totality of its debt to Club creditors, in fulfillment of its "national interest".⁵⁴ This means that Russia is

⁴⁸ Jim Heintz, "Moscow Airshow Brings \$3 billion in Deals", The North Carolina State, 26/08/2007, www.thestate.com

⁴⁹ SIPRI Yearbook 2006 (online): Transfers and licensed production of major conventional weapons: Exports by suppliers. Deals with deliveries or orders made 1995-2005, www.sipri.org

⁵⁰ *Ibid.*

⁵¹ John P. Hardt, *Russia's Paris Club Debt: U.S. Interests*, CRS Report for Congress #RS20636, 10 July 2000.

⁵² "Club de Paris accepts offer of Russia to pre-pay US\$ 15bn of its debt", Press Release of May 13, 2005, accessed at <http://www.clubdeparis.org/sections/services/communiqués/remboursement-anticipe>

⁵³ Hardt, *op. cit.*

⁵⁴ Dr. Sergei Storchak, *Russia's Role in Evolution of Paris Club* (sic), speech on the occasion of the Paris Club's 50th anniversary, accessed 4 June 2007, at http://www.clubdeparis.org/cdp/sections/50-ans/discours_storchak_angla/downloadFile/file/discours_storchak_anglais.pdf?nocache=1170431653.93, p. 2.

free from multilateral obligations, and has only debts of commercial and financial nature to non-state creditors (private banks) and of a bilateral nature. Russia's renewed might can therefore be applied in the service of these debts on a case-by-case basis.

Russia is being a good bilateral creditor as well; it recently reimbursed Portugal the sum of \$83.6 million ahead of time.⁵⁵ In another instance, it is Russia who has forgiven a debt to Syria in exchange for exclusivity in selling that country weapons.⁵⁶

Applicable capability: Human resources and military potential

Inefficient management of the military industrial complex, hasty payment of debt, increased defence spending, all against the temporary boon of oil and gas revenue must have a detrimental effect on ordinary Russians. Yet, the statistics available paint a different story. Looking at data depicting individual development since Mr. Putin came to power shows that the average Russian has never lived better.

Demographics

If World Bank estimates show that life expectancy remains low compared to Western countries, this has a structural advantage; men and women live on average 65 years. People live out their useful lives, pay their taxes, and represent a lesser burden to the state. At the same time, there has been a demographic freefall, which represents a clear loss of taxpayers (the demographic deficit represents the loss of 600 000 Russians to death or emigration), but it also means the departure of dissenters. One of the major mistakes made by the totalitarians of the past was to seek to prevent those who knew too much from going out, and foreigners from coming in.

Today, Russians are emigrating, but they are also investing abroad. They have access to our markets, but they ferociously protect theirs, especially when it comes to trade in minerals, energy and metals. Foreign companies who establish factories in Russia, like IKEA, are welcome, as they tend to generate employment that is taxable, but this state income remains negligible in the sense that it cannot be used politically, like the strategic sector can.

In a context where local prices are steadily decreasing, there is a danger that the Russians will begin to expect more. Therefore the resurgence of strong-arm tactics in domestic politics is designed to curb any enthusiasm for manifestations. The process of interdependence has stalled in favour of government independence, but has still generated some benefits for the average Russian. This phenomenon and anti-

⁵⁵ "Russia repays \$83.6 million to Portugal ahead of time", *Interfax*, 23 August 2007, www.interfax.ru

⁵⁶ Blank, *Rosoboroneksport...* p. 71.

demonstration laws have the added effect of preventing strikes in the “public-private” sector of energy and mineral resource extraction, and armaments production which are vital to the Russian economy.

Table 1: Some social indicators from the World Bank

Indicators	2001	2002	2003	2004	2005
Cash surplus/Deficit	N/A	7	2	5	10
CO ₂ emissions (metric ton/capita)	10	10	10	N/A	N/A
Electric energy consumption (Kwh/cap.)	5275	5305	5480	5642	N/A
Hydrocarbon use (Kg of oil/ capita)	4257	4252	4424	4460	N/A
GDP in billion USD	306.6	345.5	431.5	589	763.7
GDP growth in annual %	5	5	7	7	6
GNI per capita in USD (national income)	1780	2100	2590	3410	4460
GNI in billion USD	259.6	305.8	374.5	490.6	638.1
Inflation in %	16	16	14	20	20
Internet users /1000	29	41	83	129	152
Life expectancy (M+W average)	65	65	65	65	65
Military expenditure as % of GDP	4	4	4	4	4
Personal computers /1000	75	89	90	104	122
Workers' compensation and remittance (billion USD)	140.3	135.9	145.3	266.8	311.7

The relative improvement in living standards has been a catalyst for nationalist revival. Whereas the USSR was a threat because of the internationalist character of the revolution that created it, today’s Russia is menacing because of nationalistic statism. In comparison with the former threat, the latter is much more potent because it stems from the grass roots. It can be manipulated by political elite, but its emergence is certainly due to a complex mix of pride and humiliation. Nationalism is a better social glue than communism could ever hope to be; everyone in society can be meaningfully made to participate to nationalistic revival especially through the concentration of industry and economic resources under a powerful president. Social input into economic, social and nationalistic development is likely to be much more effective because the goal for which people work – national or great power revival – is more tangible, realistic and easier to grasp intellectually. It can be argued that the failure of communism is owed not only to its ludicrous philosophical basis, but to the absence of material improvements. Indeed, how does one “know” that producing item X in a collective factory brings society closer to emancipation? Compared to the display of an efficient, gleaming, roaring fighter squadron at an air show, or of an assertive foreign policy aimed at ever-enlarging alliances in the media, is a sign of self-assurance that is visible not only to the outside world, but to the domestic audience also.

Much of Russia’s economic recovery and stability has been associated with order understood as centralized decision and policy-making. This centralization has occurred at the expense of what is fashionable to call the “oligarchs” whose

obedience to capitalist principles can be credited for economic rejuvenation as well as the increased gap between rich and poor (and urban centres and regions).

The public has become vociferously critical of the way in which certain oligarchs profited from their positions to become billionaires. Undermining media baron Vladimir Gusinsky and Yukos' Mikhail Khodorkovsky generated a double effect. On the one hand, it purged potential rivals to Mr. Putin's power. On the other, it soothed the public's notion that oligarchs should and could be held to some sort of account for the way in which their fortunes were made, and for the way in which privatization was managed under Yeltsin.⁵⁷ Although some may fear for a reversal of privatization, the immediate benefits of sacrificing a few captains of industry is that it creates societal and political advantages for the powers that be.

It is such demonstration of power that the Russian public had been accustomed to when the Soviet Union was feared and respected. To a very great extent, those who remain in Russia are inhabited by a strong nationalistic streak, and commentators are quick to dismiss recent sabre-rattling as anything else than playing the nationalistic card. It is almost as if public impatience was directed at outside sources rather than domestic leaders. This creates a permissive domestic condition for the application of coercive capabilities.⁵⁸ For example, one is hard-pressed to detect any criticism of alleged Georgian airspace violations in the Russian press. Insofar as this behaviour is welcomed by those who would seek to balance against American unilateralism, this policy can find proponents even in Russian adversaries.

Civil-military relations

Much of the reform efforts undertaken since the arrival of Mr. Putin have focused on doctrinal direction. Since force structure and spending derives from doctrinal pronouncements, his ability to press for and receive national security concepts and military strategies reflecting the true global distribution of power is an achievement in itself, for this was the exclusive purview of the military up to Yeltsin's days.

According to Dale Herspring, Mr. Putin bureaucratic leadership style can be credited for what little reform there has been. By pushing what moves, making small, incremental (and nearly painless) changes, he has been able to reassure the military that a "revolution" was not in the offing,⁵⁹ but also to develop a new role for the military. The Stockholm International Peace Research Institute claims that

⁵⁷ James Millar, "Putin and the Economy", in Dale R. Herspring, ed., *Putin's Russia: Past Imperfect, Future Uncertain*, 2nd ed. (NY: Rowman & Littlefield, 2005), p. 133.

⁵⁸ The resurgence and reinterpretation of the relationship between soldier and state in post-Communist filmography is a telling indicator. See David Gillespie, "Defence of the Realm: The 'New' Russian Patriotism on Screen", *The Journal of Power Institutions In Post-Soviet Societies*, Pipss.org : Issue 3 - 2005 - The Military and Society in Post-Soviet Russia <http://www.pipss.org/document369.html>

⁵⁹ Dale R. Herspring, *The Kremlin and the High Command*, (Lawrence, KS: University of Kansas Press, 2005), p. 155.

A factor that has aided the upward trend in military expenditure is the high and rising world market prices of minerals and fossil fuels. This is reflected especially in Algeria, Azerbaijan, Russia and Saudi Arabia, where increased proceeds from oil and gas exploitation have boosted government revenues and freed up funds for military spending.⁶⁰

Does this bear out for Russia? In other words, has the rise in commodity prices helped it maintain a high defence spending level, or better yet, increase its level after Mr. Yeltsin's departure? A study done for the Baltic Defence Review reveals Russian military reforms undertaken between 1992 and 2000 aimed mostly at cuts in expenditure and structure as a way of saving money. Real reform, the kind of reform that signifies integration into international society, was never pressed. Efforts by post-Soviet officers at maintaining defence spending to high levels were sustained and usually successful. In 1997, the economic crisis suffered by Russia signified the only real drop in defence spending as percentage of GDP, from the near 6% high of 1994, justified by the Chechen conflict. After 1997, as GDP steadily dropped, defence spending resumed its ascension. No matter how much the state saved from defence, it could only reinvest it to stave off social unrest. Robbing Peter to pay Paul could not endure very long. The 1997 economic crisis worsened the prospects for military reform, because the Russian defence ministry had hitherto insisted on maintaining a fixed 5.5% of GDP defence spending. When the currency crisis hit, keeping these promises threatened domestic instability. Linking defence spending to such a high percentage of GDP made military reform (or development) contingent on economic reform.⁶¹

Since 2000, the most recent data available from SIPRI reveals that the average spending on defence in Russia has never increased more than 0.9% per year in real terms. As a percentage of GDP, the data for 2005 stood at 3.7%⁶², at the same level as 2000, although it had peaked as high as 4.3% in 2002 and 2003.⁶³ In other words, Russia is spending more on its military, but it represents an ever decreasing percentage of the GDP, which leaves room for the notion that oil and gas revenue are indeed funnelled towards military maintenance (although there is no direct evidence of that). However, the rate of increase is far below the annual 19.6% inflation rate tabulated by the World Bank.⁶⁴ It is therefore difficult to say with certainty how much more capability less than a 1% budget increase annually will bring in real terms to the Russian Federation. The Ministry of Defence has been trying to make up for years

⁶⁰ SIPRI: Recent Trends in Military Expenditures, accessed at http://www.sipri.org/contents/milap/milex/mex_trends.html 4 June 2007.

⁶¹ Frederic Labarre, "Russian Military Reform" in *Baltic Defence Review*, #5, 2001, p. 62.

⁶² Russian Federation Data Profile, accessed at <http://devdata.worldbank.org/external/CPProfile.asp?PTYPE=CP&CCODE=RUS> on 4 June 2007.

⁶³ SIPRI Military Expenditure Database 1988-2005 (Russia) accessed at http://first.sipri.org/non_first/milex.php on 4 June 2007.

⁶⁴ World Bank : Russian Federation Data Profile (2005), accessed at <http://devdata.worldbank.org/external/CPProfile.asp?PTYPE=CP&CCODE=RUS> Between 2000 and 2005, inflation has dropped some 50%.

of under-procurement by allocating funding increases averaging 24% per year until 2010 to produce 400 items of equipment.⁶⁵ Stephen Blank quotes Russian officials saying that by 2015, "Moscow hopes to be spending 4.939 trillion rubles (or \$185 billion) annually on defense."⁶⁶

The cautious increase in defence expenditure is a feature of internal Russian politics and the complex of civil-military relations in Russia itself. In a 1982 book, dissident Viktor Suvorov claimed that Western attempts at evaluating the degree of civilian or political control over the military through bureaucratic analysis (and other methods) was null and void. The pattern, he said, was one of a bureaucratic triumvirate, a sort of three-legged throne, with one leg being the internal security services (the KGB, now FSB), another the armed forces, and the last being the political elite.⁶⁷ The vital aim of whoever is sitting on the throne is to maintain balance between the strength of the three legs, lest one of them breaks toppling (literally) the leader.

Recently, the Russian government has granted generous salary increases to General Staff military members in Moscow's vicinity.⁶⁸ This actually creates a class within a class, loyal to and dependent on the political regime. The abandonment of ideology has had the effect of greatly enhancing the independence of the military, since the Soviet method of "control" by political officers, designed to avoid usurpation of power by the military⁶⁹, dissolved after 1991. This independence is checked by ensuring that loyalties are to those who hold the purse strings, not the guns.⁷⁰ The structural capability of the Russian armed forces is being affected by the depletion in recruiting. From the 2.7 million man army the USSR once held, numbers have been reduced to 1.3 million in 2001, and are still coming down.⁷¹ In addition, procurement of weaponry for the armed forces depends only on bureaucratic harmony between the MOD and the financial health of Rosoboronexport, which was instructed to *give* weapons to the Russian military. There is factual control of the military through Rosoboronexport due to the fact that it has no interest in simply giving the hardware away. On the other hand, it prevents the armed forces from accumulating too much structural power and autonomy.⁷²

At the very same time, the place of the Soviet military within society has dramatically changed. There has been a sort of social dislocation taking place after the break-up, on the one hand because of the change in political philosophy, but also

⁶⁵ Stephen J. Blank, *Rosoboronekспорт...* p. 22.

⁶⁶ *Ibid.*, p. 22.

⁶⁷ Viktor Suvorov, *Inside the Soviet Army*, (NY: MacMillan, 1982), p. 23.

⁶⁸ Larisa Deriglazova, "To fear or to respect?", *The Journal of Power Institutions In Post-Soviet Societies*, Pipss.org : Issue 3 - 2005 - The Military and Society in Post-Soviet Russia <http://www.pipss.org/document415.html>

⁶⁹ Chris Donnelly, *Red Banner*, (London: Brassey's, 1989), pp. 134-136.

⁷⁰ Blank, *op. cit.*, p. 6.

⁷¹ Dale R. Herspring, "Putin and Military Reform" in Dale R. Herspring, *Putin's Russia: Past Imperfect, Future Uncertain*, 2nd ed., (NY: Rowman & Littlefield, 2005), p. 189.

⁷² Blank, *op. cit.*, p. 41.

in consequence of the evident need for reform in the economic sphere. The largest and most dynamic sector of the Soviet economy – the defence sector – could with only great difficulty be converted to civilian production.⁷³ The new roles given to the military reflect mercantilist notions. In July 2007, Russian bombers were spotted off the coast of Norway, further testimony that training, on hiatus because of lack of funds, had resumed.⁷⁴ But it could also be a demonstration that Russia was serious about developing the means to protect its off-shore assets. In relation to this, her planting of a Russian flag on the seabed of the North Pole elicited an anachronistic response from Canadian foreign minister Peter MacKay. He claimed that "this isn't the 15th century. You can't go around the world and just plant flags and say, 'We're claiming this territory.'"⁷⁵ While this may be true, it is equally true that Mr. MacKay's remarks betray a typically North American predisposition to look to the future with optimism, and, equally optimistically, presume that the practices of the past have no chance to return. In fact, his remark shows that many of us are still thinking in the more hopeful, cooperative, inclusive and integrative post-Cold War mode, whereas we are in the harsh, *realpolitik*, neo-mercantilist world of the post-9/11 era. The pursuit of resources could come between long-time allies, as evidenced by the claims Denmark has made on the Arctic continental shelf, and by Norway's cooperation with GazProm for the exploitation of Arctic gas fields.⁷⁶ By linking centralized control of strategic resources to the survival of the state, Russia's president is demonstrating that the intention is there to apply capabilities generated from that control to the near-term development of the state.⁷⁷

Conclusion: Euro-Atlantic foreign policy in a nose-dive?

Mr. Putin's sharp rhetoric after the EU-Russia and ahead of the G-8 summit in Rostock over the deployment of missile defence, the removal of Soviet era monuments in former satellite regions or the "coloured revolutions" in Georgia and Ukraine only add to the dubious deaths of dissidents such as Anna Politkovskaya and Alexander Litvinenko. Suddenly, it seems, Russia is filling our horizon, but this has been a drama a long time in the making, and it has happened as our attention was diverted on our obsession of the day.

⁷³ Dale R. Herspring, "Putin and Military Reform", p. 95, and Labarre, *Baltic Defence Review* #5, 2001, p.64.

⁷⁴ Dale R. Herspring, *The Kremlin and the High Command*, p. 191. See also Anders Nordstoga, "Russian flights raised concerns", in *Aftenposten* online, July 20 2007, <http://www.aftenposten.no/english/local/article1896792.ece>. This behaviour represents the potential application of force for the protection of off-shore assets, as mandated by the new Russian defence doctrine. See www.kremlin.ru and www.mil.ru. Again in October 2007, Russian bombers were spotted training off the Dutch coast at a moment when the NATO defence ministers were meeting.

⁷⁵ Richard Foot and Randy Boswell, "Russia Plants a Flag Right Under our Frosty Feet", *National Post* Online, August 2, 2007. <http://www.canada.com/nationalpost/news/story.html?id=e00ffcc1-0276-48cc-b287-66e68adb08cc&k=28013>

⁷⁶ "Gazprom CEO and Norwegian Minister discuss Energy Cooperation", *Alexander's Oil and Gas Connections*, 12:12, June 29 2007, <http://www.gasandoil.com/goc/history/welcome.html>

⁷⁷ Blank, *Rosoboroneksport...*, pp. 13-14.

This is not the first time that a seemingly sickly Russia has emerged as a significant force to be reckoned with while united democracies were grappling with other issues. George Kennan is scathing in his criticism of World War I democracies obsessed with the idea of Germany's unconditional surrender, neglecting to account for the revolutionary nature of the Bolshevik revolution, and ill-equipped to recognize the fundamental continuities in its social and political traditions.⁷⁸ The same is happening here, and reforms were in fact a *re-formation* of the Russian state as it could have emerged in the 19th century; a mercantilist state with strong central authority covering the essential of strategic resources, able to direct trade and open market by the sheer force of its will, at least cognizant of some norms of free market procedures to lure foreign investment, but by retaining as absolute control as possible on the economic output on a given territory.⁷⁹

- Russia has consolidated its chief source of strategic revenues under the direction of the Kremlin; energy, mineral and armaments industry generate profits that fall directly into the state's coffers, and help alleviate unemployment. Domestic welfare policy is therefore inextricably linked with foreign trade and foreign policy.
- Foreign direct investment is allowed in a few sectors generating additional tax revenue for the state, and further enhancing the creation of a Russian middle class.
- Foreign ownership in strategic industries is being evacuated, and state firms are assuming majority control of foreign subsidiaries and operations located on Russian soil.⁸⁰
- Russia is in a position to impose its will on its debtors as long as oil and gas prices are high, and as long as captains of industry are subservient. Most of the debt it owes to major creditors and multilateral institutions has been paid off.
- As long as former intelligence operatives populate the stratosphere of Russian policy-making, the professional culture will impede democratic and market reform.

⁷⁸ Kennan, *Russia and the West...*, p. 47.

⁷⁹ Blank, *op. cit.*, p. 15. Here, we can only be emphatically in support of Blank's conclusions; "This dirigist... concept of the energy sector embraces the entire economy... what really is happening is a regression to the Muscovite patrimonial model, one of whose fundamental characteristics is state ownership and the conditioning control of state assets on mandatory service to the state. Indeed, Putin's justification of state control merely replicates tsarist and Soviet officials' defense of their autocratic and patrimonial system of rule."

⁸⁰ Blank, *Rosoboroneksport...*, p. 53.

Russia has achieved all of the above by striking a precarious balance between domestic welfare, paying off its debt and an increasingly interventionist foreign policy, and although some analysts have attacked consolidation of resources and arms exports as inefficient, the OECD has given high marks to Russia for its caution.⁸¹ Evidently, success has been guaranteed by the emergence of a sub-class of the political and business elite dedicated to ensuring that the current regime can pursue state consolidation without fear of dissent.⁸² Here, the parallel between Adam Ulam's description of the Russia of the mid-to-late 19th century and today is uncanny; "the lack of rights was mitigated by an extremely low but still real form of security, a situation that was to recur in Russian history⁸³ [under Marxism, and according to this author, under the post-9/11 Russian state]".

The situation as it now evolves has the following implications; there is EU dependence on Russia for oil and gas exports, and there is Asia and Middle-East dependence for armaments and oil and gas exports. The United States is near exhaustion and Mr. Bush's rhetorical war on terror puts the onus of consistency on pursuing the adventures in Afghanistan and Iraq, while there is nothing that can be done about a stridently independent Iran (buttressed by Russia) and Syria.

The EU does not have the political cohesion necessary to face up to Russia consistently, even if it has the military potential.

American distaste for democratic rollback in Russia can find no remedy; the efforts are not credible after the much-publicized fiascos in Guantanamo, Abu Ghraib, secret CIA prisons, and manifest support of democratic forces in Russia's "near-abroad" (Ukraine and the Caucasus). Mr. Putin has sarcastically – and rightfully – underlined the "contradictions" between the West's democratic rhetoric and its actions ahead of the G-8 summit, going so far as claiming he was the sole democrat in the lot.

Leaving all rhetoric aside, it becomes clear that fixation on the war on terror has distracted attention from the re-emergence of a great power, and policy-makers have neglected the fact that reforms in Russia have manifestly not converged with Euro-Atlantic values (although one could certainly argue that those values have been tarnished by the excesses witnessed during the GWOT). Nationalisation per se is not the problem. It is the applicable capability that it represents. Manifestly, Russia has not abandoned the notion that people regardless of class or culture exist to serve the state, whereas the Euro-Atlantic region is composed of states who serve the people. This deficit and the purposeful plans to further consolidate strategic assets and shut foreign participants out of the Russian economy amount to a statement of intent that

⁸¹ "OECD Hails Russia's Spending Plans and Stewardship of Oil Funds", *Alexander's Oil and Gas Connections*, 12:12, June 29 2007, <http://www.gasandoil.com/goc/history/welcome.html>

⁸² Blank, *Rosoboroneksport...*, p. 18.

⁸³ Adam Ulam, *The Russian Political System*, (NY:Random House, 1974), p. 14.

can only be detrimental to Euro-Atlantic security. Let's hope that correctives can be applied quickly before policy making collides with the horizon.