Russia and the Caspian States in the Global Energy Balance

The Medvedev Presidency: Russia’s Direction and the Implications for Foreign Policy

Lilia Shevtsova, Ph.D.
THE MEDVEDEV PRESIDENCY: 
RUSSIA'S DIRECTION AND THE IMPLICATIONS 
FOR FOREIGN POLICY

BY

LILIA SHEVTSOVA, PH.D.

SENIOR ASSOCIATE, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE, AND 
CHAIR, RUSSIAN DOMESTIC POLITICS AND POLITICAL INSTITUTIONS PROGRAM, 
CARNEGIE MOSCOW CENTER

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About the Study:

Russia and the Caspian States in the Global Energy Balance

Russia’s position as a major energy supplier has great significance not only for its foreign policy but for its relationships with major energy-consuming countries. The nature of Russia’s future geopolitical role in world energy markets has become a major concern of international energy security with important implications for Europe, Japan, and the United States. Given a range of economic and geopolitical uncertainties, the fate of Russian and Caspian natural gas exports remains a major risk factor in global energy supply. For this study, researchers examined several scenarios for Russian and Caspian oil and natural gas production, possible export routes, and the geopolitics involved.

Study Authors

Joe Barnes
Stacy Clossen
Jareer Elass
Peter R. Hartley
Amy Myers Jaffe
Kenneth B. Medlock III
Martha Brill Olcott
Nikolai Petrov
Lilia Shevtsova
Lauren Smulcer
Xiaojie Xu
The Baker Institute Energy Forum is a multifaceted center that promotes original, forward-looking discussion and research on the energy-related challenges facing our society in the 21st century. The mission of the Energy Forum is to promote the development of informed and realistic public policy choices in the energy area by educating policymakers and the public about important trends—both regional and global—that shape the nature of global energy markets and influence the quantity and security of vital supplies needed to fuel world economic growth and prosperity.

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Lilia Shevtsova, Ph.D.
Senior Associate, Carnegie Endowment for International Peace, and Chair, Russian Domestic Politics and Political Institutions Program, Carnegie Moscow Center

Lilia Shevtsova is senior associate at the Carnegie Endowment for International Peace. She also co-chairs the Russian Domestic Politics and Political Institutions Project. Previously, she was deputy director of the Moscow Institute of International Economic and Political Studies of the Russian Academy of Sciences and director of the Center of Political Studies in Moscow. She has been a visiting professor at the University of California, Berkeley, and Cornell University, as well as a fellow at the Woodrow Wilson International Center for Scholars. She is a member of the Russian Political Science Association and serves on the editorial boards of American Interest, Journal of Democracy, Pro et Contra, and Demokratizatsiya. Shevtsova also is a professor of political science at the Moscow State Institute of International Affairs of the Russian Ministry of Foreign Affairs; a researcher at the Royal Institute of International Affairs, Chatham House; member of the executive board of the International Institute for Strategic Studies; member of the advisory board of Women In International Security; associate with the Eurasia Program of the Social Science Research Council; member of the Institute for Human Sciences at Boston University; chair of the Global Council on Russia, Davos World Economic Forum; and member of the boards of the Institute for Humanities, Liberal Mission Foundation, and the New Eurasia Foundation. Shevtsova is author of several books, including Yeltsin’s Russia: Myths and Illusions; Putin’s Russia; Russia: Lost in Transition: The Yeltsin and Putin Legacies; and The Lonely Superpower (forthcoming).
The Medvedev Presidency

Abstract

Before the economic crisis of late 2008, Vladimir Putin’s political regime ensured the election of Dmitry Medvedev to the office of the presidency while Putin shifted to the role of prime minister—a move intended to solidify the Putin administration’s hold over the Kremlin. Supposedly, the Medvedev–Putin alliance sought to modernize the raw–materials-based economy in an attempt to improve its level of vulnerability. However, the fall of oil prices has precipitated disastrous consequences on Russia’s economy, and, as a result, the stability of the Medvedev–Putin regime has faltered. It is now unclear what the power dynamic between Medvedev and Putin will be, and if Putin will continue to maintain his dominant position in Russian politics. Much of the reason for the current regime’s grip on power is the general dissatisfaction with the reforms of the early 1990. This recent return to a bureaucratic economic system and a political system headed by an autocratic-style leader begat a period of prosperity and renewed the dream of regaining the geopolitical status Russia had during the Soviet period. At the present, Russia is ill-equipped to handle many of the challenges wrought by the economic crisis, and the ruling elite has lost many of its financial resources and public support. It is still unclear whether the current regime will survive the challenges it currently faces. Although there exists a possibility for an alternative, liberal governing model to emerge, it is equally possible that the Putin government will find a way to uphold the status quo. This is a profoundly uncertain period in Russia’s political development.

I. Introduction

The election of Dmitry Medvedev as president of the Russian Federation on March 2, 2008, was intended to guarantee the continuation of the existing political regime and the preservation of former President Vladimir Putin’s status as the country’s national leader and the principal player on the Russian political stage in his new role as prime minister. In the new political cycle, the ruling tandem (Medvedev–Putin) apparently hoped not only to ensure continuity of power, but to begin the modernization of Russia’s raw-materials-based economy. Although it is impossible to be sure whether the Kremlin’s plans for reform were sincere or rhetorical, Russia’s slide into
serious economic crisis by the fall of 2008, which in turn has begun to evolve into a social crisis, has forced the Kremlin to renounce its reforms and concentrate on maintaining the status quo.

Thus, the current economic crisis marks the end of the era of Russia’s “Success Story”—when high oil prices and the public’s disappointment with the developments of the 1990s made it possible for the Kremlin to ensure political and social stability by returning to the traditional model of personalized power. During Putin’s presidency, the Kremlin was able to consolidate the position of the ruling corporation that Putin had put together, while at the same time trying to regain the geopolitical status Russia had during the Soviet period.

Russia’s economic crisis will be a serious test for a system that has developed neither conflict-resolution mechanisms, nor the ability to operate in a pluralistic and open society. Yet, the question remains open as to just how conscious the Russian ruling class is of the new challenges and whether it is able to respond to them.

In order to ascertain what direction Russia will take in this new political cycle, and also to form an idea of its foreign policy consequences, we need to answer the following questions:

• Where is the real center of power in Russia, and what is the logic of the new—or rather, updated—political regime?
• What challenges has the global financial crisis created for Russia, and what is the Kremlin’s strategy for addressing them?
• What is the relationship between internal processes and Russia’s foreign policy, and what can we expect from Russia on the international stage in the context of economic crisis?

II. Who Rules Russia?

Dmitry Medvedev’s election was preceded by a painful four years during which former president Putin looked for ways to preserve his own leadership. To ensure its own survival, Putin’s team had to sacrifice economic reform and political freedom for the sake of maintaining the status quo. True, Putin did not follow the example of Central Asian dictators by attempting to run for a third term, which would have directly contradicted the Russian constitutional limit on the
number of permitted consecutive terms in office. This suggested that the Kremlin pragmatists realized they might not have sufficient resources to control the Kremlin without constitutional legitimacy. Moreover, they were not prepared to undermine their reputation in the West, at least as Putin’s presidency drew to a close. After much reflection, the ruling team chose a means of preserving power that would guarantee its rule while at the same time legitimizing it through an electoral process carefully controlled from the top down. They were not ready to allow the slightest uncertainty of the electoral outcome. However, this desire to keep up appearances and imitate respect for the constitution was easier to satiate during favorable economic times. Now, the deepening economic crisis may force the ruling tandem, or part of the ruling team, to consider taking a much harder line to maintain its power. In any case, the crisis and its unpredictable consequences force the Medvedev–Putin duo to look desperately for various ways to survive.

Putin made the decision to leave the Kremlin but was quick to show that he was still the one in control. During the “presidential election campaign,” Putin did not give Medvedev any opportunity to preserve appearances and announce his presidential program. It was Putin in his role of the new prime minister, a position theretofore viewed in Russia as subordinate to the president, who proposed his own vision of Russia’s future development instead. This was a clear message to Russian society and the political class that he was not leaving the forefront of politics and a sign of how he interpreted the new configuration of power. After Medvedev’s election, the majority of the population and most of the Russian elite continued to view Putin as the national leader and guarantor of the status quo.

Medvedev has received the outward symbols and attributes of power. Just as Boris Yeltsin and Vladimir Putin did before him, he travels the country, receives foreign ambassadors, makes speeches, signs decrees, and undertakes official state travel with ample head-of-state photo opportunities. He is seen regularly on television, the main political resource in Russia. But in practice, Medvedev’s presidency proves that appearances can be deceiving. So far, Medvedev has not succeeded in building a political base of his own. Unlike his predecessors, he does not have his own team and is forced to rely mainly on people brought to power by the leading member of the tandem (Medvedev has brought to the Kremlin several of his former colleagues,
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but they still cannot compete with the old guard). The current presidential administration is run by Putin’s allies and close lieutenants. Putin maintains control over the administrative, financial, and political resources, including the use of the people he has put into place in the state administration he created. The prime minister also controls the pro-Kremlin, quasi-party United Russia, which was established as a sort of palace guard for Putin and remains loyal to him alone.

Furthermore, Putin can also count on considerable political support among the population. Russians quickly realized that Medvedev was no more than Putin’s sparring partner. In March 2008, 20 percent of respondents surveyed around the country said that real power was in Medvedev’s hands, but, by June, this figure was down to 17 percent. In March, 47 percent said that Medvedev and Putin shared power between them, but by June only 40 percent held this view. In March, 21 percent of respondents said that power would remain in Putin’s hands, but by June the figure had risen to 32 percent (11 percent had no opinion). Incidentally, in the summer of 2008, 14 percent of Russians did not know that Medvedev was the country’s president and thought that Putin still exercised presidential powers. In February 2009, 45 percent of respondents thought that Putin retained all of his former political clout and influence. Forty-two percent said Putin retained “considerable clout,” and only 1 percent did not think that Putin was wielding any clout at all. Only 12 percent of Russians suggested that Medvedev wielded real power in Russia.

Upon arriving in the Kremlin, Medvedev began talking about the return to the rule of law and the need to limit the state’s role in the economy. He called for greater freedoms for small and medium-sized businesses. He launched a campaign to fight corruption. He also established his own think tank—the Institute for Contemporary Development—whose team includes liberal-minded scholars to supply him with reform-oriented ideas. All of this was done with Putin’s approval, of course, and demonstrated an attempt by the ruling tandem to win over the Russian liberals who were constantly expressing their dissatisfaction.

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There was nothing really new, however, in Medvedev’s rhetoric and initiatives. At the start of his rule, Putin also spoke of the need to fight corruption, of the “dictatorship of the law,” and of the need for deregulation in small and medium-sized businesses. He even attempted a rapprochement with the West and spoke as if he contemplated Russian membership in NATO. In the early days of his rule, Putin took ideas from The Center for Strategic Development, led by German Gref (currently head of Sberbank—Russia’s largest bank—and former minister of economic development), which was working on a liberal reform concept. But by the end of his first presidency, Putin’s reform plans and his partnership with the West ended in a return to traditional political patterns and an anti-Western line, which only underscores the inability of a personalized power structure to pursue transformations that would undermine an authoritarian regime.

Russia’s war with Georgia in August 2008 was a watershed in Russia’s development, demonstrating the ruling team’s return to imperial ambitions and attempts to rebuild Russia’s spheres of influence. The war proved premature the conclusion that the Russian elite had switched to post-imperial moods. In August 2008, the Russian political regime turned to a neo-imperialist strategy of survival. Internally, the war was also a sign that Medvedev’s modernization plans were doomed to fail—liberal transformation and neo-imperialism are unlikely bedfellows. The Kremlin’s reform slogans faded into the background, giving way to anti-Western rhetoric aimed at mobilizing public opinion in support of the regime. The war with Georgia boosted Medvedev’s role and, with Putin’s approval, he took center stage as the “war president” and immediately saw his popularity rating rise. By the end of August, 73 percent of the public approved of Medvedev’s performance (22 percent disapproved), and 83 percent approved of Putin’s performance. Medvedev’s militancy during the Russo–Georgian war and his anti-American statements at the time showed that he decided to follow the pattern set by Putin, and that there are no substantial differences between him and Putin in their approach to Russia’s political trajectory. True, Medvedev’s moment in the limelight was brief, and, in autumn 2008, Putin’s hectic activities signaled that he decided to remain on the stage not only as a strong prime minister but also as Russia’s single national leader. It was becoming clearer that

Putin had no intention of sharing power with his tandem partner, nor did he seem to care that he was undermining the only viable political institution in Russia—the presidency.

By the end of 2008, there was no doubt that Russia now had a form of rule in which Putin continued to control the main political resources, while Medvedev had considerable constitutional potential but no substantial power. As the Russian elite and public came to see him simply as Putin’s alter ego, Medvedev began to lose his opportunity to consolidate his own political base and to establish himself as an independent political player with his own legitimacy, independent of Putin’s influence.

One might ask: What about other government players of the lower echelons? Do they influence politics? Do they matter in the Russian decision-making process? An authoritarian, paternalistic regime, like the one that has emerged in Russia, needs only one political actor—the leader who stands above the fray. But his agenda and ability to rule, to a great extent, depend on the information and support he gets from his entourage, which serves as a substitute for the political system. Over time, the influence of the entourage around the authoritarian leader usually grows; authoritarianism cannot survive without favoritism. The old Putin loyalists—Igor Sechin (deputy prime minister), Vladimir Yakunin (head of the state-run Russian Railways Company), Sergei Chemezov (head of the state-controlled arms export agency Rosoboronexport), Sergei Ivanov (deputy prime minister), and other representatives of the St. Petersburg clan brought by Putin to the Kremlin—continue to form their own personal galaxy revolving around the prime minister. Putin’s loyalists perform as mega-managers, supervising the functioning of the Russian state and the Russian economy on behalf of the very closely knit corporation formed by Putin. Some of them, like Igor Sechin, have emerged from the shadows. Some have remained in the shadows. These praetorians do still matter and do still influence Putin’s decisions. They will continue to be the most influential group, at least as long as Putin, who prefers to rely upon people he knows and tries to avoid changes to his inner circle, remains at the very top.

But it would be wrong to assert that this group is without conflict. The constant bickering and jockeying for power among the loyalists fits the pattern of authoritarian power. For the time being, Putin loyalists’ infighting does not endanger the position of the regime. However, the
future balance of forces within the ruling corporation will change as a result of the economic crisis and the process of the property redistribution that is under way in Russia—the loans for shares in reverse. It is too early even to guess who will stay and who will be kicked out of the Kremlin circle. At some point, Putin may start looking for new loyalists, who might push aside the old boys. If history is a teacher, this is the usual way that Russian leaders preserve their power—by cleansing cadres. This cleansing process could be important as an instrument to prevent the old entourage from becoming a threat for its leader. True, it is still unclear at this stage whether Medvedev will acquire his own team, and who will join it, and what Putin’s loyalists will do. According to the Russian tradition, each new political regime forms a new court of loyalists and gets rid of the old one. But this reshuffling never happens without a desperate struggle.

III. History of Dual-Rule in Russia: A Tenuous Balancing Act

The political regime that has emerged in Russia is an asymmetric leadership with elements of dual power. Russia has lived through periods of diarchy in the past, including two occasions during the post-Communist period. The first of these occasions was from 1991 to 1993, when the fight to establish a monopoly on power brought the Supreme Soviet and President Boris Yeltsin into confrontation with each other. The second occasion was from 1998 to 1999, when Yeltsin had to share power with Prime Minister Yevgeny Primakov. But these were cases of genuine dualism, where two centers of powers competed for dominance. In both cases, the competing sides had considerable resources and were engaged in an open struggle for power.

The ruling Medvedev–Putin tandem shows no such signs of competition. Rather, it is an unequal partnership in which Putin does not hide that he is the one in control and Medvedev accepts this situation, pretending that he is not offended. It is still Putin who decides Russia’s agenda and whose words are heeded by the elite. Medvedev is perceived by the political class and society at large more as a mouthpiece of Putin’s ideas. There is no doubt that before the symbols of presidential power were handed over to Medvedev, Putin and Medvedev made a deal that decided the new regime’s form and content. Yeltsin and his family also had a pact with Putin in their time, but it was one that did not provide for leaving the controlling stake in Yeltsin’s hands
and only ensured a smooth transition of power to the new leader. Judging from the situation so far, Putin and Medvedev’s agreement does not provide for handing real power over to the latter, at least not in the visible future. Furthermore, Putin has taken steps to increase his leverage by bringing some of what formerly were presidential instruments of power under the prime minister’s control and strengthening United Russia, which is viewed as a channel for Putin’s influence on society.

It is telling that it was not President Medvedev who offered the country a strategy for overcoming the crisis in the annual address to the Federal Assembly in November 2008 (during Putin’s presidency, the annual address was an important means for Russia’s leader to communicate with society). Medvedev used the occasion to announce the initiative to increase the presidential term in office from four to six years. In fact, the extension of the presidential term in office gives Putin more room to maneuver if he decides to return to the Kremlin. It was Putin who set out a crisis-recovery program and thus established himself not only as a crisis manager but also as the national savior, essentially promising the country, “Don’t worry, I will take care of all your problems.”

The question of where the asymmetrical Medvedev–Putin leadership will go from here is the most popular subject of debate in Russia. There is no reason to think that this asymmetrical dual-power system is a sustainable and effective form of government. All cases of dual power in modern Russian history have ended with a return to the traditional power matrix—a system of power personalized in one person, concentrated in the hands of a single leader raised above society and not accountable to the public. The current ruling tandem will inevitably evolve in this direction unless the Russian political system is radically restructured.

Some Western analysts interpret the emergence of the ruling tandem as a sign that Russia is starting to move toward Europe and a more pluralistic political system. Kremlin propagandists also try to convince the world that they are moving toward a system of checks and balances in accordance with liberal practice. In reality, the asymmetrical leadership that has emerged in Russia has nothing in common with liberal democracy. For the Medvedev–Putin tandem to work as a presidential–prime ministerial regime along the lines of France or Portugal, it would have to
be institutionalized. That is to say, the informal deal between two politicians with unequal political resources would have to be transformed into a set of clear rules established by the constitution. This, in turn, would require reforming the super-presidential constitution and creating the foundations for a strong prime minister and party-based government and also establishing the mechanisms for resolving inevitable differences between the prime minister and the president. Even more importantly, the pattern that was created to guarantee certain outcomes with uncertain rules of the game would have to be changed into a pattern that would guarantee certain rules of the game with uncertain outcomes. No one in Russia at the moment is about to undertake such radical reforms, perhaps because of the view that the current tandem is temporary and the situation soon will return to the status quo ante, that is to traditional power personalized in one political leader.

Who will eventually end up with the power—Medvedev or Putin? Many expect that Putin will return to power in 2012, and perhaps even sooner if an early election is called. On the other hand, if Putin fails to prevent the economy from collapsing, it cannot be ruled out that Medvedev will be brought to the forefront as a symbol of change and renewal. However, this remains no more than a hypothesis for now. It cannot be ruled out either that the ruling corporation could decide to hand the symbols of power to someone else if both current leaders start to lose popularity or a new maverick emerges to take power. Whatever the case, there is no doubt that the dual-system of real and formal power cannot last forever.

While the debate goes on about who is the more important political figure and who will become Russia’s new tsar, the Russian political system and its decision-making mechanisms are, at least, confused, if not paralyzed. The “power vertical” built by Yeltsin and Putin does not function well with dual political influence at the top. It must be admitted that Medvedev and Putin are making successful efforts to work in coordination, but conflict is inherent in the unclear delimitation of powers between the president and the prime minister, their vague spheres of responsibility and, most importantly, in Putin’s desire to remain the key leader. So far, it is only Medvedev’s lack of openly expressed ambition, his human decency, and his loyalty to Putin that has saved the tandem from becoming a source of conflict.
Thus, the ruling tandem is clearly an uncomfortable, painful partnership that objectively breeds conflicts, although both partners seem to undertake special efforts to prevent them or to resolve them peacefully. But how long will this informal, individually based mechanism of conflict resolution work? Some observers expect that the economic crisis, sooner or later, will provoke rifts within the tandem. Indeed, sometimes there are signs of uneasiness between Putin and Medvedev, apparently provoked by the logic of the asymmetrical leadership, as well as by the restlessness of the elite around the Kremlin. However, it is premature to talk about any serious split between the two leaders.

In early 2009, the Russian media started to hint that Medvedev “has begun to shed his image as the obedient sidekick of his powerful predecessor.” Moreover, speculations have emerged that their teams have started to clash on various issues, although there are only hints of that on the surface. Medvedev has evidently started to behave more independently, demonstrating increased assuredness, which has been interpreted to mean that he is ready to assert himself in a more autonomous role. Could he succeed? At this moment, it is difficult to tell. But even if Medvedev were to risk stepping out of Putin’s shadow, that fact alone would not answer another and more important question: Will he be prepared to restructure the authoritarian system, or will he continue the same dirigiste style of rule? Thus far, under current circumstances, one could argue that the emergence of Medvedev as a fully fledged president most certainly would help to reproduce the same personalized system through a change of the regime.

A paradoxical situation has emerged in which Putin, in choosing dual power as the means of keeping his ruling corporation in power, began undermining the single power, top-down system he had built, by the mere fact of provoking the emergence of two potential centers of influence. But this does not signal the beginning of political competition. Instead, this is a case of an unconstitutional transfer of power from the Kremlin to the cabinet without real political pluralism or any opposition, the inalienable attributes of a liberal political system. The existence of a ruling tandem also means widened possibilities for under-the-table intrigues. It was always hard to figure out what was going on behind the Kremlin walls, but under the previous arrangement everyone knew at least who the main political actor was. These days, even the most

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experienced “Kremlinologists” have trouble understanding the decision-making processes in Russia.

For the time being, Russia has ended up in a dead-end situation: Putin’s regime, based on his individual popularity and cult of personality as the “strong” leader, failed to deal with post-industrial challenges. The new Medvedev–Putin regime has to spend huge amounts of energy on maintaining its balance and looking for ways to keep itself in power. The tandem regime was quite successful at sorting out the issues of continuity and stability when the economic situation was favorable. But the ruling duo demonstrates a pathetic inability to deal with the economic crisis. As the economy begins to falter, decision-making needs to speed up and a new agenda must be adopted, but the Medvedev–Putin tandem is not prepared to provide this kind of rapid and effective response. The dualistic form of government requires constant coordination between the prime minister and the president and their respective offices, which takes a lot of time and effort. Both teams, absorbed in keeping up appearances and managing the diarchy, don’t have much energy or intellectual capacity to deal with growing real challenges. In any case, the way in which the Russian leaders are responding to the unfolding crisis demonstrates not only their lack of understanding of its roots and logic, but also a lack of a comprehensible strategy to deal with its consequences.

Putin, as the de facto leader in the tandem, has new problems now: He wants to remain Russia’s leader, but at the same time does not want to take on the responsibility for the economic downfall and the inevitable difficulties it brings. Putin wants to remain a leader who symbolizes and embodies the good times. But it is hard to keep playing this part of a successful leader relying on the past consensus when this consensus starts to unravel. Putin now faces the constant dilemma of how to keep hold of power while avoiding responsibility for having built a system that is part of the problem.

The best option for a leader in Russia is to be in the Kremlin and be president, because this makes it possible to establish a strong hold on power while at the same time laying the blame for mistakes and failures on the prime minister. But the current format of power in Russia does not allow any partner in the ruling tandem to be a strong leader while maintaining the escape valve
of blaming the prime minister for policy failures. The fact that the prime minister can’t be blamed for failure undermines stability and limits the president’s space to maneuver.

Meanwhile, Medvedev is clearly developing a taste for being president. He inevitably senses the humiliation of his subordinate status. It is still not clear if Medvedev has the ambition to try openly to take center stage and fight for real leadership. The dramatic nature of his position is obvious: The longer he remains in his current situation, the less chance he will have to establish himself as an independent figure in the eyes of the elite and the public. It is possible that making this leap will soon become (or has already become) very difficult for him. After all, he lacks his own support base among the public, which still considers Putin as the main guarantor of stability. But the population will soon begin to lose its enthusiasm for Putin in the same way as the population everywhere has always become disappointed in leaders who have led them into crisis.

In the eyes of many, Putin is gradually becoming a liability and the public chooses to blame him for the country’s woes. It still remains to be seen whether disappointment in Putin will create an opportunity for Medvedev or whether Medvedev is too closely bound to Putin in society’s view. True, there have been cases in history when politicians thought to have no real future were suddenly propelled to the forefront. A lot will depend on whom the public holds responsible for the problems now emerging.

During spring 2009, unexpectedly for many, Medvedev began feverish activity. He granted an interview to the oppositional “Novaya gazeta,” the first interview he has given to a Russian newspaper. He met with a group of top Russian human rights activists and NGO leaders. He visited his liberal think tank—the Institute for Contemporary Development—and discussed bold suggestions on how to restructure the economy and the labor market. This activity was immediately hailed by the Western media as the beginning of the long-anticipated political “thaw.” In reality, however, it did not promote any meaningful change in Russian politics, which has been firmly controlled by Putin.

Medvedev said, “It would be wrong to say that we…need to start political restructuring. Exactly to the contrary, we need in times of crisis…to deal with its consequences, that is, to solve
concrete economic problems.” That meant that the president did not see the system of personalized power as a cause of the Russian economic crisis. Medvedev’s liberal gestures were, rather, the reflection of the new strategy of survival adopted by the tandem. Apparently the ruling team has understood that to preserve stability and find ways to deal with the economic and social crisis by continuing Putin’s authoritarian paradigm was not effective, and even could be counterproductive. Moreover, the survival of the Russian petro-state with its rentier class, people who live off earnings from selling resources abroad, dictated the need to back away from confrontation in Russian relations with the West. Thus, a new strategy of humanizing the Kremlin was adopted—“Putinism with a human face.” The ruling leaders decided to reformulate the Russian national consensus that has started to unravel and appeal to different segments of the Russian population: Putin could continue to address the traditional, nationalistic faction of society, whereas Medvedev could appeal to the liberal minority, the moderate pragmatists, and the West. The key goal of Medvedev’s “thaw” was not to open the system and liberalize it, but to include liberals and opponents into the system and use them to give it new legitimacy. The irony was that the attempts to use the liberal ideas to re-energize the authoritarian rule could only discredit liberalism and democracy.

Given the political situation in Russia today, it cannot be ruled out that the demands of the tandem’s survival and the survival of the ruling corporation headed by Putin could force the tandem to flip roles. What is important today in Russia is not which specific individual is the political leader, but whether or not the ruling corporation—which can put various political figures into leading roles—can maintain its hold on power and, if successful, what agenda it pursues and whether this agenda can help Russia’s modernization. Today the Russian elite view the economic crisis not as an opportunity for change, but as an opportunity to strengthen the status quo. If it continues to follow this philosophy, one could expect that the gap between a stagnating Russia and the developed world would become even wider after the crisis.

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IV. How the Medvedev–Putin Tandem is Responding to the Economic Crisis

During his time in power, Putin succeeded in creating an impression of Russian economic prosperity that greatly enhanced his power base. In the summer of 2008, the Russian economy was still described as an “El Dorado” for investors. Russia was considered one of the most successful emerging markets: The Russian gross domestic product (GDP) increased from $200 billion in 1999 to $1.3 trillion in 2007; the country’s gold and currency reserves rose from $12.7 billion in 1999 to $500 billion in 2007; the Stabilization Fund’s reserves totaled $170 billion; and the economic growth rate of 7.8 percent was the envy of developed countries.\(^7\)

A closer look at the state of the Russian economy at the moment leading up to the global financial crisis indicates that the outward success camouflaged serious problems. The main driving forces behind the country’s growth were high oil prices and the protective barriers against foreign competition. People’s wages were rising faster than labor productivity. Consumption was increasing faster than investment (investment contributed only 20 percent of GDP at the start of 2008). The government proved unable to rein in inflation. Russian companies’ corporate debt was high at $500 billion. Foreign trade represented only 45 percent of GDP (compared to China’s 70 percent of GDP), a sign that Russian goods were not as competitive on world markets. Russia’s imports increased by 37 percent but its exports rose by only 7 percent.\(^8\) The state increased its presence in the economy, limiting free enterprise and competition. In 2008, the World Bank ranked Russia 106 in a list of 178 countries according to ease of doing business there (in 2006, Russia was ranked 94). According to the annual Corruption Perception Index Transparency International, Russia dropped from 126th place to 143rd in the list of 180 countries and found itself alongside Indonesia, Gambia, and Togo.

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In fact, Russia has been looking more and more like a petro-state. The share of oil and gas in GDP in 2007 was 44.5 percent, and natural resources accounted for 63.3 percent of Russia’s exports. As in similar countries, business and bureaucracy have merged in Russia, with a politically based “rentier” class emerging. As a result, an economy vulnerable to external shocks has taken shape and the symptoms of “Dutch disease” have emerged, where the inflationary impact of rising commodity businesses has squeezed all other businesses and citizens through soaring inflation.

In line with other petro-states, corruption has become systemic and the gap between rich and poor has widened. At the same time, the high oil prices have had a narcotic effect and have become an obstacle to economic reform. High-technology goods in 2008 accounted for barely 3 percent of Russia’s exports and the share of economic organizations using advanced technology in Russia was only 9.7 percent, compared with 36.3 percent in Italy and 60.9 percent in Germany.

Russia’s dependence on its raw materials resources has failed to guarantee the future of even this central industry to provide an engine of growth. Gazprom’s production growth was no higher than 1 percent in 2007, and oil production increased by only 2 percent. Today 75 percent of all known oil and gas fields in Russia are already in production, and the oil reserves could be exhausted within 10 years. Eighty-nine percent of oil equipment and 60 percent of the industrial plants of Gazprom are obsolete, half its pipelines are more than 25 years old, and its fields are more than 60 percent exhausted. Natural gas extraction is falling by 20 million cubic meters a year. In 2007, Gazprom’s supply deficit amounted to 4.2 billion cubic meters. By 2015, this deficit is projected to rise to 46.6 billion cubic meters. Moreover, around 70 billion cubic meters of natural gas is wasted annually, in part by flaring.\(^9\)

The arrival of the global financial crisis in August 2008 caught Russian authorities unprepared. The Kremlin believed in the Russian “miracle” and thought that Russia would be an “island of stability,” as deputy prime minister Alexei Kudrin cheerfully declared several months before the

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meltdown. The events of autumn 2008 came as a shock. In September 2008, Russia’s stock market fell about 70 percent. By November, Russian foreign exchange reserves plunged by $36 billion from $516 billion to $480 billion. Gazprom saw its capitalization fall two-thirds—from $320 billion to $100 billion. Desperately trying to prop up the market and support the ruble, the government has started to tap into “sacred cows”—the pension fund and the National Welfare Fund. Western investors started to flee in panic, pulling about $147 billion out of the country. With oil prices plunging, first to $80, then to $70, and finally to $40 per barrel and the oil companies running into debt, Russia has found itself looking into the abyss. At the beginning of the crisis, the official view was that Russia was an outstandingly dynamic economy temporarily derailed by a financial shock of foreign origin. Prime Minister Putin was quick to blame America for the downturn. Medvedev boasted that Russia “was not part of the problem but part of the solution.” However, by November 2008, the Kremlin apparently understood the gravity of the unfolding crisis.

At the beginning, the crisis hit mostly the upper-level businesses. Russian pundits even started to believe that Russia could get through the crisis more easily than the West because its banking system is still quite small and only an insignificant fraction of the population depends on it. But the drama had only just begun. By the end of 2008, the middle class and public sector workers were starting to feel the full force of the crisis with rising bankruptcies, massive layoffs, and wage arrears piling up. The government has taken a selective approach in its exit strategy by bailing out oligarchs or companies close to the Kremlin. Moreover, the state has started to use the crisis to get control over the “juicy” chunks of big business. As former Kremlin economic adviser Andrei Ilarionov said, “The crisis is being used for a redistribution of resources with the goal of establishing monopoly control of the economy.”

This is a repeat of the situation in 1998, when the Kremlin did not recognize the approaching economic collapse and did not take measures in time. By the time it did react, the measures were either too late or insufficient. So far, Medvedev and Putin have preferred to lay the blame for the situation on the American mortgage crisis and deny the existence of internal factors that have made Russia more vulnerable than other countries to the effects of the international economic

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downturn. In his address to the Federal Assembly in November 2008, Medvedev noted: “The
global financial crisis began as a local emergency on the United States’ domestic market. As a
country tightly bound to all the developed countries’ markets, and being the biggest market of
them all, the U.S. economy pulled the entire planet’s financial markets down with it and this
crisis has now become global in nature.”\textsuperscript{11} Foreign Minister Sergei Lavrov went even further,
citing U.S. hegemony as the main cause of the crisis: “The global financial crisis and the crisis in
the Caucasus have something in common. In both cases, the source of the crisis is thinking and
acting in the spirit of the single-polar world order philosophy. All have to pay for mistakes
committed by one country or a small group of countries.”\textsuperscript{12}

The truth is that internal factors have come into play, exacerbating the gravity of the economic
crisis in Russia.\textsuperscript{13} These factors can be divided into four categories: systemic problems, the
fundamental weaknesses of the Russian economy, economic policy mistakes made during the
pre-crisis period, and incorrect leadership responses to the approaching crisis.

The systemic problems rank above all in the state’s simultaneous role as regulator and market
participant. The ruling team’s policy of building state capitalism has lead to excessive state
expansion in the economy, as reflected in the creation of closed mega-corporations such as
Gazprom. The state that emerged during Putin’s tenure limits competition, brings a merger
between power and property, distorts legal mechanisms, and provokes the desire of the economic
actors to play by nontransparent rules or even renounce the rules altogether. The state’s
renunciation of competition rules out any hope for economic reform and modernization. It is a
systemic factor—the merger between power and property and Putin and his inner circles’
personal interference into the economic life—that first set investors into flight out of Russia in
the summer of 2008, before the financial crisis had even reached the country. The foreign capital

\textsuperscript{11} Dmitry Medvedev, “Message to the Federal Assembly,” November 5, 2008,
\textsuperscript{12} http://www.rian.ru/politics/20090411/167838247.html.
\textsuperscript{13} The author’s definitions of the internal causes contributing to the crisis are based on the conclusions of Andrei
Illarionov, former adviser to Vladimir Putin, Yevsei Gurvich, director of the Russian Government Analytical Centre,
independent experts Sergei Aleksashenko and Yuri Nikolayev. See: http://www.liberal.ru; http://www.gazeta.ru;
www.newtimes.ru; Alexei Aleksashenko, Anatomiia Ekonomicheskogo Krizisa (The Anatomy of the Economic
Crisis), http://www.polit.ru; Yevsei Gurvich on Echo Moskvy,
www.echo.msk.ru/programs/creditworthiness/583664-echo; Yuri Nikolayev, Opiat Shok (Shok Again),
exit signal came not only from Putin’s threats against Mechel, one of Russia’s largest steel company, and its owner, but also and more powerfully from its war against Georgia. The Georgian war raised the possibility that Western governments would end lending to, if not impose sanctions on, Russia. The Kremlin’s actions were interpreted as meaning that Russia would follow no clear rules and that the Kremlin is ready to renounce rules that it set at a moment’s notice. Thus, it was the Kremlin’s behavior that provoked the first wave of panic among investors. This behavior, however, has been dictated by the existence of the hyper-centralized state that is built on the basis of fusion of power and property that leaves no chances for the rule of law and transparency.

Russia’s fundamental economic weakness is the excessive dominance of the large raw materials sector and the resulting dependence on the global situation. The drop in Russian companies’ share prices—and not only those of oil companies—following the fall in oil prices showed that in investors’ eyes, the Russian economy’s prospects are determined entirely by commodities prices. All of this shows that the stock market growth and foreign investment inflow, of which Russia was so proud, were not the result of an improved business climate—but rather a reflection of the oil and gas production sector’s profitability and the growth in Russians’ purchasing power. Despite the constant talk of economic diversification that has come from the Kremlin all these years, Russia remains caught in the petro-state paradigm. The banking system is another weakness revealed by the crisis. Not so long ago it appeared to be in good condition, but the crisis has shown that the banks were viable only in the greenhouse conditions created by the Central Bank’s policy of a controlled lowering of the dollar’s exchange rate in order to attract foreign capital. The easy access to money over these past years has become the cause of problems in the financial sector.

The economic policy mistakes made during Putin’s presidency stem, in part, from the lifting of restrictions on the inflow and outflow of capital. Along with the high oil prices, this decision flooded the country with money. In the absence of possibilities for safe investment in productive activities, this money ended up on the consumer market or was invested in real estate. Even without the U.S. banking problems, the rapid increase in imports and banks’ and companies’ rising foreign debt inevitably would have led Russia into a currency crisis of its own making. It
is possible that the American crisis has in fact helped Russia avoid an even worse scenario. If the bubbles in the economy and the private sector’s foreign debt had continued to grow for several more years, the global financial crisis could have had even more destructive effects inside Russia.

With respect to the leadership, the authorities are having trouble responding to the changing situation. The Kremlin’s reaction to the economic crisis looks like a fire-fighting brigade trying to put out the flames without looking for their source.14 The Kremlin’s primary task is clearly to maintain stability at any cost. The government has begun implementing a policy of “compensation”—creditors have been reimbursed for their loans and exporters have been compensated for the drop in world prices. At the same time, the government promised to find buyers for the stock market and the poor were promised welfare. Finally, Putin obviously realized that the situation was serious and, in December 2008, he set up a crisis management commission headed by Deputy Prime Minister Igor Shuvalov. The creation of the commission can be seen as one way to ensure that Putin, though the leading player in Russia, avoids taking responsibility for the country’s worsening economic problems. It is Shuvalov and his commission who will now have to take charge of the crisis.

Despite the Russian authorities’ reluctance to wake up to the reasons and consequences of the changed economic situation, it is clear that Russia has entered a difficult new stage in which former ambitious plans will have to be revised. Putin’s national development program through to 2020 will have to be readjusted. The government had to carry out sequestration of the 2009 budget, which was originally drawn up based on an oil price of $95 per barrel and an economic growth rate of 5–6 percent. The new budget for 2009 is based on an assumption of an oil price of $41 per barrel. Russia is facing its first deficit in 10 years as revenues are drying up.

The $130 billion net capital flight outflow in 2008 was in marked contrast with the $83 billion inflow recorded for 2007. In 2009, the Russian banks will have to redeem up to $120 billion in

14 Sam Greene was right in writing that, “The main problem is that the authorities themselves it seems are not very sure of their ability to fight the crisis effectively…. The Government is only producing more nervousness and lack of confidence both among the elite and the general public.” Sam Greene, “With closed eyes: social consequences of the Russian economic crisis,” Carnegie Moscow Centre Briefing, Vol. 4, no. 10, December 2008.
foreign debt. The Russian government has already spent $11 billion on refinancing help (out of this, $4.5 billion went to Oleg Deripaska—a Russian billionaire and a key shareholder of Rusal, a Russian aluminum industry company—proving that the loyalists were first to get the assistance). Initial figures for 2009 were worse that the government anticipated. For example, the government projected the overall decline in industrial production for 2009 to be 7.4 percent, and the annual inflation rate to check in at 14 percent. But in January, the government reported a 19.9 percent drop in industrial production for the month compared with the total for December, with inflation of more than 20 percent. Independent analysts predicted the unemployment in Russia by the end of the year of at least 10 million, and the officially registered unemployed will exceed 3 million. In February 2009, Fitch rating agency cut Russia’s sovereign ratings by one notch to “BBB”—two ratings above junk—following a similar move by Standard & Poor’s, which, in December 2008, became the first agency to downgrade Russia in a decade.

The downgrade in Russia’s sovereign rating is a clear sign that the energy-based Russian “miracle” that the Kremlin was so proud of for so long is now under threat. The crisis has dealt a serious blow to internal raw materials production and to Putin’s plans to build a web of pipelines in Europe, which would have guaranteed Russia’s role as an energy superpower.

Spring 2009 brought heated debates about the end of crisis. Some members of the Russian government “confidently declared” that the bottom of the crisis had been reached or would soon be reached and predicted that economic growth would start by the end of the year. However, Aleksei Kudrin insisted that a second wave of the economic crisis, based on loan defaults, would hit in summer or fall. “All hopes for fast recovery of the economy are unfounded,” warned Kudrin. He further argued that the crisis was hitting Russia harder than the United States. According to him, the U.S. budget revenue was expecting to fall by only 14 percent, while Russia’s was falling 28 percent.

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16 Reiter, February 25, 2009.
17 Interview with Igor Shuvalov in Niezavisimaya gazeta, March 24, 2009.
In fact, the Russian finance minister presented a truly apocalyptic picture of the future of the Russian economy and federal budget. He admitted that the Contingency Fund is being depleted at a rate that will make it history before long.\(^\text{18}\) Once this happens, there will be only two ways for the government to cover the budget deficit. It may turn on printing equipment and flood the economy with new rubles (but that will mean currency devaluation of unbelievable proportions and soaring inflation), or it may borrow money. Borrowing money domestically will have a negative effect on the economy, reducing the funds available for national development. Borrowing money externally, on the other hand, has its own pitfalls because it is impossible to expect to borrow anything on any more or less favorable terms.

Meanwhile, Kudrin’s forecasts found support from others. German Gref also warned a second wave was coming because debts are piling up and defaults will begin. He warned: “The crisis is just beginning for the banking industry.”\(^\text{19}\)

Finally, fearing social instability, the Kremlin has started taking preventive measures to “tighten the screws” and prevent panic and criticism of the authorities. The authorities saw even excessive use of the word “crisis” as an attempt to undermine stability in the country. Medvedev launched the campaigning against “politicization of the crisis” by ordering law enforcement agencies to stamp out any social unrest linked to the crisis. “If someone tries to exploit the consequences of the financial crisis…they should intervene, bring criminal charges. Otherwise, there won’t be order,” he told senior police officials at a public briefing in St. Petersburg.\(^\text{20}\)

Reflecting concern within the regime at the potentially destabilizing social impact of the economic crisis, the Russian government has stepped up actions to control media coverage of the crisis and has warned outlets against “information attacks,” suggesting that state efforts to curb media coverage could intensify if the crisis worsens.\(^\text{21}\) Thus, instead of proposing a construction

\(^{18}\) Aleksei Kudrin, “Budget costs are to be dramatically cut,” *Niezavisimaya gazeta*, April 23, 2009.

\(^{19}\) The Moscowtimes.com, April 9, 2009.


\(^{21}\) Both Dmitry Medvedev and Vladimir Putin have voiced concern over media coverage of the deepening economic crisis. On October 28, Putin warned that “we should be using terms clearly…. Many have used the word crisis too frivolously.” Quoted by RIA-Novosti, October 28, 2008; Medvedev drew attention to “information attacks” in the media that could destabilize the social situation, commenting: “We have a stable state. No need to return to the 1990s, where everything was churning and boiling,” — quoted by *Kommersant*, November 18, 2008.
program for overcoming the crisis, the authorities have decided to fight the discontent it generates.

It was clear that the society was starting to become restless. In December 2008, surveys conducted by the Levada Centre showed that 38 percent of respondents said that Russia was already in a state of crisis, and 38 percent said that Russia was heading for crisis. Around 20 percent of respondents said that mass protests were possible and almost as many said that they would be willing to take part in such protests.²²

As strikes and spontaneous protests began to break out, anti-Kremlin slogans gradually emerged alongside economic demands. The authorities decided to prepare in the event that discontent spread to a more mass scale. A draft amendment limiting juries’ activities was hurriedly sent to the State Duma, followed by new amendments to the Criminal Code, broadening the definition of state treason. If these amendments are passed, any criticism of the authorities and even simply communicating with foreigners could be defined as state treason. The authorities have clearly started to fear possible unrest and discontent and are trying to act in advance, using scare tactics and force to nip in the bud any future protest movements. However, the pre-emptive actions of the authorities did not prevent the growing social discontent. According to the Interior Ministry, more than 2,500 public and political actions related to the worsening social conditions have been held in Russia since the beginning of 2009. ²³

Since the beginning of 2009, even members of the Kremlin’s inner circle, who are personally close to Putin or his entourage, have started to express their skepticism as to the effectiveness of the anti-crisis measures undertaken by his government. Public criticism voiced by German Gref caused an immediate sensation in public discourse. Gref stated that there are “no normal mechanisms for working out economic decisions in the government, which does not have a long-term program for emerging from the crisis and is resorting to momentary and unprofessional

²² A November poll conducted by the Levada Center showed 33 percent of respondents rated the government poorly, which is an increase from 27 percent in October. The main complaints about the government were its inability to handle the increase in prices and the decline in income of the population (61 percent), the inattention to social protection of the population (38 percent), the inability to provide the public with employment (29 percent), and the inability to bridle the economy and the drop in production (26 percent), http://www.Levada.ru/press/2008.11.html.
²³ Interfax, April 23, 2009.
actions.” According to Gref, “Sprinter tactics of the government could only hinder Russia’s recovery.” Anatoly Chubais, one of the members of the Russian political elite, was forced to admit that “we have a very bad tradition in Russia where strategy comes from tactics. So what I am afraid of is that these tactics (of expanding the roles of the government) will become a strategy, which is a real risk.” Igor Yurgens, head of the Institute of Contemporary Development, admitted in February 2009 that “ballooning state involvement in the economy, the propping up of ineffective businesses and the atrophy of market institutions present major risks both now and in the future.” The “fundamental balance” between government and business may be harmed, stated the report prepared by the Institute, if state ownership of companies’ stock rises another 10 percentage points from the 45 percent held at the end of 2008.

At the beginning of 2009, thousands of Russians took to the streets expressing dissatisfaction with Kremlin policy. It was not a social tide that could threaten the stability of the system. But it was a sign that the moods in Russia are becoming more critical of the Kremlin. The Russian media wrote: “Vestiges of faith in the national leadership and what remains of the Russian people’s proverbial patience are the only things that stand between the powers-that-be and mass protests. In any event, neither faith nor patience will last much longer. The process is under way.” An opinion poll conducted by Levada Center in March 2009 showed growing social discontent: 54 percent of respondents supported the rallies against the political regime (28 percent did not support them and 18 percent had no position). However, only 26 percent of respondents were ready to take part in the rallies (61 percent would rather not join the rallies with 13 percent who did not have a position on that issue).

Russian authorities have driven themselves into a trap. If authorities take the road of radical economic reform and change their economic policy, this will amount to an admission that their policy over the last eight years was mistaken. Even more important is the fact that a real economic reform will mean introduction of the competition, rule of law, guarantees of private property, and transparency. This in turn will demand transformation of the super-centralized

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24 Quoted by Niezavisimaya gazeta, February 5, 2009.
26 Bloomberg agency, February 9, 2009.
state. The ruling team does not want to and cannot reform the state because this would mean the risk of losing power, which is based on the absence of competition. Thus, one could conclude that even if Russia copes with the current wave of the economic crisis, the system itself will produce new economic problems in the future—increasing vulnerability of the Russian model of development.

Analyzing the crisis’ dynamics and consequences, Yegor Gaidar,28 wrote that, “The crisis will have political consequences. Running the country with oil at $140 a barrel and at $70 a barrel are two different tasks. This will change the working conditions for the Russian authorities. Two scenarios are possible: liberalization of the regime and attempts to make it more hard-line…. A more hard-line regime could be successful in the short term, but in the long term this policy would only pave the way to new upheavals.”29 Everything indicates that the Kremlin has opted to experiment with a selective use of the hard-line approach under a façade of liberal rhetoric.

V. Russia’s Foreign Policy in the Economic Crisis Period

Russia inherited a foreign policy model from the Putin era that can be defined as “to be with the West and against the West.”30 This model took shape over a lengthy period of time, and certain elements of it emerged during Boris Yeltsin’s presidency in the 1990s.31 Putin concluded the formation of Russia’s new foreign policy doctrine, and also succeeded in turning it into the main factor in consolidating Russian society. On the outside, this doctrine looks like a very contradictory cocktail. Its main thesis, highlighted on various occasions by Putin and Foreign Minister Lavrov, might be summarized as follows: The existing system of international relations is outdated; Russia proposes establishing a new tripartite world government with the United States and the European Union which can steer the global boat forward; and Russia calls for networking diplomacy and a renunciation of old alliances (including and focused mainly on

29 Quoted by the New Times, N51-52, December 22, 2008, 42.
30 Shevtsova, Russia: Lost in Transition, 176.
31 At that time, Yeltsin sought to be not only a partner but also an ally of the United States, while simultaneously, toward the end of the 1990s, holding back the expansion of Western influence.
NATO). While Putin was still in the Kremlin, the Russian ruling team made it clear that it expected the West to:

- Resist intervening in Russia’s internal affairs;
- Respect Russia’s right to spheres of influence in the post-Soviet area and
- Conclude with Russia an energy security agreement that would guarantee Russia long-term contracts for energy supplies and ensure favorable conditions for Russian businesses on Western markets.

In return, Moscow was ready to take into account Western business interests in Russia and cooperate with the West on the basis of “common interests and common threats.” Speaking in Munich in February 2007, Putin declared that “the world has reached a decisive moment when we need to give serious thought to the entire global security structure.” This speech was an ultimatum, emphasizing the Kremlin’s willingness to risk worsening relations with the West if the West—and first of all the United States—refused to accept the Kremlin “package” (the proposal to revise the rules of the game established after the collapse of the Soviet Union in 1991). This rhetoric made clear that Russia had become a revisionist power.

Moscow also demanded a return to spheres of influence and aspects of the bipolar world that existed before the collapse of the Soviet Union. In essence, Putin’s doctrine demanded recognition of Russia’s right to return to the Soviet, imperial model of behavior, while Putin hoped that the model would prevent the confrontations that characterized the Cold War era.

The West made some concessions and accepted a number of aspects of Putin’s doctrine. Western leaders have not attempted to meddle in Russia’s domestic affairs during recent years. They have more or less closed their eyes to Moscow’s attempts to re-establish control over the “near abroad” countries of the former Soviet republics. The European Union has taken the most conciliatory line of all and has tried hard not to do anything that could antagonize the Kremlin. But this did not prevent worsening relations between Russia and the West. In 2008, during the Russia’s war with Georgia, Russia and the West ended up in a state of political confrontation. In fighting Georgia, Russia was essentially battling an American project, and, in the Russian elite’s
view, this war was supposed to force the West—and above all the United States—to accept the new rules for engagement that Russia had previously proposed.

Upon his arrival in the Kremlin, Medvedev made his predecessor’s foreign policy doctrine his own, so that we can now speak of the Medvedev–Putin foreign policy doctrine. During the war against Georgia, Medvedev sometimes sounded even more hard-line in his anti-U.S. and anti-Georgian declarations than Putin. The Russian president put forward five principles for Russia’s foreign policy. These principles included Russia’s right to take action beyond its borders to “protect the lives and dignity of Russian citizens wherever they may be,” and to pay “special attention to specific regions or ‘zones’ where Russia has ‘privileged interests.’” The Georgia invasion was a demonstration of Russia’s desire to re-establish the historic buffer zone around its motherland. It was after Medvedev’s arrival in the Kremlin that Russia began threatening to take measures in response to U.S. missile defense plans in Europe, in particular by deploying Iskander missiles in the Kaliningrad Region.\(^\text{32}\) It was also under Medvedev that the latest “gas war” between Russia and Ukraine flared up at the start of 2009. For all the economic contradictions between the two sides and Kiev’s ambiguous position, there was no doubt that the Kremlin’s tough approach toward the dispute pursued the political objective of destabilizing the situation in Ukraine, influencing the political struggle in that country, and simultaneously discrediting Ukraine in the West’s eyes (and thus blocking Ukraine’s road to NATO). These events were further confirmation of the Kremlin’s return to the neo-imperial model of behavior in the area of international relations.

But it would be mistaken to see the Kremlin as moving in this one direction alone. This contradicts the logic of Russia’s hybrid system that is made up of a whole series of opposing tendencies, which reflect the dual nature of the aspirations of the Russian political class, which pursue its interests both through dialogue with the West and by presenting the West as a threat for their domestic audience. Actually, the Russian authorities are attempting to create for Russia

\(^{32}\) The Russian foreign affairs minister stated that, “the deployment of elements of the U.S. strategic arsenal alongside Russian territory could be used to weaken our deterrent capacity.” He also threatened that, “if real deployment of an American strategic missile defense system along our borders takes place, we will be forced to make a response using not diplomatic but military-technical means…. Obviously, in this situation Russia would take suitable measures to offset the potential threat to its national security.” Sergei Lavrov interview with Echo Moskwy, November 15, 2008, http://www.echomsk.ru, November 15, 2008.
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room to maneuver in different directions. They want to establish Russia’s status in a space somewhere between the West and the rest of the world—which would give Russia the chance to play by its own rules. At the same time, Russia wants to ensure itself a place in the triumvirate alongside the United States and the European Union. This contradictory formula implies a proposal to the West to return to a balance of power, but with the guarantee that the West will hold itself back with regard to Russia, while recognizing Russia’s right not to have to do the same.

We have to admit, that the Russian political elite are not unanimous in their arguments for returning to the Old World order for which the Kremlin clamors. Most Russian politicians and experts base their revisionism on geopolitical arguments (such as Russia’s growing power, Western weakness, the need to ensure respect of Russia’s national interests, etc.), and the desire to make up for past humiliations. But there is also the position held by Foreign Minister Lavrov, who declared that the domination of Anglo-Saxon values is over and that an era of competition in the “civilization dimension” has begun. Not so long ago, members of the Russian elite were talking about how they accept liberal principles but apply them in accordance with Russia’s specific conditions. Now, they are starting to lay claim to their own value system, though it remains unclear exactly what kind of values they are trying to offer the world. However, this is not the end of the Russian elite’s search for its national idea and new paradigm of survival.

The growing problems in Russia’s relations with the West do not stop the Russian elite from using the West to promote their own corporate and individual interests there. The Russian ruling class has a fairly broad range of means of influence in the West that includes co-opting Western representatives into their own network organizations, playing on the conflicts or competing interests among Western countries, and imitating and making use of Western double standards to justify Russian double standards. This is a clear model of a ruling class that wants to have all the benefits the Western world can offer while at the same time rejecting its standards. Moscow can defend Serbia’s territorial integrity but at the same time undermine Georgia’s territorial integrity and threaten to split Ukraine. Russia can take part in the Russia-NATO Council, but at the same time consider NATO its enemy.
The Kremlin has taken advantage of the West’s weakness and confusion in international affairs to turn the West into a factor in Russian domestic affairs, making it an instrument to legitimize its own political regime. The West did not even notice that it had become the guarantor that ensured the interests of the Russian rentier class, the raw materials model of capitalism, and an authoritarian government based on anti-Western rhetoric. While seeking to maintain the status quo inside Russia and keep the ruling team in power, the ruling tandem is attempting to revise the international order that emerged in the world after the Soviet collapse. Being a dogmatic and revisionist at the same time is the ruling tandem’s foreign policy credo.

The rhetoric of the Russian elite is enlightening. “Russia cannot take any one side in the conflict of civilizations.” “Russia is ready to act as a bridge.” The Kremlin’s choice of words—“mediator,” “bridge,” “superpower,” “network diplomacy,” and “geopolitical triangle”—also illustrates the reigning mood among Russian elites. The Russian political class hopes to divide the Western community and thereby strengthen its influence. Sometimes, it succeeds—at least in Europe.

Medvedev continued developing the foreign policy doctrine together with Putin, emphasizing the need for a new binding treaty on European security in the aim of establishing a common collective security space for all countries of the Euro-Atlantic area. “The Euro-Atlantic area today needs a positive agenda. The events in the Caucasus have but confirmed how absolutely right the idea is for a new European security treaty. With its help, we can build a common and dependable system of comprehensive security,” Medvedev said in Evian earlier this year. Another of Medvedev’s initiatives was the “three no’s to the West,” confirmed by Putin: no ensuring one’s security at the expense of others; no action (within military alliances or coalitions) that would weaken the common security space; and no development of military alliances to the detriment of the security of other parties to the treaty. Russia also proposed drawing up criteria for sufficient defense that would set limits on the development of European countries’ armed forces.

Clearly, in a situation where most European countries consider themselves secure and where only one country (Russia) insists that all the others are threatening its security, any attempts to agree on objective criteria of what kind of actions constitute threats (and what constitutes sufficient defense) are unlikely to succeed. Objective security criteria can be agreed on only as a balance between the opposing parties’ forces; this was the case in the agreements between NATO and the Warsaw Pact. But the situation has changed, and the Warsaw Pact no longer exists. The Kremlin’s proposals imply demands for parity between Russia’s armed forces and the combined armed forces of NATO countries. The West is hardly likely to accept such a demand, as this would include weakening or erasing NATO. The Kremlin’s intent is quite apparent—to prevent NATO expansion, put the alliance outside the European security system, and, at the same time, draw the European countries in long years of senseless negotiations. But even if the West goes ahead with security talks, the Kremlin’s ultimate objective remains murky.

Is the Russian ruling tandem ready to risk further worsening of relations with the West, and above all with the United States? It would be a mistake to conclude that this is the case. The ruling tandem in Moscow sees the “red line” it does not want to cross. The Kremlin is not ready for real confrontation with the West. On the one hand, the Russian political elite are aware of the dependence on the West as a buyer of Russia’s raw materials. Moreover, the elite seek personal incorporation into Western society and do not want Russia’s society to be marginalized or isolated. On the other hand, these elite seek to use the anti-Western rhetoric and actions to mobilize Russian society.

In this context, it is hard to avoid the question: To what extent is Russia’s foreign policy assertiveness a reflection of the society’s moods that the authorities have to take into account? In general, the Russian society in the 1990s was amazingly pro-Western. About 68 percent of respondents considered the United States as friendly to Russia and 78 percent of the respondents said the same about the European Union. Today, only 43 percent of Russians still have the same positive attitude toward the United States, though up to 75 percent view the European Union as a partner. The growing anti-Americanism during the last five to six years is definitely the result of
the active and intentional state propaganda and efforts on the part of the ruling elite to use anti-American sentiments to consolidate the country.\textsuperscript{34}

Will the economic crisis change the Kremlin foreign policy model? So far, the Kremlin continues to put the blame for the crisis on the West and the United States specifically, and this approach works to help the authorities dodge responsibility for the growing internal problems. The return to the old “besieged fortress” matrix has proved a particularly effective means for the Kremlin to preserve its power, and it is not about to abandon it. The Kremlin’s policy of turning the West and the United States in particular into enemies for domestic consumption inevitably undermines Russia’s constructive cooperation with the Western countries. Western business is forced to face a more hostile environment in Russia—a climate that cannot be changed without rejecting the traditional Russian mechanisms of consolidation. Attempts on the part of the West to pursue cooperative and friendly policies often bring unexpected results. Thus, the EU’s attempts to defuse the tension in relations with Russia and put the emphasis on talks, such as the new Partnership and Cooperation Agreement that were frozen during the war in the Caucasus, create the impression among the Russian elite that the West is weak. Hence, this encourages the Kremlin to continue a policy of trying to intimidate or blackmail the West or its individual member states.

But at the same time, the deepening global financial crisis and severity of the economic situation in Russia itself have forced the Russian political class to moderate their euphoria at having “risen from their knees.” The voices of pragmatists have become clearer now, calling for the need to “build bridges with the West because we cannot pull ourselves out of the ditch on our own.” Both Medvedev and Putin have remarked on the “new opportunities” ushered in by the Obama administration, which demonstrates the Kremlin’s desire to mend relations with the United States. What are the causes of this new mood? During the Bush presidency, Moscow used America as a threat to strengthen the anti-Western and anti-American consolidation of Russian society. Today the Kremlin clearly seeks a return to special relations with the United States that would guarantee Russia the privileged role in international relations necessary for maintaining

\textsuperscript{34} Russia’s enemies today are Georgia (60 percent of respondents have a negative view of Georgia), and Ukraine (49 percent have a mostly negative view of Ukraine). \url{http://www.Levada.ru/press/2009040102.html}, Press-Vypusk (Press release), March 14, 2009.
Russia’s sense that it remains a great power in its public’s eyes. This is just another way to use America to strengthen and endorse the Russian system and the current rule.

The key way to mend the fences in the relations between Russia and the United States, as viewed by both sides, are the arms control talks. Pundits and politicians on both sides have started to express hopes that these talks will create a potential for a “Grand Bargain,” encompassing cooperation on the global financial crisis, Iran, Afghanistan, missile defense, and conventional armed forces. The conciliatory gestures of U.S. President Barack Obama, who called for pressing “the reset button” in U.S. relations with Russia, have demonstrated that both sides are ready to break the ice.

In order to prevent ungrounded optimism with respect to “resetting” the relations, one has to pose a question: Does the new rapprochement between Russia and America mean that the Kremlin is ready to change its foreign policy doctrine and show greater willingness to cooperate with the United States? Will the Obama administration succeed in turning around the relationship between the two countries? Western observers have started to express optimism with respect to possible softening of the Russian stance, arguing that the economic crisis in Russia means Moscow will need resources from the West, which will not be forthcoming unless she is ready to repair relations. Some even concluded that, for the first time during the last 10 years, the Russians have the economic impetus to work with the West.  

I would argue that there is no reason to expect a renunciation by the Russian ruling tandem of the Kremlin’s doctrine “To be with the West and to be against the West” so long as Russia continues to be ruled by a system that depends on mobilizing public support through a search for enemies and on the longing to have “areas of privileged interests.” More likely is that the Russian elite will keep trying to play two tunes at once. It will continue to use the anti-Western rhetoric at home and lay the blame for Russia’s problems on the West and mainly at the United States, while simultaneously seeking to improve its relationships with Washington and other Western nations on the international arena. This is a very complex game that demands great skill, and what’s more, it is game for two players—Medvedev and Putin—who so far have been pretty

successful playing out a “Jekyll and Hyde” script. It should be added that the realist approach by Washington and other Western capitals towards Russia, i.e., cooperation on the basis of “common interests and threats,” unburdened by considerations of values, is, in the view of the Russian elite, the best way to support the traditional Russian system—allowing it to be integrated into the Western space while preventing Russian society from moving to Western standards.

Ultimately, this attempt to pursue a formula “to be with the West and to be against the West” is unlikely to prove consistent or predictable. We can expect to see a continuation of Moscow’s vacillations between cooperation and suspicion, with some elements of confrontation perhaps thrown in for good measure.

One final question: How independent is Medvedev in his foreign policy initiatives which he has started to present, such as his initiative to create a new European security infrastructure? Judging from events so far, he approves his foreign policy initiatives with Putin, just as he does his domestic policy plans. The Russian president hardly will risk taking steps that will undermine the ruling pattern and his relations with the Russian national leader. There is reason to believe that, in the short term, Medvedev will have problems in reaching a true independence in setting and carrying out Russia’s foreign policy even if he wants to. This is not just because he has only limited experience in this area, but also because Putin considers foreign policy one of his most important political resources and he is unlikely to give it up of his own accord. So long as Putin remains the leader in the political tandem, Medvedev will act according to the logic of Putin’s paradigm. Or they will develop this paradigm together. Both in foreign policy and domestic policy, the political duet Medvedev–Putin has as yet no visible differences. The new configuration of power, or ascendancy of Medvedev to real power, may soften Russian foreign policy or at least soften the means that the Kremlin uses to pursue its agenda. But, unless the Russian system based on personalized power is restructured, Russian foreign policy, even under a more educated and liberal leader, will continue to perplex the world with its unpredictable zigzagging.
VI. Conclusion: What Does the Future Hold?

For the first time in a long time, some certainty has emerged in Russia, and this is cause for both concern and optimism. What is certain is that the economic crisis, which has already started to turn into a social crisis, will worsen and sooner or later will have political consequences. It is not clear yet just what these consequences will be. Anatoly Chubais predicted “a 50 percent chance that the current political and economic system will hold up…and a 50 percent chance that we will face serious upheavals—economic, social and perhaps even political.” Many observers believe that Chubais may be too optimistic in his prediction. Russia has already entered a period of social tensions that may lead to political shakeups. In any case, they will have an impact on the structure and course of the political regime.

The Kremlin has no means of preventing the crisis from taking on social and political dimensions, and no recovery program either, because both require action at the systemic level—that is to say a change of the principles upon which are built Russia’s government and its relations with society. Russia has not yet managed to find a means for making the transition to a new stage in its development without first being forced to go through a crisis situation. The current crisis at least offers the chance for Russian society to wake up to the fact that bureaucratic capitalism and an authoritarian top-down governance model have outlived themselves. Could the economic crisis push the authorities and society into realizing the need for systemic reform? It is still not clear. It is quite possible that the authorities will attempt to maintain control over the country by applying an “iron hand” and using force to keep the society in order. However, the problem with this is that the ruling elites no longer have the financial and administrative resources—or the social support—needed for maintaining power within the framework of a hard-line authoritarian or totalitarian regime. Moreover, the ruling team can’t be sure of loyalty of the military and the interior troops.

Additionally, a large part of the political class has no desire to return to this kind of rule. In the summer of 2008, 45.5 percent of lower echelons of the Russian elite expressed criticism of the country’s leaders and the system itself, saying that pluralism and political freedom were the best

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options for Russia. True, this part of the elite is not ready for consolidation on a platform of opposition to the current system. One cannot entirely exclude the possibility that Russia will have to go through a political crisis and through a period of a more hard-line regime before the chance arises for a real liberal alternative to take shape within society.

It is not, however, a given that political crisis will provide the impetus for consolidation of the elite and the population around a liberal platform. More feasible is another option: The authorities will continue their policy of vacillation between authoritarian rule and imitation of liberalization, while the country faces a lengthy period of stagnation and economic recession. In either case, Russia has come to a dramatic moment in its development that will be a test for the political class’ and the public’s ability to find a society-wide, civilized response to the challenges before them.