

An aerial photograph of a vast, dark blue sea with a small dark object on the horizon. The water is textured with ripples and some white foam. The sky is a pale, uniform color.

RUSSIA SCENARIOS 2030

FREE RUSSIA FOUNDATION
2019

Russia Scenarios 2030



FREE RUSSIA FOUNDATION
2019

Contents

Foreword	5
Energy Dependence	9
Elites' Cohesion and Coup D'état	23
Military Confrontation	39
Russia as a Proxy Superpower of China	53
Decentralization	63
Local Military Conflicts	75
Two Positive Scenarios	87
The Sanctions Scenario	119
State Crony Capitalism	131
Russia and China in 2030	139
De-escalation	157
Succession after Putin's Unexpected Death	165



Moscow, 2011. Photo courtesy of Konstantin Rubakhin, all rights reserved

Foreword



By Natalia Arno, President of
Free Russia Foundation

The façade of stability and strength of the current political regime in Russia belies the possibility of a precipitous and dramatic shift in the country’s organization, direction, regional role and foreign policy approach, form of government and even its physical shape and size.

The proposition that a dramatic change in Russia is possible is not far-fetched. In fact, in the past thirty years the United States has been greatly surprised by such shifts on at least two occasions: first, when the Soviet Union whose superpower had been projected to endure well into the XXI century by virtually all Western intelligence services and political analysts suddenly collapsed in the late 80’s; and then again, when post-Soviet Russia – whose pro-democratic course and integration into the global community as a peaceful, constructive participant had been taken for granted regressed to authoritarianism and militarism of a type reminiscent of the previous Communist regime.

Caught by surprise, the U.S. policy community squandered critical opportunities for the U.S. to steer Russia in a direction more beneficial to both nations in the late XX century. Two decades later, Russia emerged once again atop the list of American adversaries.

Continuity and relative stability in government structure and leadership – under Putin for example – does not foreclose the possibility of political choices and evolving national priorities. One has witnessed in the past, and could reasonably envisage in the future, a contest between deepening authoritarianism vs. receptivity to reform, a “thaw” in domestic and foreign policy, and controlled “succession” over many years. Each choice along this kind of spectrum will carry significantly differing implications for Russia’s course and the U.S. policy options for response.

Russian independent political leaders, civil society

activists, and policy-makers in the United States and in Europe – and anyone who embraces the vision of a democratic, prosperous and peaceful Russia – can mitigate the likelihood of another bad surprise or missed opportunities and support the country’s transition to a more positive future by articulating, refining and thinking through possible scenarios. This sort of disciplined intellectual approach can shed light on key factors and early indicators bearing on the direction and specific content of Russia’s development (including continuity options); help evaluate the likelihood of each scenario and its significance for international security; and develop a strategy for weighing and balancing risks associated with each scenario.

This publication is the product of an initial effort undertaken by Free Russia Foundation (FRF) in 2018 to stimulate public discussion of Russian scenarios. It contains a set of twelve hypothetical evolutions for the political development of Russia through 2030, as well as analyses of key factors driving each future. Most of the chapters consider implications for international security and offer recommendations for minimizing risks and affecting positive change in Russia.

To tap into diverse sets of expertise and offer a range of outlooks, we have distributed responsibility for the scenarios among five prominent Russian authors: Vasily Gatov, Vladislav Inozemtsev, Aleksandr Morozov, Denis Sokolov and Ilya Zaslavskiy. Their backgrounds include energy analysis, high-level official positions, political careers, academia, journalism, media management and social anthropology. Several scenarios were developed by FRF team with consultations by Vladimir Milov. All of these distinguished individuals have made prominent contributions toward Russia’s political development, share the vision of a free and democratic Russia, see their own personal future intertwined the future of Russia, and will, no doubt, become prominent players on the Russian political arena when such an opportunity arises. This aspect sets our project apart from any other scenario effort undertaken inside or outside of Russia.

As our authors maintained full editorial control throughout the effort with only initial structural guidance, our readers may intuit conflicting worldviews, assumptions and judgements. The expert authors’ natural dis-

agreements and contradictions are precisely what we had sought to present in order to spur informed discussion of Russia's future.

We should underline that neither the list of scenarios and driving factors, nor the professional or ideological angles presented in our publication, are exhaustive. Again, they are meant to serve as a starting point for an even more robust public consideration of transition options for Russia.

Three elements that feature prominently throughout all of the scenarios are the centrality of Putin's persona, the decisiveness of global energy prices, and the absence of quick and easy ways to improve U.S.-Russian relations.

A matter of most profound disagreement among the authors, on the other hand, is the likelihood and the extent of societal strife. Zaslavskiy, for example, does not anticipate a split within the ruling elite or military coup even under greatly intensified stresses, such as stronger international economic sanctions or falling oil prices. Sokolov, however, describes various decentralization processes and local military conflicts under which regional elites would be ready to seek "alternative" solutions – secession, power grabs at the local level and others.

Gatov and Morozov examine various post-Putin scenarios for Russia. Gatov describes what he sees as a positive scenario for the West where an isolationist Russia, neither democratic nor friendly, but also not too aggressive, finally looks inward to address its mounting internal economic and social dysfunctions. His second scenario envisages Putin succeeded by a determined yet pragmatic dictator who works to rebuild relations with the West while ruling with an iron fist inside the country and sustaining authoritarian domestic policies.

In Morozov's *90 Day Scenario* a succession takes

place after Putin's unexpected death. Morozov contends that Putin's inner circle has already put in place a number of succession mechanisms that would allow them to retain control and select Putin's replacement. The ultimate decision, in Morozov's opinion, would be negotiated by a handful of power brokers at the National Security Council and top officials within the government. Morozov anticipates that the media would play a crucial role as those who control key TV networks in Russia would be able to shape public opinion and influence the succession process. Finally, Morozov believes that offshore capital would also play an important role: insiders with access to and control over the networks of laundered money parked abroad would impact the transition of power.

China and its foreign policy figure prominently throughout the scenarios. Inozemtsev urges the United States to be careful not to push Russia into a Chinese embrace by introducing excessive sanctions, and he advocates bilateral compromises to prevent the two Eurasian giants from aligning their forces against the U.S. FRF team scenario is skeptical regarding Russia's ability to diversify its oil and gas exports from Europe to China in any fundamental way – something that the Kremlin has been planning for a decade but failed to accomplish. Sokolov and most other authors see a growing disparity between the economic stature and bargaining power of Russia and China such that deals or arrangements beneficial to Russia would be highly unlikely.

The evolution of the international sanctions regime and Russia's global export of corruption are important drivers in most of the scenarios. Zaslavskiy anticipates further growth of corruption levels in Russia and its continued spread to the West. In his view, while the sanctions have demonstrated their effectiveness in reducing (though not eliminating) the Kremlin's ability to carry out hostile foreign policy, they have not been applied against Russia in the same way as they have been, for example, against Iran. Zaslavskiy urges the West to develop and implement a comprehensive multi-layered strategy to contain Russia's aggressive foreign policy, including stricter sanctions (such as vigorous controls on monetary flows in and out of Russia), while deepening its engagement with Russia's youth and the Russian global diaspora which numbers in the millions.

Each scenario has a different style and feel, with some resembling academic research papers and others reading more like extended op-eds or even movie scripts.

Gatov's scenarios read like science fiction plots with scenes of an aging Putin attempting to hold on to his power to steer the country. Inozemtsev uses a variety of published sources from Russia and China. Sokolov includes numerous anonymous sources, including regional officials and businessmen from all over Russia, whom he had interviewed on background during his field research as a social anthropologist. However, **all of the scenarios, by design, feature a set of the same structural elements—sources of discontinuity, description of changes, critical indicators, implications and recommendations for mitigating risks.**

To help our reader navigate these chapters and quickly zoom in on the issues of interest, we have added an index of issues.

We hope that this project will shed some light for western decision-makers on the internal dynamics within contemporary Russia; serve as a catalyst for much-needed public discussion of an informed and sustainable Russia policy; and expand themes for discussion beyond the specific circumstances of Putin's regime.

April 2019, Washington, D.C.

РОССИИ
БЕНЗИН
200 руб.



Car fuel sold along roads in Chechnya, 2008. Photo courtesy of Konstantin Rubakhin, all rights reserved

Energy Dependence



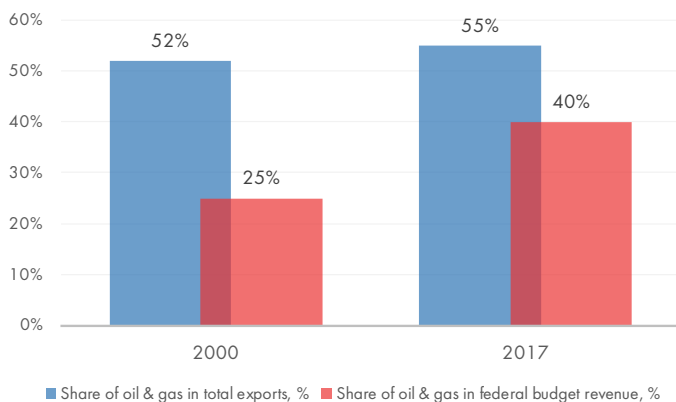
This chapter is a product of a team effort by Free Russia Foundation staff with advisory and editorial support from Vladimir Milov

Sources of discontinuity

1. Sharp decline of energy export revenues and profits

Today, Russia's dependence on energy export revenues and profits is an issue of higher importance than ever before. During the time of Vladimir Putin's rule, Russia has not been able to make any meaningful progress in reducing its dependence on oil and gas exports. In fact, by all metrics, Russia's oil and gas dependence has grown: in 2017, the share of oil and gas revenues in exports stood at 55%, as opposed to 52% in 2000; the share of oil and gas revenues within the total federal budget – 40% in 2017, as opposed to 25% in 2000.

Russia's increasing oil & gas dependence in 2000-2017



Data: Rosstat, Federal Treasury, Federal Customs Service

Despite its persistent “diversification” rhetoric from as far back as the 1970s Soviet Union stressing the need to reduce such dependence, Russia under Putin has not made even the slightest progress in that direction.

The current level of dependence exposes Russia to serious strategic risks:

- The global shift from fossil fuels to renewable energy may significantly reduce international demand for Russian oil and gas, shrinking oil and gas rents and thus rendering the country's current economic strategy defunct;
- The output potential of the relatively cheap oil and gas field stock in Western Siberia is rapidly depleting, whereas costs for the development of oil and gas production in new areas (Eastern Siberia, Arctic, offshore) are much higher and would not provide the same level of rents as the bulk of current output provides;
- Heavy reliance on oil and gas severely hampers the development of other promising economic sectors, increasing Russia's vulnerability to “impact events” on the international oil and gas markets. Major shifts in the global energy mix would deprive the country of its oil and gas rents yet there would be no other sectors of the economy comparable in size and competitive enough to fill this void and replace export revenues and profits.

One issue which often flies under the radar is the dependence of Russia on coal exports. As virtually all experts forecast a severe decline in coal consumption, prospects are bleak for current international coal export markets. This may have strongly negative economic impact on Russia.

Understanding Russia's dependence on energy exports

While the international focus has been on Gazprom and Russian gas exports, in reality, the contribution of the oil industry to the Russian state budget is four times larger.

Russia's progressive system of taxation of energy exports introduced in 2004 (stipulating that once the price of oil surpasses \$40 per barrel, the largest portion of sale revenues goes to the treasury and not to oil companies) only applies to the oil industry. The level of taxation for the natural gas industry has stayed relatively low. Moreover, the Russian oil industry exports much more oil to the international markets compared to the exports by the natural gas industry, both in absolute and relative terms. In other words, **international oil markets have much more profound strategic implications for Russia's future than do the natural gas markets.** This is not to say that the gas industry is not a source of sizable rents, but these are far smaller than rents generated by oil.

Gazprom is seen by Putin's clan not as a major source of revenue for the budget, but as a key source of enrichment for members of Putin's inner circle. A significant portion of the natural gas rents goes not to the federal budget, but directly to Putin's cronies who benefit from large capital investment and construction contracts. This is precisely the reason behind the reluctance of the Russian government to bring up the taxes levied on the natural gas industry to levels comparable with the oil industry.

Whereas a collapse of oil prices would be potentially devastating for the Russian economy, any large reduction in the value of gas exports would be less significant, although it would still matter.

Possible "black swans" in the international oil markets

There are two developments that would pose major strategic risks for Russian oil exports:

1. The rise of alternative oil producers, primarily U.S. shale oil, capable of providing additional supply volumes sufficient to ensure that oil prices will not rise above \$100 per barrel in the foreseeable future;
2. A structural shift in oil demand (for example, development of electric vehicles (EVs)) which would significantly lower the international demand and prices for oil.

The \$100 per barrel price assumption is central to the Russian economy and political regime. It is simply not possible to realize growth under

the present economic system without oil prices reaching \$100 or higher. Experiences of 2008-2010 and 2014-2018 demonstrated that oil prices below \$100 merely provide Russia with the ability to operate in the "survival" mode, with little or zero or even negative economic growth. Positive dynamics of GDP growth (at least 3-4% a year) were last observed in 2010-2013, when oil prices reached the level of \$100/barrel or higher, and oil and gas exports stood at \$250-300 billion a year.

Unless oil prices plunge to the \$25-30 per barrel levels, the Russian government would still be able to control and stabilize the situation. However, with prices remaining under \$100, the status quo can be sustained only through redistribution and fiscal consolidation —at a high political cost, as suggested by the population's reaction to the announced rise of taxes and retirement age in 2018—while meaningful growth could not be possible at all.

Russian GDP growth vs. oil exports prices in 2008-2018

Year	Average oil export price, \$/bbl.	GDP annual growth rate, %
2008	90.7	5.2%
2009	55.6	-7.9%
2010	74.1	4.5%
2011	101.7	4.3%
2012	103.1	3.4%
2013	100.4	1.3%
2014	94.2	0.7%
2015	50.1	-2.8%
2016	39.6	-0.2%
2017	50.5	1.5%
2018	70.9	1.8%

Sources: Rosstat, Russian Central Bank, Russian Ministry of Finance

The U.S. shale revolution has the potential to preclude the rise in oil prices above \$100/barrel for the foreseeable future, though relatively short periods of high prices caused by geopolitical turbulences may still occur. This may hold true notwithstanding even a massive divestment in conventional—particularly capital intensive offshore—oil reserves (analysis by the International Energy Agency suggests that such divestment may cause shortages of oil supply and the oil prices climbing back above

\$100/barrel at some point after 2020¹).

As the period of relatively high oil prices between 2004-2014 demonstrated, oil price levels higher than \$100/barrel inevitably lead to the rise of two conditions that make high prices non-sustainable. Firstly, they dramatically increase the number of oilfields that can be developed profitably, and thus, increase the potential future oil supply, contributing to the reduction of prices. The development of U.S. shale oil since 2000s is a direct outcome of an era of high oil prices – shale deposits became profitable to develop. Secondly, expensive oil inevitably slows down global demand.

The emergence of new major sources of global oil supply which had not existed before the mid-2000s – the U.S. shale oil – has made international oil markets far more competitive and less prone to manipulation. It is reasonable to expect that the market forces described above will not allow oil to become overly expensive, and periods of high oil prices (above \$100/barrel) will not last long. We will probably never again see protracted periods of very expensive oil. This dynamic will undoubtedly limit Russia's export revenues and undermine its ability to realize economic growth for the foreseeable future.

Throughout the two recent periods marked by lower oil prices (2008-2010 and 2014-2018), Russian economic and political system proved flexible enough to deal with changes. Future catastrophic shifts are unlikely unless oil prices drop below \$25-30 per barrel and stay there for a prolonged period, such as 5 years or more.

Undoubtedly, zero-growth periods would be difficult, with conflicts flaring up within the elites and the society in general, as they compete for limited resources. Recent social unrest caused by the raising in the retirement age is a perfect illustration of a situation where an economy with no growth and modest oil export revenues has forced the authorities to make unpopular decisions for the purpose of fiscal consolidation that otherwise (in a higher

oil price environment) would not be necessary. In the long run, lack of growth and grim realities associated with a “redistribution economy” (as opposed to a “growth economy”) would lead to adverse political consequences.

A much greater challenge, however, is posed by the rise of electric vehicles (EVs) as an alternative to internal combustion engines (ICEs), which would result in a sharp reduction of the global oil demand as we know it. Today, the transport sector is responsible for about two-thirds of the global petroleum consumption. Within the transport sector itself, oil and petroleum products account for over 90% of energy sources globally.² Automotive transport is responsible for about 85% of the total energy consumption of the transport sector.³

While the current share of EVs on the global car market is relatively small, rapid technological progress and fast commercialization make it plausible that sometime around 2025-2030 EVs may claim a significant market share, at the expense of traditional ICE vehicles, and thereby dramatically reducing global demand for oil and revolutionizing international oil markets. This is a process that will not be driven by policy choices made by specific governments. Virtually all major oil-consuming countries have focused on developing EV technologies and markets in order to reduce dependence on oil imports. The progress in development of EVs to date has been rather fast⁴ making realistic the prospect of peak oil demand or even collapse of international oil demand in the next decade or so.⁵

Such developments will have a profound effect on the operation of the current Russian economic model. They have the potential to bring down oil prices to the level of \$25-30 per barrel and lower without any prospect of recovery. This would be something qualitatively from the unfortunate, but survivable “redistribution” economic model that has emerged in the past few years as a reaction to the \$40-80 per barrel oil. As result of such developments,

1 IEA “Global oil supply to lag demand after 2020 unless new investments are approved soon”, <https://www.iea.org/newsroom/news/2017/march/global-oil-supply-to-lag-demand-after-2020-unless-new-investments-are-approved-so.html>

2 <https://webstore.iea.org/world-energy-balances-2018>

3 U.S. Energy Information Administration, “International Energy Outlook/Transportation Sector Energy Consumption” [https://www.eia.gov/outlooks/ieo/pdf/0484\(2017\).pdf](https://www.eia.gov/outlooks/ieo/pdf/0484(2017).pdf) data from graphs on pages 127 and 129

4 International Energy Agency, “Global Electric Vehicle Outlook 2018”, <https://webstore.iea.org/global-ev-outlook-2018>

5 “Rethinking Transportation 2020-2030. The Disruption of Transportation and the Collapse of the Internal-Combustion Vehicle and Oil Industries”, James Arbib and Tony Seba, May 2017 <https://tonyseba.com/portfolio-item/rethinking-transportation-2020-2030/>; In addition see WoodMackenzie: <https://oilprice.com/Energy/Crude-Oil/WoodMac-Demand-For-Oil-In-Transportation-Sector-To-Peak-In-A-Decade.html>

Russia may find itself in a severe economic downturn without viable recovery options, as its economy has not spawned any other internationally competitive sectors besides oil and gas. There will be simply nothing to replace oil and gas exports revenues.

Creating new internationally competitive economic sectors would require years of painful structural reforms, which would directly challenge the fundamentals of Putin's political and economic models. The Russian government is in denial of this risk, which is apparent from official statements depicting alternative sources of energy as a fleeting fringe phenomenon (partially in an effort to calm down the public) and insist that "oil will be still in demand just the same for the foreseeable future"⁶. Strategic planning documents and various capital investment programs of Russian government agencies and large state companies put a disproportionate emphasis on development of oil and gas production and ignore the potential revolution in oil demand related to the EV technology.

If Russia again finds itself unprepared for a major systemic shift in the oil prices as occurred in the mid-1980s, we can expect a similar period of sharp economic downturn, but this time without any comparable prospect for recovery, unless the Russian government adopts key structural reforms aimed at opening the economy to market forces and international investment.

Needless to say, such reforms would involve significant decentralization of economic power, which in turn would directly challenge the authoritarian political system built by Vladimir Putin. But, again, these developments are most likely to happen beyond 2025 (although some experts are more optimistic regarding the pace of the EV revolution in the automotive industry and the corresponding collapse of oil demand).⁷

2. Failure to monetize Russia's natural gas potential

Despite being the subject of intense international focus, natural gas is much less important to the overall

functioning of the Russian economic system than oil. The revenue from the production and export of oil (mineral extraction tax on oil and condensate plus export duties on crude oil and petroleum products) made up 15.8% of the total consolidated budget revenue in 2017, whereas the revenue from the production and export of natural gas (mineral extraction tax plus export duties on natural gas) – constituted a mere 3.7% of total revenue.⁸ In 2017, Russia exported oil and petroleum products worth \$152 billion (42.4% of total exports) and only \$41 billion of natural gas and LNG exports (11.6% of total exports).⁹

This persistent disparity can be partially explained by the difference in ratio at which oil and gas supplies are directed to domestic and international markets. **Whereas the oil industry exports most of its products, the gas industry exports only about a third of the produced gas**, with two-thirds supplied to the domestic market where the prices are far lower than those on the international markets. Another contributing factor is the government policy of under-taxing Gazprom. For instance, effective mineral extraction tax rates for Gazprom during the first half of 2018 were at about \$4 per barrel of oil equivalent, whereas for Rosneft's oil production – \$26.8— more than 6.5 times higher.¹⁰ Such a disparity cannot be reasonably explained by differences in shares of supplies of oil and gas to domestic and international markets. Over the past few years, the effective gas export duty as share of the export price has been steadily declining due to multiple exemptions provided for Gazprom. In 2005, the effective export duty (amount of export duty paid as a share of revenue from gas exports to Europe) stood at 27.2% of the European gas price, while during the first half of 2018 it declined to 19.2%.

Additionally, **Gazprom and other gas producers tied to Putin's inner circle receive sizeable tax exemptions for new export-oriented projects**, thereby diminishing the prospect that such projects would bring any meaningful revenue to the state budget. Examples of tax exemptions include:

- Tax benefits bestowed on Gazprom for the

6 June 2018 speech by Rosneft's CEO Igor Sechin:

<https://www.vedomosti.ru/business/articles/2018/06/22/773498-sechin-defitsit-nefti>

7 See the above quoted report by James Arbib and Tony Seba "Rethinking Transportation 2020-2030

8 <http://www.roskazna.ru/ispolnenie-byudzhetrov/konsolidirovannyj-byudzhet/>

9 http://www.customs.ru/index2.php?option=com_content&view=article&id=26258

10 Gazprom IFRS reports H1 2018: <http://www.gazprom.ru/f/posts/01/851439/gazprom-ifrs-2q2018-management-report-ru.pdf>; Rosneft IFRS reports H1 2018: https://www.rosneft.ru/upload/site1/document_cons_report/MDA_RUS_2Q2018.pdf

construction of its Power of Siberia gas pipeline to China. They included a zero mineral extraction tax rate for 15 years for gas fields that are to serve as a supply base for the project (Chayanda gas field in Yakutia and Kovykta gas field in the Irkutsk region), as well as a zero property rate for 20 years. In its explanatory notes to the government, Gazprom admitted that without these vast tax exemptions the “Power of Siberia” project would not be profitable;¹¹ Novatek — 23.5% of whose shares are owned by one of Putin’s closest associates, Gennady Timchenko— has secured a zero mineral extraction tax rate for 12 years for its Yamal LNG project, as well as many other direct subsidies from the state. The government has spent 97 billion rubles on the construction of the Sabetta Seaport, which is part of the project’s infrastructure. To finance the project, Novatek has received 150 billion rubles of cheap 15-year loans from the National Wealth Fund.¹²

The Russian government favors Gazprom with low tax rates in order to boost capital investments, which are significantly higher than capital spending by oil companies. In 2017, Gazprom’s capital investment spending has accounted for 23% of its annual revenue, as opposed to 10-15% for Rosneft and Lukoil. Such a policy, however disregards Gazprom’s significant surplus of upstream and pipeline capacity which means that there is no real need for such massive investment. Gazprom has a surplus of active upstream gas production capacity in the range of 100-150 bcm per year¹³ and excessive export pipeline capacity.¹⁴

Key entities and individuals benefiting from new Gazprom construction are, once again, the closest business associates of Vladimir Putin. For instance, the combined annual revenue of just three major contractor companies owned by Arkady Rotenberg and his family (Stroygazmontazh and Gazprom Drilling) and Gennady Timchenko (Stroytransneftegaz) is about 0.5 trillion rubles. These companies occupy high positions on the “RBC-500” ranking of Russia’s largest companies by the size of revenue.

Company	Position on the RBC-500 list	Annual revenue, in billions of rubles
Stroygazmontazh (Rotenberg family)	44	276
Stroytransneftegaz (Timchenko)	98	121
Gazprom Drilling (Rotenberg family)	161	64

Source: 2016 RBC-500 overall ranking of the biggest Russian companies by the size of revenue

The combined revenue of the three companies featured in the table above comes up to 65-70% of Gazprom’s annual capital expenditure on new upstream gas projects and pipelines (640-715 billion rubles in 2016-2017).

It is worth noting that Rotenberg’s Stroygazmontazh and Gazprom Drilling are effectively former Gazprom’s wholly-owned pipeline and upstream construction subsidiaries, which were bought by Rotenberg in 2008-2010 with a significant discount to real value and in a very non-transparent manner, subsequently becoming key contractors of Gazprom, now privately owned.

Essentially, **the Russian natural gas industry, while not a major source of budget revenue, is instead a mechanism for transferring profits into the pockets of Vladimir Putin’s closest circle.** It also is of a much lesser importance as source of export revenue when compared to the oil industry. Therefore, changes in gas prices and positions of Gazprom (and new players like Novatek and possibly Rosneft) in the global markets matter significantly less to the Russian economy as opposed to what happens with the oil markets and prices. Moreover, gas exports prices predominantly are indexed to international oil prices, which predetermines the fact that any future export revenue dynamics in the gas industry would also depend on the oil prices and be prone to incurring similar collateral damage in the event oil prices fall.

The rapidly increasing gas-to-gas competition and emergence of many new alternative suppliers of gas, primarily due to rapid development of LNG, is a prominent

11 State Duma Approves Tax Breaks for Gas Supplies via Power of Siberia” <http://www.forbes.ru/news/273003-gosduma-utverdila-nalogovye-lgoty-dlya-postavok-gaza-po-sile-sibiri>

12 “How State Helped to Build Yamal LNG” <https://www.rbc.ru/opinions/business/11/12/2017/5a2e37599a79476b576c3f91>

13 “Miller: Gazprom’s Gas Output Potential Exceeds Actual Production by 150 bcm/year”, <https://tass.ru/ekonomika/3417610>

14 See V. Milov presentation at the European Commission representation in Moscow: <http://www.milov.org/entry/2316>

feature of international gas markets that may further exacerbate the situation for natural gas as the source of export rents for Russia. Between 2000-2017, global LNG trade volumes have tripled, increasing from 300 to almost 900 million tons per year¹⁵. The volume of global LNG trade is projected to double in the coming years.¹⁶

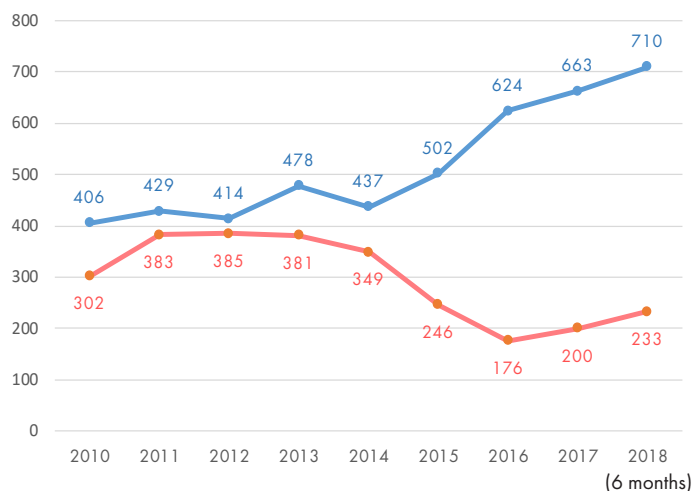
In the past decade, due to pressure from the increasing competition, Gazprom has been forced (in some cases even through courts, but for the most part, of its own volition) to abandon oil price indexation and mandatory “take or pay” conditions in its contracts with European consumers. As a result, Russian gas exports have been slowly but surely decoupling from oil prices. By 2018, the correlation with the oil prices for European consumers had been reduced by over \$35 per thousand cubic meters. The table below compares European gas sales price for Gazprom between 2007 and the first half of 2018, periods when oil prices were fairly similar:

	2007	H1 2018
Brent oil price	72.5	70.6
Gazprom gas exports price for Europe	269.4	233.1

Source: Gazprom IFRS reports, Brent oil price market data

Competition makes Gazprom’s gas sales to Europe highly dependent upon price levels. In 2010-2014, when price of gas exports to Europe ranged between \$300-400 per thousand cubic meters, export gas sales to Europe dropped to a record low 400-480 million cubic meters per day.

Gazprom’s gas exports to Europe: volumes vs prices



Source: Gazprom IFRS reports

The recent surge in sales’ volumes to Europe to 600-700 million cubic meters per day became possible only after prices fell into the range of \$180-230 per thousand cubic meters. This means that Gazprom can now only sell bigger volumes to Europe at relatively low prices, which does not generate much rent. Rapidly increasing competition in the international gas markets has already done to Gazprom what the EV revolution is yet to do to the price of oil, — gas export prices have been remarkably low and there is hardly any prospect for them to ever climb back to the 2010-2014 levels.

Russia’s gas industry is vexed by competition and lower prices at target markets due to a more competitive environment on the one hand, and the state’s unwillingness to properly tax Gazprom on the other hand. Putin’s government prefers to transfer available profits from gas exports to the pockets of its cronies who have monopolized Gazprom’s construction contracts and control over capital investment flows.

It is unlikely that Gazprom will be able to compete successfully in the international gas markets, as a continuing oversupply at the LNG market is projected beyond 2020.¹⁷ Gazprom is ranked only 8th among the biggest global LNG suppliers, even lagging behind Trinidad and

15 International Gas Union, “2018 World LNG Report” https://www.igu.org/sites/default/files/node-document-field_file/IGU_LNG_2018_0.pdf

16 Gloystein, Henning, Global LNG trade volumes to double in coming years – Vitol, Reuters, September 17, 2018, accessed at <https://www.reuters.com/article/lng-vitol-global/global-lng-trade-volumes-to-double-in-coming-years-vitol-idUSL5N1W3019>

17 “Market imbalance ‘beyond 2020’ will keep LNG prices low, Moody’s predicts”, https://www.lngworldshipping.com/news/view/market-imbalance-beyond-2020-will-keep-lng-prices-low-moodys-predicts_46638.htm

Tobago¹⁸. The only new LNG plant (Baltic LNG) is still in its initial planning stages, and already promises to be very capital-intensive. It would almost certainly require significant new tax exemptions from the state, thus providing little benefit for the state budget.

The entry of U.S. LNG into the market as a result of the shale gas revolution has introduced yet another actor contributing to downward pressure on prices. Traditional customers in Central and Eastern Europe where Gazprom had enjoyed higher sales prices due to lack of competition (the Baltic States and South-Eastern Europe) are now developing infrastructure allowing supplies from alternative producers (LNG terminal in Lithuania, Bulgaria-Greece interconnector, BRUA gas pipeline between Bulgaria, Romania and Hungary, etc.). Moreover, granting access to LNG exports to Russian gas producers beyond Gazprom (Novatek with its Yamal LNG project) has created competition among Russian companies for international markets. Gazprom, which has been vocal in communicating this concern to the Government, can do very little, since Novatek is backed by a strong Putin ally, Timchenko.

Since for the foreseeable future the global gas market promises to be far more competitive and generate far less rents than the oil market, there is no reason to consider the gas industry as a major potential contributor to the Russian economy and budget in the future – even less so than it is now.

Sizable rents are being collected by Putin's associates involved in construction of Gazprom's new infrastructure, financed through Gazprom's capital expenditure budget. But the efficiency of such spending is low. Many of the projects end up as sunk costs, and do not generate the needed value and multiplier effects that may boost the country's overall economic growth.

It is also worth noting that the key current investment projects massively pushed by Gazprom – which are primarily gas pipelines (the largest part of Gazprom's capital investment program – 33% of the 1.5 trillion rubles spent on capital expenditure in 2017)¹⁹ – do not aim to significantly increase profits from gas exports and would not yield substantial returns for the state. As mentioned

above, the Power of Siberia pipeline to China is barely profitable and will not generate tax revenue for the government.

The new massive pipeline projects in European directions – Turkish Stream and Nord Stream-2 – will not open up any new profitable markets for Gazprom, but these many billions of dollars will be expended with the political purpose of bypassing the Ukrainian gas transit network. Gazprom will not realize any financial gain (the transit fees will remain comparable to those charged by Ukraine), but will spend a lot of money on the construction of these pipelines, most likely further leveraging itself with debt.

There is no "new" gas demand at the end of these pipelines: natural gas consumption in the European Union, despite some rebounding in recent years, was at the level of 450-470 bcm per year in 2016-2017, significantly lower than the levels of 2004-2010 (over 500 bcm per year). Although European natural gas consumption may slightly grow in the future, the growth will not be overwhelming due to energy policies prioritizing the development of alternative sources of energy. Europe benefits from a healthy competition boosted by the development of alternative gas imports infrastructure (i.e. excess LNG re-gasification import capacity, permanently developing internal interconnection networks, etc.)

While the EU's own gas production is steadily falling at a rate of about 3% per year due to the depletion of North Sea gas fields, numerous options exist for importing gas from virtually anywhere in the world due to excessive LNG regasification terminal capacity, which will be expanded even further.²⁰

Gazprom's current investment strategy is not focused on maximizing future returns from gas exports. The opposite is true—**most of the current capital spending would not make gas exports more profitable, but instead will generate more debt.**

A high degree of indexation of gas export prices to international oil prices would still remain in Gazprom's and Novatek's contracts beyond 2020, which means that the gas industry revenues are also vulnerable to a scenar-

18 BP Statistical Review of World Energy 2018, <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review/bp-stats-review-2018-full-report.pdf>

19 Gazprom 2017 Annual Report accessed at <http://www.gazprom.ru/f/posts/57/287721/2017-mgt-report-ru.pdf> p.47

20 Lewis, Ian, LNG in Europe: the Heat is On, published by Petroleum Economist on June 22, 2018, accessed at <http://www.petroleum-economist.com/articles/midstream-downstream/lng/2018/lng-in-europe-the-heat-is-on>

io where oil prices collapse due to shifts in demand.

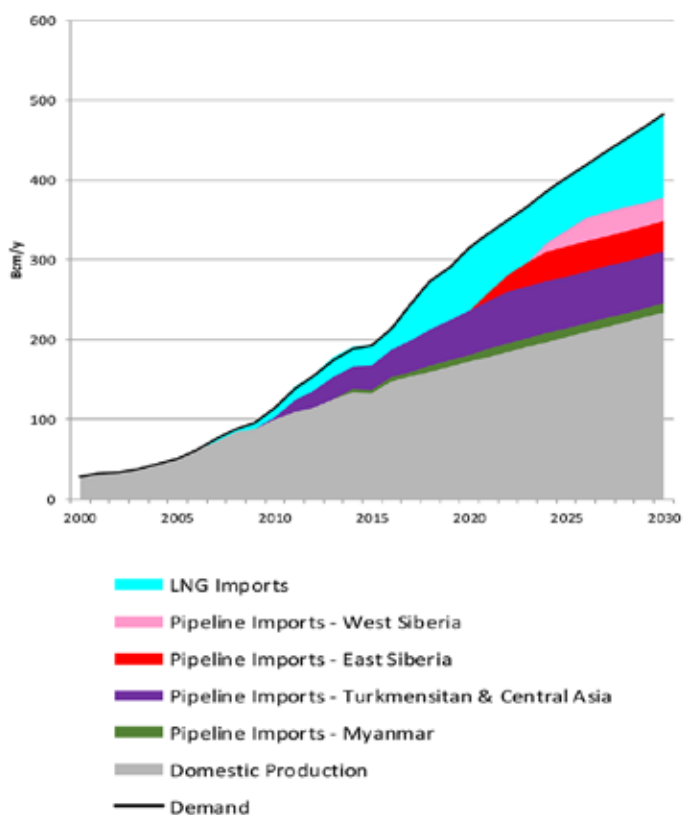
3. Failure to profitably diversify energy exports to Asia

Putin's government has consistently portrayed Russia's relations with China as a superior alternative to the West, citing specifically Russo-Chinese deals in the energy area. Gazprom has been threatening its European consumers with "a pivot to China" and diverting the Russian gas from European markets for well over a decade now. However, the **practical results of energy co-operation between Russia and China have been quite modest** to say the least, as is obvious from the data provided by the BP Statistical Review of World Energy 2018:

- Despite the 2009 opening of a direct oil pipeline corridor to China (complementing the preexisting sizable railroad oil supplies), Russian crude oil supplies to China in 2017 accounted for just 21.6% of Russia's total crude oil exports, with over 61% of crude oil still being exported to Europe;
- In 2017, China imported no pipeline gas from Russia (as opposed to over 36 bcm from Central Asia – 15% of China's total gas consumption and 39% of its total gas imports, pipeline and LNG), and only 0.6 bcm of LNG from Russia (Sakhalin-2 project), a negligible amount;
- Even after the anticipated commissioning of the "Power of Siberia" gas pipeline to China, natural gas supplies would be limited, and Russia will remain only a marginal gas supplier to China. The peak supplies volumes of 38 bcm per year projected for after 2025, would merely match the current imports of gas to China from Central Asia, and China plans to double the amount of pipeline gas imports from Central Asia. According to many forecasts, Chinese imports of pipeline gas from Russia will be trailing three other major sources of gas supplies (domestic production, LNG imports, and imports from Central Asia) all the way through to 2030 (see the graph below).

Gas imports from Russia are on a periphery for China

China Supply and Demand – 2008 to 2030, High Demand Assumption



Source: Asian LNG Demand: Key Drivers and Outlook, published by the Oxford Institute for Energy Studies, 2016²¹

- According to the Russian Central Bank, the cumulative Chinese FDI stock in Russia (in all areas, not only energy) is negligible: at mid-2018, it made up only \$3.5 billion, down from \$4.5 billion in early 2014²².
- Many ambitious energy projects with China that have been announced through the years by Russians

21 <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2016/04/Asian-LNG-Demand-NG-106.pdf>

22 http://www.cbr.ru/vfs/statistics/credit_statistics/direct_investment/dir-inv_in_country_1.xlsx

never materialized – Vladivostok LNG, Western Gas Pipeline Corridor through Altai, a pipeline from Sakhalin, etc.

There are several reasons for the very slow progress in the area of energy cooperation with China, in stark contrast to the optimistic Russian rhetoric:

- Most of the Russian oil and gas resources are still located in Western Siberia, which is effectively a part of Europe. Eastern Siberia and the Far East hold less than 30% of Russia's proved and probable oil reserves, and only about 10% of proved and probable Gazprom gas reserves.
- Most of the oil reserves are located offshore in the Pacific and can be exported globally (as is the case with the Sakhalin-1 and Sakhalin-2 projects), so they need not be marketed to China specifically – and other Asia Pacific markets often offer premiums over Chinese import prices.
- Western Siberian resources are extremely difficult to deliver to China due to vast distances and the lack of necessary infrastructure, construction of which would be very costly. It is still far more economically viable to export the bulk of Russia's oil and gas to Europe, which Russia has been doing all along, despite the aggressive rhetoric about "diversification of exports to China".
- China's dependence on imports of natural gas is relatively limited. A large portion of the Chinese gas demand is satisfied by domestic production, which supplies over 60% of China's gas and has been growing at an annual rate of 9% for the past decade, a trend that is likely to be sustained for the foreseeable future.
- In search of new import supplies of energy, China has traditionally prioritized those countries which provide Chinese with control over projects, oil and gas fields, and pipelines. Russia has been reluctant to do so – it has never been willing to surrender control over the projects and only offer to China minority participation, basically suggesting that China buy wholesale oil and gas volumes at the border. This is exactly the reason why Central Asian countries – which have surrendered much greater control over oil and gas projects and assets to Chinese companies – have outplayed Russia in supplying China so far. This also explains the very small amount of Chinese FDI

stock that has been acquired by Russia so far.

Sino-Russian cooperation today is limited to just a handful of tactical projects comfortable for the Chinese side, as opposed to the "partnership of global significance" vision advanced by the Russian side.

China is in a dominant position when it comes to negotiations with Russia – it is capable of securing access to multiple resources around the globe and will only pick Russian options if they offer superior conditions compared with the others. Russians, in fact, have not truly grasped and rarely admitted this, but even when they did (like conclusion of the contract on gas supplies via the *Power of Siberia* gas pipeline which delivers near-zero profits to the Russian side) they went on with the deals heavily favoring China and with questionable economic gain to Russia.

It is safe to assume that future progress in Sino-Russian partnership will remain sluggish. Even if some projects proceed, China will exert similar pressure on conditions of supply just as it has done previously – which is why future energy relations with China will hardly deliver to Russia any sizable oil and gas rents. The presumption that supplies to China will be less profitable is also supported by higher production and transportation costs for Eastern Siberian oil and gas delivered to China.

Another interesting factor is the dependence of Russia on Chinese financing of energy projects. As mentioned above, Chinese direct investment in Russia has been fairly negligible. But to pursue their projects Russian oil and gas companies have been borrowing heavily from China, and at the moment, the total Chinese debt portfolio of the largest Russian energy companies (Rosneft, Novatek, Transneft, Gazprom) exceeds \$70 billion (of which about \$45 billion is borrowed by Rosneft – \$30 billion in the

form of advance payments for supplies of oil and petroleum products, and another \$15 billion – in the form of a 20-year loan from China Development Bank).

It is remarkable that Russia, a major global oil exporter, has emerged from the period of very high global oil prices heavily indebted to China, an oil importer. This says a lot about the efficiency of the Russian state management under Vladimir Putin.

Despite the high energy-related debt to China, negotiations with China on providing debt financing to Russian companies and projects have never been easy. Chinese banks and financial institutions have always conditioned them on guaranteed oil and gas supplies to China (often at discounted prices), procurement of Chinese goods and services, etc. Without doubt, any further Chinese financing of Russian energy companies and projects will continue to be tied to specific deals between the two countries, and China has no interest in financing general development of the Russian oil and gas industries.

4. Collapse of the coal exports

Another issue that has not been sufficiently examined is the dependence of Russia on coal exports. Russia exports over \$10 billion of coal a year (\$13.5 billion in 2017, about 4% of the total Russian exports, making it the 3rd largest exported commodity by value after oil and gas). Russia has, for a long period, held the position of the third largest supplier of coal to international markets, behind Australia and Indonesia.²³ **Coal exports are the major contributor to current, albeit sluggish, economic growth** – without it, GDP growth rates in 2017-2019 would have been even lower. For instance, in 2017, coal output grew by 6.4%, to a post-Soviet record of 410 million tons of produced coal (primarily for exports, as domestic consumption has been declining), contributing about 0.15-0.2 percentage points to the modest 1.5% growth of GDP that year.

It is worth noting that the prospects of the global coal market look even bleaker than those for oil and gas. Coal is rapidly losing its competitiveness to natural gas and renewable sources of energy, and the global demand for coal has most likely already peaked in 2013. Climate change mitigation policies and the Paris Agreement make

forecasts for the coal industry even bleaker. This will inevitably have a profound effect on Russian coal exports, as international coal trade is relatively marginal (only 16% of globally produced coal is traded internationally, according to the International Energy Agency), and most countries consume coal they produce themselves, importing only limited amounts. Therefore, it is safe to assume that the decline of global coal demand will have drastic ramifications for international coal trade, as coal-consuming countries would abandon imports first. This will be a major blow to the Russian economy.

Although coal is not as critical to the stability of the Russian economy as oil and gas, it nonetheless may yet contribute to a future economic downturn – given its current significant contribution to GDP growth and exports – and may dramatically impact the economy of several important industrial regions heavily dependent on coal production (Kemerovo and Krasnoyarsk especially), adding to the country's economic woes.

5. Failure to efficiently use energy export revenues

Apart from energy revenues and rents forecasts, an important factor determining Russia's economic future is the efficiency with which this money is spent. A key problem with the current Russian state-controlled dirigiste crony capitalism is that it offers little incentive to spend funds efficiently, instead **incentivizing corrupt behavior and the invention of unnecessary projects just to earn profits through construction.** There are specific beneficiaries of this set-up who are closely linked to Vladimir Putin. We have already mentioned oligarchs like Arkady Rotenberg and Gennady Timchenko who dominate the construction of new upstream facilities and pipelines for Gazprom. These same individuals, along with a handful of other close Putin's friends also manage lucrative contracts for construction of new roads, bridges, airports, and other infrastructure. The efficiency of their multibillion-dollar construction and development efforts is questionable at best.

The inefficiency of Putin's model of economic development based on heavy state investments as opposed to private investment can be easily measured. In 2013, before oil prices collapsed and Russia found itself under

23 http://www.customs.ru/index2.php?option=com_content&view=article&id=26258

Western economic sanctions in response to its intervention in Ukraine, total investments financed by state budgets of all levels had reached almost two trillion rubles (2.6% of GDP) and have stayed roughly at this level ever since.²⁴ Combined with the capital investments by the top 10 largest state companies, that would amount to 5 trillion rubles, or about 6.5% of GDP. However, 2013 was the last year when Russia saw modest, but notable economic growth before the outbreak of the economic crisis of 2014-2018. Since then, economic growth as such has ceased to be – despite massive capital investment by the government and the biggest state monopolies.

The inefficiency of state-linked capital investment can be observed in the examples of Gazprom and Rosneft. Currently, both companies invest heavily. For the past 6-7 years, Gazprom has maintained its capital investment program at RUR 1.5 trillion (2.5-3% of GDP). That's a sharp increase from the 2008-2009 levels of around 2% of GDP. However, gas production in the past years has fallen to humiliating historic lows. The last time when Gazprom's natural gas output surpassed the 500 bcm per year level was in 2011 (513 bcm). In 2017 its output stood at 471 bcm – down 14% from the 2008 level and about the same percentage lower than in 1999.

Gazprom maintains heavy surplus capacity in both, the upstream and trunk pipelines, and some of the investments have produced ludicrous "white elephants" of the modern era. For instance, the Sakhalin-Khabarovsk-Vladivostok gas pipeline, which came with a half a trillion rubles price tag and which was built by a consortium of companies including Stroygazmontazh owned by Arkady Rotenberg, operated with the load factor below 40% until, in 2016, the data on the level of its utilization was classified by the Russian government, to avoid further humiliation. The well-known Nord Stream pipeline operated far below its capacity until 2016-2017 when it reached an 80-90% load factor. The heaviest current capital spending effort by Gazprom is dedicated to projects which do not deliver additional profits, but rather pursue geopolitical or corruption-related goals (Power of Siberia, Turkish Stream, Nord Stream-2).

In the past few years, Rosneft has dramatically increased its capital expenditure. In 2017, its capex reached 922 trillion rubles, up from 400-500 trillion rubles in 2011-2014. However, the oil output growth has not kept up with these high dynamics. In 2017, the output

grew by 11% as compared to 2015 (organic output, not taking into account the acquisition of Bashneft – only by 1%), whereas capital investments grew 55% in rubles and 62% in dollars. While some of this investment growth was related to future greenfield projects with more complex conditions, the overall massive growth in investment did not result in improved actual performance.

The situation is similar within the road construction sector which is financed by state-controlled funds via taxpayer's money, and managed by oligarchs Rotenberg and Timchenko. In 2017, the consolidated Federal Road Fund budget reached a record high 1.5 trillion rubles – enough to build about 15,000 km of new roads assuming the average cost of 1 new kilometer at 100 million rubles. The construction of new roads, however, was at the all-time low. About 230 km of new federal roads were built in 2017 (as opposed to 934 km in 2000), and about 1860 km of federal and regional roads (about 4 times less than in 2000). This phenomenon is explained by Russia's cronyism and corruption: according to Rosavtodor—the federal agency managing road operations and construction—the bulk of the Road Fund is spent on continuous repairs of roads constructed just months earlier.

Other white elephants include large hydropower plants in Eastern Russia which operate at only 30-40% load factor, empty stadiums and other infrastructure built for the 2014 Sochi Winter Olympics and the 2018 FIFA World Cup—all projects benefiting mainly Putin's inner circle.

Even Putin's May 2018 Decree—touted as the roadmap for boosting economic development through massive state investment in infrastructure—has fallen victim to the ineffectiveness of state investments. The plan envisioned investments of about 8 trillion rubles in the so-called "national projects" which are supposed to boost the economy. However, about half of that sum has already been appropriated for building a high-speed railroad between Moscow and Saint Petersburg that may neither have sufficient passenger demand, nor stimulate economic development, and would only shorten the time of travel between the two cities from 4 to 2.5 hours. What is beyond doubt, however, is that this project would provide generous benefits to Putin's cronies.

Wasteful state spending on questionable large-scale projects benefiting Putin's friends

24 http://www.gks.ru/free_doc/new_site/business/invest/Inv-if.xls

is one of the key reasons why despite its oil and gas rents the Russian economy is unable to break through its current stagnation. If the international oil and gas price environment deteriorates any further, it will deprive Russia of essential resources even more quickly.

There is no reason to believe such spending of investment funds by the state and state monopolies will end. There are significant vested interests sustaining this trend; competition and private initiative in Russia are shrinking; private capital is fleeing the country. So, the fight for limited resources against the background of low efficiency of state-controlled economic agents will only intensify further, with little prospects that massive new investments will deliver growth.

Possible scenarios

	Minimal	Moderate	Extensive
Sharp decline of energy export revenues and profits	Oil price stabilizing at \$50-60/bbl in 2020-2030	Oil price falling to \$30-40/bbl after 2030 without ever recovering	Oil price falling to \$30-40/bbl after 2025 without ever recovering
Failure to monetize Russia's natural gas potential	Russian gas export revenues not significantly increasing as opposed to present levels	Russian gas export revenues stagnating until 2025 and substantially decreasing beyond 2025 as opposed to present levels	Russian gas export revenues substantially decreasing beyond 2020 as opposed to present levels
Failure to profitably diversify energy exports to Asia	Russia fails to export over 25% of its oil and 5% of its gas to Asia after 2020	Russia fails to export over 30% of its oil and 10% of its gas to Asia beyond 2020	Russian oil and gas exports to Asia fall below current levels after 2025
Collapse of coal exports	Russian coal exports falling from over \$10bn/year to \$5bn/year or lower after 2020	Russian coal exports falling to far less than \$5bn/year or lower after 2020	Russian coal exports falling closer to zero after 2020
Failure to efficiently use energy export revenues	Russian GDP/real income growth significantly lagging behind energy export revenue	Zero/negative GDP/real income growth on the background of remaining sizable energy export revenue	Significant decline in GDP/real income on the background of remaining sizable energy export revenue

Indicators to watch

Sharp decline of energy export revenues and profits	U.S. shale oil production (continues to rise); Share of EVs in the global car park (continues to rise); Share of oil in the global transport sector energy consumption (declines, first below 90% and then downward); Global oil demand (begins stagnating at some point); Russian oil exports in \$.
Failure to monetize Russia's natural gas potential	Gazprom's gas export prices to Europe and China; Gazprom's gas export volumes vs. prices; Comparison between gas export prices and the oil prices (interdependence will go down over time); Russian gas export volumes in \$.
Failure to profitably diversify energy exports to Asia	Share of Russian oil exports to Asia (monitor whether oil exports to Europe continues to dominate); Share of Russian gas exports to Asia (monitor whether gas exports to Europe continues to dominate)
Collapse of coal exports	Global coal demand and specifically in China (key global coal consumer and a key importer of Russian coal) (will decrease over time) Russian coal exports in \$ (will decrease over time)
Failure to efficiently use energy export revenues	Ratio of GDP and real personal income growth versus energy export revenue (in worst case scenarios, GDP and real income dynamics will lag behind energy export revenue growth, illustrating that even high energy export revenue is not converted into economic development and improvement of living standards of ordinary Russians)

Ramifications for U.S. Security

Main risks associated with negative energy scenarios are the prospects that:

- Russia transforms into a permanent zone of social and political instability, with frequent change of governments, potential coups, riots and even local armed conflicts, erratic shifts in domestic and foreign policy;

- Russia steps up its aggressive international behavior in order to compensate for the deteriorating economic situation and win popular support through creation of a “wartime” mentality;
- Conservative and ultra-nationalist forces rise to power in Russia;
- Russia becomes more dependent on foreign authoritarian powers such as China which will begin dictating its policy to a much greater extent in exchange for economic aid.

including the worst-case scenarios whose absence was so detrimental during the process of disintegration of the Soviet Union and Yugoslavia in the 1980s and 1990s.

How the U.S. Can mitigate risks

The U.S. should explore policy options for 2025-2030 and beyond involving scenarios where Russia finds itself in a serious economic trouble caused by the lack of global competitiveness in the emerging post-oil world.

Given the current state of affairs, it is difficult to imagine a reasonable dialogue with Putin’s government on the future of the post-oil era Russia. Putin’s cagey and circum-spect approach has put Russia on a collision course with all of these risks.

Presently, a positive vision of relations with the West is largely absent from the Russian domestic public narrative. Putin advances the narrative that the West will always be hostile to Russia, upholding a Cold War era rhetoric. The Russian people are bombarded with negative signals, for example Western sanctions.

The U.S. should develop and advance a vision of a completely different, mutually advantageous post-Putin relationship between Russia and the Western world. This vision would make clear to the Russian people the benefits of openness, friendly relations, trade and investments. The Russian elites and ordinary Russians must understand that other options exist for building relations with the West and that Putin’s outdated approach to foreign policy is a steep obstacle to establishing them.

Such measures will help pave the way for a turn toward the West for new Russian leaders who will inevitably emerge to replace Putin. Incentives and assurances on the prospects for re-establishing normal relations with the West and the benefits of doing so will help them change policy and normalize relations.

The U.S. government may want to think through potential crises in a “dysfunctional post-oil Russia” and narrow down the list of options for dealing with major risks,



Abramovich attends an exhibit opening at the Garage Center, 2009. Photo courtesy of Konstantin Rubakhin, all rights reserved

Elites' Cohesion and Coup D'état



This chapter is a product of a team effort by Free Russia Foundation staff with advisory and editorial support from Vladimir Milov

Sources of Discontinuity and Description of Changes

There are two major sources of discontinuity in connection with the Russian elites:

- A growing rift between Russian elites and Putin, with the potential to weaken Putin's rule and force him to reconsider his policies;
- Possible attempts to replace Putin (a coup d'état).

To evaluate the likelihood of such developments, one needs to understand the composition and evolution of Russian elites.

Frequently, Russian elites are perceived as independent players within the country's political system, and the relationship between them and Putin are viewed as contractual (in line with classical political analysis where the elites have the potential to split as a result of the system's performance flaws, upward pressure from the society, economic woes, conflicts of interests). It is even anticipated that the elites would correct Russia's political course by pushing reforms driven by their respective interests. In reality, however, the system of governance that has emerged as a result of almost two decades of Putin's rule exhibits few signs of a contractual-type relationship between the top ruler and the elites. Instead, **the power in Russia is centralized to such an extreme that it is impossible to speak about independent capable elites.**

Putin's Purge of Elites

There are several reasons to doubt that Russian elites are capable of any independent behavior.

After Vladimir Putin came to power, he introduced policies specifically aimed at destroying everything remotely reminiscent of independent federal and regional political elites. Nearly all political leaders with successful experience in running for office in popular elections during the post-Soviet period of relative freedom and competitive politics (1990-2004) have been gradually removed from power, particularly the governors of Russian regions. Even those prominent members of the Federation Council and the State Duma who consistently sided with Putin on policy matters, yet didn't belong to his clan, vanished into obscurity. Some of the notable heavyweights, who could have challenged Putin at some point, died (like General Lebed who finished 3rd in the Presidential Election of 1996). Except for the current Defense Minister Sergey Shoygu, all prominent politicians from Yeltsin's era have also been removed from top positions and sidelined.

Beginning with the Yukos case, Putin set off to crush independent big business (often referred to as "the oligarchy", despite the fact that not all of the big Russian businessmen had sufficient influence over state decision-making to be called "oligarchs"). This has forced owners of large companies to leave the country, build alliances with Putin's cronies and engage them as equity partners, sell some of their assets to Putin's associates, or pledge allegiance and exit politics as a condition for survival of their businesses.

The pre-Putin elites have been replaced with a tight circle of people bound by a history of personal relations and intertwined commercial interests.²⁵ This process began at the very start of Vladimir Putin's rule as Russia's

25 Dmitry Kozak became head of White House staff immediately after Putin became Prime Minister, Igor Sechin became his chief of secretariat, Dmitry Medvedev became deputy head of the Kremlin administration, and Sergey Ivanov became the secretary of the National Security Council. This is far from an exhaustive list of such appointments.

Prime Minister and Yeltsin's successor in August 1999. Unlike his predecessors, Putin immediately transplanted a large network of his former colleagues from the St. Petersburg regional administration to key positions within the federal government, where most have remained since. All of these individuals have strong long-standing ties to Putin and to each other, with personal and financial ties spanning decades. Since then, this group has occupied all key political positions and control over the key state-linked businesses.

Putin's maneuver was unprecedented. Of course, every Russian head of government brought in certain personal affiliates, but their number was usually limited to a handful of people, with most key appointments based on considerations of professional merit, partisan politics, and efforts to strike a balance of power with other influence groups.

When Boris Yeltsin became Russia's President in 1991, he did appoint some of his subordinates from the Sverdlovsk regional administration to high government positions, but these appointments, although important, were very few and did not last long. Individuals such as Gennady Burbulis (the State Secretary under Yeltsin's early administration) and Yuriy Petrov (the first head of Yeltsin's Presidential Administration) barely survived one year in their positions, and were later replaced with a new cohort.

The pattern was the same with other Russian prime ministers. Initially each brought in small numbers of close affiliates and loyalists to fill key positions. Most of these appointees quickly washed out and gave way to diverse cadres representing various regions, clans and interests.

Putin's top appointments of the early 2000s were blatantly inappropriate, as people chosen for vital positions lacked relevant professional experience. This was the case with the appointment of Sergey Ivanov as the Minister of Defense, Boris Gryzlov as the Interior Minister, and Alexey Miller as the CEO of Gazprom, to name just a few.

Over time, as the number of appointees from Putin's St. Petersburg clan grew, the practice has become even more incestuous, as officials began bringing their children

to fill key positions in government and business. In 2018, the scandalous practice of "golden youth" appointments reached a new high. For the first time ever, a son of one of Putin's closest affiliates was appointed to a ministerial-level position (Dmitry Patrushev, son of Nikolay Patrushev, ex-head of FSB and currently Secretary of the National Security Council); and Putin's relative was appointed to a key position in the largest state-owned company (Mikhail Putin, Putin's first cousin once removed, was appointed deputy CEO of Gazprom).²⁶

This system resembles the setup of organized criminal networks. At their core are strong ties based on history of personal and even familial relations (many of the children of influential members of Putin's clan are married to each other) and long-term commercial partnerships. Very few members of this clan have a history independent of Putin, and most of their careers have advanced solely at Putin's discretion. Their personal talents and abilities are debatable.

As a standard operating procedure, the network compiles compromising material on each member of the elite, thus discouraging independent actions and initiatives. This practice is also very much in line with how mafia groups operate.

Many of the recently-appointed ministers, regional governors, and executives of government-controlled corporations are not members of Putin's greater "family clan" (for example, the Deputy Prime Minister Maxim Akimov). However, even these officials cannot be considered independent elites for several reasons:

- They have not participated in open competitive politics and did not win their posts through popular elections. Therefore, they do not possess any independent political capital that could be used to strengthen their positions within the elite;
- There are no independent structures or institutes through which their independent agendas can be advanced;
- Russian political system lacks checks-and-balances that can protect officials from termination at any time with or without cause. Any senior official's staying power depends solely on Putin's whim;

<http://www.roskazna.ru/ispolnenie-byudzheta/konsolidirovannyj-byudzheta/>

26 <http://www.gazprom.ru/about/management/board/putin>

- Elites do not have external support (such as from independent business) or personal wealth that affords them sufficient financial and political freedom to stimulate independent political action.

Putin has intentionally positioned himself as the sole center of popular legitimacy in the country, juxtaposing himself to the horde of disjointed and politically incapacitated state service appointees lacking in any popular legitimacy.

Anyone who enjoyed a degree of genuine popular legitimacy has been gradually removed from power, most notably the popular regional governors, who theoretically could have created a united front against Putin (like they did in 1999 against Yeltsin, when Russia experienced, for the first time, a real political competition for power among various elite groups). Putin has gone so far as to sideline even those in his own clan who spoke out independently in favor of systemic reforms.

The evolution of the economic bloc within Russian government is an excellent illustration of this process. In the late 1990s, Alexey Kudrin, Putin's former boss who facilitated Putin's rise to power in 1996-1997, led the Finance Ministry where he earned a reputation as a capable and ambitious reformer and enjoyed great influence within the Federal government. In the early 2000s, the Economic Ministry was led by German Gref, a charismatic public speaker and a renowned reformer, responsible for extensive deregulation of Russia's economy. Like Kudrin, Gref entered Putin's government having already earned a reputation as Deputy Minister of Federal Management.

The Central Bank was once led by Sergey Ignatiev, former deputy chief of Yeltsin's administration and the first Deputy Minister of Finance. Ignatiev, who like Putin

is originally from St. Petersburg, had a strong reputation among reformers in Moscow long before Putin ever appeared in the Russian capital. Ignatiev often spoke out independently. In his famous interview just prior to the end of his chairmanship at the Central Bank in 2013, he spoke about \$50 billion illegally flown out of Russia every year "by a group of entities and players that are clearly acting in an organized manner", alluding to the mafia in power.

Kudrin, Gref and Ignatiev were highly regarded by the media and markets and often made public statements which, while not overtly critical of Putin and his policies, were controversial enough to stimulate public debate on Russia's economic course. Despite their loyalty to Putin, they were nonetheless replaced by technocrats without political appetites, vision or gravitas, such as Anton Siluanov (Ministry of Finance), Maxim Oreshkin (Ministry of Economy), and Elvira Nabiullina (Central Bank). These people had gained a degree of public attention later, but never came close to the prominence of their predecessors. This pattern had been replicated in many other appointments to top federal posts: publicly outspoken and prominent leaders have been replaced with discreet technocrats lacking in any evident political ambitions.

Structural Changes in the Economy Shaping the Elite

Structural economic changes introduced under Putin have played an important role in shaping the makeup of the current Russian elite. When Putin took power in 2000, the economy was much more competitive than it is today and dominated by the private sector. According to EBRD transition reports, the private sector share of the Russian GDP reached its peak share of 70% by 2004. At that time, the influence exercised by business on politics was still a key issue within the national debate, and Putin's professed commitment to "reducing the oligarchic influence" on the Russian state resonated with the population. Some oligarchs were imprisoned (Khodorkovsky) while others were forced into exile (Berezovsky, Gusinsky) as Putin set off to nationalize big business, starting with the expropriation of Yukos assets in 2004-2007. Highly publicized prosecutions of oligarchs served as powerful warnings to Russian business executives, most of whom chose to refrain from independent political behavior thereafter.

The Financial Crisis of 2008-2009 became another turning point in relations between Putin and big business.

Due to the collapse of the ruble exchange rate and stock markets in the environment of heavy dependence on foreign debt, many corporations found themselves in deep financial trouble and pleaded for massive state aid. In the aftermath of this crisis, not only have significant private assets ended up in the hands of the state, but many private companies who had managed to survive found themselves heavily leveraged with loans from the government and state banks (or reliant on other forms of state aid) and basically obligated to Putin for saving them from financial demise. The total state aid to big business during the 2008-2009 crisis reached almost 7% of GDP.²⁷ Concentration of banking system assets in the 5 largest banks (mostly state-owned) grew from 29% in 2007, to 38% in 2013, and to 53% in 2015.²⁸

Private banking was the cradle of Russia's financial and industrial groups which produced the oligarchs who dominated Russian politics in 1990s. By 2017, as Russia experienced yet another wave of collapse among its largest private banks (Otkrytie, Promsvyazbank, Binbank), the largest state banks' share of the Russian banking system's total assets surpassed 70%. While almost no large private group survived the two consecutive crises- 2008-2009 and 2014-2018, their demise began with the 2008-2009 financial crisis.

One of the key consequences of the 2008-2009 financial crisis was that Putin for all practical purposes ceased regarding big business as an independent center of influence deserving of equal treatment and respect. These businesses, after all, had lined up for state aid. **The 2008-2009 crisis was decisive in establishing dominance of the state over strategic sectors of the economy.** This was a game-changer for relations between Putin and business elites. Big business was no longer in a position to issue demands to the authorities; from then on, it had to rely on state support. Furthermore, the commanding heights in the economy had been taken over by the largest state-owned corporations and banks, whose management is appointed by Putin and therefore fully responsive to him.

The next significant shift from a largely privately-ori-

ented to a mostly state-controlled economy came with the acquisition of the second largest private oil company TNK-BP by the state-owned Rosneft in 2012-2013. By 2016, the share of the public sector in Russia's GDP had increased to 70%, according to the Russian Federal Anti-Monopoly Service.²⁹ The extent of domination of the state in the current Russian economy is evident from the rankings of Russia's largest businesses:

Company	Annual revenue, RUR billion (2017)	Ownership (state/private)
1. Gazprom	6.546	State
2. Lukoil	5.475	Private
3. Rosneft	5.030	State
4. Sberbank	3.133	State
5. Russian Railways	2.252	State
6. Rostec	1.589	State
7. VTB	1.330	State
8. X5 Retail Group	1.295	Private
9. Surgutneftegaz	1.156	Ownership non-transparent; allegedly owned by state-linked actors
10. Magnit	1.143	State
11. Rosseti	948	State
12. Interrao	917	State
13. Transneft	854	State
14. Rosatom	821	State
15. AFK Sistema	705	Private

Source: RBC-500 ranking of the biggest Russian businesses by revenue.³⁰

These developments have dramatically reduced the influence of independent business executives and entrepreneurs on political developments in the country. **To protect their business interests, most high net-worth individuals have either emigrated or stopped political activities; some found themselves bound by business ties to state-owned structures or regulators or morphed into direct representatives of Putin's business clan.**

When one compares the Forbes/Russia list of the wealthiest businessmen below to the list of Russia's larg-

27 <http://siteresources.worldbank.org/INTRUSSIANFEDERATION/Resources/rer18rus.pdf>, pp. 14-15

28 The World Bank, Global Financial Development database <https://www.worldbank.org/en/publication/gfdr/data/global-financial-development-database>

29 Yekaterina Mereminskaya, State and State Corporations Control 70% of Russian Economy, Vedomosti, September 29, 2016, accessed at <https://www.vedomosti.ru/economics/articles/2016/09/29/658959-goskompanii-kontroliruyut-ekonomiki>

30 RBK 500, RBK Presents 500 Largest Corporations in Russia, <https://www.rbc.ru/rbc500/>

est companies above, the inconsistency is glaring. Most of these businesses are not on the list of Russia's largest companies, which are instead run by state-appointed top managers and accumulate much greater wealth than the private sector.

Russia's Top 20 Wealthiest Businessmen Grouped by Relation to Government

Putin's cronies	Gennady Timchenko (#5), Roman Abramovich (#11)
Heavy ties to the Government/dependent on Government aid	Vladimir Lisin (#1), Alexey Mor-dashov (#2), Leonid Mikhelson (#3), Victor Vekselberg (#9), Alisher Usmanov (#10), Oleg Deripaska (#19), Suleiman Kerimov (#20)
Dependent on Government aid/regulation	Vladimir Potanin (#6), Andrey Melnichenko (#7), Victor Rashnikov (#14), Iskander Makhmudov (#16), Dmitry Rybolovlev (#18)
Sold most of their business or effectively emigrated or stayed out of domestic politics or even assisted Kremlin with ad hoc political tasks domestically or abroad	Alfa Group: Mikhail Fridman (#8), German Khan (#12), Alexey Kuzmichev (#15), Mikhail Prokhorov (#13)

Source: *Forbes Russia list of 200 richest Russian businessmen of 2018*.³¹

Two names from the Top 20 list deserve a special mention—the co-owners of the Lukoil oil company Vagit Alekperov (#4) and Leonid Fedun (#17). Nominally, Lukoil remains private and is not bound by links to the state. It is the biggest Russian private company (#2 on the RBC-500 ranking of the biggest Russian businesses by revenue). However, evidence suggests a “special relationship” between Lukoil and Vladimir Putin, with Lukoil consistently backing Putin's policies and never meddling in politics or supporting opposition groups, always demonstrating political loyalty. So, the owners of Lukoil cannot be considered as examples of independent business elites.

In summary, **Russia today does not have a business elite with the potential to direct or counter Putin's policies**, a situation standing in stark contrast with Russia of the early 2000s.

The Fear Factor

Business executives and independent-minded members of the federal government nomenklatura who attempt to change the current political situation would face an immense challenge.

All members of the Russian elite today are under constant surveillance by the security services (the FSB). Any sign of “disloyalty” (disagreement with Putin's course), not to mention open political challenge, leads to swift and brutal punitive measures by the government.

Independent behavior by business owners is extremely rare, particularly after the destruction of Yukos in response to the support that Mikhail Khodorkovsky and other Yukos executives provided to political opposition and their attempts to build an anti-Putin coalition in the State Duma leading up to the 2003 elections. The destruction of Yukos and the subsequent purge of Khodorkovsky's known affiliates from the corridors of power (such as the 4-year suspended sentence for the former Chief of the Federal Property Management Fund Vladimir Malin) had a dramatic effect on the Russian political and business elite, which has significantly toned down its behavior ever since.

Vladimir Putin nips in the bud even mild expressions of dissent from among the members of the Russian Parliament. During the political unrest of 2011-2012, a number of State Duma members from the Fair Russia («Справедливая Россия») political party, one of the officially sanctioned “systemic” opposition parties – notably Gennady Gudkov, Dmitry Gudkov, and Ilya Ponomarev – joined street protests and spoke out harshly against Putin and the ruling United Russia party (although not to the extent that the “non-systemic” opposition did). Ilya Ponomarev subsequently voted against the annexation of Crimea, becoming the only State Duma member to do so. The government response was swift and decisive – Gennady Gudkov was expelled from the State Duma before the end of his term; Ilya Ponomarev became the target of a criminal prosecution and was forced to leave the country; and Dmitry Gudkov was permanently removed from the Fair Russia elections candidate rosters, and, as result, was not re-elected to the next Duma term in 2016.

Another prominent member of the Fair Russia faction

31 200 Wealthiest Businessmen, Forbes, accessed at <http://www.forbes.ru/rating/360355-200-bogateyshih-biznesmenov-rossii-2018>

in the State Duma was Sergey Petrov, the owner of the Rolf Car Trader (#74 on the RBC-500 list of biggest Russian businesses by revenue) and himself a billionaire (#104 on the Forbes Russia list of 200 richest Russian businessmen). He often criticized authorities and supported opposition groups. He experienced a retribution similarly to Gudkov: his name was removed from the Fair Russia list of candidates and he was not re-elected to the 2016 Duma. Since then, he has effectively emigrated from Russia.

In June 2018, the Deputy Chairman of the State Duma Sergey Zheleznyak, a prominent member of the ruling United Russia party and an outspoken critic of “the liberals” and the West, did not vote in favor of the law on raising the retirement age. The Kremlin aimed to pass that legislation with the unanimous support of the United Russia. Just a few days later, Zheleznyak was removed from his State Duma Deputy Chairman post.

Senator Konstantin Dobrynin, a member of the upper chamber of the Russian Parliament— the Federation Council— was forced to resign from his position in 2015, after his critical public assessments of Putin's policies and votes against some of Putin's repressive laws.

These examples, while few, are very illustrative and send a clear message to the members of the ruling elite, discouraging them from expressing any dissent.

Recent years have seen numerous arrests of elite members— regional governors, ex-Minister of Economy Alexey Ulyukayev, billionaires Vladimir Yevtushenkov and Ziyavudin Magomedov, and others. Apart from sending an unambiguous signal that Putin is willing to go after even the most prominent members of the elite, and dramatically expanding the powers of the repressive state apparatus, these cases detail the extent to which even ministers, governors and billionaires remain under the constant watch of the security services.

From the information released by the prosecution during hearings in all of these high-profile arrest cases, it is clear that all members of the power elite, regardless of their loyalty to Putin and his regime, are nonetheless subjects of persistent surveillance by the state. Such realization makes it extremely hard to organize the Russian elite even for hypothetical discussions of grievances. Such activities would be immediately reported to Putin by the security services, and a harsh crackdown would undoubtedly follow.

Placing security services over the military

leadership, Putin's regime has established an effective mechanism for preventing military coups and the rise of the Russian Army as an independent political actor. Since Putin took power in 2000, the Russian Ministry of Defense has become heavily infiltrated by appointees from the KGB/FSB. Currently, only 2 of 11 Deputy Ministers of Defense in Russia are general officers from the military – the others are either close associates of the current Minister Sergey Shoigu (hailing from the Ministry of Emergencies or other affiliated state and commercial structures), or high-level officials from the FSB with no prior military experience (like the influential State Secretary Deputy Minister of Defense Nikolay Pankov, who comes from the KGB/FSB, served as Chief of Staff on the National Security Council in 1998-2001 when the council was chaired by Vladimir Putin and, subsequently, current Putin's aide and ex-head of the Kremlin Administration Sergey Ivanov).

Russian elites understand that **siloviki have the upper hand in shaping the country's policies, whereas the traditional political business elites' powers are limited.** Over half the members of the National Security Council – currently the most influential collective body when it comes to determining key domestic and international policies – hold military or security services ranks but have never been elected to any public posts. Therefore, **the traditional civic elite and business play a clearly peripheral role in contemporary Russian policymaking.**

Prospects that an Economic Downturn and Russia's International Isolation Might Stimulate Change

One popular assumption, underlying the Western sanctions, is that Russia's economic difficulties may stimulate the elite to look for ways to affect change in Putin's political course. While such a scenario should not be excluded outright from the catalog of all possible options, it is extremely unlikely that any such course-correcting influence will take place for several reasons:

- Challenging any course pursued by Putin would inevitably be interpreted as a personal challenge to Putin himself.
- Big businesses affiliated with the state or bound by ties to key state actors are not necessarily net-losers from the current crisis and confrontation with the West. On

the contrary, they may even benefit from heavy state aid and protectionism, as the state does not miss a chance to demonstrate its willingness to reward them for loyalty. For instance, in April 2018, the Russian government moved swiftly to provide hundreds of billions of rubles in aid and other benefits to Oleg Deripaska and Victor Vekselberg as they faced U.S. sanctions. As a follow-on measure, the State Duma adopted and Putin signed legislation providing generous benefits and creating a domestic offshore regime for companies and individuals targeted by international sanctions.³² So, while disloyalty is harshly punished, loyalty is rewarded handsomely.

- Many corrupt officials, particularly those from the military and security apparatus, also benefit from the current political circumstances. Any increase in Russia's spending on national security provides bigger opportunities for corruption in an environment characterized by lower transparency and decreased sensitivity toward international institutions and norms.
- Currently, there are no instruments for adjusting Russia's political course in response to the pressure from various influence groups. In a more diverse (even if not truly democratic) system, various decision-making institutions tend to balance one another. In Russia's current hyper-centralized system of governance, options for influencing its policy course are limited. Everything centers around Putin, and independent bodies which may challenge his policies (parliament, the judiciary, independent regional authorities, independent media, NGOs) are absent. **The only way to adjust Putin's political course is to persuade him personally of a need for a change.** Though there may be examples of such changes (when Putin significantly scaled back the monetization of benefits in 2004, changed the route of the Transneft pipeline away from the Baikal Lake shore in 2006, and brought back direct elections for regional governors in 2012) it is hard to imagine that someone would be in a position to persuade Putin to change the country's overall course (e.g., democratize the political system, liberalize the economy, normalize relations with the West).

Putin's course is a result of systemic processes and the evolution of his personal mindset over his two decades in power. Russia has no institutions that can facilitate or support such debate, nor any organized groups that are in a position to collectively articulate proposals for a policy change. So, the only realistic way to lobby for serious policy changes is to address Putin privately in his individual capacity, which is neither a very practical nor very effective way to influence things.

The National Security Council is the only collective policymaking body which is in a position to influence the country's policy course set unilaterally by Putin. However, the Council is dominated by non-elected military and security officers unmotivated to support policy changes and seeking to reap benefits from crisis situations, regardless of the consequences for the country.

Some look to "the liberals" within the Russian government for possible changes in the country's political and economic course. It is not clear, however, who can plausibly be considered among liberals in the government. Generally, this term is applied to the "civilians" who are not part of the *siloviki* clan and have no relationship to the military and security structures; or to those who were involved in the reforms of the 1990s and managed to maintain a positive reputation in the West. They are the officials with a softer approach to relations with the Western countries: Alexey Kudrin, German Gref, Elvira Nabiullina, and Anatoly Chubais.

However, in reality, **this liberal group, which is often looked up to as a potential agent of change, has deep-rooted interests in keeping the system as it is.** Essentially, all of its members have been given exclusive control over the state's macroeconomic policy during the two decades of Putin's rule, and despite strong pressure from the dirigiste groups, Putin has managed to contain their authority to the macroeconomic management.

These people have a lot to lose, and they themselves are reaping vast financial benefits from the current system. They chair large corporations (German Gref is the CEO of Sberbank, Anatoly Chubais is CEO of Rosnano, Alexey Kudrin served as the Chair of the VTB bank and Alrosa diamond mining company for many years) and hold important government positions (Elvira Nabiullina chairs the

32 State Duma exempts persons subject to international sanctions from paying taxes in Russia, published by RBC, March 22, 2017, accessed at <https://www.rbc.ru/politics/22/03/2017/58d232979a7947bcbff9b175>

Central Bank, Alexey Kudrin has been recently appointed to the position of the Chairman of the Accounting Chamber, the parliamentary auditing body).

Thus, despite their aura of liberalism, they are deeply intertwined with the current system and greatly benefit from it. They greatly appreciate the near-total monopoly authority over macroeconomic policy granted to them by Putin and see it as a valid tradeoff for all the negative developments in the country. They may be unhappy about certain political developments, but this does not negate the fact that these liberals are, in fact, strong beneficiaries of the current system and have a lot to lose.

Such a set-up is consistent with Putin's general approach of dividing turfs among competing clans. **The government bestows an exclusive area of domination upon various clans, and these groups rarely cross each other's territory, opting to keep within their designated limits** – with Igor Sechin being the only notable exception to that rule.³³

Some individuals who seemed to have espoused liberal values in the past have become deeply engaged in the political crackdown against Russian society. For instance, a famous reformer of the 1990s and ex-head of the pro-Western SPS party Sergey Kirienko now serves as the Deputy Chief of the Kremlin administration and is responsible for "domestic policy" issues (including major abuses of power like control over political parties and groups, falsification of elections, repressive measures aimed at the opposition, etc.). Ella Pamfilova, a former member of Gaidar's reformist cabinet, today is the Chair of the Central Electoral Commission. As such, she is tasked with preventing opposition candidates from participating in elections, illegally mobilizing administrative resources in support of incumbent electoral candidates backed by the Kremlin, and falsifying election results.

There are many other examples of high-profile liberals transforming into aggressive defenders of Putin's regime, and virtually no examples of these people standing up against the current system. High hopes had been placed on Alexey Kudrin, arguably the most prominent liberal within the Russian elite, a reputation that solidified after he was dismissed from the Finance Minister post in 2011. But in early 2019, Kudrin was appointed to the po-

sition of Chairman of the Accounting Chamber and his behavior has become very careful and loyal.

The 2016 arrest of the Minister of Economy Alexey Uluykayev was an unprecedented attack against one of the prominent liberal reformers with a strong reputation and network of high-powered supporters. Without a doubt, it had a very strong impact on the liberals group, permanently introducing the fear factor into their behavior.

Consequences of the Elites' Weakness and Prospects for Systemic Adjustments

Over the years of his rule, Putin has deliberately destroyed Russia's independent elite, institutions and centers of legitimacy. Today, Russia's elite is much weaker and more dependent on Putin financially than it was two decades ago. Most members of the elite derive significant benefits from the status quo, as opposed to the rest of the country. Russia lacks institutional mechanisms to debate the course of its policies. One has to directly and personally challenge Putin to do so, and the fear factor serves as a significant disincentive, especially as the elite is thoroughly penetrated by the security services. Therefore, it is very unlikely that any major disruption to the current system could originate from the elite.

Is a coup d'état possible?

Vladimir Putin is relatively young and in good health. He is a man with unlimited financial resources and access to the latest advances in medicine. This makes it probable that he will be in a position to remain in power beyond 2030. This chapter accordingly focuses on the likelihood of Putin being ousted from power, as opposed to his vacating office due to natural causes. The likelihood of such a scenario is not very high due to several reasons:

- **Lack of motivation.** Most elite groups actually benefit from Putin's current political and economic model and would risk major losses in the event of change.

³³ Igor Sechin has crossed numerous red lines in attempts to expand his influence – acquired power and oil assets, challenged the government (successfully) on whether Rosneft shall be allowed to participate in oil asset privatization, challenged Gazprom on access to natural gas exports, apparently has played a backstage role in criminal cases and arrests of regional governors, etc.

- **Absence of groups with sufficient resources to carry out a coup.** There are only two structures in Russia with sufficient hard power to carry out a coup—the military and the National Guard. Other elite groups simply lack capabilities to seize power.
- **Lack of legitimacy.** For a couple of decades, legitimacy of the Russian state has centered on one man, Putin. Leaders of various elite groups who theoretically could overthrow him have never participated in popular elections, nor are they known or popular (with the sole exception of Defense Minister Sergey Shoygu, whose popular approval rating is close to that of Putin). Any groups who contemplate a coup run a serious risk of popular rejection. The first public response to the news of a junta may very well be the question of “who are these people?” This makes Putin's position very different from, say, the post-Stalin struggle for power or the very unpopular Nikita Khrushchev’s toppling in 1964 plot by a group of Communist Party leaders. Putin's status is secured by “popular elections” and backed by constant opinion polls, which would seriously undermine claims to legitimacy by anyone attempting to overthrow him.
- **Lack of competence in governance.** A serious impediment to a coup by the military and security forces is their lack of even the most basic understanding of governance principles and the economic challenges they would have to tackle if the coup is successful.
- **Absence of a tradition of military coups.** In countries where military coups do happen, most often they are the extension of a tradition of permanent political engagement by strong groups commanding hard power (i.e., their militaries consider themselves responsible for the country's political course). In Russia, this tradition is absent. The only known case of an attempted coup in modern history is that of August 1991, which was hugely unsuccessful for a number of reasons (lack of legitimacy, lack of ability to address governance challenges). The October 1993 rebellion was not a coup, but a bottom-up revolt without the backing of any serious power groups. It was crushed by the forces loyal to the rulers. Even if we go back to the events of 1917, both the February and October Revolutions were bottom-up movements, with military and security officials largely

abstaining from participation or even defending the challenged regime. General Kornilov’s attempt to set up a military-led anti-Bolshevik government in the summer of 1917 failed ingloriously. The post-Stalin power struggle of 1953-1957 and the ousting of Nikita Khrushchev in 1964 took place without any major interference by the military (while some military individuals were involved, the military as an institution was not an active player).

Nevertheless, the Russian political system does feature various groups with the ability to command military and law enforcement power. Below we analyze their possible motivations for mounting a coup and capabilities they would likely deploy in such an attempt.

The Military

This is the best-equipped group within the Russian political system to carry out a potential coup for a variety of reasons:

- The Russian military far surpasses anyone else in terms of available hard power to carry out a coup and crush dissent;
- The public persona of the Defense Minister Sergey Shoygu is the closest any Russian leader has come to Putin in terms of popularity and public support. If Shoygu leads a coup, the legitimacy issue would be partially alleviated.

However, several important factors play against a military coup scenario:

- **The military lacks the motivation** to overthrow the government, as it has been one of the main beneficiaries of Putin's regime, both financially and ideologically. The Russian military is traditionally one of the most ideologically conservative groups in the society, and Putin's neo-imperialist policies, in fact, reflect most of its aspirations. The situation was different in August 1991, when a conservative military took part in a coup against liberal reforms. Currently, there are no liberal reforms in sight, and Putin's conservative policies line up very well with the ideological views of the conservative elements in the Army.
- **Strong outside control.** During Putin's years, the military has been heavily infiltrated by FSB generals and other Putin appointees establishing effective

control over its operations and precluding its emergence as an independent institution with its own abilities to influence politics. Ironclad mechanisms of daily control have been put in place to guard against the military becoming an independent political player. Even during Soviet times, when the military was far more independent and politically influential (it was not as heavily infiltrated by the KGB as today, and Brezhnev's Defense Minister Dmitry Ustinov was one of the biggest political heavyweights in the Politburo), it had to be "dragged into" the August 1991 coup by the KGB and conservative members of the Communist Party. Defense Minister Dmitry Yazov later publicly apologized for his participation in the coup, saying that he was "dragged in".

- **Lack of tradition and competence.** The military is an extremely insular element of the Russian political establishment, removed from the day-to-day governing process. Therefore, it is not well-equipped for governing the country and addressing economic and financial issues, especially if the economic situation deteriorates in the future. Arguably, this lack of competence and separation from the governance process is one major reason why the Russian military traditionally stayed out of politics, with very few historical examples of military interventions, all of them unsuccessful.
- Although the Russian military has a sufficient number of well-resourced and well-equipped elite units to execute a coup, it is **hard to predict how other army units would respond** to an attempt to overthrow the government. Regular military units consist of low-paid personnel and conscript soldiers who would have little motivation to follow unconstitutional orders of top military commanders. During the 1991 coup attempt, a significant number of military units refused to participate and even defected to support the opposite side (this was the case with the Tamansky division which supported Boris Yeltsin, who used one of the division's tanks as a prop for his famous "Tank speech" on August 19th, 1991).

The National Guard

The National Guard led by Victor Zolotov is the only

other force having enough hard power to attempt a military coup. In the past few years, it has amassed around 400,000 troops, effectively absorbing all non-military combat units from the MVD (the Interior Ministry) – including the Internal Troops of the MVD, the largest non-army military structure. Internal Troops divisions participated in Russia's recent military interventions. In August 1991 and October 1993, the Dzerzhinsky Division of the Internal Troops, based near Moscow, played an important part in Russia's history by providing a military presence in the Russian capital.

A successful coup by the National Guard, however, is even less likely than that by the military for the following reasons:

- The National Guard and Zolotov are even less motivated to revolt against Putin than the military. They are one of the key beneficiaries of his regime, ideologically in-sync, and Zolotov is considered as one of the political figures most loyal to Putin.
- If the National Guard acts alone, without bringing the military into its coup attempt, the military's position and loyalty would be decisive. The Russian military's hard power far exceeds that of the National Guard, and the two have seen each other as competitors. It is difficult to envision the military having any motivation to support a coup led by the National Guard. If the National Guard tries to act alone, chances are high that the military would not support it and a conflict would ensue. Cooperation between the two is almost unthinkable, given the historic rivalry, competition and strained relations between the two organizations.
- The military leadership (particularly Minister Shoygu, but also the military as an institution as well as its top generals) is held in much higher regard by the Russian people than Zolotov and the National Guard. The National Guard is a relatively new structure established in 2016, and as such has not yet accumulated capital of trust even remotely close to that of the Army which has traditionally led in opinion polls measuring trust toward government institutions. The National Guard has not even made it into opinion polls as an entry due to its short history (see, for instance, a recent Levada poll)³⁴. Ordinary

34 Press Release, Institutional Trust poll, October 4, 2018, accessed at <https://www.levada.ru/2018/10/04/institutsionalnoe->

Russians have traditionally been skeptical of the Internal Troops (the effective predecessor of the National Guard) due to the fact that its key mission was to guard (and, in practice, brutalize) the prison population and to crush internal dissent; whereas the Army's mission is to defend Russia against external threats. Also, Zolotov is not a very public figure with a very low personal recognition rate.

While theoretically the military and the National Guard may cooperate in planning a coup, such a scenario is highly unlikely. The two, however, could hypothetically find themselves supporting a coup attempt by a broader group, such as occurred in August 1991.

The Interior Ministry (MVD)

The Interior Ministry (MVD) is the second biggest armed body after the Army – there are around 750,000 police officers in Russia as well as 150,000 civilian personnel at the MVD. However, it can hardly be considered a force capable of attempting a coup for the following reasons:

- The police force in Russia is not a centralized force, but instead a very dispersed structure consisting of over 20,000 district police branches very loosely connected with each other;
- The police force is poorly armed, and possesses no heavy artillery;
- Since the establishment of the National Guard in 2016, most of the centralized units with combat abilities (such as Internal Troops and riot police) have been transferred to the National Guard. There are some units still remaining within the police force, but for the most part the MVD is but an umbrella organization over thousands of smaller district police units.

The police force is even less motivated than the Army and the National Guard. Not only is it poorly paid, but it is also less bound by oath, indoctrination and contract service terms common for the Army and National Guard recruits. Essentially, the police are just at-will employees who can leave their jobs any time they want. This means that it is much harder to force a police officer to participate in an illegal activity like a coup d'état – motivations to obey orders from instigators of a coup would be much

weaker in terms of money, oath, or contract obligations.

The Federal Security Services (FSB)

The FSB, although extremely influential politically, is almost completely devoid of hard power. The only military-type force under the command of the FSB is the Russian Border Guard (around 100,000 personnel) which is deployed along the country's periphery, far from the Russian capital where one would expect a coup to take place. This widely dispersed force, like the force of the MVD, lacks heavy artillery. Unlike the Army, the National Guard or the MVD, the FSB has never had sufficient capacity for large-scale offensive operations. This is why, during the coup of August of 1991, the head of the KGB (the FSB's predecessor) Vladimir Kryuchkov, widely recognized as the coup's informal leader, was forced to rely on forces from the Army and the MVD to carry out the actual operations on the ground. In 1953, with the dismissal and arrest of Lavrenti Beria, Army units were able to effectively trump security forces loyal to Beria, preventing him from seizing power.

Were any attempt made to seize power, the FSB's involvement would most likely take the form of leading a wide coalition (like it did in August 1991), rather than providing major hard power. However, it is doubtful that the FSB would participate in a coup. Most likely it would be the last bastion defending Putin, similarly to the security services' role in seeking to prevent Beria's downfall in 1953.

Various Civilian Groups in Power

There are three major "civilian" groups consisting of persons not historically linked with the KGB/FSB or the Army. Not all of them can be considered "liberal", but they do merit a brief consideration in connection with hypothetical plots against Putin:

- **Political heavyweights controlling large state-linked businesses.** Top managers of key state-owned companies (Gazprom, Rosneft, Russian Railways, state banks, etc) and billionaires who have made their fortunes under the heavy protection from Putin (Rotenberg, Timchenko, etc) are extremely influential in today's Russia. At the same time they are very loyal to Putin and are one

of the key beneficiaries of the current regime. For them a regime change would mean losing protected turf and facing unprecedented open competition. Fundamentally, these groups are not motivated to challenge Putin's rule. They have managed to adapt to the Western sanctions, which further reduces their motivation to seek regime change. This situation could change if Russia's economic situation deteriorates significantly, or if the confrontation with the West takes a catastrophic turn. However, for the time being this seems to be one of the groups most loyal to Putin.

- **“Liberals” within the government.** This group has traditionally controlled the economic and financial sector of the Russian government (the Central Bank, Economy and Finance ministries), as well as some of the large state corporations (Sberbank, Rosnano). Alexey Kudrin, the current head of the Accounting Chamber and former Minister of Finance, is the most outspoken public face of this group. This group has more motivation than others to pursue a change of government, as it has traditionally opposed the anti-Western, anti-liberal, dirigiste policy course. However, it completely lacks hard power, and is utterly alienated from other power groups. The isolation of the liberals makes it very difficult to imagine that it would be able to carry out a successful coup. Moreover, the group has been severely affected by Putin's recent purge of elites – prominent figures arrested on charges of corruption included ex-Minister of Economy Alexey Ulyukayev and ex-governor of Kirov region Nikita Belykh, who chaired the last Russian pro-Western liberal parliamentary party SPS until its liquidation in 2008.
- **Large business groups sidelined by Putin's system.** There are still large business interests which are not part of Putin's clan, and although they have survived and are even able to make profits under Putin's system, their businesses have been nonetheless severely hampered by Western sanctions, domination of big state businesses in the Russian economy, and hostile takeover attempts by state-owned companies. Largest of the private businesses not formally tied to Putin are Lukoil, Alfa Group (Alfa Bank, X5 Retail Group), and AFK Sistema (MTS, until recently – Bashneft,

which has been taken over by Sechin's Rosneft). However, during all the years of Putin's rule, these businesses and their owners have refrained from participating in politics, even when directly attacked by Putin's cronies (like Rosneft's onslaught on AFK Sistema). They have learned the lesson of Mikhail Khodorkovsky incarcerated for a decade for daring to challenge Putin politically. It seems very unlikely that these large businesses would dare to attempt to oust Putin, perhaps excepting the possibility of participating in a very broad coalition that seemed likely to prevail. In general, “civilian” groups lack the motivation and sufficient hard power to participate in coups and are too alienated from other influential power groups to effectively participate in a large coup coalition. They are the least likely to attempt to overthrow Putin in the next decade or so.

A Coup Coalition?

Instead of expecting just one power group to revolt against Putin and attempt to seize power, it is possible to envision a wider coalition of different power groups (similar to what happened in August 1991). Sharp divisions and rivalries present between various elite groups in modern Russia, with only one factor effectively uniting them – Putin's leadership— make such a coalition unlikely. These groups depend more on Putin than he on any of them and their relationship is a top-down one. In the absence of common ideology and with rogue competition for control over material resources as the basic mode of interaction, it is difficult to imagine these power groups agreeing on such a challenging issue as ousting Putin from power. Circumstances which could hypothetically trigger such an event include:

- **A catastrophic decline of Russia's economy.** This would have to be something qualitatively different from the current situation – a sharp decline of the GDP and population income, hyperinflation, and basic supply shortages reminiscent of the late Soviet years. Nothing comparable has been seen in the current environment. But if something like that happens, the authorities would find a serious motivation to attempt to change course. This scenario is more likely in connection with the “post-oil” challenge that Russia will confront sometime after 2025.
- **Real risk of military or nuclear confrontation**

with the U.S. and NATO. Hardly anyone from the current elite, which is for the most part non-ideological and focused on personal enrichment, would benefit from a real war with the West. So, if Putin's policies lead Russia to a military confrontation, motivation for coup attempts and ousting Putin may increase significantly. In fact, this would be a more decisive factor increasing the likelihood of a coup than economic decline.

- **Intensified repressions against the elite.** The Russian elite has been greatly disturbed by the recent high-level purges which included arrests of governors, top managers of major state corporations, and even federal ministers. The scope of this repression remains relatively limited, but if it escalates and reaches the top tiers of the elite, motivation for political consolidation against the purge, with the purpose of ousting Putin and halting the repression, could arise.

Even a dramatic pivot in Putin's foreign policy and rapprochement with the West would not trigger a coup the way it did in 1991 when "conservative" Communist Party leaders rebelled against liberal reforms and pro-Western foreign policy, because the current Russian elite would welcome such a move.

The National Security Council, the most influential collective governance body in Russia, is also the one best equipped to carry out a coup.

No matter how it originates, the NSC would inevitably have a role in legitimizing the leadership emerging in the aftermath of a successful coup – it will either have to endorse it, or the coup perpetrators would have to neutralize the NSC in order to hold on to power. Alternatively, the NSC may act as a body that generates a collective

plan to oust Putin, similarly to what the Soviet Politburo did with Beria in 1953, to Malenkov, Kaganovich and Molotov in 1957, to Khrushchev in 1964, and the August 1991 coup perpetrators to Gorbachev.

Notably, no other governance body in Russia today controls as much collective decision-making power as the NSC:

- The Kremlin is a shady power broker without collective decision-making mechanisms and with a lot of non-public figures pursuing conflicting insider agendas;
- Both chambers of the Parliament (the Federation Council and the State Duma) are effectively stripped of power, and fully controlled by the Kremlin. For the past 15 years they have not engaged in any debate, voting unanimously on almost all major issues;
- The Federal government's authority is limited to economic issues. The military and security services are officially out of its purview and report directly to the President;
- Regional governors are weak due to the system of de-facto appointments by the Kremlin and would be unable to form coalition to counter federal authorities the way they did against Boris Yeltsin in 1999.

A quick look at the current NSC composition³⁵ suggests that Putin has deliberately staffed it with staunch loyalists who would serve as his first line of defense against potential coups:

- 45% of the current NSC members originate from St. Petersburg and Karelia and are personally bound to Putin by historic ties;
- 62% of the NSC members have military or security services backgrounds;
- 72% of the NSC members have never been elected to public posts through popular elections and owe all of their professional advancement to Putin personally.

"Liberals" are barely represented on the Council—except the Finance Minister Anton Siluanov, one member out of 29 (if one does not count PM Dmitry Medvedev as part of the liberal faction in Russia). Defense Minister Shoygu has few allies inside the NSC.

35 Membership of the National Security Council of the Russian Federation, as amended on February 18, 2019, accessed at <http://www.scrf.gov.ru/council/composition/>

Summary

The likelihood of a coup aimed at ousting Putin in the near term is very low. It is clear that a severe deterioration of Russia’s economy or its extreme international isolation may bring this scenario closer to reality. However, Putin has invested a lot of effort in preventing such a development by consolidating power, removing incentives for elites to oust him, and ensuring his own public legitimacy as a safeguard against any possible coup attempts.

The table below offers a snapshot of the two contingencies played out at various levels of intensity:

Trend or discontinuity	Minimal	Moderate	Extensive
A growing rift between Russian elites and Putin	Little or no adjustments to Putin's political course as result of pressure from the elites	Moderate change in Putin's policies in response to pressure from the elites	Putin significantly changes his policies under pressure by the elites
An attempt to replace Putin (a coup d'état)	There can hardly be a "light/medium" scenario when one talks about a coup d'état – either a coup succeeds or not		A full-blown coup d'état

Indicators to monitor

An elite revolt or other violent reordering of the Russian leadership would have a profound effect on U.S. security and the international situation. However, since a coup d'état is highly unlikely under most scenarios, **the key risk is the possibility that an even more aggressive hardliner comes to power** in a controlled fashion or immediately after Putin and either continues the current confrontational course or adopts an even more hostile behavior vis-à-vis the U.S. and its allies.

The U.S. must explore all instruments at its disposal to demonstrate to as many members of the Russian elite, including within the National Security Council, that less confrontational relations with the U.S. are in their interest. This is a realistic undertaking, given that the majority of the elite is already tied in its long-term economic and personal interests to the West. The U.S. can seek to shape the future political orientation of the Russian government by continuously communicating to the Russian political leaderships and the elites the benefits of abandoning aggressive policies and normalizing relations with the West and

the costs of continued confrontation.

Russia-watchers within the U.S. government should keep a close eye on various emerging and rising leaders in the Russian political arena, understand their networks, agendas and ideologies. Serious efforts should be dedicated to shaping attitudes and hence policy views of the next generation of Russian elites by emphasizing the possibility and potential benefits of friendly ties with the West. Investment should be made in cultural and professional exchanges.



Victory Day Parade, Moscow, May 9, 2008. Photo courtesy of Konstantin Rubakhin, all rights reserved

Military Confrontation



This chapter is a product of a team effort by Free Russia Foundation staff with advisory and editorial support from Vladimir Milov

Instead of attempting to predict Russia's possible military moves and campaigns, this chapter focuses on a handful of considerations that will define the shape of future scenarios driven by military factors:

- **Assessment of real capabilities and limitations of the Russian military.** Between 2014-2019, the Russian military was only used in limited snap operations (such as the war in Ukraine) or deployed to largely unchallenged environments (airpower projection to Syria). With the effects of Russian military reforms and modernization efforts still unclear, **real capabilities of the Russian military remain largely unknown.** Nevertheless, consideration of publicly available data, however limited, is an important step in evaluating the likelihood of Russia embarking on new military adventures, and the limitations that weigh against undertaking them.
- **Domestic policy and economic limitations.** Even under the current policy of active military engagement abroad, Putin has been careful not to go against **domestic public opinion, which is averse to costly foreign wars.** Contrary to the widespread belief that Putin pursues a “mass military-style mobilization” of Russian society, the likelihood of such mobilization is quite low. The general public supports Putin's military escapades only because they are presented as low-cost, high-gain exercises, and the Russian government and propaganda go out of their way to hide the real cost of Putin's wars. Therefore, public opinion will serve as an effective limiting factor when it comes to potential future military interventions.
- **Overall geopolitical context. Russian mil-**

itary campaigns do not happen out of the blue or on a whim. They are products of lengthy deliberations and as a rule are preceded by extensive preparations and build-ups, including political pretexts.

- **Assessing gains versus costs.** Russia's recent military activities abroad have been restrained and deliberate. All of them pursue specific goals. The Russian government is very sensitive to their costs—it dedicates a great deal of effort to estimating and minimizing costs of military operations.

1. Limitations in Capabilities of the Russian military

In the past decade, Russia's military has undergone a significant transformation. It was the direct result of the lessons learned process in the aftermath of the 2008 invasion of Georgia and the subsequent reforms initiated by former Defense Minister Anatoly Serdyukov. It is difficult to assess the true capabilities of the new Russian military lying beyond the flashy facade of several tens of thousands Special Operations Forces at the forefront of the recent military operations and some other capable units in the media spotlight.

It is unclear whether the Russian military is truly capable of handling serious large-scale military conflicts.

Despite a formidable defense budget (over 4% of GDP in 2015-2016, around 3% of GDP in 2018), 70% of Russia's defense spending is allocated for procurement of new armaments, with **regular army units remaining badly underfunded.** Personnel costs stand at 20% of the total defense budget, and military salaries have not

been properly indexed since 2012 (meaning that once the ruble devaluation since 2014 is taken into consideration, the Russian military personnel have lost dozens of percentage points in purchasing power).

The Russian Ministry of Defense (MoD) claims that contract military servicemen today outnumber conscript soldiers. There are about 400,000 contract personnel in the Russian Army and this number is projected to grow to 500,000 in the near future³⁶. The official number for conscript soldiers stands at 250,000. In reality, however, the majority of the “professional” military personnel are the same conscripts with low qualifications and combatant value, whose service terms are extended by a contract at the end of their mandatory deployment. Thus, with the exception of a small number of capable brigades established by Serdyukov's reforms, **the combat readiness of the majority of the Russian Army is questionable.**

It is no accident that the recent “successful” military operations in Ukraine and Syria have been against weak opponents— the Ukrainian Army (which was largely in shambles prior to the military conflict of 2014 and the subsequent reforms) and the poorly-equipped Syrian rebels lacking air defenses. Despite continuously boasting impressive new capabilities, the Russian military has not proved itself in a confrontation with a genuinely capable military force.

It is plausible that the reality is somewhere in between, and despite the considerable progress achieved during the recent years that has helped rebuild the Russian military from the broken institution fight the Chechen Wars of 1990s and 2000s, serious problems still remain:

“Impressive capabilities demonstrated in Ukraine and Syria have given rise to concern that Western armed forces may find it difficult to cope with an operating environment dominated by new Russian weapons systems for which they have neglected to adopt countermeasures. But at the same time, a number of veteran scholars of Russian military affairs argue that the power of the current Russian military is commonly overestimated, suggesting that

it is hostage to many problems inherited from its traumatic post-Soviet degeneration, critically challenged by overstretch, technologically backward, or all three. The answer lies in between. Russia’s reorganized and rearmed Armed Forces are neither invincible nor still broken and incapable”³⁷

“Russia’s military engagement in Syria tells us more about Russian limitations in expeditionary warfare than it does about Russia’s ability to conduct a major military operation on NATO’s eastern borders”³⁸

It is difficult to say whether Russian military forces are capable of handling tasks more challenging than surprise land-grabs in Ukraine and projecting airpower unchallenged into Syrian territory.

It is worth noting that the federal budget for 2019-2021, signed by Putin on November 29, 2018, does not envisage a significant increase in military spending. The federal budget, which is a reliable indicator of the near and mid-term policy intent of the Russian government, forecasts steady levels of military spending for the foreseeable future. Defense spending will remain just below 3% of GDP, below the 2018 level which stood at 3% of GDP, and significantly lower than the 2015-2016 period of military escalation:

Year	Russian military spending as % of GDP
2014	3.1%
2015	4.2%
2016	4.7%
2017	3.1%
2018*	3.0%
2019*	2.8%
2020*	2.7%
2021*	2.7%

Sources: Russian federal budget;

* - projection of the draft federal budget for 2019-2021³⁹

36 The Ministry of Defense Tallies Up Five Years of Large-Scale Military Modernization, November 7, 2017, published by TASS, accessed at <https://tass.ru/armiya-i-opk/4708714>

37 “Assessing Russia’s Reorganized and Rearmed Military”, Keir Giles, Carnegie Endowment for International Peace, March 3rd, 2017: <https://carnegieendowment.org/2017/05/03/assessing-russia-s-reorganized-and-rearmed-military-pub-69853>

38 Gustav Gressel, European Council on Foreign Relations, February 5th, 2016. https://www.ecfr.eu/article/commentary_lessons_from_russias_intervention_in_syria5085

39 Law 556362-7, Federal Budget for 2019 and Plans for 2020 and 2021, accessed at <http://sozd.duma.gov.ru/bill/556362-7>

Nor does this budget envisage any meaningful increases in the salary level for military personnel.

Over the years, the military has repeatedly failed to reach its recruitment target of 500,000 contract personnel. Russian Defense Minister Shoigu had vowed to reach this level by 2018,⁴⁰ but as of 2019, the actual number of contract personnel still stood at 400,000. In September 2018, Vladimir Putin publicly acknowledged the need to significantly boost the number of contract personnel, saying that conscript soldiers are unfit to handle modern military hardware and equipment.⁴¹

The new budget, however, does not allocate additional resources toward personnel, with about two-thirds of funds still slated for arms procurement. This means that **the current problems with recruitment will persist.** Russian military personnel will remain underpaid, and their combat readiness will continue to be questionable – save the limited number of truly well-equipped elite units.⁴²

2. Domestic Policy and Economic Limitations to Aggressive Behavior

Domestic public opinion and the weak economy are the two main factors limiting Russia's aggressive military actions internationally. The Russian people would most definitely not welcome any costly and bloody foreign military interventions. Putin understands very well the lesson of the Soviet Afghanistan experience from the 1980s and Russia's two Chechen Wars in the 1990s and 2000s. In all of these campaigns, large casualties swayed public opinion and the government saw its authority dwindle precipitously as a result.

Despite his bellicose public statements and persistent saber-rattling, Putin has remained cautious and refrained from engaging in large scale high-intensity military campaigns. The 2014 military takeover of Crimea was in es-

sence a special operation and not a military operation in the conventional sense— Russian troops in Crimea did their best to avoid direct military confrontation. In Donbass, Putin went to great lengths to conceal Russian military involvement and casualties from the Russian public. Deaths of Russian servicemen and their funerals have been held in extreme secrecy, relatives of fallen soldiers pressured and threatened to remain silent, and significant efforts made to keep casualty information out from the mainstream media.⁴³

During the 2014-2015 offensives in Ukraine's Donbass, Putin stopped short of sieges of major cities and follow-on offensives into Ukrainian territory. Both the Minsk-I and Minsk-II agreements were reached after failed attempts to capture the Azov seaport city of Mariupol. Speculation that Russia planned to establish a controlled "land corridor" to Crimea, encircling the Azov Sea, was never substantiated. The fear of a full-scale war with mass casualties appears to be one of the strongest constraining factors weighing against further offensives.

In Syria, Putin has limited the Russian military involvement to providing airpower (same as in Donbass where only mercenaries were allowed to participate in major ground operations, while Russia denied its own involvement). Known incidents when Russian aircraft were shot down (in total, Russia has lost 15 planes and helicopters in Syria) have caused extreme anxiety among the authorities. The Russian government has invested major efforts to prevent its adversaries in Syria from obtaining anti-aircraft missiles and to make sure that the Russian aircraft operate in a safe environment. When a Russian S-25 fighter was downed on February 3rd near Idlib, a major outcry followed from the Russian government and state media demanding answers on how Syrian rebels obtained the anti-aircraft missile in the first place⁴⁴ – highlighting a major vulnerability of the Russian air operations in Syria. This vulnerability has also been recognized by Western observers:

40 <https://tass.ru/armiya-i-opk/4708714>

41 Putin Announces Plans to Increase the Number of Contract Military Personnel, September 1, 2018, RBC <https://www.rbc.ru/rbcfreeneews/5b8ac89b9a794707a30f2707>

42 "Putin's Secret Force Multiplier: Special Operations Forces", <https://jamestown.org/program/putins-secret-force-multiplier-special-operations-forces>

43 This is a good summary of Kremlin's systemic attempts to hide its military involvement in Donbass: https://www.bbc.com/russian/russia/2015/03/150310_russians_fighting_in_ukraine, there is also a well-publicized investigation by Lev Shlosberg on the attempts by Russian authorities to hide the involvement and deaths of the Pskov paratroopers in the Donbas military conflict: <https://www.novayagazeta.ru/articles/2014/09/04/61012-171-ih-ne-prosto-obmanuli-151-ih-unizili-187>

44 <https://www.vesti.ru/doc.html?id=2983792>

"In Syria, even modest anti-aircraft capabilities could make life difficult for Russia. The conventional "dumb-bombs" primarily used by Russia in the conflict require an airplane to stay within the range of shoulder-launched air-defense weapons for quite some time, otherwise accuracy drops considerably."⁴⁵

In essence, Russia's recent military interventions abroad do not support the notion that Putin is ready to launch major military campaigns at significant human and financial costs.

Contrary to widespread belief that Putin may use military mobilization in the context of patriotic campaigns to boost his domestic support, public opinion surveys do not support that – **costly military interventions abroad were never particularly in public favor.**⁴⁶ In fact, the majority of Russians already supports a withdrawal from Syria, despite the relatively modest costs of operations there.⁴⁷

Public opinion surveys⁴⁸ and focus groups suggest that **when Russians support certain operations abroad, it is largely due to a "protectionist" sentiment, and not out of desire for new conquests.** Russian propaganda echoes sentiments from within the society. Russian interventions abroad are pre-

sented not as those of the "imperial conquest" type, but as obligatory missions in support of "brotherly nations" under attack by terrorists, CIA plots, Washington-imposed puppet governments, Soros, etc. The low cost of military operations is emphasized, be it Crimea (where public presentation of the Crimean takeover as a "low-cost" operation has played just as important a role in boosting Putin's approval ratings as the very fact of takeover of the peninsula itself) or Syria (where propaganda also dwells on the "low-cost" nature of Russian involvement, also emphasizing "unique training opportunities" for the military in active combat).

Significant efforts are made to keep classified the scale of Russian military deployments and actual resources expended (which partially explains the continued denials of military involvement in Donbass even 5 years into the operation).

Therefore, the idea that Russia may continue on the course of international military escalation for the purpose of "domestic mobilization" is flawed. **Wars are generally not supported by the Russian public, and costs and casualties of possible future conflicts will pose serious risks to Putin's approval ratings.** The opinion polling dynamics in 2014-2018 suggest that Russians very quickly lose enthusiasm for military adventures and conflicts,⁴⁹ and the positive polling effects of quick victorious wars if they exist at all are very fleeting.

Therefore, as far as Putin's decision-making on using military power abroad is concerned, bearing in mind the domestic policy considerations:

- Costly and bloody conflicts are to be avoided. Putin simply can't afford them;
- If a military intervention is inevitable, it should be quick, limited, with costs and casualties kept as low

45 ECFR, "Lessons from Russia's intervention in Syria", Gustav Gressel, European Council on Foreign Relations, February 5, 2016: https://www.ecfr.eu/article/commentary_lessons_from_russias_intervention_in_syria5085

46 Poll: 81% Russians support withdrawal of troops from Syria <https://www.kommersant.ru/doc/2955310>. Poll: LNR and DNR supported by less than 50% Russians <https://www.rbc.ru/politics/30/10/2017/59f341949a79475a1a914f69>. Poll: Russians fear confrontation with the West and WWII as a result of conflict in Syria: <https://www.levada.ru/2018/05/16/bolee-50-rossiyan-uviteli-ugrozu-nachala-tretej-mirovoj-vojni-iz-za-sirii>

47 Levada Figured Out How Many Russians Want to End the Operations in Syria, published by Vedomosti on September 5, 2017, accessed at <https://www.vedomosti.ru/politics/news/2017/09/05/732372-skolko-rossiyan-zaversheniya-voennoi>

48 Fewer than Half of Russians Support the DNR and LNR, published by RBC on October 30, 2017, accessed at <https://www.rbc.ru/politics/30/10/2017/59f341949a79475a1a914f69>

49 Low Interest in Donbass Conflict, published by RBC on October 30, 2017, accessed at <https://www.rbc.ru/politics/30/10/2017/59f341949a79475a1a914f69>; Low Interest in Syrian Conflict, published by Levada on May 16, 2018, accessed at <https://www.levada.ru/2018/05/16/bolee-50-rossiyan-uviteli-ugrozu-nachala-tretej-mirovoj-vojni-iz-za-sirii>

as possible.

Of course, **more aggressive scenarios are possible:** those with Russia occupying defended territory, having to overcome stronger resistance, and directly engaging in large-scale military confrontation not yet seen in Ukraine and Syria interventions. However, in the near future, domestic policy considerations would act as an effective restraining factor against military involvement abroad, and not as an “encouraging” factor.

Any possible military affair would be limited by the economic considerations of the Russian government. Currently, such considerations bear less weight than public opinion and domestic policy considerations. Putin has significant financial resources at his disposal, with the Russian federal budget showing healthy surpluses for the first time since 2014. The total budget surplus in 2018-2021 is expected to exceed 6 trillion rubles, and the National Wealth Fund is expected to reach 12% of GDP by the end of 2021 (it currently stands at around 5% of GDP).

In recent years, state-owned and affiliated companies have witnessed a near-total takeover of strategic sectors of the Russian economy. Largest state banks and second-tier banks controlled by Putin's associates constitute over 70% of the Russian financial system. **Putin, therefore, commands sufficient liquid assets to underwrite new military adventures.⁵⁰ The current Russian defense spending stands at below 3% of GDP, which is a decrease from the 4% of GDP level seen in 2015-2016, but this trend can be reversed quickly if necessary.**

However, the overall economic picture is not too bright. Russia's economic growth is still extremely slow, and the domestic demand is weak. The level of capital flight is much higher than anticipated by the government⁵¹ and is unlikely to slow down. Private investments are weak, and public investment spending is constrained and insufficient to realize substantial growth. Due to Western sanctions, Russia remains cut off from international capital markets,

while corporate foreign debt is still relatively high (over \$400 billion). This places more pressure on the ruble. Because the Russian economy is highly dependent on consumer imports, any fluctuation in the ruble exchange rate has an immediate negative impact on consumer purchasing power. All of these negative economic indicators, along with unpopular political decisions such as raising the retirement age, have already affected negatively Putin's approval ratings.⁵²

Nevertheless, **if Putin decides to go to war, he would not face a shortage of cash to finance large-scale military campaigns. Money would be made available when and if necessary.** However, in longer-term and higher-cost military campaigns, available reserves will be depleted quickly; Russia's economic difficulties will only deepen, and popular approval of the authorities will undoubtedly plunge.

In other words, while Putin currently does have the resources sufficient for short, low-cost military interventions, he will likely avoid longer-term and more resource-intensive military adventures. Given these constraints, **a scenario of Putin starting a major international military conflict is highly unlikely.** However, different type of operations, like we saw in Ukraine or Syria, are still possible, there are sufficient resources to carry out those, and we will probably see more.

3. Geopolitics driving new military interventions

Russian military interventions in Ukraine and Syria have given rise to simplistic generalizations on Putin's intent to use military power either to boost his international position, or to achieve domestic “military mobilization”. However, in reality, all Russian military interventions in the recent years have been products of very specific contexts, and not outcomes of simplistic considerations such as “we need to intervene somewhere to boost Putin's approval ratings/to improve Russia's standing in the global affairs.”

- Russia's military intervention in Georgia in 2008 was

50 According to assessments by Vladimir Milov, state financial surpluses and reserves, free cash flow of big state corporations—Putin has sufficient resources to wage significant scale military campaigns. Current bleak economic situation is no obstacle to that, money is available when it comes down to Putin's strategic purposes.

51 Between January and November, Capital Flight from Russia Increased 3.3 Times, published by Interfax, December 11, 2018, accessed at <https://www.interfax.ru/business/641799>

52 Putin's Approval Ratings Have Plunged to the Annual Low, published by TV Rain on November 30, 2018, accessed at https://tvrain.ru/news/vtsiom_uroven_odobrenija_putina_upal_do_godovogo_minimuma-476170

the product of several years of standoff between Putin and Georgian leader Mikhail Saakashvili, which was related to many specific issues beyond merely Georgia having chosen a pro-Western course: Saakashvili's demand for the closure of Russian military bases which Russia wanted to keep, Georgia's aspirations to join NATO, tensions over the breakaway Georgian territories of Abkhazia and South Ossetia which had de facto become Russia-controlled over the preceding two decades.

- Russia's military intervention in Ukraine in 2014 and the annexation of Ukrainian territories were the product of many years of Russian efforts to pull Ukraine into its orbit of influence and establish control over its strategic assets, and were a direct response to developments which Putin was not prepared to tolerate – ousting of the pro-Russian President Viktor Yanukovich and the emergence of an outright pro-Western government aimed at Euro Atlantic integration and NATO membership. There are signs that a potential “response operation” to such developments, including a swift takeover of Crimea, had been developed by Moscow some time in advance⁵³.
- Russia's military intervention in Syria in 2015 followed many years of Putin's apprehension of regime changes in the Middle East in the aftermath of the Arab Spring, and his openly stated desire to keep his ally Bashar al-Assad in power. Russia has provided overt military aid to Assad and defended his regime politically on the international stage. Because it was the first time since the 1980s (not counting Russia's relatively limited involvement in Yugoslavia and the former Yugoslavian states in the 1990s) that the Russian military deployed beyond the post-Soviet borders, the Syrian intervention came as a surprise to many. However, from the point of view of developments of the Syrian crisis, it was quite logical to expect that something more than military aid would arrive at certain moment.

Therefore, as a general rule, Putin does not intervene militarily just for some general political purposes. All known interventions have never happened “out of the blue” but have been the result of a lengthy build-up of a

very specific local pretext for military action”. Likewise, future Russian military actions abroad are most likely to emerge out of already existing political standoffs (most likely in the Russian neighborhood) or opportunities provided by the emergence of certain Putin-friendly regimes in third countries (such as the government of Khalifa Haftar in Eastern Libya, which appears to be Putin's next target in the Middle East after Syria). **Prospective operations would be carefully measured against possible costs and resource limitations.**

Possible Attack on the Baltic States?

Potential military intervention in the Baltic states is a highly speculative topic – it has been discussed extensively in the aftermath of the Russian military interventions in Georgia and Ukraine. No doubt, there are good reasons to pay attention to the possibility of an attack, but at the same time, no specific pretext exists so far for such an action, and the concrete situation in the Baltic states makes them very different from the Georgian and Ukrainian cases. Russian military interventions do not come out of nowhere, and usually have very specific pretexts of an escalating confrontation before the intervention actually takes place.

However, the topic clearly deserves attention, as **the probability of a Russian military attack on the Baltic states is, however low, still above zero** for a number of reasons:

- Baltic states are vulnerable to such an attack, and will be quickly overwhelmed by Russian military power, which makes them an easy target, arguably the easiest for a military takeover out of the entire Russian “near-abroad”;
- There's a significant Russian population in the Baltic States, and it may be used to stir up unrest and justify military intervention, in a manner similar to Ukraine;
- For a long period of time, these states were part of the Russian Empire and subsequently the USSR, and there's a significant element of nostalgia over the control over them as part of “restoring the Great Russian Empire”;
- These states take the strongest positions within the European Union and NATO on sanctions and other

53 Russia Was Getting Ready to Annex Crimea as Early as 2013, published by Unian, February 9, 2018, accessed at <https://www.unian.net/politics/1769291-rossiya-gotovilas-anneksirovat-kryim-v-2013-godu-minyust-sobral-dostatocno-dokazatelstv.html>

measures against Russia, which puts them among the states perceived as most hostile to Putin's regime.

However, there are also very strong headwinds against a military move in the Baltic states, making such an attack unlikely in the near future:

1. The leaders and ordinary citizens of these countries are now psychologically and logistically prepared for such Russian action and will fiercely defend themselves. Putin would face a full-scale guerilla war and sabotage. Military takeover is one thing but dealing with tough and potentially bloody resistance from the local population is another. The people of the Baltic States take the Russian threat very seriously. Even the fight for independence in 1990-1991 very confrontational, eventually sparking the chain of events that contributed to the dismantling of the Soviet Union.
2. The Baltic States are now part of NATO. While it is not clear what is the actual Western commitment to defending them militarily under Article 5 of the Washington NATO Treaty, the risk of military response is very serious, and Putin definitely takes that into consideration.
3. Russian annexation of these countries will never be recognized by the international community, so the installed puppet governments would fully depend on the Russian financial aid (similarly to what we observe in Crimea, Abkhazia, South Ossetia, and the occupied territories of Donbass). This would amount to a significant financial burden, much higher than the current spending on all other occupied territories combined.
4. The benefits of capturing the territories of the Baltic States are questionable at best. They are small and do not feature any major natural resources. At one point they did hold a vital transit potential for exporting Russian petroleum and other commodities, but Russia's transit dependence on the Baltic States has been obviated by the recent impressive scale of construction of pipelines, terminals and ports. Unlike Crimea and the Black Sea, which were the only basing options for the Black Sea Fleet in Sevastopol; Russia already has a strong military presence in Kaliningrad and the Gulf of Finland.

Moreover, the cost of such an intervention would ex-

ceed those of any other recent interventions.

No matter what strategic rationale Putin may identify to attack the Baltic States, the costs of doing so would far outweigh the benefits.

The much-discussed Russian military action against the Baltic states seems quite unlikely, although not impossible, for several other reasons:

- There is no specific pretext for military intervention. Relations between Russia and the Baltic States are at their lowest, but this alone is not a sufficient cause for a war. There are no disputed territories (save small-scale border disputes). Unlike Ukraine or Syria, there is no local government on the ground (past or present) whom Russia might claim it is intervening to defend, for the Baltics have now long been out of the Russian orbit and have integrated into European institutions and security arrangements. Many observers have pointed to the significant numbers ethnic Russians resident in these countries who may be seen by Moscow as a potential pillar of support of the Russian occupation, but in reality, things are much more complex, and large number of ethnic Russians in these countries may reject any potential Russian annexation as well.

This miscalculation (that ethnic Russians may not necessarily support Russian invasion and even be against it) is one of the reasons why Putin's blitzkrieg in Eastern Ukraine failed: Putin's strategists led him to believe that the whole greater Russian-speaking Southeast of Ukraine would break away from the pro-Western government in Kyiv, just because they speak Russian. But in reality, sizable anti-Putin movement had emerged in Southeastern Ukraine out of the Russian speaking elites and population: to speak Russian is one thing, but to be trampled by Putin's system is another.

- In Crimea and Donbass, Putin had a unique potential base for popular support: for instance, in the latest elections under full Ukrainian control,

elections of the Ukrainian parliament in October 2012, the Party of Regions (party of the pro-Russian President Yanukovich) together with the Communist Party gained 75-80% of the vote. The situation in the Baltic states is nowhere near these potential levels of support, despite the fact that a substantial Russian population lives there. The Kremlin has been trying to wage a hybrid war in these states for over a decade, but never even managed to establish a sizable mainstream pro-Russian political force.

Russia's recent military campaigns suggest that **Putin only attacks in relatively low-cost situations**— in high-cost scenarios he holds back. Attack on one of the Baltic States, for example, even without an immediate military response from the West, would definitely be a high-cost proposition, due to the likely resistance by local populations. Putin has not yet engaged in high-cost military interventions. It would be a great departure from his established track record if he did.

The resources that Russia dedicates to political intervention in the Baltic States are far lower than those spent on targeting the United States and Western Europe (including France, Austria, Italy, etc.). This would suggest that the Baltic States are not high on Putin's priority list for disruptive operations.

If Putin were to target the Baltics, he would probably employ hybrid forms of pressure to test the West's collective response in defending them. Such hybrid tactics may include provocations using the Russian populations of these countries, disinformation campaigns, cyberattacks, disruption of performance of state institutions and the military, plus the military buildup and direct military provocations at the Baltic States' borders. All such developments must be carefully monitored and taken very seriously. Their escalation may signal that something bigger may be in the works.

Why is an Intervention in Belarus More Likely?

Belarus is a much more likely target for Russia's military operations for several reasons:

- Russia perceives Belarus as vulnerable due to its economic weakness, financial dependence on

Russia, strained relations with the West and low popularity of its President Alexander Lukashenka among the Belarussian people.

- Russia has a number of concrete objectives that can be achieved with a potential takeover of Belarus; Russia has already explored plans to change the government in Belarus through political means, without direct intervention.
- Russia sees Belarus as its own military outpost and has no patience for Lukashenka's lack of cooperation on matters such as establishment of Russian military bases.

Of course, a military campaign against Belarus would also have its costs, making it more likely that it would take the form of a hybrid operation rather than a straightforward military assault. However, the balance of costs and gains clearly puts Belarus ahead of the Baltic States as a potential target for an intervention. Moscow's established reach into Belarus — financial and military— is already significant, which may encourage military action in Putin's eyes — with the Baltic States being in a totally different league in this regard.

Beyond the post-Soviet space, there are also several candidate territories for potential Russian military involvement, but they lack the necessary precondition of advance preparation and convincing pretexts. Russian interventions would most likely take the form of "assistance to friendly governments" under the scheme similar to the Russian military involvement in Syria. For instance, the candidate territories that already surfaced in the news are:

- Eastern Libya led by a military strongman Khalifa Haftar who visits Moscow frequently. It is rumored that agreements are under consideration to set up Russian military bases in Eastern Libya.⁵⁴ Once the Russian military is allowed in and the local regime's stability becomes reliant on its presence, such bases can be used as platforms for Syria-style "state capture";
- Similar interventions in Sudan (to whom Russia provides military aid, and further expansion of that was discussed during the visit of Sudanese President Omar Bashir to Moscow in July 2018) and Central African Republic (where Russian military people

54 <https://www.novayagazeta.ru/news/2018/10/09/145784-smi-uznali-o-razmeschenii-rossiyskih-voennyh-v-livii>

have already infiltrated the government⁵⁵ and Russian mercenaries are operating on the ground).

Gains Versus Costs

Vladimir Putin and Russian military planners, as a rule, pursue very concrete goals and objectives with military campaigns. For instance, in Crimea the purpose was to take control over a very strategic piece of territory; in Donbass – to create a breakaway area outside of the Ukrainian government control for later use as a bargaining chip (for veto power against Ukrainian accession to NATO, for example); in Syria—to keep the troubled Assad regime in power. Any future Russian military action will have a specific purpose – be it a land grab or protecting a friendly government.

In this context, a military confrontation with the West is unlikely. It is unclear what might be viewed as a win by Putin in such a confrontation.

This is not to say that Putin is not preparing for a possible military conflict – many factors suggest that he is, from developing new strategic weapons and conducting mass-scale military exercises, to escalating military provocations with Russian aircraft probing Western defenses. However, it is very hard to imagine that Russia will gain anything from a military conflict with the West. Russia has enough military potential to inflict serious damage on the Western militaries and societies, but its capabilities are inferior, both militarily and economically, to envision a victorious outcome. Instead, in any conflict – even a non-nuclear one – the Russian military would most likely suffer heavy losses, which in turn would have serious negative ramifications for the ability of the ruling regime to stay in

power.

A careful analysis of the Russian propaganda coverage of conflicts in Ukraine and Syria makes it very obvious that foreign military campaigns are always portrayed to the Russian public as bringing some specific gains for the nation. With Crimea, the gain was obvious. With Syria, the list of purported gains is quite long – from securing important contracts with the Syrian government, maintaining a Russian military base in a strategically important region, providing unique combat training experience to Russian troops, to certain wild conspiracy theories that are nonetheless discussed on the Russian state-controlled TV channels (for example, the notion that a Russian military involvement was necessary to prevent construction of a gas pipeline from Qatar to Europe which would have competed with Gazprom's projects). Expected “gains” from military operations are important not just for Putin, but also for the Russian society.

When it comes to military involvement in Donbass, Russian official propaganda does its best to distance itself from the military conflict. The official position is to deny any Russian presence in the first place, claiming instead that the conflict is part of an internal Ukrainian “civil war”. This is no surprise, since various opinion polls in Russia consistently show both the overwhelming lack of public interest in the developments in Donbass⁵⁶ and the lack of public understanding of Russia’s actual needs and interests there (Crimea in this regard is much better understood, and the grab of Crimea is much more popular).

Any military actions driven by generic political purposes (i.e. to boost Russia's international standing, blackmail the West, or achieve a new wave of domestic “wartime mobilization” around Putin) are unlikely. Such an approach goes against the fundamental principles for waging military campaigns and assessing their potential gains. All the talk about a launch of military campaigns without a very specific purpose, merely to “boost Putin's popularity,” seems to be unsupported by any evidence.

55 <https://www.thedailybeast.com/putins-man-in-the-central-african-republic-is-valery-zakharov-at-the-heart-of-russian-skulduggery>

56 Donbas is Not Ours, published by Vedomosti on October 31, 2017, accessed at <https://www.vedomosti.ru/opinion/articles/2017/11/01/740109-donbass-ne-nash>

Can Russia Evolve into a Civilized International Actor?

What are some practical circumstances that may stimulate Russia to behave one way or another? Several observations are relevant to this discussion:

- Putin does not believe in the rules-based international order. He points to the West hypocritically violating these rules at will. He frequently cites examples of Western military campaigns of the past couple of decades to support this view. Simultaneously, believes that the rules-based international order and the democratic West are an existential threat to his own regime.
- Putin views the West as weak, plagued by the rise of populism, corrupt, and easy to penetrate and disrupt with “active measures” and hybrid warfare. Therefore, he does not see it as an equal negotiation counterpart worthy of respectful treatment by Russia, let alone concessions. Instead, he seeks to achieve political gains by further weakening the West through relatively low-cost disruptive campaigns such as hybrid operations and interference in internal politics.
- Putin’s agenda is facilitated by the rise of significant political forces in the West ready to dismantle the existing liberal world order and return to a cartel-style system of global governance based on the division of spheres of influence – akin to the XIX century Concert of Europe.⁵⁷ Populists, far-right blood-and-soil nationalists, anti-imperialist leftists, all sorts of anti-establishment political forces in the West – are disruptive to the unity of Western democracies and they are reshaping the Western political scene in profound ways.
- The current mainstream thinking among the Russian

elite is that the country has largely adapted to the Western sanctions and there is not much else the West can do to economically harm Russia. This is not to be confused with the overall assessment of the country’s economic situation, which is quite difficult. However, the West is seen as having more or less exhausted its options for inflicting damage on the Russian economy.

The Western sanctions have played a major role in locking down the Russian economy in limbo and preventing significant economic growth. However, Russia has been able to withstand the current sanctions regime featuring sanctions against sovereign debt, big companies, state banks, push back against Nord Stream-2. The situation has stabilized, further decline is not anticipated, and there will be no collapse. Absent specific new threats or hostile actions by Russia, introduction of more punitive measures by the West with a real potential to harm the Russian economy (such as oil embargo, disconnecting Russia from SWIFT) are unlikely.

Various Putin's allies in the West (especially the top leadership in Hungary, Austria and Italy) are persistent in pushing the issue of lifting the existing sanctions. As the Russian elite sees it, currently, there is more pressure on the West to lift sanctions than to strengthen them. Therefore, Putin has no impetus to offer concessions to the West and change his behavior. Moreover, with the West weakened by the rising populism and disintegrating transatlantic ties, he feels like he is on the geopolitical offensive, which again does not incentivize cooperation.

It is quite unlikely that Putin's Russia will adopt a constructive and positive stance in international affairs. Any approach to possible deals with the West would most likely come with demands to abandon the existing rules-based international order, and shift toward grand bargains, zero-sum game and division of zones of influence.

⁵⁷ Some Putinist thinkers have openly formulated this as a goal of reshaping the global order, see, for instance, “Back to Concert” piece by Vyacheslav Nikonov in “Russia in Global Affairs”, http://www.globalaffairs.ru/number/n_15

Summary of Scenario Ranges

Trends and Discontinuities	Minimal	Moderate	Extensive
Limitations in capabilities of the Russian military	Russia keeps its military spending at current levels or reduces it; introduction of new weapons systems slows down and unsuccessful; military personnel remain underpaid and unmotivated	Russia increases its military spending and salaries of military personnel; systems modernization efforts are moderately successful	Russia significantly increases its military spending, upgrades combat capabilities of its army units, deploys new weapons systems
Domestic policy and economic disincentives to aggressive behavior	Russian economic woes preclude increases in military spending and high-cost military campaigns; public opinion overwhelmingly rejects high-cost military adventures	Stabilizing economy produces resources for higher level of spending on military in general and for military campaigns; public opinion is less hostile toward interventionist policies	Russian economy sees a dramatic improvement, allowing ample resources for new military adventures. Authorities successfully mobilize society in support of aggressive international policies
Geopolitics driving new military campaigns	No new military campaigns, intensified dialogue with the West, possibly withdrawal from either Syria or Donbass or both. This scenario seems the least likely of all due to a number of reasons described above, primarily Putin's view of the West as both weak and an existential threat to his regime at the same time	Russia sustains its current level of military presence abroad, with new military campaigns, but without any major military escalation (largely by agreement), and without significant intensification of its foreign military operations. Military presence in Syria and Donbass are sustained. Most likely scenario of all; also supported by the new draft federal budget for 2019-2021 submitted by the Government to the State Duma, which affirms the status quo in terms of financial policy toward the military, and even some reduction of military spending as % of GDP	Numerous new forced entries, a possible invasion of some countries (Belarus most likely), and an increased threat of serious head-on military confrontation with the West. Far less likely than scenario 1, but not impossible. This scenario requires drivers in the form of very specific regional developments, not generic political considerations. It will impose significant costs on Russia and reveal limitations; overstretch may be fatal to Putin's regime

Indicators to Watch

Limitations in capabilities of the Russian military	Planned military spending as % of GDP;
	Ratio between contract military personnel and conscript soldiers;
Domestic policy and economic limitations	Dynamics of labor costs for military personnel as share of total military spending;
	Failures/successes of development and introduction of new weapon systems (by type).
	Casualties and losses from current military campaigns and public reaction (opinion polls);
Geopolitics driving new military campaigns	Opinion polls on approval/disapproval of military campaigns abroad;
	Opinion polls on concerns of the Russians about potential costs of wars and confrontation with the West;
	Uncommitted financial reserves available for the Government to finance potential new costly military campaigns (budget surpluses, free cash in the National Wealth Fund).
Geopolitics driving new military campaigns	Rising tensions with neighboring countries that may serve as a pretext for potential military action, including the Baltic States;
	Military cooperation negotiations and agreements with third countries.

Ramifications for U.S. security

Given its military capabilities and policy intentions, as well as the experience of the past few years, it would be fair to assess Russia as a force highly disruptive to the rules-based international order. No other country has demonstrated such willingness to use military force to redraw borders and save besieged tyrants. Putin's style of aggressive military behavior has caught Western leaders unprepared, as they lacked an appreciation for Russia's military capabilities and political will to act in a new aggressive manner.

How can the U.S. ameliorate the risks?

- The U.S. policy establishment must engage in a thorough analysis of the actual condition of the Russian military and its readiness for new military actions. Russia's economic and societal dynamics must also be evaluated as background factors for any decision on international military campaigns. The system of indicators should be developed to enable analysts to constantly assess the political environment and detect shifts from one scenario to another. A few such indicators were suggested above.
- Specific attention should be paid to monitoring Russia's hostile activities vis-a-vis the Baltic States, and specific plans of defending the Baltic States in a wide range of scenarios (disruptive hybrid warfare, military provocations, border confrontation, using local Russian populations to stir up the situation, up to a full-scale Russian military campaign) should be developed.
- The United States and its allies should articulate a comprehensive multi-layer containment strategy to check Russia's aggressive behavior and curb application of hybrid warfare tactics. While this strategy should carefully preserve and even expand opportunities for engagement with the Russian civil society, individuals and groups implicated in foreign aggression should be targeted by sanctions with harsh long-term consequences, including travel bans and the potential to face Hague war crimes tribunal.



View across the Heihe River from Blagoveshchensk, 2005. Photo courtesy of Konstantin Rubakhin, all rights reserved

Russia as a Proxy Superpower of China



By Denis Sokolov

Sources of Discontinuity

Russia is growing increasingly more dependent on China in the economic, political, and even military spheres. We won't delve into the history of Russian-Chinese relations of the last 20-25 years and instead focus on factors likely to shape the scenarios of Russia's development over the next decade.

As Russia is pushed out from European markets, **China is becoming an increasingly more important consumer of Russian hydrocarbons and other natural resources** – so important, in fact, that it is beginning to define the marginality of these industries and the annual revenues. In some cases, the influence of Chinese business is even more profound. For example, in timber harvesting and processing, petroleum extraction, construction material production, metalworking, etc., Russian companies depend not only on the sales of raw materials to China, but also on the supply of Chinese equipment and Chinese investments.

In the Russian consumer market, China lobbies for the presence of Chinese-made goods at all levels. The result of this effort is that most retail chains and importers become lobbyists for Chinese interests, and the patrons of those importers, wholesalers, and retail chain operators (usually top officials from the Russian Federal Security Service (FSB) and Ministry of Internal Affairs (MVD)) provide strong-arm and administrative support specifically to

the Chinese traders.

China is not only a client of the Russian military-industrial complex (MIC), but also its main competitor in world markets.⁵⁸ In the context of international sanctions, this situation is further aggravated by the fact that sometimes Russia is forced to acquire some military manufacturing components through China, including parts necessary for the production of its anti-aircraft systems, military airplanes, navigation equipment and guidance systems for artillery as well as land-based and sea-based multiple launch rocket systems (MLRS), drones/UCAV's, and other modern weapons and technical support systems, including modern manufacturing equipment.

China has been acting increasingly more pragmatically in relation to the Russian MIC: it only purchases those technologies,⁵⁹ production cycles, and specialists that it needs in order to take over the arms markets traditionally dominated by Russia (Venezuela in South America, Algeria in Africa, the Middle East, and so on).

Within the Russian political system, of high importance are the unofficial political groups (sometimes called ICG's – interagency criminal groups) and their unofficial controls of state institutions (above all, the struggle is for the control over the FSB, the courts, the MVD, and foreign intelligence agencies). This architecture creates a favorable business environment for Chinese entrepreneurs. In excreting economic and political influence on political clans (corruption, intimidation), they habitually use Russian security and law enforcement agencies and other state institutions as their own protection racket and administrative resource. This is observed both within the country (for example in the timber export industry in the Irkutsk

58 China and Russia Take Over Weapon Export Markets in the Middle East, published by the Epoch Times on March 6, 2017, accessed at <https://www.epochtimes.ru/kitaj-i-rossiya-zahvatyvayut-rynok-eksporta-oruzhiya-na-blizhnem-vostoke-99036607/>

59 For example: Lyle J. Goldstein. June 1, 2015. "China's YJ-18 Supersonic Anti-Ship Cruise Missile: America's Nightmare? A new challenge emerges for the U.S. Navy. TNI presents one of the first in-depth looks at this deadly weapon." National Interest.

Oblast or gold in the Chita Oblast) and in those regions of the world where Russian special services, affiliated private military companies, and criminal networks operate (as is the case in Africa). In some industries (timber harvesting, gold mining, trade, etc.), representatives of the Chinese business and political elite emerge as full-fledged players in the Russian regional and industrial political markets.

Chinese style of establishing economic and political control over business and political partners differs from the management style of the Russian establishment only by its pragmatism and incommensurably greater resources. This explains why China's control over Putin's regime is becoming increasingly more multi-layered and deeper. The fate of becoming China's satellites along with Putin's political elite may befall (the process that has already begun) some post-Soviet regimes and the transnational networks of businesses, human assets, and criminal organizations affiliated with them.

The essence of this scenario is that **Russia may not only lose political and economic control over most of its territories and resources but also turn into a giant proxy superpower** armed with nuclear weapons, one that doesn't just act in the interests of China and the Chinese business but is also riddled with informal political and economic trans-border and transnational connections. This agglomeration, set against the U.S. and the EU, will not be isomorphic to the USSR, since the economic and technological integration in the 21st century is much deeper than it was during the second half of the 20th century.

The growing Chinese control over the Russian political system and economy is manifested in:

1. The evolving dynamics of cooperation of the two countries' MIC's and space industries; displacement of Russian armament from the traditional markets by weaponry made in China or in cooperation with China; and the increasing use of Chinese hardware components by the Russian MIC. Relevant indicators for tracking such evolution are:
 - Chinese investments in the Russian MIC;
 - Procurement and fielding of Chinese weapons systems and armament by the Russian armed forces and police forces;
 - Takeover by China of traditional Russian weaponry and military equipment clients and markets; for

example, sales of tanks to Azerbaijan;

- The number of Russian engineers employed in China and by Chinese MIC corporations; Russia's withdrawal from the Indian arms market;
 - Joint tactical exercises conducted by Russia jointly with China;
 - Joint space projects, such as launches of rockets from Russian space centers;
2. China's growing share in Russian foreign trade, and the changing ownership structure of exporting companies: the Chinese businesses acquire large blocks of shares, invest into modernization, and wherever possible Chinese equipment is installed and Chinese personnel are brought in.
 3. Increasing competition between Russian *siloviki* clans for Chinese investments (like with the S300 and S300v); the indicator here will be a break in the graph showing the dynamics of criminal charges filed in cases of espionage and disclosure of state secrets in favor of China, a possible series of political assassinations in the highest echelons of the Russian government, among the army command and special services' leadership.
 4. Adopting of Chinese electronic police technologies in Russia (for example, facial recognition systems for street cameras in large cities).

Description of Changes

Official Russian balance of payments reports show that direct Chinese investment into Russia amounted to \$645 million in 2015 and \$350 million in 2016. However, according to the Chinese statistics, direct investment in the Russian economy was several times greater and reached \$2.96 billion in 2015. At the same time, the accumulated amount of Chinese investments by the end of 2015 was \$14.02 billion. In February 2017, Gao Hucheng, Minister of Commerce of China at the time, estimated the value of cumulative investments into Russia at \$42 billion. Thus, **the official Chinese and Russian statistics on Chinese investments into Russia differ several-fold.**

This discrepancy between official Russian and Chinese statistics may be explained by the fact that both Russia's and China's primary investments are made through offshore companies in places like the Bahamas, Virgin Is-

lands, Hong Kong, the Netherlands, Singapore, and the Cayman Islands. According to China's 2016 Report on Development of China's Outward Investment and Economic Cooperation, in 2015 the total amount of Chinese investment abroad was \$145.67 billion. Of that sum, \$116.35 billion (80%) comprised five offshore jurisdictions: Hong Kong, the Netherlands, the Cayman Islands, the British Virgin Islands, and Bermuda. The fate of this money is unknown; a substantial part of it may return to China, for example, through Hong Kong, which has traditionally been the main source of direct investment into China. The rest of the world then, according to these Chinese statistics, gets the remaining 20% of Chinese investments. Thus, as seen from the perspective of that portion of Chinese investments that is visible to Chinese statistics, **Russia is one of the primary recipients of those investments in Europe.**⁶⁰

The volume of trade between Russia and China is also a testament to the increasing integration of the two economies: in 2018 it exceeded \$100 billion. Imports of Chinese goods amounted to \$47.97 billion, while Russian exports to China reached \$59.08 billion. China imported more electric and mechanical appliances (of which, according to 2017 data, \$13.6 billion was equipment, \$11.8 billion – electric motors and machines, \$6 billion – consumer goods, and \$1 billion – consumer goods and food products supplied to the Russian Far East), and received oil (\$25.3 billion in 2017; by the end of 2018, due to China's trade war with the United States and reduction of purchases from Iran, shipments increased by 58%, reaching 7.347 million tons per month, of which \$4 billion dollars' worth were timber and wood products, \$1.5 billion – weapons and equipment for nuclear power plants, and \$1 billion – fish and seafood).

Hydrocarbons

Russia's chief export earner in its trade with China is hydrocarbons, oil and gas. In October 2018, China increased oil imports to a record 9.7 million barrels per day, and Russia became the leader in supplying oil to China in October 2018. Oil imports from Russia to China in October 2018 increased by 58% year-over-year and amounted to 7.347 million tons per month, or approximately 1.73 million barrels per day. That was the greatest

volume ever reached during the entire monitoring period.

The growth of Russian imports is associated with the trade war with the United States, since China, in this case, has kept its word, reducing the imports of oil and liquefied natural gas (LNG) from the United States to zero. The imports of American LNG dropped due to the tariff hikes that China had imposed in retaliation to those imposed by the United States; this made LNG from the United States non-competitive. Russia is planning to supply gas to China primarily via the Power of Siberia pipeline system to the tune of 38 billion cubic meters of gas per year.

According to various sources, the volume is expected to increase by another 40-50 billion cubic meters by means of redirecting gas from the Urengoy hub and the Far Eastern gas pipeline. However, because of the trade war and China's growing demand for gas, which the pipelines from Central Asia and Power of Siberia are not yet able to fulfill, Russia is quietly developing the LNG market in China. The volume of LNG produced at the Sakhalin LNG plant has been contracted to Japan and South Korea. But Yamal LNG, in which the Chinese have an active part, has begun to develop the Chinese market. To start, in July 2018 two gas tankers – Vladimir Rusanov and Eduard Toll – delivered 170,000 tons of LNG to the port of Jiangsu in Rudong County with great fanfare. In November 2018 Novatek Gas and Power Asia Pte Ltd delivered to the China National Offshore Oil Corporation (CNOOC) a batch of LNG at the Fujian regasification LNG terminal in China.

The Chinese are gradually developing partnerships with Rosneft: by operating a joint refinery in Daqing, participating in oil refining and production in Eastern Siberia, and investing in liquefied gas production plants. The Russian oil and gas pipeline systems in the eastern part of the country are focused mainly on China. Rosneft's takeover of Yukos's assets was carried out by means of Chinese money against oil supplies. 30-year gas contracts imply that the **oil and gas production and transport systems in the east of Russia will become integrated with the Chinese fuel and energy complex.**

Besides major investment projects, Chinese entrepreneurs have been active in the contract labor market including the oil and gas industry. **The structure of the industry is such that large companies, such as Rosneft, Gazprom, and Gazpromneft, own the**

60 Kashin, Vasily, How Much Does China Invest in Russia? published by the Valdai Club on June 9, 2017, accessed at <http://ru.valdaiclub.com/a/highlights/mnogo-li-kitay-investiruet-v-rossiyu/>

oil itself, while contracting entities handle the exploration, drilling, operation, and workover of wells. The fierce competition over those contracts takes place in a corrupt market where Chinese entrepreneurs feel quite comfortable, relying on political and economic support of the Chinese authorities and large businesses, as well as simply buying enforcement in Russia. The risk for Russian political elites is that **the marginality of the Russian oil and gas industry will eventually be determined not by the world hydrocarbon prices, but rather by the Chinese political market and Chinese political and economic interests.**

Let's consider a situation where China limits imports of U.S. hydrocarbons in order to exert economic pressure on the United States. This will drive up the number of shipments from Russia. The question is whether the revenues of Rosneft, Gazprom, and Novotek will also grow proportionally. If then, China finds a compromise in negotiations with the United States and reduces imports of Russian hydrocarbons, the most palpable hardship would be felt by Russian, and not Chinese, oil companies, and, ultimately, the Russian state budget.

Other Raw Commodities

As we have previously mentioned, in addition to hydrocarbons **China buys from Russia timber and pulp**, being the main customer of the timber and pulp-and-paper industries in Russia from the Far East to the Volga region. China leads the world in the imports of raw wood: in 2017 its imports amounted to \$23.4 billion, which made up 16.6% of the total world imports.⁶¹ In turn, Russia is the leader when it comes to supplying timber to China. Currently, it accounts for 30% of Chinese imports of timber and lumber (New Zealand, with a share of 13.8%, is in the second place, followed by Canada and the U.S. with 9.8% each). It should be noted that over the past ten years, the structure of wood exports from Russia to China has changed, for a number of reasons including the restrictions on the export of round timber, which is fervently advocated by activists.⁶²

The 2007 increase in tariffs by 25-80%, depending on the variety, affected the trade with China. Because of these new rules, after a ten-year period of growth, the exports of Russian wood to China began dropped for the first time, from \$2.7 billion in 2007 to \$1.9 billion in 2009. However, the decline in imports from Russia did not dampen the total volume of China's import of wood; on the contrary, it continued to increase – Russian wood was quickly replaced by shipments from New Zealand.⁶³

Despite the new tariffs, Chinese business did not lose its interest in Russian wood. Even with the new high railway tariffs in place, the Chinese remained the primary consumers of the Russian timber at the expense of Russian businesses' lower revenues. In 2017, basic lumber accounted for 62%, and round timber for 35% of the sales of Russian wood to China.⁶⁴

"The export duty on sawn wood from Russia is 10% (starting from 5 euro per cubic meter). So the Chinese business took advantage of this. While the Russian authorities had intended that China would invest in the deep processing of timber [in Russia], the Chinese businessmen took a simpler path: they began to quietly move to Russia and open their own sawmills."⁶⁵

In areas where there is a lower supply of timber (for example, in the southern regions of the Irkutsk Oblast) Russian timber merchants harvest insufficient amounts of wood to export to China themselves. The Chinese put up sawmills in those areas, buy the timber, saw it up, and ship it to their own facilities in China.⁶⁶

If in 2008 there were 152 timber companies with Chinese shareholders registered in Russia, and by 2019, the number has surpassed 564. Most often they do not directly engage in logging. Instead, they bring in their equipment and specialists and hire local Russian workers as unskilled entry-level labor. As a result, the export of wood from Russia to China continues to gain momentum, but it does not get more sophisticated than the primary processing of timber.

In timber-rich areas, the Chinese buy shares of large

61 Spivak, Vita, The Great Chinese Logging, published on August 28, 2018 by Carnegie Moscow Center, accessed at <https://carnegie.ru/commentary/77100>

62 ibid

63 ibid

64 ibid

65 ibid

66 Author's field research data, 2018

logging and pulp-and-paper companies. But even that is not always necessary – a profound understanding of the Russian business environment, knowledge of the railway tariffs, expenses for corruption, and the ability to fully control the sales market allows the Chinese to keep the business margin on the Russian side under 7%, keenly reacting even to the fluctuations in the ruble exchange rate.⁶⁷

Unscrupulous exporters – primarily Chinese-owned companies – purchase timber for cash, without expressing any interest as to its origin, while managing to acquire documents confirming the legality of that timber, whereas, in fact, it is of doubtful or downright unlawful origin. Pavel Korolev, Chairman of the Committee for the Development of Forest Industry and Forestry of the Eastern Siberia Chamber of Commerce and Industry, explained the process:

“It all happens like this: 5 to 20% of the total volume planned for export to China is officially purchased at prices established in the region from Russian lessees of timberland parcels. The remaining 80-95% of timber is purchased at dumping prices for cash from any supplier willing to work on such terms. The documents received

from the legal supplier are then used for the legalization of the rest of the timber.”⁶⁸

Nevertheless, the Chinese also get actively involved in the ownership of logging and pulp-and-paper companies.⁶⁹ One of the most notable joint Chinese-Russian projects in the forest industry is the Asinovsky Timber Industrial Park in the Tomsk Region, created in 2004. Since 2008, this project has been managed by RosKitInvest Corporation, owned by the Yantai Technological and Economic Development Zone and the Chinese company AVIC Forestry.⁷⁰

The new Forest Code virtually eliminated forest protection, transferred regulation under the jurisdiction of regions, and practically created regional administrative corruption markets. **There, the Chinese do not only feel comfortable, they dominate and dictate the terms** to everyone from loggers and transporters to customs officials. As result, Russia’s forest sector, just like the oil business, is undergoing the same **pattern of the Chinese business’ penetration of the Russian regional and industrial political markets and their gradual integration into the Chinese market.**

This trend sweeps through Russian industry sectors that are less significant financially than hydrocarbons and timber. For example, agriculture – namely, the cultivation of soybeans. Until 2016, it used to be merely an area of Chinese investment in Primorye. However, that changed as Rusagro entered the market.⁷¹ Prior to that, Rusagro had successfully consolidated sugar beet cultivation, other agricultural assets, and sugar production in the west of the country. Rusagro aggressively entered the

67 Author’s field research data, 2018

68 The Practice of Selling Stolen Lumber to China Must End, published on September 7, 2012 by WWF/Russia, accessed at <https://wwf.ru/resources/news/lesa/khvatit-snabzhat-vorovannym-lesom-kitay/>

69 ibid

70 Spivak, Vita, The Great Chinese Logging, published on August 28, 2018 by Carnegie Moscow Center, accessed at <https://carnegie.ru/commentary/77100>

71 Rusagro is the second largest producer of sugar in Russia, the third largest producer of pork, a major producer of mayonnaise, butter, and margarine. The group includes more than 35 agricultural enterprises, nine sugar factories, an oil extraction plant and a fat-processing plant. It controls 686,000 hectares of land. The majority owner of the holding is the family of its founder Vadim Moshkovich, with a 71.9% share. Rusagro CEO Maxim Basov owns 7.3%. Free float is 20.8%. <http://www.dairynews.ru/news/gk-rusagro-v-2018-godu-sokhranila-sbor-selkhozskult.html>

agricultural land market in Primorye, bought some of the land, and started leasing it at very high prices. The owners of the land, who had previously leased it out at a lower price to a local company named Armada (a subsidiary of the Huaxing Corporation from Dongnin border district), chose to deal with a federal player Rusagro. Armada sold its lands, equipment, and storage facilities to Rusagro, was left without land and left the agricultural industry altogether.

Chinese businessmen used similar tactics to take over the soy industry in the Amur Region. Almost all the land suitable for growing soy was bought up using Russian residents. The Russian *The Far Eastern Hectare* project was then used as an effective tool to privately lease the land in Primorye suitable for the development of agriculture to small and medium-sized Chinese entrepreneurs.

Investment transactions with holding companies like Rusagro and Miratorg signal **the return of Chinese players to the agricultural market in Primorye and, perhaps, the systemic entry into Russia's agricultural sector.**

Chinese Business in Russia's Domestic Market

Entry of Chinese players in the Russian economy harkens back to the introduction of first Chinese imports into Russia. After the opening of Russia's borders in the 1990s, the Chinese presence in the Russian market expanded in three magnificent as result of:

- The 1998 default (after which Chinese equipment claimed a prominent position in the Russian food industry and the production of construction materials);
- The 2007 closure of the Cherkizovsky market in Moscow⁷² and the subsequent relocation of retail trade to the Moskva and Gardener Markets in Lyublino; and
- International sanctions imposed after the 2014 Ukrainian crisis, which reoriented Russia eastward and opened the Russian market to Chinese technologies and electronic components.

All of these markets are centralized, and according to manufacturers, traders, and suppliers, the **strong-hand "support" is transparently provided by the siloviki from the FSB and MVD.** Since the mid-2000s, all significant financial transactions have come under the control of the *siloviki*, which facilitated the Chinese businesses' entry into Russia's domestic market. The calculus is straightforward: instead of competing with numerous local manufacturers, one can simply pay the *siloviki* for a position in the market.

Long-time vendors at the Moskva and Sadovod markets in Lyublino complain that it is almost impossible to compete with the Chinese in the process of organizing sales from wholesale containers; while tool-makers grumble about the *siloviki* being involved in the competition, providing their support to the Chinese.⁷³

The Chinese are actively investing in the construction of cement plants and large development projects, such as the construction of the marine facade in St. Petersburg. Chinese contractors are building the Moscow metro and are participating in the creation of the Russian security system utilizing facial recognition on the streets of the Russian capital.

The Presence of China in the Russian Military-Industrial Complex

As far back as 1960s, China manufacturing under license the Soviet MiG 17 (J-5/F-5) and later MiG 21 (J-7/F-7) fighters, and sometime later co-developed with Pakistan the JF-17 fighter⁷⁴ for which they continued to procure the Russian RD-93 afterburning turbofan engines.

Those engines were developed by the Klimov Experimental Design Bureau (OKB) at plant No. 466 (later reorganized into an independent OKB-117) in Leningrad, at the OKB-45 in Moscow, and at the Design Bureau of Plant No. 500. Klimov OKB produced the first Soviet fighter jet engines by copying and mass-producing the British Rolls-Royce Nene and Derwent-5 engines.

The Chinese have continued to buy the Sukhoi SU fighter jets, trying to gradually establish their own produc-

72 Author's field research data: Rostov, Makhachkala, Pyatigorsk.

73 Author's field research data: St. Petersburg, Omsk

74 See the history of the creation of Chengdu FC-1 Xiaolong – a multi-purpose fighter developed by the Chinese Chengdu corporation in cooperation with the Pakistani PAC concern in the late 1990s and early 2000s. In Pakistan, it is manufactured as JF-17 Thunder. http://skyships.ru/?page_id=12675

tion.

In the 1990s, exports to China made it possible to keep the production of Russian weaponry and military equipment at an acceptable level. In the 2000s, the exports decreased: the Russians were not prepared to sell technologies to a potential competitor, while the Chinese felt that they were ready to localize production. However, the Chinese did not succeed in establishing the production of aircraft engines of an acceptable quality.

The Russians began to reconsider their attitude toward cooperation with China. A formal review which the Russian International Affairs Council (RIAC) called “home-work,” was conducted to examine the risks and prospects of cooperation with China. This study had substantiated a much tighter military and technical cooperation with China. Then in 2014, the integration with China accelerated due to the Ukrainian crisis. Contracts for the supply of S-400s and Sukhoi jets were signed, and shipments of Klimov RD-93 jet engines continued and are ongoing as of 2019.

Russian designers began to actively seek employment with Chinese companies, helping them to catch up in the areas of technologies where they had been lagging behind.⁷⁵ A large number of small contracts does not easily lend itself to an expert evaluation. There has been a noticeable increase in the number of criminal cases alleging disclosure of state secrets in the aircraft engineering and air defense sectors, as well as in the space industry. This suggests that the competition for the Chinese market among Russian engineering teams and their special services curators has recently become fiercer.

The hypersonic nuclear warhead-carrying missiles recently presented by the Chinese⁷⁶ use the Russian Kub (NATO: SA-6 Gainful) system, which is being sold to China by Russia.

Putin’s remarks on the simulation video showcasing Russian supersonic weapons Dagger, Avangard, and

Zircon confirm Russia’s forced integration with China. Indeed, Russia is actively cooperating with China in this area. Understanding the continuity of technological developments, gaping “holes” in the supply of components to the Russian military industrial complex in connection with sanctions, the Chinese needs for cooperation in several areas (e.g. jet engines and some electronic warfare and avionics systems), one can forecast a continuously increasing integration of Russia and China within the framework of this tandem.

The Chinese space program is heavily dependent on cooperation with Russian specialists and, primarily, with Roscosmos State Corporation. But in the area of space, too, the Chinese are gradually squeezing Russia out, taking over the business of putting satellites into orbit. So Roscosmos’ role at some point will likely deflate to that of a contractor supplying specific technologies.

It is reasonable to forecast that the demand will grow for Chinese hi-tech, especially electronics, as Russian manufacturers continue being constrained by international sanctions. Russian and Chinese media have published a series of articles criticizing Russian prototype drones and substantiating the need to purchase Chinese-made UCAV’s, both for military needs and for the protection of oil and gas pipelines. Unlike China, Russia does not produce drones, but so far prefers to manufacture this type of equipment under license from Israel.⁷⁷

Cooperation with China in the sphere of military components and products spans many other areas of the industry. For example, according to a recent study, “it has been said with certainty that Chinese diesel engines are to be imported for the Russian border service’s project 12200 [i.e. Sobol-class] patrol boats. In addition, continuous negotiations are underway for purchase of Chinese technologies to create an electronic component base for space-related applications in exchange for the Russian RD-180 rocket engine production technologies.”⁷⁸

75 As far back as 1991, CAC Design Bureau in Chengdu started working on the design of the FC-1 aircraft. In essence, FC-1 was the same Super-7 (the plane, with which the Chinese were helped by the Americans before the 1989 Tiananmen Square events). This time around, the Russian Mikoyan Design Bureau became the main partner of the Chinese. “The Mikoyan Crew” shared their drafts of a light front-line fighter created in the 1980s to occupy the single-engine fighter niche; the project was closed in the late 1980s. http://skyships.ru/?page_id=12675

76 China Tests a Hypersonic Missile Against Which the US Has No Defense, published by Vesti on August 9, 2018, accessed at <https://www.vestifinance.ru/articles/105093>

77 Alexey Nikolsky. April 7, 2015. “Russia will continue assembling Israeli drones for another 10 years.” *Vedomosti*. <https://www.vedomosti.ru/politics/articles/2016/04/07/636868-rossiya-prodolzhit>

78 Vasily Kashin, Alexander Gabuev. November 2017. “Armed Friendship: How Russia and China Trade Arms.” Carnegie Moscow

Overall, the Chinese military industrial complex covers almost the entire range of Russian weaponry and military equipment; offers affordable prices; and, in contrast to Russia, is able to provide timely servicing of the weapons and equipment it manufactures. In addition, China is a universal importer, which allows clients to combine payment arrangements for supplies. This is a significant advantage for poor and developing countries. The Chinese MIC is positioned to partially force out and partially integrate Russian manufacturers in the international markets of weaponry and military equipment.

The geography of Chinese military-technical cooperation does not only match the reach of the military-political influence of the USSR (with rare and politically explainable exceptions like India), it surpasses it, extending to traditional allies of the United States and NATO, such as Saudi Arabia and Pakistan. Even Iraq, which, as of 2019, remains de-facto occupied, buys Chinese drones.

A separate major topic concerning the folding of Russian political class under Chinese influence is China's use of Russian diplomatic, military, undercover, and criminal networks in Africa and possibly in parts of the post-Soviet territory and Eastern Europe. But as of yet, this area has not been well-studied.

Scenarios

1. Russia, along with its entire international network of influence, becomes a satellite of China. This entails a variety of institutional consequences:

- Russian regional political systems stagnate, turning into satellites of Chinese commercial and industrial corporations, with corrupt corporate governance;
- Chinese police technologies adopted throughout Russia;
- Russian political clans (ICG's) fall under the influence of Chinese corporations;
- Chinese players dominate regional political markets; Chinese patronage networks penetrate all levels of the Russian political class;
- Russia's domestic market is incorporated into the Chinese market and dissolves in it.

Possible threats to international security

- Increased Chinese economic and political influence which turn Russia into a political and military spoiler acting in the interests of China;
- Restricted trade across a large geographic territory; Curtailed human rights and political freedoms across a large geographic territory;
- Increased corruption, exertion of political and economic pressure on democratic institutions and political elites in the EU. and the U.S., and other developed and developing democracies.

2. Russian political groups divide into those aligned with China and those aligned with the EU and the US.

- Political struggle for influence in the regions features investments into national and regional separatist movements, as well as religious separatist movements; Intensive polarization and migration of economically and politically active population begins; Russia becomes a platform for the "mediated rivalry" between the EU and the US on one side and China on the other; Local armed conflicts over ethnic or religious issues may occur, with some of the funding coming from outside the country.

Possible threats to international security

- Emergence of new terrorist threats;
- New flows of migrants and refugees;
- Threat of nuclear terrorism and use of weapons of mass destruction in local conflicts;
- Financial risks;
- Escalation of armed violence without obvious tools to prevent a major war.

3. Russia's political class, seeking to avoid a takeover by China, is once again oriented toward the E.U. and the U.S.

- Russia returns to the path of reforms and starts actively importing Western institutions;
- A great need emerges for major investments into the institutional modernization of Russia and the post-Soviet space; most of the Russian economy is privatized by international corporations;

- Such modernization will require privatization of the oil and gas industry and privatization and disaggregation of the oil and gas pipeline systems.

Possible threats to international security

- Emergence of new terrorist threats;
- Threat of nuclear terrorism and use of weapons of mass destruction in local conflicts;
- Financial risks.

Possible Ways to Mediate Risks

1. Regionalization of Russian politics: risk assessment and development of preventive programs for individual regions.
2. Development of an economically balanced institutional modernization plan for individual regions of Russia and involvement of representatives of the Russian regional and industrial elites in this program.
3. Creation of a plan for the modernization and recapitalization of the Russian oil and gas industry and infrastructure.



КРАСНОЯРСК

**Свобода от границ и расстояний
с SIM-картой МТС
Единые цены в роуминге**

www.kras.mts.ru



Krasnoyarsk, 2006. Photo courtesy of Konstantin Rubakhin, all rights reserved

Decentralization



By Denis Sokolov

Erosion of Vladimir Putin’s so-called vertical of power, whose establishment Putin announced as one of his primary political objectives when he first came to power, has given rise to a fundamentally different political system in Russia. The absolutist model of the 2000s and early 2010s is being weakened by a fierce struggle for power between several political groups of *siloviki* (literally, strongmen— law enforcement and intelligence officers) at the federal level. At the same time, regional power elites and bureaucracies are becoming less and less transparent for political governance. Budget transfers, shares in locally generated capital flows, and the Lefortovo Prison⁷⁹ are the only remaining mechanisms of leverage that are effective against them.

This decentralization leads to:

- Criminalization of regional and federal political elites;
- Rise in the prominence of criminal and terrorist networks’ role in Russia’s domestic politics;
- Growth of investments into social, interethnic, and religious conflicts that may develop into terrorist wars among political groups masked as religious or national extremism and terrorism, and possibly even local armed conflicts.

For international security, the risks include: (a) destabilization of a nuclear superpower, (b) theft of armament and munitions and subsequent sales in the black markets of regions neighboring with Russia, (c) activation of criminal and terrorist international networks of Russian origin for the purpose of transferring capital abroad, and (d) volatility in the post-Soviet states.

Nevertheless, this scenario opens up new opportunities for democratic modernization of the political systems in Russia and some post-Soviet states, based on federalization, deep political reform, judicial reform, and law enforcement reforms.

Primary Factors: the Fight against Corruption, the Struggle between Clans, and the Struggle between Regional Interagency Criminal Groups (ICG’s)

Three factors are key to the decentralization scenario:

1. Escalation of struggle between dynamic political groups within Russian federal elites (*siloviki*, industry, bureaucratic, and economic). They compete not only over personal closeness to the political leadership, but also over advancing respective groups’ financial capabilities, important projects and turf, strong-arm and administrative capabilities of the group. The entire political class is being drawn into this struggle, both in Moscow and in the regions. The main condition for the sustainability of any regional official, *silovik*, or head of the regional subsidiary of Rosneft or Gazprom, is either a personal membership in a federal clan or membership in the regional ICG (interagency criminal group)⁸⁰ thus gaining access to its strong-arm and administrative support.
2. Transfer of power in the regions from the central political leadership in Moscow (the so-called “ver-

79 Until 2005 Lefortovo SIZO (pretrial detention facility) reported directly to the FSB of Russia. In 2006 it was transferred into the jurisdiction of Ministry of Justice, but seconded FSB officers are still operating SIZO No.2.

80 ICG (interagency criminal group) is the term representatives of small and medium-sized businesses have used in interviews to refer to regional political clans.

tical”) to the regional *siloviki*. At the vortex of distribution of violence, both direct and mediated by state institutions, are heads of regional departments of the FSB, who control power resources, operational activities, investigation, courts, and criminals. It is no coincidence that those who lose in regional political struggles and those arrested for corruption are often transported to Lefortovo – an FSB prison. Recent defeats of the United Russia party in regional elections (for example, in Khabarovsk and Primorye) illustrate this trend: the struggle between federal political groups and local ICG’s is more important than the victory of United Russia in spite of the latter’s apparent status as the party of the country’s political elite.

3. The fight against corruption has become a major tool of political struggle at the federal level. Among the most notorious cases are the former Economic Development Minister Alexey Ulyukayev’s eight-year prison sentence for corruption,⁸¹ the house arrest of Sistema majority owner and chairman Vladimir Yevtushenkov,⁸² at the time when Rosneft was fighting over the assets of Bashneft, and never-ending criminal cases against major officials in security agencies⁸³. At the regional level, there were the reprisal against Nikita Belykh⁸⁴ and numerous criminal prosecutions of governors and other high-ranking regional officials charged with corruption⁸⁵. This leads to the ultimate degeneration

of public policy, which has become an almost bureaucratic procedure for formalizing the results of several ICG’s struggle for power and resources in the region.

Context and Dynamics

The factors of decentralization described above are stimulated by subjective and objective circumstances, including:

- the regime’s shady foreign policy schemes entailing more and more sanctions;
- economic stagnation associated with declining revenues from hydrocarbons;
- the fall of Vladimir Putin’s approval rating⁸⁶ (due in part to the economic stagnation and the pension reform⁸⁷);
- generational turn-over within the ranks of political elite leading to a deep internal schism;⁸⁸
- changes in legislation and law enforcement practices⁸⁹ precipitating curtailment of civil rights and freedoms and the legalization of prosecution for dissent;
- small business degradation;⁹⁰ and
- crushing over-taxation of the self-employed population.⁹¹

81 Sentence Has Been Issued to Ulyukayev, published by RIA news on December 15, 2017, accessed at <https://ria.ru/20171215/1511048208.html>

82 Mogilevskaya, Anna and Milovanova, Alina, On Birthday, Crossed Paths, published by Gazeta.ru on September 25, 2014, accessed at <https://www.gazeta.ru/social/2014/09/25/6235393.shtml>

83 Makarova, Yulia and Petrov, Ivan, Bulldog Fight Under the Rug, published by Lenta.ru on July 22, 2016, accessed at <https://lenta.ru/articles/2016/07/22/dogsfight/>

84 Nikita Belykh’s First Interview After the Verdict, published by Moskovskiy Komsomolets on February 7, 2018, accessed at <https://www.mk.ru/politics/2018/02/07/pervoe-intervyu-nikity-belykh-posle-prigovora-ot-inekciy-otekli-ruki.html>

85 Criminal Cases Against Heads of Russian Regions, published by TASS on October 19, 2017, accessed at <https://tass.ru/info/4179725>

86 Putin’s and United Russia’s Ratings Plummet, published by BBC Russia on October 5, 2018, accessed at <https://www.bbc.com/russian/features-45741068>

87 Pension Reform Raises Questions, published by Kommersant on June 19, 2018, accessed at <https://www.kommersant.ru/doc/3662142>

88 Author’s field research data, 2017-2018

89 Internet Charges Will Rise in the Coming Months, published by Vedomosti, November 6, 2018, accessed at <https://www.business-gazeta.ru/news/401571>. Also, the curtailing of juries’ powers in 2003-2005, the introduction of criminal prosecution for extremism, and the expansion of the interpretation of the term “extremism.”

90 Kalinin, Aleksandr, Too Little, Too Slow, published by the Russian Business Newspaper, on April 14, 2015, accessed at <https://rg.ru/2015/04/14/dola.html>

91 To Rob a Nanny: How the State Will Penalize the Self-Employed, published by Gazeta on October 23, 2018, accessed at https://www.gazeta.ru/comments/2018/10/23_e_12031741.shtml

International Sanctions

Sanctions imposed in response to the annexation of Crimea, support of separatist forces in the South-East Ukraine, interference in the U.S. elections, and the poisoning of Sergei and Yulia Skripal have led to a number of consequences.

The first consequence is **a decline in the technological and financial capabilities of large Russian companies and regional economies.** This effect is difficult to decouple from the decline in revenues from the sales of hydrocarbons and other raw materials, but it can be said that those factors are mutually reinforcing. We will discuss the economic problems of companies and regional administrations and the impact these problems have on the decentralization of power in Russia in the paragraph on the reduction of revenues of the state budget and infrastructure companies.

The second outcome is that **companies and regions are forced to seek resources and technologies in other, less transparent financial and technological markets.** This is an extremely important aspect in terms of decentralization. As a result, a lobbying network is created, and its orientated toward China or investors from the Middle East. **“Chinese” and “Arab” lobbyists emerge.** They are represented by such political groups as the Rotenberg clan,⁹² Ramzan Kadyrov’s structures,⁹³ entire regional economies (for example, in the Amur Oblast all land suitable for growing soybeans through Russian farmers has been bought by the Chinese,⁹⁴ while in the Irkutsk Oblast the Chinese are dictating the conditions for logging and minimizing the surplus value generated by the region’s forest industry⁹⁵), and even a large corporation like Gazprom. This, in turn, has a profound effect on Russia’s national development, leads to even more decentralization and a redistribution

of recoverable revenues in favor of foreign companies through Russian economic agents at both federal and regional levels. **The fierce campaigns against state treason in the MIC⁹⁶ and against the economic and technological espionage by counterintelligence in favor of China⁹⁷ is more likely the product of struggle between the clans and the siloviki for the right to regulate trade with China and attract Chinese investments rather than a battle to protect state interests.**

Thirdly, the nature of the Russian political elite is such that the same people who supply Rosgvardiya (the National Guard of Russia) with equipment and food (for example, Yevgeny Prigozhin’s companies), side with opposing political groups (the very same Prigozhin is associated with the Rotenbergs), wage local wars outside Russia through private military companies, and lobby Chinese interests under the pressure of sanctions. As a result, Russian private military companies may, for example, act in Africa in the interests of Chinese investors.⁹⁸ Thus, we are talking here not only about the decentralization of the Russian political system, but also about the **decentralization and diversification of the management of Russian armed forces, and turning them into international mercenary armies.** They are well-equipped, and command powerful intelligence networks and possess infrastructure for electronic surveillance and data processing.

The emergence of such large players in the international military market has two sides. The first is further dissipation of control over enforcement and sanctioned violence in Russia itself. The second is the rise of a set of completely new risks for international security.⁹⁹ However, since a decentralized state is forced to abandon most shady schemes for financial and organizational reasons,

92 Brothers Arkady and Boris Rotenberg are Russian billionaires. Arkady is a childhood friend of Vladimir Putin. Information about the cooperation with Chinese business circles is drawn from expert interviews and analysis of open sources. Author’s field research data, 2018

93 <https://ria.ru/world/20180819/1526821208.html>

94 Author’s field research data, 2018

95 Author’s field research data, 2018

96 Objedkov, Andrey, Five Big Cases, published in the Evening Moscow on July 29, 2018, accessed at <https://vm.ru/news/520658.html>

97 Big Cases on Treason and Divulging of Classified Information Against Scientists of the Space Sector, published by TASS on July 23, 2018, accessed at <https://tass.ru/info/5395521>

98 Author’s field research data, 2018

99 These entities are controlled financially and politically, but they can act (a) independently, (b) in the interests of Russian political groups or corporations, and not in the interests of the state, how, for example Wagner members in Syria sometimes act in the interests of Prigozhin’s oil business.

the risks from PMC's and human asset networks will be borne by those new customers rather than by Russia.

The fourth consequence of sanctions is that companies such as Oleg Deripaska's Rusal are forced to give up centralized corporate governance as well as extraction of profit for beneficiaries (private individuals) through dividends and offshore companies, pushing them toward decentralization and criminalization of the profit extraction system. One of the schemes used is to redistribute profits to subcontracting organizations, transferring an increasingly greater part of companies' operating activities to those subcontractors, and then extracting the profits by having the subcontractors withdraw the funds. Currently, the average "kickback" ratio ranges from 20 to 50%. The money is handed in suitcases to heads of companies and their subsidiaries in the regions.¹⁰⁰ Subcontracting companies are more likely to be under the control of ICG's, which means that the influence of regional power elites consequently grows. This also leads to decentralization. It can be predicted that should sanctions similar to those imposed against Rusal be applied against companies such as Rosneft and Gazprom, it will lead to the decentralization and criminalization of a large part of the Russian economy.

Fifth, international sanctions are driving a wedge into the Russian business elite. Many are unprepared to give up their assets, accounts, and real estate in the E.U. and the U.S., so they stop associating their future and the future of their children with Russia and Putin's regime.¹⁰¹

Any attempts to forcefully consolidate the elites will lead to an ever deeper schism within Russia's political class, a growing conflict of generations and, as a result, to further decentralization and erosion of the political system.

Number six, **the sanctions are gradually destroying the Russian military industrial complex**, which, along with the gas and oil pipelines and the energy monopoly, is part of the centralizing infrastructure in the country. Destruction of the Hydrocarbon-MIC axis will eliminate the economic, social, and organizational foundation for the recreation of a centralized government in Russia. Indeed, by means of a network of mutual trade commitments and technological cycles defense enterprises link St. Petersburg to Vladivostok, Dagestan to Perm,

and so on.

Under the influence of international sanctions, decentralization can morph into disintegration of the system if an embargo on the export of Russian oil products is implemented. A significant role in consolidating the regime is played by money. In the event that large shares of capital flows disappear, there will be nothing to hold it all together, as "partners" will begin to look for other sources of financing. Take the U.S. sanctions' effect on Russia's aluminum industry as an example: Rusal had to rework its governance structure, following the resignation of several board members. Should the oil industry management system have to be changed, it will begin to fall apart, and contractors will start keeping more revenue for themselves.

Economic Stagnation

The decline in incomes of both the general population and regional elites also stimulate decentralization.

First, the level of regional politicians' dependence on "the center" decreases. So little money is allotted through official budget that there is nothing to skim. Debts to infrastructure companies, debts on taxes and wages to state employees and municipal workers make it meaningless and dangerous to participate in regional politics and fight for administrative posts. Appointees to leadership positions in the regions – even district administrators – carry great risks of being prosecuted for corruption or abuse of authority. They are risking losing not only their careers, but also their freedom.

Secondly, the fact that the center has left its allies in the regions without support and exposed them to the discontent of local populations and the mounting pressure from law enforcement is making them frustrated and irritated. Representatives of **regional elites no longer associate their future and the future of their families with loyalty to the regime and with its prosperity**. Moreover, they do not believe in either the prosperity or the stable future of the regime itself. Many are making contingency plans abroad and, whenever they can, they move their assets out of the Russian officials' reach, outside Russia's jurisdiction. Those who are not planning to emigrate begin looking for allies and strong-

100 Author's field research data, 2018

101 Author's field research data, 2018

arm support outside the vertical: among the opposition, among national leaders in the south of the country, and among the *avtoritety* (crime lords). Even law enforcement agencies are more closely cooperating with the criminal world.¹⁰²

Third, the pension reform, the decline in household incomes, and the degradation of health care and education, which have all continued at a greater pace following the 2014 default, lead to an increase in domestic unrest and a heightened risk of mass protests. Regional elites are more likely to use these protest sentiments in the struggle for their political and economic interests than to assume additional political risks by supporting the center's unpopular initiatives.

Fourth, infrastructure companies, which have since the 1990s been under the control of organized crime "graduates" (who have laundered their money through the acquisition of management companies, gas distribution and energy networks, wholesale markets and hubs, retail chains, etc.) and which previously depended on regional and municipal budgets, now face debt, lack of working capital, and a severe need for reinvestment from their owners. This shifts the balance of power, since **municipal and regional officials become dependent on criminal money and its owners.**¹⁰³ **In some regions, they have gone so far as to discuss option of setting up investing criminal common funds – the so-called *obschak* – within the public utilities sector.**

In addition to regional criminal players, oligarchs associated with various regions are exerting their growing influence on regional political systems. Because of the sanctions, large, state-affiliated businesses cannot invest in the E.U. and the U.S., and therefore redirect their funds toward purchasing regional political resources – as, for example, was done by Suleyman Kerimov.¹⁰⁴

The economic factor of decentralization will remain a constant, albeit far from a game-changer, throughout the next decade. If a complete collapse of the economy (likely resulting from an embargo on the sale of hydrocarbons, as mentioned above) is averted, then this factor will

eventually become the primary one and lead to a political catastrophe.

The Decline of Vladimir Putin's Rating

Because of the decline of Putin's approval rating, the victory of Putin (or his successor) in the presidential election, of the United Russia party in the parliamentary elections, and of candidates lobbied by Moscow in regional elections are likely to be facilitated not by the Presidential Administration, but rather by the *siloviki* and local officials.¹⁰⁵

This greatly increases the political clout of the regional *siloviki* (especially heads of the regional departments of the FSB) and the regional ICG's whose leaders compete for the keys to the results of election campaigns starting with the nomination stage. This is a manifestation of decentralization of the Russian political system and gradual creation of conditions and demand for the return of federalism.

Elections can then become a mechanism of infighting between local political groups. In many ways, this process has already begun. Regional parliaments consist of local clans' protégés, their formation takes place according to a mixed procedure – coordination of nomination and, in cases where contradictions are not resolved through negotiations, a direct struggle for the voter and a shadow struggle for control over the election commissions. Some regions (above all, the Irkutsk Oblast, Ossetia, Karachay-Cherkessia, and the Omsk Oblast) already resemble parliamentary republics with governors who have been sent from the center gradually losing their clout to *siloviki* financially connected with criminalized developers, beneficiaries of infrastructure companies, and other revenue generating entities.

Putin's decline, clearly, weakens Moscow and Vladimir Putin himself. Instead of the satiation where it is Putin who wins elections and issues the political legitimacy of the entire power vertical, **he will be forced to buy election results or exchange them for political**

102 Author's field research data: Stavropol Krai, Irkutsk, Surgut, Magadan. Information obtained directly from company owners.

103 Author's field research data: Mozdok

104 Suleyman Kerimov Speech in Derbent, published in RIA Derbent on October 17, 2018, accessed at <https://riaderbent.ru/vystuplenie-sulejmana-kerimova-v-derbente.html>

105 According to our expert interviews, in most regions the regional FSB departments were the ones who decided on the admission of certain candidates to elections. FSB also provided the official leverage by means of controlling the judicial system and operational and investigative processes. Author's field research data, 2018.

and economic preferences from regional siloviki and oligarchs, as well as their patrons at the federal level.

There are many current examples of this we can cite already. In the previous election cycle, United Russia ran the elections in almost all regions. Now *siloviki* are the ones who rule and decide who should be allowed to run for office or whether to permit vote falsification and ballot-stuffing. In Dagestan, the last Duma elections were completely run by *siloviki*. If you want to make someone a member of the State Duma, the negotiation is to be held with *siloviki*. (I have detailed descriptions of the elections in the Irkutsk Oblast, Ossetia, Primorye, and Khabarovsk, when administration representatives had to agree on which of the local *siloviki* protégés they would put in this or that official post in exchange for the results they desired.)

Politics is turning into intra-elite haggling, in which the main tools are violence (by fighting corruption) and money. The decentralization of the political market under pressure of all the factors discussed here will keep increasing until 2024 – the year of the next Russian presidential election.

With a less-popular Putin, passing the 2024 milestone becomes more problematic for the federal center in any scenario, whether trying to turn Putin into an immortal and irreplaceable “national leader” or attempting to transfer his power to a successor. Regrouping of federal clans and regional ICG’s to match the regime change will begin soon, because recently – in the previous election cycle – the rules of the game have changed, and now there is a need to regroup in time for the next Duma and presidential elections. And this regrouping looks like an additional challenge to stability. **The collapse of the system can start precisely because of the inability to survive a regime change in a situation where the actual distribution of political clout and control over flows of capital does not correspond to either a formal political structure or a structure set up for extracting profit from it.**

By 2024, Russia's political system will be vulnerable to external players, such as China, and politicians like Ramzan Kadyrov whose physical survival in Russia after

Putin stand in direct contradiction to the vital interests of other strong and ambitious leaders. The Chinese can play on regionalist projects east of the Urals, while Kadyrov can go as far as become the leader of a new anti-colonial religious-national project.

Generational Change of the Political Elite

The practice of replacing Putin’s old comrades-in-arms with their children, sons-in-law, nephews, and other heirs¹⁰⁶ is another challenge to the integrity of the system and a catalyst for decentralization. Direct inheritance of political statuses in the Russian political elite makes its top echelon airtight. It eliminates career paths for most of the second echelon players. These are people who are 10–20 years younger than the top leadership, have dedicated all of their lives to working in the interests of the regime, and had expected to further promote themselves and their children.

Instead, heirs are placed in command positions, and young technocrats are recruited into their apparatuses. They have no merit, but, just like modern managers, they turn out to be more effective than their senior comrades. **A whole generation of politicians, policymakers, siloviki, criminal avtoritety, community leaders, and professionals are watching as they are being sidelined and robbed of future prospects.**¹⁰⁷

Their willingness to endure sanctions, isolation, and financial difficulties stemming from Moscow’s foreign policy is no longer supported by the now obsolete preferences and unwritten contract for their future. This is no longer their country, but a country of Putin’s closest associates’ heirs, as well as of young technocrats who are most often those heirs’ classmates.

Most of the representatives of this dissatisfied and disappointed political strata constitute the regional political elites. And those who have not moved to Moscow or emigrated abroad– to the E.U., Canada, or the U.S. – **are now transforming from allies and supporters of the regime into its critics and opponents.** Anti-corruption campaigns which introduce the new risk of imprisonment and loss of assets (on top of being deprived of a political future and economic stability) push many

106 How the Russian Officials’ Careers Are Panning Out, published by RBC on June 6, 2017, accessed at <https://www.rbc.ru/photoreport/06/06/2017/58b416609a7947e593629ec0>

107 Author’s field research data: St. Petersburg, Mozdok, Makhachkala.

over the red line and create a whole class of sufficiently experienced and influential opponents of Moscow. They automatically become supporters of decentralization and its working mass.

The poorly-managed generational turn-over places former security guards or young graduates of presidential personnel programs as heads of industries and regions. They have no experience, connections, or influence in the teams and regions that they are meant to manage. This factor increases the likelihood of their losing control and facilitates decentralization.

By the years 2025-2030, the change of generations, both in government and in business, will enter a critical phase, affecting the highest echelon of power and becoming an additional challenge for the entire system.

The ongoing generational change in Russia gradually removes from the political calculus the Soviet-era man,¹⁰⁸ a creature who was complacent with earning little and working little, and who had supported the entire post-Soviet technological, industrial, and social infrastructure. **The unwillingness of the younger generation to live in a Soviet-style society is demonstrated by the latest mass actions organized by Alexey Navalny,¹⁰⁹ by the average age of people working in the military-industrial complex, health care, and education, as well as the average age of those who are voting for Putin.**

Anti-Extremist Legislation and Small Business Degradation

Federal laws authored by Irina Yarovaya (known as the “Yarovaya Laws”) further undermine rights and freedoms and subordinate law enforcement and the judicial system to a small ruling group. That process had started in the 2000s by Vladimir Vasilyev and Vladimir Pligin. Since 2008, criminal cases prosecuted on charges of terrorism, armed rebellion in an attempt of seizing power, sabotage, and mass riots are being pulled from the jurisdiction of jury trials. This measure allows authorities to ensure that the sentences for those crimes are to their liking. Starting in

2013, due to the introduction of appeals into the criminal process, juries have been reassigned from reviewing cases of bribery, crimes against justice, crimes against transportation safety and operation, and sex crimes. Instead, those cases are being transferred to district (municipal) courts, where there are no juries.

In 2003–2012, with direct involvement of Pligin, the State Duma passed laws that provided for:

- the abolition of direct elections of heads of regions;
- transition to a system of electing of State Duma deputies solely by party lists (causing the cancellation of elections of half of the deputies in single-mandate constituencies);
- the “Rotenberg's Law” which provides state budget compensation for losses of Russian citizens whose property is arrested abroad;
- toughening state control over the activities of non-governmental organizations (NGO's);
- abolishing the minimum voter turnout requirement;
- introducing a ban on “protest votes”— voting “against all”;
- raising the election threshold for parties in State Duma deputy elections to 7%;
- and banning NGO's (referred to as “foreign agents”) from participating in elections in any way, including election monitoring and observation.

These changes together with restrictions on freedom of speech basically eliminates public control over the law enforcement agencies and regional authorities. Under the pretext of fighting extremism and foreign influence, they have established effective means for disposing of political opponents and even business rivals.

The attempt to tighten ideological and political control has resulted in the “Chechenization” of most regions of the country, simultaneously leading to two apparently opposite consequences.

On the one hand, regional leaders and security officials are let off the leash to deliver harsh justice against their opponents and the general population and, seem-

108 Levada, Yuri, Lecture Series The Soviet Man, published by Polit.ru on April 15, 2004, accessed at <http://polit.ru/article/2004/04/15/levada/>

109 State Duma Deputy from St. Petersburg Has Proposed to Take Children Detained at Protests Away from Their Parents, published by Fontanka.ru on November 7, 2018, accessed at <https://www.fontanka.ru/2018/11/07/050/>

ingly, allows them to tighten their grip. The Chechen Republic and Ramzan Kadyrov are leaders in organizing repression against dissent. On the other hand, it is that very power to render justice that gets the regions out of Moscow's institutional control. The Chechen leader has taken his place in the avant-garde here: federal laws, courts, and law enforcement agencies have no power in Chechnya. Moreover, Kadyrov considers himself entitled to dispose of lives and property of Chechens not only in his republic, but also outside, as well as beyond Russia's borders.

In the course of further decentralization (partly influenced by Kadyrov's *siloviki*, who take the liberty to abduct people from other territorial entities and to engage in *reiderstvo* (raiding, asset-grabbing), creating a kind of legal offshore inside the country) regional power elites will also start claiming legal sovereignty on their territories.

As result, individuals from foreign countries and transnational companies now have to ensure the security of their property and life remain outside the framework of Russia's legal system, which is relatively predictable, but on region by region basis, taking into account the local lay of the land and forming relationships with the local *siloviki* and judges. This increases the risk of extortion using state institutions (as if it were within the legal framework) and brings back kidnapping as a business. The decentralization elevates regional political actors to the stature of large and even medium-sized corporations, making it possible to resolve conflicts on an equal basis and facilitate the import of institutions.

Degradation of small business, which can be attributed to the spread of corruption and domination of ICG's and businesses affiliated with them in the regions, creates a whole stratum of active and dissatisfied people ready to join the ranks of protesters. Regional players see growing opportunities to "invest" in the protest activity, directing it toward strengthening their respective positions, i.e., supporting decentralization and the regional elites' powers in opposition to Moscow.

The influence of participation in local conflicts and patriotic propaganda: this adds on top of the economic problems a new class of "patriots participating in local conflicts" (influenced by the factor of military adventures involving "patriotic" informal military groups) that will increase criminal and quasi-state pressure on the civilian population, the middle class, and the self-employed. This will lead to even greater social tensions and criminaliza-

tion of society.

Possible Dynamics of Decentralization

Events in Ingushetia, the Chechen Republic, and Kabardino-Balkaria in October-November 2018 have shown that the most articulated and coherent bid for the decentralization of power arises in the North Caucasus where the institutional influence of the Russian leadership has always been limited. Nevertheless, the North Caucasus can neither economically nor politically be the driver of federalization of the Russian political system. Therefore, we consider the problem of the transfer of power in the mid-2020s to be the key frontier of decentralization. Then all the key players – the federal elites, the political class of densely populated regions, the regions with rich natural resources that can become objects of internal and external political intrigues – will be interested in the redistribution of power.

Interplay with Other Scenarios

Decentralization resonates with virtually all external and internal factors influencing the Russian political system.

The reduction of revenues from sales of hydrocarbons and other raw materials will weaken the center's control over the regions, leading to increased social tensions and a tougher political struggle in Moscow. All this accelerates decentralization and the demand for economic and political sovereignty of regional elites.

The tightening of sanctions splits the political class, demolishes the corporate governance system of national corporations, and leads to a rapid growth of the roles and ambitions of regional political, economic, and *siloviki* actors.

Military campaigns outside the country, in which Russia gets involved both as a state and as a country of origin of private military companies, strengthen the independence and political ambitions of the military brass, separate interdepartmental groups of *siloviki*, commanders of participating special forces, the military industrial complex, and operators of PMC's. Some of the power and flows of capital automatically pass over to them.

In addition, military adventures give rise to a whole new stratum of people ready for violence. The criminal and strong-arm redistribution of property in the 1990s

and the armed conflict in the North Caucasus were both largely possible due to the presence of actors prepared for armed violence after the war in Afghanistan and local wars in the South Caucasus.

It is important that in the long run almost any actions of the regime in an attempt to strengthen its grasp on power stimulate decentralization. Even the struggle against religious extremism converts almost 20% of the country's population into political opponents of the authorities.

Indicators of Decentralization:

1. Increase in the number of public regional political scandals, emergence of oppositional regional movements and activists not associated with the existing opposition (“Navalny’s Command Centers”)
2. Reassignment of designated places of detention for major regional officials in custody on corruption cases from Lefortovo to regional pretrial detention centers.
3. Emergence and rise in the number of instances where regional elites effectively resist Moscow’s attempts to appoint them to various posts – e.g. large companies’ managers, state corporations’ regional subsidiaries’ top managers, city managers, directors of regional Compulsory Medical Insurance Fund, interregional and regional distribution grid companies, Regiongaz, etc.
4. Revitalization of trade union organizations in large companies (Rusal and others).
5. Regional infrastructure companies’ entering international investment markets

Threats to International Security and Possible Mediation Measures

Threats associated with decentralization processes can be grouped into domestic (increased risks for individuals and companies) and external (threats to international security).

Internal threats have to do with the difficulties of protecting life, property, and contracts in “independent regions.” Vivid examples are today's Chechnya and Dagestan. At its worst, with the complete disintegration of the state – as was the case in Chechnya and Dagestan in the 1990s and in Donbass in 2014–2016 – that

involves kidnapping for ransom, which is practiced in all places where the law enforcement system ceases to function. Conversely, elimination of these threats is directly tied to the creation of regional legal and law enforcement systems (which would sooner or later have to be created anyway).

In order to make this process optimal, it would be wise to establish communication channels with regional elites, attracting both commercial development institutions (that could in turn attract honest investors) and public organizations that use grants from private and public funding sources to create new regional democratic institutions and fund the investment into regional infrastructure. If (a) the development of the region, and therefore the status and revenues of regional elites, is made dependent on the quality of institutions, and (b) a sufficient infrastructure is created to import and permanently establish those institutions, then the modernization of the Russian political system will likely be even more successful than ever. Attempts were previously made to conduct it all over the country at once, but the federal elites saw a danger to themselves in the further democratization and the development of political and economic competition and adamantly resisted it.

External threats include the threat of unauthorized proliferation and accidental use of nuclear weapons, and activation of PMCs and criminal networks and their transition to self-financing.

A joint international corporation will have to be created to counter proliferation of nuclear weapons. It should be tasked with ensuring the security of Russia, and also preventing the use of nuclear weapons for political blackmail and personal purposes. Recent examples of chemical warfare agents (CWAs) use underscore the urgency of creating such a program.

Regardless of political dynamics, for Russia it is becoming more and more difficult, both economically and technologically, to reproduce its nuclear and space programs without deep institutional modernization and modernization of the economy. This introduces risks possibly even greater than those brought on by decentralization.

In addition to weapons of mass destruction, Russia has accumulated huge stockpiles of conventional weapons and has multiple production facilities where they can be manufactured. Under decentralization, most of the MIC will be centralized, and it will be necessary to develop a security program for existing arsenals that would

take into account both national and regional interests and international security requirements.

Badly needed is a program to modernize the Russian armed forces to ensure the sovereignty and security of the Russian Federation within the framework of global security.

Threats related to external military campaigns and interventions in the internal politics of other states (especially post-Soviet ones) are, ironically, mitigated under the decentralization scenario. A decentralized state would not have enough resources for such adventures. Under that scenario, it is difficult to imagine how Russia would be able to preserve its political interests in Georgia, Ukraine, and other countries.

Recommendations for the U.S.

1. Monitor regional elites and regional political networks.
2. Prepare and promote regional institutional reform projects in accordance with the federal legislation.
3. Create a network of support for this reform program among representatives of regional political elites and business communities, as well as among industry leaders and insiders.
4. Organize and direct Russian émigrés – not just opposition publicists and activists, but also business émigrés who have maintained financial, business, and political ties with regional, federal, and industry elites. The objective is to turn agents of the Russian regime's influence in the EU and the US into agents of influence on the Russian political class worldwide.



Airport Road, Chechnya, 2008. Photo courtesy of Konstantin Rubakhin. All rights reserved.

Local Military Conflicts



By Denis Sokolov

Local military conflicts, in which Russia is currently involved, or may become involved, in the area spanning the post-Soviet states and in the regions traditionally of interest to the Russian empire or the USSR, have an impact on: (1) Russia's relations with the United States, the E.U., and China, (2) regional players in a sensitive geographical proximity to these conflicts (countries of the former Soviet Union, Iran, Turkey, Syria, Afghanistan, Pakistan, some countries in Africa, countries of Eastern Europe and the Balkans), (3) the spending patterns of the Russian budget and "non-budgetary funds", and (4) the design of the Russian political class, as well as the social, political, and criminal situation in the Russian regions.

This impact depends on how Russia participates in local conflicts: whether it takes someone's side by assisting with resources and armament (as it is reportedly happening with the Taliban in Afghanistan¹¹⁰), or is supporting

allied armed forces, providing them with advisers, supplying weapons, ammunition, and military professionals (as in Libya or Central Africa,¹¹¹ during the 1992-1993 war in Abkhazia,¹¹² or in the Balkans from 1991 to 2001¹¹³), or is directly involved in the conflict by deploying armed forces and private military companies connected to the Defense Ministry or other security structures (e.g. "Wagner"¹¹⁴ or "Patriot,"¹¹⁵ or Ramzan Kadyrov's guard¹¹⁶ – as is happening in Syria,¹¹⁷ in Ukraine since 2014,¹¹⁸ in South Ossetia in 2008, and in Transnistria in 1992).

"Orthodox Nationalism" as the Ideology of Volunteers, Special Services, and the Criminal World

In the past 30 years, practically all armed conflicts involved volunteers who had come from radical, militaristic political movements, professional members of the armed forces, protection racketeers,¹¹⁹ and members of the criminal world – from basic organized crime to ethnic and religious strong-arm groups.

On average, one can estimate that the number of

110 Justin Rowlett, "Russia 'arming the Afghan Taliban', says US," *Le Monde*, March 23, 2018, <https://www.bbc.com/news/world-asia-43500299>

111 Rémy Ourdan, "Soldats, mercenaires et conseillers russes se multiplient dans la capitale centrafricaine" *Le Monde*, April 23, 2018, https://www.lemonde.fr/afrique/article/2018/04/23/la-russie-installe-peu-a-peu-sa-presence-dans-la-capitale-centrafricaine_5289462_3212.html#VxQVAPIAySbmjvED.99

112 The war in Abkhazia may be considered to be in the third category – involving the armed forces and unofficial volunteer units affiliated with Russian special services. See "The war in Abkhazia (1992-1993): the main facts," *The Caucasian Knot*, August 14, 2017, <https://www.kavkaz-uzel.eu/articles/307661/>

113 Examples: Beverly Allen. *Rape Warfare: The Hidden Genocide in Bosnia-Herzegovina and Croatia*. (University of Minnesota Press, 1996). Catherine Baker. *The Yugoslav Wars of the 1990s*. (Macmillan International Higher Education, 2015). Robert Bideleux and Ian Jeffries. *A history of Eastern Europe: crisis and change, 2nd ed.* (Taylor & Francis, 2007).

114 "The ride of the mercenaries. How "Wagner" came to Syria," *The Economist*, November 2, 2017, <https://www.economist.com/europe/2017/11/02/how-wagner-came-to-syria>

115 Rimma Akhmirova, "Soldiers of flimsy fortune. Who and what is behind the 'Patriot' PMC," October 18, 2018, *Sobesednik*, <https://sobesednik.ru/politika/20181017-soldaty-zybkoj-udachi-kto-i-cto-stoit-za-chvk-patriot>

116 Ksenia Polskaya, "Yashin's report: the army of Chechnya is the most battle-worthy military group in Russia," February 22, 2016, *DW*, <https://www.dw.com/ru/доклад-яшина-армия-чечни-является-самой-боеспособной-группировкой-в-рф/a-19065480>

117 The Associated Press, "Putin says Russia perfected weapons based on Syria campaign," September 19, 2018, *Defense News*, <https://www.defensenews.com/global/europe/2018/09/19/putin-says-russia-perfected-weapons-based-on-syria-campaign/>

118 "The military conflict in Donbass: key dates and facts," April 14, 2017, *BBC Russian Service*, <https://www.bbc.com/russian/features-39598555> and Paul Kirby, "Ukraine conflict: Why is east hit by conflict," February 18, 2015, *BBC News*, <https://www.bbc.com/news/world-europe-28969784>

119 Protection racket, for details see: V. Volkov, *Force-Based Entrepreneurship: An Economic and Sociological Analysis*, (National Research University Higher School of Economics, 2005).

voluntary participants in armed conflicts is several dozen people per region (up to 100, and in some cases more).

As a result, not only new networks of professionals connected with the field of protection racket are formed, but politicization of criminal groups also occurs. Our 2014 and 2016 research into the Novorossiia project support networks in Tyumen, St. Petersburg, Vladivostok, Irkutsk, Stavropol Krai, Rostov-on-Don, and Moscow showed that volunteers returning from Donbass were trying to get preferences in the protection racket business, claiming their merit based on services to the state and combat experience. One of the social activists in Tyumen who did not participate in combat himself but was involved in fundraising, organizing humanitarian aid, buying equipment, helping refugees, facilitating medical care for combatants returning from the war and re-sending them to the combat zone, articulated his goals as “creating a strong-arm wing of patriotic forces.”¹²⁰

A commander of one of the Donetsk People's Republic (DPR) separatist battalions, a former OMON riot police officer who had served in a Far Eastern city, requested a monopoly on the protection racket in his city after returning from the war. He claimed, “We must be ready for new objectives, whatever they may be – to fight in Ukraine or to disperse demonstrations of the opposition – and this requires funds for training and equipment.”¹²¹ Note that in 2018 exactly such “units” dispersed a rally organized by Alexey Navalny.¹²²

Another noticeable tendency among the combatants and the sympathizers is the development of the idea that only they are true patriots of Russia (and/or of the USSR, the Russian Orthodoxy, the “Russian world,” etc), which gives them the right to impose their rules upon others, and

that they, true patriots – especially those who have shed blood protecting Russian interests – have the right to use violence against enemies (of the state, the nations, and/or the Orthodoxy).¹²³ Ideologically, so far this is a very heterogeneous mass of people. Some prefer to consider themselves Orthodox Cossacks,¹²⁴ others “officers of the empire,” while yet others are supporters of Igor Strelkov (Girkin), an “off-staff” FSB officer who led the 2014 armed uprising in Donbass,¹²⁵ or the National Liberation Movement (NLM) founded after the protests of 2011 – 2012 by Yevgeny Fedorov, a United Russia State Duma deputy,¹²⁶ as a street power counterweight to the “color revolutions.”

A package of anti-extremist laws¹²⁷ that has been expanding for more than a decade, and the law enforcement practices of excessively harsh persecution of dissent combine to create an “unofficial jurisdiction” in which the Constitution of Russia does not apply to dissenters who are labeled as “liberals,” “enemies of Russia,” and “foreign agents.” Similarly to the treatment of practitioners of unofficial Islam, those dissenters are subjected to illegal detentions and torture, their criminal cases are blatantly fabricated, and the terms imposed by courts on fictitious charges are incommensurate – they appear monstrous in comparison to the actual facts of the alleged “crimes.”¹²⁸ The erosion of the legal field against the background of the regions’ impoverishment will further contribute to the formation of the sources of enforcement and the establishment of unofficial jurisdictions that are criminal for the state and its citizens. These unofficial jurisdictions create a demand for opinion leaders and politicians, which we will discuss later.

It is also important that ex-combatants and their support networks have social, business, financial, and criminal connections with *siloviki* brass, some of whom have

120 Author’s field research data: Tyumen, 2014, 2016

121 Author’s field research data: Vladivostok, 2015

122 “The Crimean regiment and the Ranger hundred. Who are the People in Cossack uniforms who beat the protest rally participants in Moscow,” *Medusa*, May 7, 2018, <https://meduza.io/feature/2018/05/07/krymskiy-polk-i-plastunskaya-sotnya-lyudi-v-kazachiey-forme-bivshie-uchastnikov-aktsii-protesta-v-moskve-kto-oni-takie>

123 Denis Sokolov, “The crusade against civil nationalism. Who is fighting in Donbass and against whom,” *Profile*, November 10, 2014, <https://profile.ru/eks-sssr/itemlist/authors/denis-sokolov>

124 Ibid.

125 Paul Kirby, “Ukraine conflict: Why is east hit by conflict,” February 18, 2015, *BBC News*, <https://www.bbc.com/news/world-europe-28969784>

126 Alexandr Litoy, “The ultimate conspiracy theory,” June 5, 2014, *Open Democracy*, <https://www.opendemocracy.net/od-russia/alexandr-litoy/ultimate-conspiracy-theory>

127 Maria Kravchenko, “Unlawful application of the anti-extremist legislation in Russia in 2017,” March 6, 2018, *Sova Center*, <https://www.sova-center.ru/misuse/publications/2018/03/d38945>

128 Ibid.

previously served in the MVD, while those who came from the FSB or the GRU traditionally maintain their connections with their old “firms.” Intelligence officers often share the radical views of volunteers and patriot activists, and together they participate in “patriotic education of youth” projects, which often resemble military training camps.¹²⁹

The continued participation of Russia and Russian volunteers in local armed conflicts will increase the number of people with military experience who consider themselves entitled to decide what is right and what is wrong for others. Indicative of that is the contemptuous attitude of the volunteers serving in separatist armed groups in Donbass toward those local residents who prefer to become refugees rather than participate in combat.¹³⁰ **Upon returning from war, the ex-combatants not only claim their rights to be involved in the business of protection racket, but also assert their political ambitions.¹³¹ They back up their claims by connections in law enforcement and security agencies.**

The willingness of these people to use weapons, both for financial and political purposes, will lead (and has already led) to the formation of unofficial security structures which, in the face of growing social tensions and intensified street protests, can become fully-engaged actors the regional politics (see below). If competition for power and financial flows intensifies, ICG’s – interagency criminal groups, described in the section on decentralization – will be forced to recruit members of these armed groups to fight their competitors.

Reduction in budget revenues from hydrocarbons sales will lead to a further devaluation of the ruble and a decline in the tangible incomes of state employees, including the *siloviki*. **As soon as revenues from racketeering become greater than salaries in the law enforcement sector, the control over regional cash-generating enterprises will transfer to the ICG’s backed up by their own private criminal armies.** In some cases, conflicts over resources between regional players who have competing sponsors in the Center can develop into large-scale armed conflicts. In regions such as the North Caucasus, where large rural

and urban ethnic, fraternal, and religious communities can be mobilized for confrontation, political conflicts can escalate into local armed conflicts with a large number of victims and a growing risk of spiraling into civil war.

The likelihood of escalation of armed violence will increase due to ethnic cleansings that may take place in the criminal world both in the regions and in the capital. Those cleansings will be a response to the dominance of Chechen and Dagestani criminal networks in the “market” of violence in a large number of Russia’s constituent entities.¹³² Currently, Chechens enjoy the support from Grozny (the capital of the Chechen Republic), have their own jurisdiction “on the ground,” where they can hide from legal prosecution or from competitors, plus they are protected by the MVD and the FSB being under the wing of Ramzan Kadyrov. The criminalization of combatants, the formation of their own illegal jurisdictions described above, and the mobilization of non-Caucasian youth will dramatically change the balance of forces that will provoke a redistribution in all markets – retail sales, food services, automotive, construction and repair, alcohol and drugs, and so on. Caucasians squeezed out of regional protection rackets will return to their homelands and join the mobilization ranks, boosting the organizational and military capabilities of the new illegal armed groups.

Another factor in the marginalization of regional criminal networks and related law enforcement officials is, oddly enough, the project of granting autocephaly to the Ukrainian Orthodox Church – Kyiv Patriarchate. Having a common church with Ukraine significantly hampered the formation of a Russian Orthodox “national project.” Now it becomes quite possible, just as it becomes possible to encapsulate the Russian-Orthodox identity – and, consequently, radicalize of the Orthodox who number very high among criminals and volunteers. More so, the criminalized unofficial jurisdictions can use this radical Orthodox project for their own legitimization. A peculiar demo version of this process is the phenomenon of some Georgian criminals who have lost their positions after the implementation of former Georgian President Mikheil Saakashvili’s reforms and converted into active parishioners and even clergy of the church.

129 Author’s field research data: Rostov-on-Don, St. Petersburg

130 Denis Sokolov, “The crusade against civil nationalism. Who is fighting in Donbass and against whom,” *Profile*, November 10, 2014, <https://profile.ru/eks-sssr/itemlist/authors/denis-sokolov>

131 Author’s field research data: Irkutsk, Stavropol

132 Author’s field research data: St Petersburg, Moscow

In Russia, the ultimate form of radicalization of Vladislav Surkov's "sovereign democracy" idea¹³³ could be something like "Orthodox Nationalism" directed against national and pro-Western projects in the post-Soviet states and in some Russian regions.

Finally, in regard to international security, further deterioration of the economic situation and increased competition for resources within Russia can lead (and has already led) to "labor migration" of military professionals not only to Ukraine, Georgia, and the Balkans, but also to Africa. Considering the involvement of Russian criminals, including criminalized former intelligence officers, in the international drug and weapon trafficking,¹³⁴ there is a high risk that new international criminal networks will be formed – well-trained and equipped with sovereign territories and remnants of their own military-industrial complexes. They will bring together political and economic ambitions, radical "anti-Western," anti-Islamic, and nationalist ideologies, and practical knowledge of terrorist practices.

Nevertheless, in terms of their financial resources, organizational capacity, and military capabilities, these structures will be inferior to Putin's regime as it is today. The main problem for international security will be the absence or degradation of political levers of influence on numerous criminal leaders, field commanders, and regional princelings.

Militarization of the Political Class

Russia's involvement in local armed conflicts forces the administration to redirect budget funds. Medicine, health care, and scientific research that is not related to national defense lose funding, while defense, logistics, and *siloviki* keep or increase their

transparent and opaque budget funding. **This redistribution of resources leads to changes within the Russian political elite – namely, to its militarization.**

First, those who are capable of organizing combat operations, supplying weapons, ammunition and fuel, provide equipment repair, medical assistance, the transfer of troops and mercenary units, as well as offer political and diplomatic support for these processes, are moved to the forefront. As General Staff officers or commanders of military districts and branches of the armed forces find themselves in zones of political turbulence,¹³⁵ their careers start to build faster, and new political opportunities open up to them. The personalities that come to the forefront of Russian foreign policy are those entrepreneurs and politicians who have access to armed support (for example, Ramzan Kadyrov who has a 20,000-strong army at his disposal and who has in place an agent network across Turkey, the EU, and Ukraine, and Yevgeny Prigozhin who is considered to be the sponsor of the Wagner PMC), or who stand behind the Cossack and patriotic militarist groups (for example, Dmitry Sablin who is a State Duma deputy and head of the Fighting Fraternity veterans organization), or handlers of organizations that participate in the "Russian March."

In addition, "military mobilization" justifies the use of force against the opposition, makes it possible to paint the protests almost as acts of betrayal, and use unofficial "patriotic" strong-arm structures to disperse them. Thanks to the annexation of Crimea, the war in Donbass, and the military operations in Syria, Ramzan Kadyrov, Viktor Zolotov (head of the Rosgvardiya), National Liberation Movement (NLM) leaders,¹³⁶ Vitaly Milonov's and Dmitry Sablin's activists, and some of the local-level Cossack commanders have all become political and public figures

133 Vladislav Surkov, "The nationalization of the future," November 20, 2006, *Expert*, http://expert.ru/expert/2006/43/nacionalizaciya_buduschego/

134 "Arms trafficking researcher Brian Johnson-Thomas discusses the case of Viktor Bout," November 23, 2010, *Svoboda*, <https://www.svoboda.org/a/2227844.html>. "Konstantin Yaroshenko, a Russian pilot who was sentenced to 20 years in prison for transporting drugs," *Lenta.RU*, <https://lenta.ru/lib/14206653/>

135 "The mysterious death of a GRU general," August 30, 2010, *KP*, <https://www.kp.ru/daily/24548.5/726005/>.

"Lt. Gen. Valery Asapov killed in Syria," September 9, 2017, *Svoboda*, <https://www.svoboda.org/a/28754463.html>.

"Putin fires 15 generals," August 28, 2018, *Rosbalt*, <http://www.rosbalt.ru/russia/2018/08/28/1727979.html>.

"Western Military District commander is leaving. The general that brought back Crimea and freed Palmyra will become a patriotism educator," July 30, 2018, *Fontanka*, <https://www.fontanka.ru/2018/07/30/037/>.

136 "NLM activists started a fight at Sakharov Center festival, Cossacks blocked the entrance," May 1, 2018, <https://www.currenttime.tv/a/29202567.html>

with the status of internal “Gendarmes.” Armed conflicts have propelled new politicians and public opinion leaders into the spotlight: Igor Strelkov (Girkin), Zakhar Prilepin (a writer and a *zampolit* (deputy officer for political indoctrination and morale) in the Luhansk People's Republic separatist divisions), as well as numerous propagandists and military journalists on central television channels. Politicians and public figures who are already rather despicable also have to play in the new field. Among them: Vitaly Milonov (deputy of the Assembly and the State Duma from St. Petersburg), Dmitry Rogozin (leader of the Motherland Party, Russia's ambassador to NATO, Deputy Prime Minister for the Defense and Space Industries until 2018, and currently Director General of Roscosmos), Aleksey Zhuravlyov (Chairman of the Homeland Party since 2012), Sergey Kurginyan (publicist, author of “The Essence of Time” TV show and public movement, and an active supporter of the Novorossiia project in Russian regions), and State Duma deputy Yevgeny Fedorov (NLM Coordinator).

In this new reality, Ramzan Kadyrov acts as a war maker, a political and religious leader, a diplomat, and as the head of an international criminal network.

Another feature of militarization of the political class is the transfer of certain decisions to the level of field commanders, such as Igor Strelkov. But this trend will manifest itself to a greater degree with further decentralization and continued involvement of Russia in local conflicts.

The position of managers who are responsible for getting “free” (unaccounted or reverse laundered) money is strengthening. Greater value and importance is placed on top managers' loyalty and willingness to finance the needs of the administration and its partners at their first beck and call, rather than the transparency and efficiency of managing the company in the interests of shareholders. Personal trust becomes even more important when a business owner receives major contracts (or an official gets an opportunity to earn money when those contracts are distributed), and in return

this trusted partner is expected to be willing to finance Kremlin's military adventures or other special operations. Sometimes unofficial funding is requested from the so-called “own” funds which have already been moved out of international financial intelligence's sphere of control.

Meanwhile, **after 2014 the talk about denationalization of the economy was replaced by its quiet nationalization.** In oil and gas, all flows of capital are managed by two or three operators. Under the cover of this “centralization,” relatively independent players like Vladimir Yevtushenkov are squeezed out of business (see the nationalization and transfer of Bashneft Oil & Gas Company to Putin's “de facto deputy” Igor Sechin), while the Magomedov brothers' Summa Group's attempt to gain control over the oil terminal in Novorossiysk led to their arrest, followed by a major reshuffling of the wheat export market. Innovations and high technologies in the IT and defense sectors are being transferred under control of Sergey Chemezov's Rostec State Corporation.¹³⁷

The financial sector is also rapidly becoming larger. **The number of commercial banks is declining, and relatively independent financial institutions are bankrupted** to benefit “svoi” [Russian plural pronoun meaning “ours” or “one's own”, also used to mean “good guys” or “cronies” – Ed.]. “Svoi” are officers of the special services, or, sometimes, of the military. (Specialized military banks have been opening up as well.¹³⁸) The number of banks in Russia as of January 1, 2018, totaled 561, that is, in 2017 it dropped by 62 banks (from 623 to 561). And since 2008, the number of banks decreased by 575 (from 1,136 down to 561) – this translates into a 50.6% plunge.¹³⁹

The same goes for government contracts. An investigation by Alexey Navalny's Anti-Corruption Foundation (FBK) brought to notice the sizeable incomes of businessmen like Yevgeny Prigozhin from supplying food and utilities to the Rosgvardiya and the Ministry of Defense. In this regard, we must also mention Taymuraz Bolloyev, one of the primary suppliers of equipment to “Voentorg.”¹⁴⁰

137 About Us, official website of Rostec, accessed at <https://rostec.ru/about/>

138 “New defense bank: how Gosoboronzakaz will be protected from financial sanctions,” January 18, 2018, RBC, <https://www.rbc.ru/finances/18/01/2018/5a60aa859a794723b774d5b6>

139 “The number of banks in Russia: 2007-2018 dynamics,” October 25, 2018, *Bankirsha*, <https://bankirsha.com/kolichestvo-bankov-v-rossii-na-konec-goda-finansovyi-krizis-ustavnoi-kapital-i-chislennost-bankov.html>. “Health improvement by enlargement. What's going on with the Russian banking system,” February 28, 2018, *Kommersant*, <https://www.kommersant.ru/doc/3557210>

140 “Prigozhin's empire in military towns,” December 1, 2016, *Fontanka*, <https://www.fontanka.ru/2016/01/11/120/>. “Yevgeny

The fight against *obnalichka* (encashment) through a series of public scandals led to the monopolization of this activity under the protection of the FSB.

Even the largest Bitcoin exchange in Eastern Europe is under the control of the Orthodox and militarized oligarch Konstantin Malofeev, while its direct control, according to some sources, is carried out by the former Luhansk "field commander" known by the call sign "Swabbie."¹⁴¹

The redistribution is affecting agriculture and retail as well, both of which are more and more coming under the control of such holdings as Miratorg, associated with Dmitry Medvedev,¹⁴² as well as government-owned development bank VEB (Vnesheconombank) which is associated with the *siloviki*.¹⁴³

Negotiators and lobbyists who have connections and influence in the EU, the U.S., China, Ukraine,¹⁴⁴ and other countries get perks, including freedom of travel. Diplomats and negotiators have become another elite group that benefits from Kremlin's militaristic ambitions. The heightened tensions with the United States, the E.U., and Great Britain, as well as Russia's participation in several international venues created to organize dialogues, have brought to the forefront the Ministry of Foreign Affairs (MID). Before the war in Donbass, few people knew names of diplomats other than the foreign minister. Now there are new names that are regularly in the spotlight.

To serve this new policy, a new generation of experts is being recruited. They have a good command of English, possess flexible minds, and are unburdened by the con-

straints of owning real estate and other assets in the West. Some of them are Fyodor Lukyanov, Andrey Sushentsov, and Nikolai Silaev. On the other hand, all those who may be suspected of disloyalty, ability and willingness to "defect," or to make an agreement behind the back of the political leadership are at risk. **Accusations of treason or disclosure of state secrets are becoming tools of political struggle as popular as the anti-corruption campaign.** The main operator of both the fight against corruption and the fight against traitors to the motherland is the FSB, and the suspects (or other persons named in the investigation materials) are swiftly delivered to the Lefortovo prison even as a consequence of regional incidents.

Criminalization of Foreign Policy

As a result of local armed conflicts provoked by Russia in Georgia, Ukraine, and Transnistria, legal political instruments of influence on neighboring countries, such as Georgia or Ukraine, were partially lost. Russia's public support for "svoi" politicians in Ukraine and Georgia is more of a negative factor in the parliamentary and presidential elections.¹⁴⁵ This is prompting Russia to use other levers of pressure and influence on domestic and foreign policy in those countries.

First and foremost, Russia can accomplish it by means of supporting separatist projects in the neighboring countries. This includes military and political assistance, creation and maintenance in the territory of these countries

Prigozhin's sanctions-listed entities netted 400+ mln rubles in 2017," July 27, 2018, *Echo of Moscow*, <https://echo.msk.ru/news/2248306-echo.html>. "Who is feeding the Rosgvardiya, and what's Medvedev got to do with it. A new investigation by the FBK," August 23, 2018, *Medusa*, <https://meduza.io/feature/2018/08/23/kto-kormit-rosgvardiyu-i-pri-chem-tut-medvedev-novoe-rassledovanie-fbk>. "Investigation: how Putin's personal chef is going to feed the army for 92 billion rubles," March 18, 2013, *Forbes*, <https://www.forbes.ru/kompanii/potrebitelskii-rynok/235779-rassledovanie-kak-lichnyi-kulinar-putina-nakormit-rossiiskuyu-a>.

141 "'Swabbie' from DPR bought a cryptocurrency exchange and began hunting for 'Vinnik's treasures,'" December 5, 2018, *BBC*, <https://www.bbc.com/russian/features-46444479>. "Bitcoins for DNR: militiaman Swaggie buys the infamous crypto exchange," July 4, 2018, *RBC*, <https://www.rbc.ru/magazine/2018/07/5b3b9ed9a79475f83b4f168>

142 "Miratorg absorbs an agro-industrial investor in Oryol Oblast," January 22, 2018, *Agrovestnik*, <https://agrovesti.net/news/corp/miratorg-poglotil-investora-v-apk-orlovskoj-oblasti.html>

143 "Russian media: the nationalization has reached trade," February 19, 2018, *BBC*, <https://www.bbc.com/russian/features-43108478>

144 "Serhiy Kurchenko and his schemes in Ukraine," July 2, 2018, *Apostrophe*, <https://apostrophe.ua/article/society/2018-07-02/sergey-kurchenko-i-ego-shemyi-v-ukraine/19131>.

"Manhunt for Chechens: in Kyiv siloviki detained Ramzan Kadyrov's man," July 17, 2018, *Informator*, <https://kiev.informator.ua/2018/09/17/oblava-na-chechentsev-v-kieve-siloviki-zaderzhali-cheloveka-ramzana-kadyrova/>

145 An example of the October-November 2018 Georgia presidential campaign, discussions before the presidential elections in Ukraine: "Georgia chooses between two hands of the Kremlin, the country is preparing for the second round of presidential elections," November 16, 2018, *Kommersant*, <https://www.kommersant.ru/doc/3800200>

of zones uncontrolled by the governments, provocations such as the “borderization”¹⁴⁶ in Georgia and handing out Russian passports in Abkhazia and South Ossetia.

Secondly, by providing financial, organizational, and media support to radical and pro-Russia politicians in the post-Soviet countries and Eastern Europe. A part of this “package” may be the inclusion of relatives and partners of politicians in sovereign countries, who are not publicly connected with the pro-Russian agenda, in business and political networks connected with Moscow.

Thirdly, by means of influence through special services. Persons loyal to Russia are still employed in the Ukrainian special services, while in Georgia many former officers of the Soviet KGB and loyal officers of the Russian special services returned to work after the Georgian Dream party came to power in the country.¹⁴⁷ In addition to influencing commissioned officers, Russian intelligence services have compromising materials on some politicians in neighboring countries, and sometimes they prefer to help them win the elections, as, for example, was the case with Viktor Yanukovich and Yulia Tymoshenko in Ukraine.

Fourth, via economic pressure, such as constant conflicts over the transit of gas and oil through Ukraine, offering preferential gas prices to Belarus, or imposing restrictions on several countries’ ability to supply their goods to Russian food retailers and their labor migrants to the Russian job market.

Fifth, by influencing neighboring states through businesses associated with Russia. In the South Caucasus, it is the electric power industry and the fuel complex, in Ukraine, it is the energy trade (including coal), nuclear power plants, as well as control over municipal and regional markets, individual entrepreneurs and politicians associated with Russia. (One must keep in mind that sometimes aggressive actions of the Russian government against some country are, on the contrary, an attempt to protect Russian business interests in that region. This was partially observed in Russia’s involvement in military operations in Syria, and now through Wagner Group’s deployment in Venezuela where Rosneft is doing business, or through armed operations in Donbass which were car-

ried out with consideration for the business interests of the oligarch Rinat Akhmetov whose production ventures in the area were related to Russia).

Sixth, by means of influence through criminal structures. In Georgia, for example, there is the “Gardaban group” (that was named for the settlement area of some Georgian Azerbaijanis and, according to our sources, that has a solid presence in the Russian Urals¹⁴⁸), as well as representatives of large Moscow criminal communities who have their hands in local business and politics. Then there are the “Kadyrovskie” and “Donetskie” [i.e. “the Kadyrov’s fellas” and “the fellas from Donetsk” – Ed.] in Ukraine. In some cases, drug and weapon trafficking in the neighboring countries is controlled from Russia. This was especially noticeable during the first months of the war in Donbass when a stream of Russian weapons was flowing across the front line to the Ukrainian criminal market.

Seventh, Russia influences the internal political situation of the post-Soviet countries, as well as the E.U. and the U.S., through propaganda media. This includes not only weekly programs, talk shows, documentaries, and feature films¹⁴⁹ broadcast on leading Russian TV channels and RT. For example, in Georgia, the “Sputnik” website, funded from Russia, has no fewer original visitors than the most popular Georgian projects.

And finally, number eight: religious organizations as agents of influence. Prior to the provocations in Slavyansk in the spring of 2014, Igor Strelkov’s (Girkin’s) detachment in Donbass was stationed in the courtyard of a monastery of the Moscow Patriarchate.

As a result, the support of local military campaigns at all these levels leads to the transformation and decentralization of Russian foreign policy and the involvement in it of people from the realms of media, business and finance, crime, and others.

Whereas the Russian interference in the United States elections caused a scandal, in the Ukrainian and Georgian elections Russia feels like a full-fledged player, trying to advance its candidates and parties and building long-term relationships with its political partners.

146 Unilaterally arranging the border between the territory of South Ossetia and the territories controlled by the Georgian government

147 Author’s field research data: Tbilisi 2018, Kharkov and Istanbul 2016, 2017

148 Author’s field research data: The Garbadan District of Georgia, 2018

149 “Pimanov: ‘Crimea’ is an anti-war film with love as its central theme,” August 30, 2017, RIA News, <https://crimea.ria.ru/cinema/20170830/1111752733.html>

Relations with the E.U., the U.S., and China

Russia is competing for influence and attempting to maintain its key positions and interests in the post-Soviet states, in Syria, in Libya, and in other regions where armed conflicts often turn into proxy wars between Russia and the United States, Russia and Turkey, and so on.

In the absence of other effective negotiation platforms, armed conflicts have become for Russia a hybrid diplomatic tool.

That being said, there are at least three groups of factors that influence the scenarios of Russia's development in the coming decade.

The first is the sanctions imposed in response to Russia's annexation of Crimea and support of the separatists including sending its own mercenaries and armed forces to the conflict zone in Donbass. This response of the U.S. and the E.U. to aggression undermines the possibilities of the Russian military-industrial complex, which is being left lacking imported electronics and capital equipment. A full-scale modernization is impossible in such conditions, and Russia will be forced to seek help from China. In the coming years, we can expect a reversal of the Russian-Chinese military-technological cooperation.

The second is the search for military allies from the camp opposite to the US and the EU and, as a result, the support of all "opposition" dictatorial and criminalized regimes. Perhaps, if we take into account what has been discussed in the previous paragraph, Russia will turn into a unique agent of Chinese influence in countries with a weak state. This is already noticeable in Africa.

In such a situation, an embargo on the export of Russian hydrocarbons and other raw materials (following the Iran model) becomes quite likely, but it will lead Russia into an even greater political and economic dependence on China.

Interplay with Other Factors

Russia's participation in armed conflicts augments the effects of other factors. Decentralization strengthens the militarization of the political class and increases the political clout of regional criminal networks.

The sanctions war and the growth of intolerance for dissent in the society stimulate the development of radical ideology among representatives of military and security forces, volunteers, and criminals.

The sanctions war will increase the dependence of Russia's economy and military-industrial complex on China, and the Russian armed forces will face increasingly greater risks of being drawn into foreign armed conflicts that will possess features of proxy wars fought to protect the interests of China.

The growth of radicalism and development of "Orthodox Nationalism" will stimulate the development of other national projects – Chechen, Circassian, Tatar, Yakut, etc. One can also expect to see radicalization of political Islam in Russia and the post-Soviet states.

The autocephaly of the Ukrainian Orthodox Church – Kyiv Patriarchate promises to also augment the radicalization of the Russian political class and the development of "Orthodox Nationalism."

Scenario

The development of the factors listed above will, first of all, lead to the "Chechenization" or "Donbassization" of the Russian political landscape. **Those regions in which regional elites will manage to consolidate economic, administrative, and strong-arm resources will turn into criminalized and relatively sovereign territories, while other regions will find themselves under their influence and control.**

The primary attributes of this sovereignty will be: an independent regional justice system, independent protection racket controlling the main flows of capital, opaqueness of those flows for the federal center, a proprietary penitentiary system, and representative offices ("embassies") in other regions and even other countries. Ramzan Kadyrov, the head of the Chechen Republic, already has all of this today. The courts in Chechnya can make decisions irrespectively of Russian laws and Russian judicial practices, both when it comes to determining sentences

for human rights activists and journalists within the republic and filing financial claims against non-residents of Chechnya followed by their kidnapping under the guise of inmate transportation. All Chechens in the world are considered to be in Kadyrov's jurisdiction; violence against all residents in the Chechen jurisdiction is monopolized by the head of Chechnya and carried out by his private army. Convicted persons are placed in private prisons where torture and violence are practiced – with complete disregard for Russian law. Chechen cultural centers around the world are, in a way, embassies, as well as trade, religious, and criminal (military) "missions." The Akhmad Hajji Kadyrov Foundation is an alternative treasury of the head of the republic.

Chechnya's experience will be "exported" to other regions as a result of the widespread appearance of individuals with combat experience in regional criminal structures, the criminalization of the political class, and the criminalization of foreign policy. Aggressive political competition will flare up between regional elites; it will be accompanied by local armed conflicts, transport blockades, political assassinations, and disputes over borders and assets.

It is most likely that such conflicts will take place in the south of Russia, where some disputes over land are already occurring. There may be clashes over income-generating assets, for example, conflicts in the Volga region or the Urals and criminal wars in Moscow and other large cities over aluminum production and timber harvesting in Irkutsk Oblast or Krasnoyarsk Krai.

The duration of such conflicts is difficult to determine and will depend on many factors. But it is safe to assume that it will be a long-term condition, since after the acute phase, as brief as it may be, such conflicts simmer for years.

The result of this armed confrontation will be further decentralization, a change in relations between the center and the regions, and the emergence of new political players, as well as new regional and national projects.

Secondly, transregional and transnational military-political organizations similar to Hezbollah and the IRGC (Islamic Revolutionary Guard Corps) will spring up on the foundation of such structures as Wagner PMC or Kadyrov's private army. They will act in the interests of third countries and even private customers, e.g. in Africa they will act in the interests of China, while in Syria and

Iraq – in the interests of oil companies, and so on. There is even a possibility of the emergence of network-type criminalized and militarized political structures which will use not only military and economic instruments, but also terrorist attacks – directly against their rivals or as a means of blackmailing them.

Indicators of Armed Conflict Escalation

1. Intensification of militaristic propaganda and launch of campaigns against countries that may be targeted as potential victims of military aggression
2. A wave of resignations and new appointments throughout special services and in the Ministry of Defense (the appointment of "svoi" to positions of command)
3. Activation of human assets / agent networks and relocation of military specialists and mercenaries (like Wagner PMC) to countries and regions that are potential victims of aggression
4. Emergence of budgets to fund corresponding lobbying campaigns in the U.S.

Mediating Risks to International Security

In order to mediate these risks, it is necessary to:

1. Increase the economic and political pressure, up to an embargo on hydrocarbons

This will allow to:

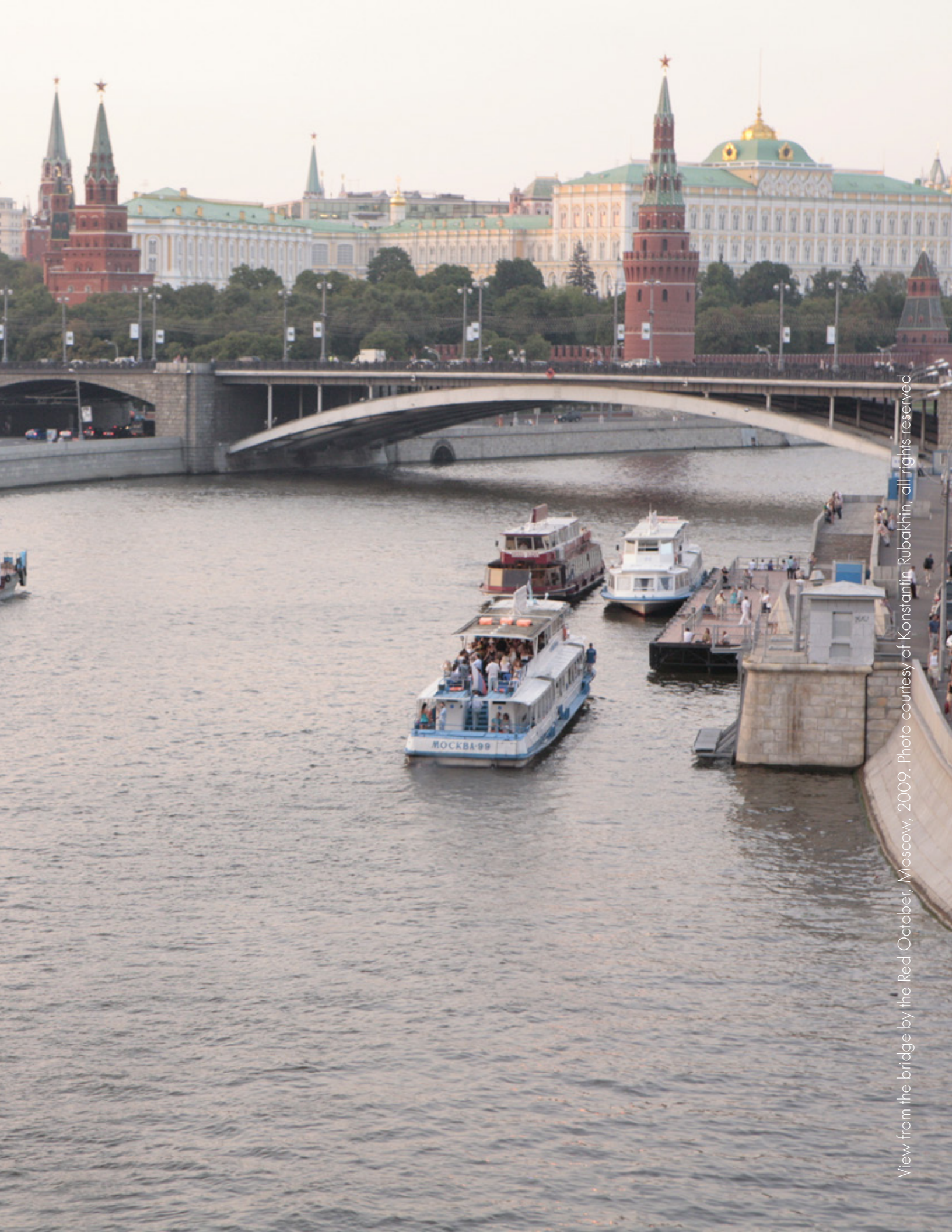
A. Limit further military expansion. Russia's participation in local armed conflicts (from supplying modern armaments to military intervention), like the events in Georgia, Ukraine, and Syria have shown, increases the number of casualties both among combatants and civilians due to the deployment of heavy weapons and aviation.

B. Deprive Putin's regime of the ability to block any initiatives to resolve conflicts (overcoming the veto right in the Security Council through existing mechanisms)

2. Place Russia's nuclear arsenal under international control through interaction with regional elites and military in the most critical scenarios. Armed with a nuclear arsenal, the regime, under certain circumstances, may escalate any armed conflict into an uncontained war.
3. Be ready for military-political interaction with the regional elites.
4. Act as an effective competitor against China in the area of economic and institutional control over the Russian regions.

Recommendations for the U.S.:

1. Introduction of American advisers or military in regions of potential aggression (at the present time, for example, in Venezuela);
2. Consistent and strict sanctions policy in respect to existing conflicts;
3. Active military-technical cooperation with countries that are victims of aggression and potential victims of aggression;
4. Preventive work with Russia's potential allies and countries that benefit from non-compliance with the economic sanctions (for example, encourage China and Turkey to buy LNG from North America or timber from New Zealand).



View from the bridge by the Red October, Moscow, 2009. Photo courtesy of Konstantin Rubakhin, all rights reserved.

Two Positive Scenarios



By Vasily Gatov

consider this linguistic dissection seriously.

Devising “positive” foresight for a country whose leadership light-heartedly considers nuclear war and entertains the ideas of global destruction “if there is no Russia” is a difficult and unrewarding task. Recent Russian foreign policy revived the worst manifestations of the Cold War –animosity, arms race, provocative military drills, proxy wars and conflicts, spooky espionage and assassinations abroad. Although not all blame for that should be assigned to Russian leaders alone, it was Vladimir Putin who opted for “Madman policy” first, dissecting Ukraine and grabbing Crimea.

The long shadow of post-2014’ world will – inevitably - span over next two decades regardless of Vladimir Putin physical presence on the political scene. Having said that we cannot ignore multiple threats – real or imaginary – exercised by Russia today, and extended into next historical period. Resurgent aggressiveness of an imperial power with nuclear weapons, largest and restored in capacity army on the European continent, “energy weaponry” and cyber potential will affect both Russian domestic perspective and the world’s current and protracted reaction, would it be public policy, covert operations or military counter-measures.

With these considerations in mind, we attempted to draw two competitive (though not mutually exclusive) scenarios of “better Russia in a better World” if every word in this phrase should be tested. We urge the reader to

First, what is “better” in the first instance? When we apply “good” or “better” adjective to a country in a historical perspective, in any language it implies that this nation is improving all or most social and economic conditions established for its population, while remaining a global and regional “constructive power” that interacts with neighbors and beyond positively and with sincere intentions. This descriptive explanation carries some dialectical bias but suggests that “better country” must provide to its citizenry as well as the global security and other important issues. So, the first instance of “better” define the scenario as “positive” for Russians as nation and as individuals, concurrently – at least in present security conditions for the rest of the world, - limiting Russia’s foreign aggressiveness and hard power projection relieving concerns of its neighbors and beyond.

“Russia” in the discussed phrase also carry some ambivalent meaning. Would smaller Russia be better country for its populace than one today, stretching from Baltic to Pacific, from North Pole to Northern Caucasus? Would Russians as nation and the world benefit from dissolution of “Russian Federation” and – similarly to the censure of the USSR – emergence of several smaller nation states with less imperial syndrome and more concentrated on development and social issues? Scenarios of “better Russia” in this case, as we concluded, should avoid newer version of 1991. First, while there are some logic considerations that “smaller Russia is (by definition) better Russia” for the outside world, such option clearly disenfranchises Russians: instead of gradual decrease in revanchism, the nation will clearly develop much more aggressive Weimar syndrome than the present one. Second, any sizable obliteration of the territory and the economy will not provide better conditions for those who live in secessionist areas and to those who would remain in the heartland. So, “good and better Russia” should stay united as it is (with some special considerations regarding Crimean Peninsula-

la).

The second “better” in the phrase “better Russia in a better World” constitutes another logical development of “good”. Better World – as a global habitat for the whole humankind in its persistent variety – is safer world (with less violence, without wars and devastating armed conflicts), is more equal world with less injustice in economy and access to development, and it is a cleaner world, where humans curb an expansion into fragile nature. So, if Russia should be considered a part of better future world, it must be a peaceful country, a member of global policing compendium that seek to prevent wars or stop existing conflicts and solve crises without exerting to any form of violence. Russia should also participate – at least not confront – other nations and international institutions development policies. It should also address a domestic issue of inequality and abstain from any form of “export” of inequality. And finally, “the better Russia” must participate in a global effort to curb carbon emissions, maintaining forest footprint and recycling initiatives.

But all these “goods” are still variative. What if Russia becomes “good” to its own population on an expense of ignorance to global problems? Or, contrary, chooses an extensive policy of “global good” on expense of domestic development and well-being? Or, while seeking maximum outcomes in domestic development, Russia opts for further aggression against the neighbors with full support of population? Of several possible variations, only two we consider viable (possible, foreseeable) and worth researching:

- **Isolationist Russia**, the scenario that assumes an maximum inward orientation of future political leadership, that prioritizes domestic economic and social development to any form of external/foreign policy except rational risk mitigation; this option of future development excludes Russia’s participation in any form of off-shore power projection – even a positive one, and assumes that future Russian government will address global risks with an extreme “profit-seeking” perspective (i.e. as Russia benefits from climate change with softening conditions in Far North and Far East, this perspective government will not address Paris Accord requirements and will stipulate further global warming). In this scenario, development logic is decremental to present day Russia – all out-bound projections are curbed, foreign policy limited to border-line risk mitigation, military

affairs are focused on defense capabilities and nuclear deterrence logic. While such policy may not be fully compliant with the best expectations of The Global West, it is clearly beneficial in a long run as “Isolationist Russia” may provide better conditions to its own population, gradually though indirectly assist the development of bordering countries (attracting migrant workforce, at least), and preserve security in some areas of mutual concern (Central Asia and Southern Caucasus).

- **Liberal Dictatorship/Junta**, the scenario that assumes that Putin’s succession (person or group) turns vile to existing policies and power groups, reverses anti-American and anti-liberal course in foreign relations, but at an expense of forceful and repressive domestic policy (removal and purging of Putin’s-time elite, radical repressions against nationalist forces, militarization of domestic policy). Such reverse of the course cannot be achieved by elections and even more – it cannot be maintained with free and fair elections (because in open society, leftist and nationalist-conservative forces will inevitably outnumber liberals and loyalists who may join liberals tactically). This scenario provides a maximum tactical benefit to the interests of The Global West, as it immediately provides secure and allied Russia that is ruled by “similarly-minded” regime that seeks to comfort liberal vision. It may also be beneficial to major groups of Russian population as it opens paths to accelerated economic and social development, supported by global openness and capital access. On a negative side, this scenario does not create a stable and sustaining regime at least for a duration of a period under consideration (2018-2035). Moreover, the earlier this version of the scenario may occur, more fragile the situation stays in future. This scenario – in case it develops – also raises the risks of various secessionist problems, border conflicts and further decline of Russia’s critical territories.

Two positive scenarios: existing patterns, remaining problems

While Russian history provides a good collection of “wonders” that had changed seemingly decided fate of the state or even a nation, we should refrain from praying for one more “wonder” that may peacefully convert current regime (anemic but cruel personalized autocrac-

cy) to a prosperous liberal democracy aligned with the interests and values of the Global West. Only delusional dreamer may insist he or she sees gradual, peaceful and socially positive chain of events that are required for such outcome:

While none of the items of the agenda may be totally excluded from a political forecast, existing political, cultural and social climate in Russia is averse to the purported chain of events. During 19 years of Vladimir Putin's reign, the regime successfully prevents "liberal shifts" from happening and considers this prevention one of the sources of its legitimacy and continuity.

Unlike its historical predecessors, current Russian regime is much better prepared to survival, as both formal and informal government are populated by survivalists and governed by survivalists. There is (yet) no unified and dominant ideology and Russia is unconstrained by alliances, international obligations or even international laws. Russian relatively developed adaptive market economy compensates local and global crises. Also, Putin's regime is not only illiberal in its foundation and practice – it also considers "liberal democracy" a mortal enemy and fuels efforts of countering political forces both domestically and internationally.

It is not the goal of the forecast to establish the origin of Vladimir Putin's personal despise of liberal democracy – we just take it as an existing phenomenon that drives domestic and international policy. Modern Russian anti-liberalism avoids (yet) broad political repression against "liberals", and opts for a different type of state violence by enforcing following practices:

While these efforts are never fully successful, the persistence and longitude of measures play relatively well for Putin's regime – only single digits of Russians identify themselves as liberals, and general opinion on values of freedom, political rights and government transparency is negative.

It will take a lot of time to undo this damage, or even circumvent it even if domestic political climate softens. One of the scenarios – Liberal Dictatorship – is designed to address this problem; under some conditions ruling elite may '180 degrees' switch the tone and essence of the policy and bet on liberal ideas, but at a cost – while pro-pelling "liberal views", these imaginary leader(s) need – at least for some time - to exert repressive and un-liberal regime to suppress conservative and nationalist alterna-

tives. Unfortunately, it matches one of the U.S. favorite overseas scenarios – "he's son of a bitch, but he is our son of a bitch", - and may mislead The West's policy.

Another scenario, Isolationist Russia, circumvents the consequences of Putin's illiberalism by means of an international self-isolation (or even incarceration). For this scenario, future imaginary leadership should manipulate a political spectrum to "nationalize" liberalism (possibly, even renaming and reframing the idea), and incrementally change existing media rhetoric. While offering a purified version of nation-building, the political posture in this scenario should comprise a jingoist but non-expansionist idea with idolization of competitiveness and uniqueness of Russia. It may sound quite outlandish but will not be too controversial with an existing proto- ideology and will not require repressive measures against opposition.

So, lacking weak spots of the Soviet state, modern Russian political regime possesses its very own disbalances and internal controversies that may cause changes, including a subject of the scenario – relatively positive development that benefits both Russian citizenry and global security.

Mid- and long-term scenario planning is not a science, but it is not a fiction writing as well. As Peter Schwartz, the founder of "Art of Long View" method implies, we have to study both established or probable trends, grading them and scrutinizing possible causes and effects, as only reasonable expectations determine a general vision of the future. Combining timeline with a "funnel of probable events", Schwartz's method delivers multidimensional and weighted picture, merging forecast with foresight. Positive future should inherit better conditions and trends of the present reality, and, avoiding the dangers and troubles, compliment them with future achievements, discoveries and technological advancements. While "Art of Long View" is mostly used for corporate and industrial forecasting, we will attempt to apply it to Russia's future as a country and as a society.

Continuity & discontinuity in each of the scenarios

Wanted dead or alive

As much as we would like to see a peaceful chain of events that gradually change Russia into a modern liberal state, we must **underline an absence of a broad**

popular demand for a liberal shift in Russian policy. No social indicator points on societal request/demand of free and fair elections, plural political representation or greater importance of human/civil rights. Instead, Russian society seeks more “enemies”, old and new who should be taken responsible for hardship of life (see Levada, 2018¹⁵⁰). As many as 70 percent of Russians consider the nation being under siege by foreign powers, or by domestic subversion forces. Similarly (see Levada, 2018¹⁵¹), almost 60 percent of Russians feel threat from foreign powers – and respond, regrettably, in a predictable “Russian” way. This underlines that Putin’s regime and its media machine exploits well-known Russian national feature – *disgust with any form of foreign occupation or even external pressure* (see Putin, 2018¹⁵²).

As stated above, **Putin’s regime central feature is survivalism, ability to adapt for the sake of control of power, wealth and means of state violence.** Retrospective view – an important part of every forecast – suggests that Putin’s regime is capable of offense and defense, advancement and retreat, and has few ethical reservations. It is not hinged by any formal ideology, or moral, or even shame.

Russia under current version of Putin’s regime is far more stable state than late version of the USSR, or Yeltsin’s regime, and yet it has problems with nearly every angle of statecraft: negative population dynamics, fragile economy, weak innovation drive and questionable military/security capacity. Still, there are far more chances that Putin’s Russia may survive challenges ahead with no or little correction of current policy. On contrary, any major change, reform or even instinctive reaction that destabilizes the current jelly-like conditions pose a threat – resulting more cohesion between elites and ordinary Russians despite all social and economic troubles. So far Russia (and Russian regime) has not faced “mortal” challenges that affect this stipulated cohesion, while demonstrating resilience to smaller crises (in 2008-9, 2011-12 and in 2014-15).

Vladimir Putin himself is a mortal and imperfect human creature, while his personal role in the current regime

construction remains central and uncontested. He provides a personal pillar of the regime’s stability. In fact, Putin’s presence and activity – direct orders, or silent support of some actions, his personal preferences, hate or request for revenge – remain the regime’s main asset and main weakness combined.

Physical health and consciousness of Putin is a major “check and counter-balance” of the system. In result, any major trouble with him personally will shock the system and ignite changes of a sort.

Most catastrophic scenarios basically implore that Putin abruptly loses control over the system one way or another: as a result of death, or prolonged incapacitation, or snap coup/assassination. Few critics of this conclusion (see Pavlovsky, 2018¹⁵³) insist that the regime is no more tied to Putin’s personality as it had developed into something self-sustaining; therefore, it has a resilience to possible departure of the leader and will adapt in the same survivalist’ mode.

In any possible case we think that a removal of The President from political equilibrium radically destabilizes the system, even if his courtiers decide to “soften” the effect, making even more harm to the stability if they decide to conceal the trouble. Overt and covert competition for resources, personal rivalry, institutional conflicts will inevitably and rapidly escalate. If something terminal happens to Putin in the next 3-4 years (before 2024), major implications are likely to affect primarily Russia’s foreign policy but not domestic power options. This forecast is based on known dynamics of power groups around Putin:

150 <https://www.levada.ru/en/2018/02/02/enemies/>

151 <https://www.levada.ru/en/2016/08/04/foreign-policy-priorities/>

152 <http://kremlin.ru/events/president/news/56957>. Also, Vladimir Putin routinely underlines this feature since very early days in politics, making it central point of his nation doctrine in 2006 (domestically, in State of Russia annual address to Federal Assembly), and legitimizing it for international use in Munich speech at Security Conference in 2007.

153 Павловский, Глеб «Ироническая империя», 2018, Москва, Издательство «Европа»

for most of them, level of acceptable confrontation with major global powers (U.S. and E.U.) has already been exceeded, and in case of Putin's departure it should be decreased rapidly. Sequentially, domestic policy will need to accommodate constitutional requirement of snap elections (acting President can only serve 3 months).

Rapid removal, or death, or incapacitation of Putin today (and before "succession date" in 2024) will also result a fast and fierce "under the carpet battle" for leadership.

Depending on circumstances of the central event, two likely "more positive" scenarios are:

1. The "legalist version", with Dmitry Medvedev as a legitimate interim President (or whoever chairs the government at the moment of Putin's departure). The central issue of the legalist succession in the crisis environment will be the personality of future President – will political power groups re-align under Medvedev (or other Prime Minister at a time) or opt for a competitive snap election. The later is highly unlikely to happen as it poses numerous risks for collective power of Putin's clique.
2. "Constitutional succession" in a known/existing circumstance will require minimal "sacrifices" – limited to a short list of people whom Medvedev developed disgust with (Igor Sechin, Alexander Bastrykin and few other). If power passes to Dmitry Medvedev naturally (in case of Putin's death in office, or full incapacitation), different "power groups" will likely align and obey, and purges will not expand significantly (in case of a struggle, see next sub-version).

In "Legalist version", necessary elections held 3 months later, and they do not alter the political landscape as "Medvedev coalition" will immediately replace the old one. The changes may come later as a result of shifting balance: Medvedev will likely favor military over FSB, replace Prosecutor General and review a design of the investigation. He will inevitably modify the design and personal composition of Supreme and Constitutional Courts, forcing generational change.

Conversely, if someone else preside the government at a time of Putin's departure, Legalist succession may create a serious destabilizing punch. Younger, more ambi-

tious, and more aggressive sub-politician with lesser ties in the elites than Medvedev, will face stiff opposition from inside Kremlin power mongers. His authority will overcome anyway, as major suppression forces are likely to align with legal successor. Depending on "group affiliation", not-Medvedev successor will inevitably damage existing power balance to provide benefits to allies and purge adversarial groups. Political survival of post-Putin leadership will greatly depend on future President's determination to design and execute his own political balance; it is improbable to impossible that he/she will occupy Kremlin with an idea "to keep all things in the old order".

In case of peaceful and quiet succession after rapid departure of Putin, Russia's general course will drift towards less confrontation with The West, more vocal domestic issues centrality and gradual though not fast de-escalation on most "fronts". But sometime succession crises go awry: therefore, we have to present an "Extreme version" (also, it is one of the doors to our "Liberal Dictatorship" scenario).

"Extreme version", with a military successive figure on top (could be Shoygu, or any other top military) who ascends there after a limited instability and "disturbances" between different power groups, primarily because the legal successor is also dead or decapitated in some court coup attempt. While this is not going to look like a junta-led military coup 'd'état essentially, such development should be discussed as one of the likely outcomes of post-Putin scuffle. The hypothesis that military will to be winners of the contest comes from (although limited) understanding of institutional design of "special forces" that seems to be crucial tool in the prospective insider conflict over an empty throne.

The Army still possesses major force that outcores any other security power that may adventure to intercept a falling scepter (at least 3 fully manned divisions in or around Moscow, plus nation's most capable spec-ops troops). It is highly improbable that The Army (even taking political ambitions of Sergey Shoygu) will attempt to topple civilian legal authority – but may "catch the apple" if it falls onto hands. Also, current polling demonstrates (Levada, 2018¹⁵⁴) rising trust of the populace with The Army as both protector from foreign adversaries and domestic stability provider.

This temporary construction will result (possibly be-

154 <https://www.levada.ru/en/2018/10/22/institutional-trust-4/>

yond legal terms) a different political establishment: there is no precedent of military authority in Russia, and the looking glass of forecasting cannot delve into detailed description of this possible reality. Nothing is known on sociology of military leadership, on existence of plans and protocols that outline military actions in case of such emergency. There is no other constitutional succession rules, and the authority of legislative and court institutions may not become a proper hinge on a possible military “winner” (or the one installed by military) in a case of a botched succession. Therefore, we entertain a freedom of prophecy to say that an Extreme version of succession can install a provisional **Liberal dictatorship** in order to rapidly de-escalate tensions with the West, abandon dangerous foreign operations (like Syria, Libya and CAR) and – most important domestic issue - curtail excessive powers of the security and law-enforcement apparatus.

Unlike the **Legalist Version**, the extreme course of events would become more likely if the succession crisis evolves after 2024 (especially if Putin opts for Constitutional amendment that legalizes indefinite presidency, while not addressing broader succession issue). We will discuss the viability and possible implications in a separate chapter.

What “legalist” and “extreme” outcomes of Putin’s departure within 1-4 years share is a predictable shift in Russian foreign policy – it will change and inevitably become less assertive, aggressive and active. Whatever successor emerges in Kremlin without Putin, he/she will concentrate on domestic affairs and wind down foreign projections to decrease hostility with major Western powers including the U.S.

Physical demise of Vladimir Putin is likely to trigger fast and possibly abrupt changes in Russian foreign and domestic policy. So, if Vladimir Putin is alive and active, most features of current Russian policy will exhibit continuity; changes and corrections will only reflect minor deviations of his very own (and limited) flexibility. On contrary, if Putin dies or becomes incapable to rule, the system will exhibit a rapid and radical discontinuity including reversal of foreign policy and – with some reservations – domestic as well.

Hostage of Demographics

Continuity in Question: Is Russia’s depressive demographics challenge Vladimir Putin? The answer is ambivalent, but the future will greatly depend on elite groups age dynamics.

Putin’s regime is likely to remain stable until Putin as a confluence of power holds it. Yet, both Putin personally and Russian power as such are challenged with a grim demographics of the country. Forecaster’s perspective requires a look into darker version of the future rather than optimistic; but even with better estimations Russia will suffer significant demographic problems in the next decade and these will affect politics, economy and military affairs alike.

Demographic trends are not perfectly fare personally to Russian leader: with only 50% of his agetates alive in 2018, and less than 40% by 2030¹⁵⁵. He will soon outlive the age of Brezhnev (who died at 74, after 18 years at the helm), Stalin (died at 79, after 28 years in power) and has a clear path to approach Robert Mugabe’s time in power (30) in 2030. Although no signs of Putin’s declining health are reported (only rumored, and the gossip doesn’t prove to be informed), Russian president entered the risk age in 2017, turning 65.

But the real danger comes with something different than issues of Putin’s personal health and fitness. With Soviet generations phasing out, Putin’s regime faces more difficult if not cumbersome challenges. While Russia managed to evade the nightmare scenario proposed by an influential RAND estimation (Rand, 1996¹⁵⁶), combining the stimulus to a birthrate for own population with some migration initiatives¹⁵⁷. Both Rosstat data (considered to be more optimistic than a reality) and Institute of Demographics data (usually more conservative) suggest three major trends that were established in 2010s’ and will likely to continue into 2020s’:

- Russia’s population numbers have stabilized and seems to maintain at the level of 144 million people (146.5 million with Crimea);
- Average age of Russians continues to grow (39.4 years in 2018), as longevity of generations born after WW2 expands;

155 <https://www.populationpyramid.net/russian-federation/2017/>

156 https://www.rand.org/pubs/issue_papers/IP162/index2.html

157 http://www.demoscope.ru/weekly/knigi/ns_r16/sod_r.html, chapter 2.1-2.2, also 10.3

- As migration provides most of population growth/sustain for Russia, the share of people aged 20-35 grows disproportionately (most work migrants from Central Asia, Belarus and Transcaucasia are of this age).

This complex process possessed a danger for both Putin (or – broadly – current power operators) and any contestants as it muddles the electoral picture. Putin’s Russia may be easy with a falsification of elections outcome, but here the problem attacks from different direction.

Post-Soviet generations (born after 1982) will take the quotative lead sometime between 2018 and 2020. Younger voters have never experienced Soviet past – to good, better or worse. Putin’s inner circle consists primarily of his very Soviet-fostered age-mates, but the talent pool he draws upon recently in ministerial or gubernatorial appointments is much younger – ranging from 33-years old Kaliningrad governor to 41-year old minister of economic development. These people as their age-mates had never experienced Soviet-style education, brain-washing Communist techniques and, on the younger side of the selection, even hardships of a transitional period. The situation is even more complex at junior levels of the government pyramid where many bureaucrats are in their mid-20s’ – raised in an open world, with options for education abroad and far better understanding of the outside world than “real Russia”.

Russia scholars commonly consider these younger Putinist cadres as cynically loyal and supportive to main agenda of the regime. While this may be true with the Russian president’s personal selections, it should not be expanded to a broader group.

A typical 30-years old Russian civil servant (in 2018) had graduated school in 2005. His socialization period (high school to university) had coincided with continuous economic growth and rising consumerist potential. These people had never lived in the country that had exit visas, problems with international travel, or the country that was culturally isolated from the rest of the world. The genera-

tion’s knowledge of foreign languages is much broader than of any previous Russian folks; their contextual understanding of global affairs differs critically from parents and other older Russians. But most important of all, these 30-years old people had only experienced upward spiral of possibilities – from their early 20s’, things have been becoming more available (goods, services, luxury and travel), and the field of opportunities only expanded. As these younger Russians were brought up in free speech society, with much higher esteem of personal achievement and recurring idea of integration with the West (at least superficially), they are different from populace Putin masters to manipulate.

While most of the conclusions hereunder are derivative to existing sociology research¹⁵⁸¹⁵⁹, we deliberate to make assumptions by mixing anthropological conclusions¹⁶⁰, elite studies conclusions¹⁶¹ and empirical experience (including personal interviews and protracted discussions with Russian students). While Russian sociology refrains from “generational” scheme of stratification, it may be recalculated from classic-based research data. In 2017, 35 million voters in Russia were younger than 35¹⁶² (born after 1982); in a next decade the number of post-Soviet voters will be growing to almost 50 million (out of an average 111 million voters of all ages), making them most influential social substrate. Inevitably, by 2025-27, the representatives of the generation will occupy a significant quote of government positions, will greatly outweigh other age groups in military and law enforcement, education and health services. Literally, Russia will be demographically different country by 2025, and any political ideology and practice should adapt to this shift.

What does this mean for our forecasting? How does the generational shift determine continuity (or reverse of it) that provides stability and survivability of a present regime?

Different Dynamics: unlike preceding generations (Russian X-Generation and Last Soviet Generation¹⁶³) Russian Millennials were born into changing and

158 <https://www.levada.ru/2017/06/20/pokolenie-terpimyh-i-nezavisimyh/>

159 <https://www.vedomosti.ru/opinion/articles/2018/09/25/782022-kuda-propal-konflikt-ottsov-i-detei>

160 Laqueur, W. (2015). *Putinism: Russia and its future with the West* (First edition.). New York: Thomas Dunne Books. (especially Chapter 9)

161 Brzezinski, Z. (2000). Living with Russia. *The National Interest*, (61), 5–16.

162 http://www.statdata.ru/nasel_pol_vozr

163 In Russia, American generational stratification should be corrected due to (1) earlier emergence and earlier threshold of GenX (1961-1971, while for US demographics it is 1965-1976), presence of clearly different “Last Soviet generation” (born 1972-1982) and an

transitional society. Even in most depressed and disadvantaged social and regional groups, the children of 1990s' and first half of 2000s' saw, felt and perceived "society on the move" – while their older siblings and sometimes parents were born into extremely static society.

Different Grades of Success: The collapse of Soviet political and economic model has redrawn the perception of success in Russian society. Instead of illusionary Soviet social values, transitional capitalism instituted much higher value of financial, economic success while greatly decreased (especially for a period 1991-2005 that is crucial for this analysis) the value of a government job and career. With opening economy and trade, Russians of younger generations "learned to wish" things and services that never existed (or even been named) in Soviet consumption patterns. It is next to impossible to go in further details here, but Russian Millennials not only prioritize personal financial success, but are also very attached to a political and economic prerequisite – freedom of choice.

Different Perspective on Progress: Not only Russian Millennials have much higher social and economic demands than their parents and a preceding generation. They carry different perception of social and economic progress. For older Russians, whatever snatch they gained in a wake of USSR failure was more a lottery win than a logical continuation of emerging political conditions (would it be regulation, general economic climate or restructuring of societal stairs). For kids who grew up (as teenagers and above) in a rapidly developing Russia where things and services emerged from nowhere (in their understanding), **progress is granted.** Unlike their parents and older siblings, their perception of the 1990s' decline is rather unobserved. Russian Millennials (and forthcoming younger generations) have different comparison mode: the older people tend to compare "normal countries" (Global West) to "this country" (Russia, former Soviet Union), with a clear preference of the former as an exemplary society. The younger Russian Millennial is, less he/she uses this contradistinction. They may have critical opinion on Russia, its government, laws and even fellow citizens, but their own life provided them with much less reasons to "dislike" Russia as a social habitat. They clearly enjoy the dynamics, and their values (consumer, first) are satisfied in general.

Growing divide between urban and non-urban population: Economic crises and adaptable policies of Putin's regime entrenches the split between younger urban people and their agemates outside of major agglomerations. With Moscow and capital region quickly approaching Western European living standards and expectations, provincial Russia is caught in deficiencies of inequality. This problem should not be evaluated as critical, or terminal for the fate of Putin's regime – but rather as an ambivalent complication of existing policy. On one hand, regional inequality and split between largest agglomerations and the rest of the country create a whirlwind that sucks younger people into political and economic capitals. On the other, resulting "vacuum" provide extraordinary career opportunities for those who contemplate to try (surprisingly, with full support of Kremlin). In a result, "urbanized" youth suffer "glass ceiling" in capitals while "young professional loyalists" speed through provincial careers and emerge in and around Kremlin, military and security apparatus.

The demographic dynamics of decisive Russian Millennials generation are central to any scenario in question. Regardless of Putin's personal future, he or his successor(s) will be cornered with interests, preferences and biases of those **Russians who grew up after USSR.** Political, social and emotional centrality of younger generations will stand important (if not critical) regardless of the legitimation model later Putinism opts for: electoral, quasi-electoral, "dictatorship of opinion polls" or even unhinged autocracy.

There are few important "generational" issues that any future Russian politician has to address (we grade them by a period of importance, or the earliest "centrality" date):

- 1. Already very important and will grow further:** quality and affordability (regional) of primary and secondary education;
- 2. Important and will grow to critical in 2022-32:** measures of social and economic stimulus for young families, especially including second (and next) childbirth support, pre-school availability and affordability, equal rights for maternity leave etc.:
- 3. Will raise to very important by 2023-24:** support for social and regional mobility, national

importance of 1989-1991' frontier when Soviet demographic trends were broken.

“job market” and other measures that should compensate excessive concentration of younger people in capitals;

4. Termination of compulsory army service:

we will mention this later once again, as this measure looks inevitable both ways – the Army already can recruit professional soldiers in sufficient numbers and will re-evaluate existing mobilization models as budget financials grow tighter (military commissariat system is expensive, degrades the Army reputation with rampant corruption and inefficiency); the urbanized youth will be delighted to achieve a centennial dream of non-conscription while rural youth will receive more and much better opportunities in the future professional military service.

The viability of “positive scenarios” we draw upon depends on proper assessment (by ruling power) of these demands of most populous generation. Except (4), all other areas of interest carry very few “political value” for Putin’s regime, and (4) directly contradicts the regime’s militarist standing. Also, as the purported policies that alter Russian state posture on the youth agenda provide simultaneous empowerment of younger generations, proper conceptualization and execution of reforms in these areas can change electoral and even general political landscape of the country.

We need to add few important last notes to a demographic chapter. As Russia enters a period of decisive influence expansion of post-Soviet generations, it will also see further disenfranchising of “most Soviet people” (who are Putin’s agemates). In order to compensate the older generations for real or perceived losses, Russian regime will need to further expand ideological and propaganda efforts that serve a kind of anesthetic to “pure Soviet” generations. We should expect more “patriotic initiatives”, war commemorations, re-writing of history and other cheap manipulative measures. There should be no doubts these efforts will also be “exported” to Russian speakers abroad and may even become reasons for “proxy cold wars” with Russia’s neighbors.

Conclusion: Russian demographics will not be a source of major or rapid discontinuity. Within a given forecast period, most changes will be (a) gradual and (b) limited as they are buffered with controlled representation

(not only political, but also generational). Still, as a turning point (Putin’s death or removal) is moved to a later year of the forecast, demographic factor becomes more powerful and decisive. Demographic issues may become a clear source of discontinuity only after 2025, but only if reinforced with external factors or domestic crises.

International agenda – backstage or façade of future Russia?

The international relations (and included agendas) are important component of current (and perspective) Putin’s hold of Russian power. Since 2007, Vladimir Putin injects foreign relations as a decisive factor in domestic political discourse, and this factor is likely to remain a critical feature of his regime’s communications strategy, military, security and economic formulations. Meanwhile, as Putin’s political moves in 2014-2018 surged back onto Russian economy and national esteem, continuity of an aggressive, assertive and revisionist foreign policy becomes an important part of any futurist analysis.

We see two most important divisions regarding Russian foreign policy that underline viability of our “positive scenarios”. The divisions hereunder are graded by their influence.

First, while Russian political and economic elites feel uncomfortable with results of Putin’s foreign activity in 2014-2018, it is highly unlikely this displeasure may result a “house revolt” against Russia’s strong man. As we have mentioned above, with survivalism as a central emotional and tactic feature of present-day Russia, further sanctions and other forms of external pressure on Russian political class and economic leaders are likely to produce nothing than a backfire effect. The country as a political compendium and Russian economy adapted (and will adapt further) to changed (worsened) conditions. Most government controlled and private (but dependent on government contracts) industries will be more attached to Kremlin – contrary to expectations of US Treasury strategists. (See Gaaze, 2017¹⁶⁴ and Gaaze, 2018¹⁶⁵).

For the continuity in discussion, we must determine a range of thresholds of a pressure The West can impose on Russia, as well as theorize possible reaction(s) from Russian government, Russian economy as a whole and

164 <https://carnegie.ru/commentary/67673>

165 <https://carnegie.ru/commentary/78013>

finally, Russian citizenry.

1. Current level of sanctions/toxicity isolation of Russia does not reverse Putin's policy but deters (so far) further progression;

as it is discussed below (reference), this deterrence is functional until crises of succession arise in two most important countries in Russia's underbelly – Belarus and Kazakhstan. Putin already demonstrates some signs of (yet non-military) aggression in regard to Belarus¹⁶⁶. Northern Kazakhstan, where almost 50% of population is ethnically Russian, looks too like Donbass and may become a conflict zone if succession crises goes awry in Astana when Nursultan Nazarbayev inevitably dies.

2. Typical foreign calculations of sanctions continuation and implied efficiency

are rational – whether further pressure produce some tangible result (devaluation of ruble, budget weakness and/or personal losses for Putin's inner circle). But the effect is limited and contrary to expectations does not produce a political split – rather it enforces mobilization of the elites around Putin. The President and Russian government use national budget, reserves and appropriations to reimburse losses to oligarchs and strengthen their hinges. Most recent research on sanctions efficiency^{167, 168} suggests that larger economies, integrated in global supply chains (like Russia – with oil and gas, metals and space services) can balance domestic troubles and generally avoid serious contraction. As Nureev (reference 19) suggests, Russian economy even expands under sanctions due to diversified export, growing productivity (in some industries), domestic credit expansion (mostly by consumers) and growing demand for Russian weaponry. Some austerity measures, including unpopular but accepted pension reform provided Russian budget with a significant profit¹⁶⁹ thus making Kremlin's resiliency higher.

3. Decreasing dynamics of Kremlin's decision-

making, we may project that Vladimir Putin will avoid radical drastic moves at least until 2020. Yet, after certain successes with an “outsourced foreign policy” (with private military contractors, privately hired security specialists from Russia becoming a tool of policy projection) we may expect more Russian adventures in contested, troubled states in Africa and Middle East. It is much less reasonable to suggest that Kremlin will use regular army as an expeditionary force – including a rightful assumption that such a move will result hardening Western sanctions including most feared ones: isolation from SWIFT and COCOM' style sanctions on a general technology transfer. As Vladimir Putin and his Security Council grow older and more conservative, they may consider “freezing” of the relations inevitable and irreversible therefor opting for isolationist, inward-oriented policy that will resemble Iron Curtain (creating conditions for “Isolationist Russia” scenario.

4. Ukraine remains a permanent source of continuity/discontinuity for Russian foreign policy.

With looming crises in March 2019 (Presidential elections) and October (parliamentary election) the Kremlin bets on possible victory of more pro-Moscow candidates (like Yulia Timoshenko), or another Maidan spectacle. The very hasty nature of Ukraine's domestic politics provides Putin with a broad range of options – including military, covert and media pressure – to accelerate the crisis and win some concessions (or “revenge” for losses he believes he had in 2014 to The West). But any “game” in Kiev is risky, and it carries dangers of further escalation, so (see above) Putin and The Security Council may choose a passive, waiting position rather than meddling.

5. Growing gap between technological advances

becomes an important issue for Russia, and it will exert pressure on foreign policy – especially

166 <https://news.tut.by/economics/619120.html>

167 Timofeev, I. (2018). The U.S. sanctions against Iran: Experience and eventual implications. Polis (Russian Federation), 2018(4), 56–71. <https://doi.org/10.17976/jpps/2018.04.05>

168 Rustem, N., & Georgievich, B. (2017). The Russian defense industry complex in the conditions of economic sanctions. In *The Business & Management Review* (Vol. 9, pp. 175–188). London: The Academy of Business and Retail Management (ABRM). Retrieved from <http://search.proquest.com/docview/1976407460/>

169 <https://www.interfax.ru/business/637719>

after 2020¹⁷⁰. The Government (less Vladimir Putin) understands the problem and tries to address it with economic tools – providing some capital, creating “technoparks” and zones with offshore-like legislation, but it lacks the capacity to change domestic and foreign policy that create uncomfortable conditions for post-industrial development. Russian innovations today come with higher cost to the budget, and the whole sub-system heavily relies on Western (and partly Chinese) basic computer components, network components and software, heavy machinery, robotic tools etc. As noted above, a nightmare for Russia comes from COCOM’ style restrictions on technology access. Even a threat of such move deters most Russian politicians – but may not be enough for Vladimir Putin.

If any of the thresholds listed above remain strategically unchanged, the next decade will present the whole range private sector economy bargaining with Russian government on business conditions while basically remain loyal to an existing regime. But with 15 years of wavy global economy ahead, we cannot exclude global recession (L-type crisis), or a snap V-shape crisis, or worse – W-shape crisis of 2008-2012 type. As Russia readies to L-type survival it may be unable to sustain more radical, fast-paced declines. A combination of sustaining sanctions and sharp crisis will first and foremost test Russian elite’s attachment to Putin and his policy. Until these conditions arise, political behavior of elites fluctuates within a dual valency: the choice between non-aggressive isolationism (our “Isolationist Russia” projection) and, contrary, full pro-Western and anti-Putin flip-flop in regard to foreign policy only (our “Liberal Dictatorship” projection).

Russian businesses and elite social groups have yet to feel growing effects of Putin’s toxic representation of Russia. As a zenith of anti-Russian campaign in the U.S. is looming (2020 presidential elections), along with numerous reasons to play a political card of malign Russian influence (Brexit finale, Germany’s elections in 2019, European parliament elections in 2019), local anti-corruption

(and therefore anti-Russian elite) regulations will emerge or reinforce in counties across the West. It looks more and more possible that counter-intelligence efforts of NATO allies after a multiple failures/warning in 2016-2018 will fruit; inevitably, a spray of expulsions and spy scandals will further deteriorate Russia’s image in the West. Toxic flair of almost any connection with the Russian state will become a curse for Russian business, culture and media representation abroad. This constitutes another muted division: costly support of Putin becomes a liability even if Russian government “compensates” the inflicted loss; conflicted elites will – possibly – support any “de-confliction” policy, including removal of Putin if such occasion arises. The toxicity of Putin’s personality (and, accordingly, a short list of his main accomplices) adds a clear premium to the choice in the first (above) division – “without Putin, opposite direction to Putin’s” (making a choice of “Liberal Dictatorship” more realistic).

Third, both popular and elite’s opinion on foreign projection of power, accomplished by Putin, is broadly negative. Very few societal groups demonstrated unabated support to Syrian operation (the consequences of the Afghan War trauma). Current opinion polls demonstrate very limited minority support to power projection in Donbass, and more people hesitate to approve Crimea annexation. Again, there are few open challenges to Putin’s adventurous military escapades – the opposition is muted but clear, and the proportions of public opinion doesn’t change even with excessive mass media pressure. This division will broaden as Kremlin expands foreign projections to CAR, Libya and beyond. It would be an overestimation to suggest that Russians (and Russian elites) favor more isolationist foreign policy but some factors may increase the weight: major trouble in places like Syria and Libya, resulting significant loss of military personnel, for example, can rapidly increase “isolationist” desires.

Fourth, Russian elites expect clear (and possibly fast) benefits in de-escalation of current policies. As they temporarily profit from the state contracts and counter-sanc-

170 While this is not a subject of this paper, we should explain our thinking. Side effects of sanctions and toxicity isolation put a considerable burden on Russian scientific and innovation sub-systems. While advanced science and technology are still produced in Russia, and the government invests significant resources in innovation completeness, domestic market is not sufficiently developed and cannot sustain expected growth in technology. Not only Russian startups or innovative industries (including weapons industry) need global markets to succeed, but they also require much more liberal legislation, less regulation and more personal freedom than Putin and the government want to provide. Consequentially, the innovators and advanced technologies opt to move to the West (or developed East – Japan, China and recently Vietnam) rather than stay in Russia. Brain drain – especially with younger specialists and students – continues and show no signs of reversal.

tions, Russian business feels very clear capital deficit of domestic economy. Lack of capital slows down business development, technology transfer and decreases benefits of globalization. Also, even those members of the elite who participate in corrupt schemes and state budget looting, understand an excessive cost of this criminal situation. But instead of favoring democratization and broader civic engagement and oversight, these members of the elite favor (covertly) “strong hand” option – like possible emergence of Alexey Navalny (or any equivalent) who (they dream) may censure corruption and clean up the house with an iron fist. This muted divide is persistent and will likely to expand support to “Liberal Dictatorship” version.

Still, domestic Russian policy is quite disconnected with an international agenda, and it will remain disconnected unless dramatic troubles enter the house of Kremlin. Russian economy is more sensitive to crude oil price than military adventures. For broad majority of the public, foreign policy is nothing more than words.

Conclusion: Major sources of continuity in Russia’s foreign policy have domestic causes – life expectancy of Vladimir Putin, government policy of an equilibrium between austerity and financial support to businesses affected with sanctions, and general resilience of domestic economics to smaller problems (including sanctions). On contrary, the sources of discontinuity are primarily external: from succession crises in Kazakhstan and Belarus to Ukraine’s elections, from global economic crisis to an escalation of sanctions to late Cold War levels (COCOM’ style technology restrictions, SWIFT isolation and major anti-corruption cleanup in favored Russian “safe havens” like London, BVI and other Caribbean offshore zones). Each of the aforementioned events (and even worse – combination of them) can trigger radical changes in Moscow – although not all of them are good for international security and global peace.

The Issues of Scheduled Future

For next 12-17 years (2018-2030/35), we can select several “scheduled” (mandated by laws, customary rules and international schedules) events that can influence the course of Russian domestic politics. This events come in few forms: either they are dated points when country must hold elections that affect composition of power one way or another, or they can be seen as periods – preceding or following the schedule date of elections – using a focal point of choice day, society and authorities strive to

suggest new agendas, choose the new or retain the old and start living with it. Even without functioning democracy and free and fair elections, Russia depends on its own election cycles – but also is influenced by same scheduled choices from the outside. For current ruler and his possible successor(s), “election verification” is a necessary token that legitimizes the right to govern. The outcome of foreign electoral schedules create (or influence) the atmosphere in which Russian government conducts domestic and international affairs.

For both “positive scenarios” in discussion, electoral joints are more important as they provide an opportunity for a peaceful transition; as we attempt to see more safe, liberal and democratic future, we cannot discount elections as a component of civic engagement and education that fertilizes society and makes it more responsible for choices made.

Besides of electoral joints, we can also point on existing trends that increase or decrease chances of gradual or accelerated liberalization of the regime. As we attempt to picture more positive scenario of the future, we should rather look on a brighter side of the trends (or, using Peter Schwartz’s “art of long view” model – concentrate on the upper part of the foresight funnel where “better” events should be placed). Also, to save space and time, for a positive scenario we discount several tragic/dramatic possible developments as they likely to affect Russia in a way that excludes the basic premise of our future: better country for Russian people with better relations with an outside world.

As the target period lies in the distance of at least 12 years from today, we must take a formal look at the perspective FORMAL changes that are both electoral, physiological and macroeconomic.

In March 2030, Vladimir Putin may again be elected President. He may again decide to play a placeholder game in 2024 and remain a real ruler of the country. But Russian leader will be 72 years old in 2024, and 78 in 2030. In 2026 he will be older than Leonid Brezhnev at the time of death, edging Joseph Stalin four years later. While the age factor plays some role (though lesser than in the XX century), it should not determine this foresight.

In 2022-2024 Vladimir Putin will need to decide the succession question, and his decisions (or lack thereof) will facilitate the remainder of the decade and 2030s’.

Should he decide to appoint a successor, or re-write the constitution, or step down, or merge Russia with Belarus to nullify presidential term requirement – any decision in becomes critical. Although both positive scenarios are more likely to take place outside of an electoral process (rather through Putin's death of decapacitation), they may both emerge as a secondary result of polling.

Other Russian domestic political schedule entries (like Duma elections in 2022 and 2027 and 2032) will not play comparable role in the country's future if current regime stands. It is possible that demographic changes as well as shifts in urbanization may affect performance of qualifying political parties, but the overall importance of legislative branch can only grow if society demand intensifies. As we have underlined in demographic chapter above, there is no natural reasons for this demand to emerge before 2022-2024; but after succession "joint" in 2024 parliamentary politics can be less hinged, making next (2027) elections more decisive and strategically influential.

The judicial branch of the Russian government has no "pen-scheduled" events or "joints" that should occur at a given time and affect the balance of powers. Few things to consider: Constitutional Court chairman Valery Zor'kin is 75; while there is no age limits for The Court's judges, Zor'kin's predecessors and other judges retired at the age of 71-77. Similarly, Supreme Court chairman, Vyacheslav Lebedev, turns 76 early next year. As Russian legal tradition diminishes role of the highest courts in political system, the replacements to both chairman Putin is about to make will determine some crucial legal questions or succession personalities. Long-rumored desire of Prime Minister Dmitry Medvedev to "retire" to The Constitutional Court chair is one of the factors that may affect scenarios. Also, Vladimir Putin may need to select a new chairperson who substitutes Valery Zor'kin among applauding loyalists to abolish constraints of 2024 choice.

Few other important "scheduled" dates in Russia may affect the course of domestic politics. Under new pension legislation, Russia will start raising retirement age starting 2019; for men who currently retire at 60, the transition to 65-years-old retirement will conclude in 2028. For women, who will get a whooping rescheduling of pension age from 55 to 63, the process is going to be longer, ending transition in 2034.

Under current trend, Russia may halt conscription sometime within next 3 to 5 years. Army and Navy can

undersign enough volunteer soldiers and junior officers, and military reforms may finally end 300-years old practice. Another "quiet" event that will rock military, is happening between 2017 and 2033 – due to age limitations, last Soviet officers and generals (those who entered the service under USSR) retire.

While domestic factors remain central in Russian political dynamics, it is also affected by certain foreign events and processes, some of these being political. Most important foreign domains that affect Russia, are:

Nothing in this list may be decisive to Russian domestic political dynamics unless it creates major conflict/turbulence that directly affects Russian territory and masses of population. Very few mandatory events may produce such whirlwinds, and these theoretical developments are very improbable, like civil war in Kazakhstan, or in Belarus – resulting a flow of refugees seeking safety in Russia, necessity to dispatch troops that face foreign war etc. Except few (also improbable but not fully discounted) actions/events between China and Russia that may challenge stability in the Far East, foreign political events serve a context to domestic development; they may influence decisions or accents of politicians but unlikely to alter general course.

American policy and, less directly, US economic development are possibly most important factors that affect (but not determine) policy of Russian leader(s). Still, lower is the initial level of relations, less projection it may return inside Russia.

In the U.S., the era of President Trump will inevitably end in 2024 if not in 2020. Without doubt, every next U.S. President will initially distance him/herself from Russia (especially if it is still governed by Vladimir Putin); for better or worse, next 12 years of U.S. political sentiment will be very negative to Russia unless some major de-escalation initiatives arise (preferably emanating from Moscow and without Putin participation). If Vladimir Putin remains a formal or factual ruler of Kremlin, US government will continue to implement some sort of deterrence policy. Therefore, actual influence of US policies inside Russia will have limited effect, regardless of scale, funding or interest from Russian actors.

There are few windows for possible Détente 2.0 – one looms in 2019-2020 in case Donald Trump's chances for re-election vanish early, the second – in 2023, in case DJT somehow wins re-election and as a lame duck may

attempt a break-out to secure a legacy of rapprochement with Russia. Third option for some sort of détente may only arise after 2024 in case both Putin's legal successor and the next President of the U.S. have some sort of mutual positive agenda. It is feasible to suggest these opportunities will not play major role in Russian political dynamic because of (1) US domestic context, (2) because of minimal necessity for "survivalist regime" to deliver concessions ahead of de-escalation. Also, Russian elites besides Putin understand that any form of rapprochement will require not only reversal of Russian restrictive social and political legislation, but also changes in general openness of the system.

Major E.U. and European NATO members, as well as the European Union as a whole, are Russia's main trading partners. It is possible that China will replace E.U. countries as trade champion for Russia in 2020s' but regardless of this Germany, France, Italy and few more European countries will remain critically important trade partners for Russia. In 2019-2024 EU will be continuously challenged with next waves of populism – with leftist scent rising as a reaction to a right-wing success across the continent. Still, neither right-wing nor left-wing populism have enough dynamics and support to overthrow EU and reverse general unification trends. It is even less possible that NATO existence will be challenged seriously. So, EU will remain a buffer between US more restrictive and rigid policy towards Russia, compensating some harsh effects of the later, while NATO will remain deterrence power and – for Russian leadership – source of insecurity.

China factor in Russia's domestic development remains a mystery. If internal dynamics of Chinese politics stay in line with a current trend (temperate expansion via economic colonization), this factor will be "contextual" for Russian domestic politics rather than decisive (both positively and negatively). Unless Chinese leadership contemplates some radical steps that may be interpreted as "acquisition" of large portions of Russian territory, this factor will only remain important on a regional scale – in the Far East, Eastern Siberia and Altai regions, while not affecting course of events in core Russia. Among possible but less probable crises that may change this, we mention Chinese overt or covert participation in Central Asia succession issues (primarily, in Kazakhstan where Russia may have some hopes amid inevitable Nazarbaev's departure and Kirgizia).

Conclusion: we may conclude that few existing/

planned events in a course of the next decade may radically affect Russian domestic political development, triggering discontinuity. As we described above (and below) domestic trends – micro and macro – will have far stronger influence on what can happen to Russian state, although it is not certain what will reaction of Russian society be if Western policy towards the country becomes more assertive and persistent. As we noted earlier, Russians as a nation tend to resist a pressure, as they collectively perceive it as a form of warfare, aggression or even occupation.

Follow the Money

On the optimist side, in 2014-2018, under a pressure of US and EU sanctions, Russian economy demonstrated much more resilient reaction than one expected. Balancing on the edge of stagnation/stagflation (with growth rate mostly within a margin of statistical error), Russian industry, services and government sector kept country running.

On the pessimist side, Russian economy didn't acquire or develop a significant other driver to growth than existing fossil fuels and raw metals export. With over 30% of national product (and over 60% of export capacity), gas, oil and metals constitute major income source for the government, – but also a major problem for the future of Russian wealth, and consequential capacity of the government to meet social and political obligations.

Foresight funnel suggests that positive elements in the future will continuously depend on few factors, with most of these components being at least partially outside of Russian political control:

If we align positive components for Russia along the timeline 2018-2030/5, most conditions are likely to stay in "better for Russian regime" at least until mid-to-late 2020s'. Very few obstacles may be foreseen that will decisively (2x times and more) depress oil/gas prices until 2024 when US energy policy inevitably changes under new President. This may shift in 2024-2030, as more risk factors come to play:

We clearly see more negative factors, and more effects these factors project onto Russian economy and trade. Without a doubt, Russian government makes similar prognosis (at least as a version) and will passionately seek compensation measures both domestically and internationally.

Altogether, while U.S. political forecasting prefers

to see Russia's future negatively and pictures the fate of a rigid system that depends on a combination of market forces, sanctions regime and general unfavourability of Russian export composition.

Our analytical frame suggests that political development inside Russia is and will be driven not by negative effects themselves, but by Russian elite's (and government) perception of how the expected negativity will influence every aspect of the life and business.

This is not risk-averse and passive reception of "bad things will happen anyway", but a great elasticity of collective response. This psychological feature of Russian political and social thinking might be called '**pessimist prediction**'.

This feature provides Russian government with an ability to maneuver and make predictive steps (to counter negative influence) rather than await tactical situations and react in haste. In this mode, negative future effects will likely produce less (or even less effective) pressure on Moscow's regime overall financial and economic capacity. Further tightening of sanctions will not instigate peaceful liberal changes, but contrary, will maintain the trend of state monopolization, chebol-type corporations and restricted capital access for government cronies.

Considering some demographic effects (see above), Russian government is likely to consider preemptive maneuvers in order to deputize and co-opt younger generations. This turn will demonstrate a growing expectation of "isolationist" trend in the society and elites and stipulate the development of one of the "positive scenarios".

Conclusion: as we already discovered above, market conditions alone, or economic cycle alone are unlikely to be a source of discontinuity for current Rus-

sian political line. Survivalist nature of Kremlin leadership provides some level of flexibility, but Moscow will certainly not prioritize foreign policy concession (like Eastern Ukraine) unless domestic economy really crumbles. On more critical side, Russia will need much more flexible policy towards EU as soon as US' LNG becomes available broadly in Europe (assuming that most EU countries will also continue expansion of alternative energy sources). As usual, we should expect some period of denial (like with shale gas), some period of active confrontation (inevitable as US leadership pushes against Nord Stream-2 project), and protracted period of silent adaptation to new conditions.

Liberal

Among other questions that every forecaster will face, being tasked with "positive scenario", is the hypothesis of inevitable revival of a demand for liberal representative democracy in Russia, that cheer human rights and political freedom, adheres to principles of openness, peaceful co-existence and social market economy. The underlying perception of such demand is rooted in the history of Soviet Block failure in 1989-1991, that rapidly dismantled both Warsaw Pact and the USSR, ending military standoff in Europe and paving a road to overall de-escalation in US-Russian relations.

The end of the Soviet block was a very complex historical event, stretched over four decades (1953-1991). As we – still partially – know and understand now, there was no 'silver bullet' that ended Soviet hold in Eastern Europe, neither there was an aspen spire that finished USSR as such. Soviet political, social and military systems had been burdened with numerous internal controversies and conflicts; the model of ideological totalitarian party-state had been averse to human nature itself and it inevitably deteriorated under external and internal pressure. Still, as the failure of Soviet system is commonly considered as the greatest victory of liberal democracy, the mystery of rapid decline and defeat is unresolved, and remain a foundation of a belief that something similar should happen with illiberal states that compete and co-exist with The West today.

Before painting any "liberal" or even "positive" scenario, we need to investigate a set of driving forces that "flipped" the Soviet system, ending communist states in Eastern Europe and the USSR as an empire that took over old Tsarist Russia.

Without grading driving forces (it would take us too far over a road of political grading), here is this set:

In Russian, we often use a term “*shablonnoe myshlenie*”, somewhat like a “template thinking” to describe a person or institution that continuously apply once successful decision template to all situations. While “template thinking” is useful in routine and repetitive situations like manufacturing or even engineering, it fails to provide relevant decisions in complex and creative environment like global politics or domestic social development.

In 1982-1983, Ronald Reagan administration produced a number of NSC policy directives that established a “regime change” conundrum in respect to USSR and Eastern Europe (as well as the states where USSR projected global power, like Afghanistan, Angola, Mozambique and Ethiopia). This recently declassified NSC directives complement existing knowledge of the Cold War finale: US Government covertly supported anti-communist activity in Eastern Europe and USSR (especially in Poland that US intelligence community correctly identified as weakest link in Soviet system). The policy of “changing USSR” to more acceptable state was an official – although classified - dogma in 1980s’; with an assortment of measures ranging from defensive to aggressive, it played its role in decline of Soviet power and eventual burst of civil unrest that had overthrown Communist parties.

NSD directives relied on existing anti-communist forces in USSR and Eastern Europe and broadly assisted them, employing open methods (media support, diplomatic pressure, Jackson-Vannik amendment etc.) as well as clandestine, covert operations like smuggling massive amount of literature, publishing equipment and even paper into Poland during the years of Solidarnost fight. Also, Reagan’s decisions were based on correctly identified and logically aligned ideas – from George Kennan’s 1947 prophesy to Richard Pipes’ works on sustainability of Soviet regime.

Modern Russian state and its ruling junta is in no way USSR & Politburo. It may want to be seen that way, but neither has something in common except Russian language they use to communicate. Using biological comparison, the state and the regime belong to different animal class. Yes, all living creatures are born, grow, feed and multiply, and die one day – but that does not mean they would express similar Pavlovian behavior if conditions may invoke it. Yes, Russians and Russian government possess trauma of Soviet collapse – but they also maneu-

ver to avoid it, and as we see they can do it creatively.

Putin’s regime has been consequential in its policy towards “westernized liberalism” in Russia. First, liberals were held politically responsible for the hardships of 1990s’; second, they were voted out of The Duma (2003) and rapidly marginalized; third, as liberal political organizations were usually connected if not funded by Western NGOs, they were discontinued by a series of restrictive laws and regulations. With all power of the state’s domestic propaganda machine, a word “liberal” became a curse word for common Russians, and traditional values of liberal democracy are discredited. As the regime constantly oppresses press freedom and exerts control over almost all domestic news agenda, there’s little hope that liberal values will infiltrate a mass number of citizens and incite bottom-level demand for freedom, justice and representation.

This offense, complimented by visible (and exaggerated by Russian media) problems of Western liberal democracy, continues to disincentives Russians who may have illusions and beliefs. At present, the only influential quasi-liberal force in Russian domestic policy is represented by Alexey Navalny and his anti-corruption network. This grassroots organization is by far the largest anti-government structure, but its primary agenda is negative (disclose, investigate and punish corrupt politicians and officials). In few cases when Kremlin allowed Navalny to compete in elections, his published political program avoided full endorsement of liberal democracy as a goal and as a ruling model. More importantly, Navalny’s views on why he needs executive powers, and how he is to use them have nothing to do with classic liberal reading of the politics – much closer to “visually and verbally liberal dictatorship that is needed to clean the house”.

Having said that, we should not dive into grim pessimism about “positive future” of Russian politics, and survival of liberal values in Russia. First, younger generations in Russia demonstrate much higher preference to civic and political freedoms, and, compared to older Russians, modern teenagers carry no primal fear of totalitarian state. Yet, perspectives of liberal political forces in Russia in 2019-2035 greatly depend on whether (and how) The West will overcome the crisis of democracy it currently lives through – with populist upheaval, mumbling reaction to autocratic revenge (including Russian) and forthcoming economic troubles.

Conclusion: While we have no indicators of “lib-

eral revival" in Russia, and the conditions set by Putin's regime are very hostile to liberals the idea lives on and remains popular among significant numbers of people. Also, the hope for more viable pro-Western political force in Russia depends on resilience of Western democracies.

Assumptions & limitations of "positive" scenarios

The central pillar of both "positive scenarios" assumes two major conditions:

Having said that, we reiterate that current regime – that has no intention of retirement – is moderately capable to maneuver in order to adapt to challenges, and even prepare to such challenges using 'pessimist prediction'. Unless very rapid and unfortunate chain of crises falls over Putin's government, devastating state's resources and degrading population credit, we should consider current regime stable in mid-term perspective (at least until 2024).

There are several eventual requirements that may initiate "positive scenario":

Any of the three "triggers" (or combination of them, as they are not mutually exclusive), will spur a waterfall of domestic and international changes. Similarly, few foreign events may influence Russian domestic affairs and also play triggers. In 2020s', some of the possible external events that may shift Russian domestic dynamic are:

- **Succession crises in Kazakhstan and Belarus;** while Minsk will never become second Kiev, future inevitable power struggle in Astana may seriously un-balance Russian internal politics; with China being an influencer and – in very case of Kazakhstan – competitive adversary, Russia will face numerous risks when Nazarbayev leaves the scene;
- **Middle East troubles;** Russia may cross Iran interests in Syria and other areas – while Tehran cooperates with Russians on some issues, Khamenei is treacherous and unreliable partner who always prioritizes own ends to any alliance; Russian retreat from Syria – would it be driven by domestic needs, or by some international calculations – will open door for direct confrontation between Israel and US forces with Quds. Political consequences of the retreat (that will be clearly perceived as defeat)

may be damaging even for Putin; for his possible successor it may be both dramatic defeat or a launchpad for "after Putin clean-up".

- **Radical shift in Western policy toward Russia:** as many static states, Russia is not well suited for a rapid shift (even worse – to pendulum shifts) of attitude towards them as a nation and as persons; this relates both to ordinary people and the government. Quite possible, that decisive shift of attitude towards Russia in major global powers (articulated and mediatized to Russians) may immediately affect the domestic dynamic. Such attitude change can be positive or negative, but – if "delivered" properly, it may produce massive reaction within Russian society and elites.

Isolationist Russia: scenario one

In 2023, Vladimir Putin finally decided to amend Russian Constitution in order to pave a way for lifelong presidency. With no public opposition, the revision of Constitution retracted term limits for a President, established more complex and long succession rules (as well as the line of succession), restored ideological dominance of "patriotism" and political censorship.

In 2024, remaining members of liberal opposition were pushed to emigration by threats of persecution, continuous pressure and fading of popular support. Putin's government managed to counter Navalny appeal to younger voters with pro-youth reforms in education, health systems and financial support for young families and broader availability of regional careers and financial assistance to provincial businesses and civic initiatives.

Aging Vladimir Putin remained the President of Russia but conceded many of daily routine political management to his chosen successor – Ivan Golubev, former Security Service officer, who performed effectively as regional governor in 2016-2022, and demonstrated good crisis management skills when replacing Dmitry Medvedev at the helm of the Government in a wake of economic downturn. The crisis happened as an offset of shifting energy patterns in EU and severe problems with sales of oil and gas in the East (China declined an extension of gas down payment agreement and opted for spot market purchases as alternative energy sources provide cheaper options). Golubev dynamically reformed the government, curtailed immediate negative effect of global changes

by rechanneling state investment and rooting out most rampant corruption cases (including those that connected with Putin's personal friends). Golubev managed the situation with corruption cases very wisely, stopping investigation far enough to prevent an exposure of Vladimir Putin's involvement and commencing well-designed campaign that cleansed the President while putting massive blame on foreign-connected traitor-oligarchs who acted under instruction of "western intelligence" and "enemies of Russian greatness".

By pushing chosen successor to a front, Vladimir Putin enjoys better reception domestically, and entertains his "senior" statesman status to pursue ideological foundations of "scientific Russian orthodox patriotism". In March 2024, delivering his fifth oath of allegiance as President, Putin outlines his design of future of Russia. He finally rejects Nikita Khrushchev's slogan "Catch up and overtake America", and even condemns it – including his own earlier deliberations of competition with the West. Instead, said Putin, Russia should completely ignore very existence of the outside world and "compete in a league of its own".

His young counterpart, Prime Minister Golubev soon makes a snap visit to the U.S. to meet President Amy Klobuchar. Comprising an act of indulgence with simultaneous proclamation of "peace forever until you interfere in any form", Golubev brings special Putin's message to the White House: "Russia decides not to interact with an outside world anymore, fully concentrating on its internal affairs. We welcome trade as soon as it happens on Russian border. Russia will cease all non-consular diplomacy abroad and abandon all foreign military and intelligence operations but demands the same from the U.S. and allies in regard to Russia". In order to support the message, Prime Minister Golubev cedes to U.S. Administration all Russian materials on intelligence dealings with previous president, opening path for a broad change in US domestic politics. Similar message is corresponded to Chinese President Xi; in United Nations Russian delegate takes special attention of the General Assembly with a detailed "withdrawal" plan. Russian Army demonstratively entrenches to defensive positions along the border, and in January 2025, after all Russians who wanted to emigrate leave the country, Russia ceases all regular transport with an outside world.

Russia stops competing with the rest of the world in every sense: Russian teams withdraw from all sports federations, "to concentrate on domestic development". Russia

resorts to an upgraded version of Chinese Great Firewall, but with a cheer difference: instead of censoring internal dissent, Russian Internet Regulation Organization (RIRO) blocks every attempt of foreign influence over Russian citizenry. By 2027, RIRO achieves a "99% internet independence of Russia", as virtually no search or media traffic crosses national borders. Facebook, Twitter and other networks run fully separated versions of their services in Russia – while domestic discussion and media communication is almost free from censorship, social networks agree to cede all "foreign requests" to RIRO for deliberations. Similarly, email providers agree to filter incoming and outgoing communication for Russian users. While these decisions are constantly criticized in Western mass media and parliaments, Internet giants cohere with Free World approach – self-isolated and defensive-only Russia is a benefit to global security worth paying a tribute.

Foreign travel and tourism are "temporarily limited to needs of scientific and cultural exchange". Foreign trade as export-import operation is fully nationalized, but with consideration of "internal market needs". Russian diplomats and think-tankers convey the message to Western publics: leave us alone and we promise to keep our interests fully domestic.

With some hesitations, politicians in the U.S. and Europe, as well as in China recognize that a shift in Russian state policy is a better reality for the rest of the world. Military and intelligence concessions offered and executed by Russia compensate much of reputational damage of 2014-2024. Initially, soon after Putin's constitutional reform and Golubev's visit to Washington, Russian émigré politicians and commentators try to persuade Western public opinion that Putin's turn is a dangerous stunt with concealed anti-Western goals – but they soon fail as Russia sticks to proclaimed policies and do not amass to domestic violence and repression.

After Russian government realizes it overplayed some isolationist measures – like total expulsion of foreign media correspondents – Kremlin agrees to limited presence of reporters in Moscow. As news from the Russian capital are not very dramatic since the shift of the policy, the reporters didn't gain much fame and occasionally file stories of "limited success of reforms" and "unusual criticism", while mostly resorting to vodka drinking and private life. As diplomats have no affairs to handle, Moscow embassies are staffed with quiet losers and few very undercover spies with a task to discover some ma-

align activity emanating from Russia. Surprisingly, none is being detected and arms control inspections only report full compliance to defensive design of national army and nuclear deterrence component. By 2027, the only issue of interest in Moscow is Vladimir Putin's deteriorating health and perspectives of predictable succession.

Self-isolated country manages to succeed in domestic development. The government cleverly balances between social reforms – basic income, advanced education, pension system for younger generations, business development and domestic manufacturing re-emerge. Of course, the success of an isolated development is limited and freaky – but as official ideology prohibits comparative or competitive analysis, and personal knowledge of foreign life is fading year after year (so, even a limited progress considered a breakthrough of Russian way), Russians are satisfied and contempt. Under Putin-Golubev's duumvirate, the country delves in self-assurance, developing natural ignorance to the outside world and organic patriotism.

In 2028, Putin falls terminally ill and declares his departure from public life. As Russia is mostly assured with Golubev's policy, it mourns the departure of a leader with whom it lived for more than a quarter-century and gratefully elects Putin's successor as next President – uncontested. From 2034, President Ivan Golubev, who turns 51 at the day of his second uncontested elections, considers easing of self-isolation regime. Russia again welcomes foreign tourists who now come to visit massively different country. Political life in Russia is controversially twisted: on local and municipal level, ruling party and Golubev himself welcomes diversity of views, pluralism and dissent. Local press acts as public watchdog, accompanied with local NGOs and activists. But on national level, no political discussion exists – the ritual State Duma, where members have life appointments only confirms legal initiatives of Kremlin. National media are totally controlled and do not convey any discussion on political issues whatsoever: when government needs to inform citizens of policy changes, it is being done via advanced social network operation and cellular providers. Golubev addresses the nation with short, business-like briefs that ensure population of sturdy and competent leadership and continuation of self-isolation success.

Russian economy provides relative well-being for a population, as gas and oil and metals sales abroad have been fully nationalized and are distributed under strict

supervision of Managing Government – new type of a Cabinet formed not from political representatives but from best managers of industry, finance and social enterprises. Golubev's personal integrity and modesty serve as an assurance of lesser corruption and incompetence. It will be difficult to compare Russian welfare with a Western one by 2034 as consumption patterns are very different, but isolationist Russia generally will reach a level of OECD average GDP per capita.

Instead of global comparative concerns, Russians will be worried of very decent local governance problems (as lower level of power is fully competitive and democratic), growing demand for broader openness (pragmatic, not idealistic) and some inevitable deficits that every developed society faces – lack of health care/adult care workers, growing inequality of pension assets between different population groups and regional discrepancies in education and service access.

Societal cost of isolationist Russia may look tragic from today: in 2019-2025 the country lost somewhat 3 million well-educated, globalized citizens who couldn't agree with growing isolation trends and took inevitable emigration decision as soon as Putin announced a closure of Russia's borders and ideology of "scientific orthodox patriotism". The departure of the liberals left the country short of humanitarians, social scientists, artists and globally respected authors. Russian cultural discourse, shortly after the Exodus, turned to an extremely loyalist and shallow. But as years of isolation passed, Russian domestic literature and culture rebound. As society needed some cultural representation of isolationist reality, both apologetic and critical texts appeared and were published. As popular consensus in favor of isolation persisted, the culture self-censored Western literature and philosophy, finding it more interesting to re-invent some features of though again and again. Among carefully crafted cultural strategies of isolationism, Golubev specially favored zero tolerance to criminal behavior. Mass media propelled well-tempered active measures to discourage anti-social and criminal stance. Within a decade, Russian society developed a habit of crime reporting, departing from century-old tradition of disgust with co-operation with police and security apparatus.

Under isolationist ideology, one of the crucial turning points was Russia's multi-national, multi-confessional and multi-cultural society. While Vladimir Putin didn't address the issue in constitutional overhaul of 2023-24, he later

agreed with Ivan Golubev's proposal of "greater national cohesion". Under this careful policy, Russia abandoned a Soviet-inherited regional and national division, replacing autonomous republics and oblast' structure in favor of larger and more logical provincial model. Instead of 83 "subjects of a federation", Kremlin drew 9 provinces and 2 federal cities (Moscow and Vladivostok that grew to further importance as an Eastern Capital), roughly similar to military districts. Provincial governments, after a messy transitional period, were reshaped to resemble US states legislatures and gubernatorial executive branch. Provincial governors were made elected officials who have to campaign around large geographic and ethnically diverse areas. Provincial legislatures were made much more powerful (and competitive) and encouraged to challenge federal government on non-ideological issues. The only censure Kremlin retained in regard to regions, was total exclusion of "comparative" political calls that tried to bring in any form of comparison with the West (or China). Instead of punitive repression, careless "comparative" politicians were immediately exiled and stripped of citizenship (by 2028 when this practice became widespread, the lifelong benefits of Russian citizenship were substantial especially for younger politicians and activists).

By 2030s', the government carefully lifted self-imposed Stone Curtain. More tourist and exchange visits were allowed, and Russia partially restored the level of diplomatic relations with global powers – China, United States and European Union. With local institutions that fostered genuine civil servants and competitive politics, Russia has been finally ready to broader democracy. In 2040, Ivan Golubev called for competitive national elections, lifting most of political limitations, and two years later retired – with a valor of nation's respect. Russia rejoined international institutions, restored diplomacy and – inherently independent and patriotic – played an important role in a global future.

Liberal Dictatorship

On August 19, 2023, Vladimir Putin enjoyed his quiet "personal day" at Sochi residence. As Russian leader grew older, he tends to retreat here with most communications silenced – growing pressure on succession choice troubled him, and Putin got annoyed by Igor Sechin and other people in the "inner circle" disturbing calls "to clarify the future". The burden of choice was close: Constitutional Commission has drafted new chapters, providing him with endless presidency and almost unchecked con-

trol of all three branches of power in Russia – but Putin personally didn't like the decision. His recent fluctuations on Prime Minister candidacy – as Dmitry Medvedev finally departed to chair The Constitutional Court – reflected Putin's concerns over both possible successors.

The first choice, whom Putin favored personally, Governor Ivan Golubev – 40-years old former FSO strategist who turned to be able administrator and efficient crisis handler – looked an ideal candidate to handle the future of Russia. Staunch patriot, real chekist from "noble family" with roots in NKVD, Golubev had gathered support from a conservative wing of Putin's court. Sechin, Patrushev and Naryshkin – they all cheered for Golubev, as they expected him to be indebted one day and – according to "kontora" rules – support and maintain those who propelled him.

Alternative candidate, even younger vice-prime minister Egor Volkov, backed by almost all ministers, including – to Putin's surprise – Sergei Shoigu, minister of defense, - was clearly not of President's ilk. Mathematics prodigy, Volkov completed school at the age of 14, and graduated from university 3 years later. He was invited to Stanford, Yale and ETH Zurich to continue his studies but opted for Skolkovo Institute and soon became interested in government. His rise to star government member was comet-like: once a distant consultant to long-retired Arkady Dvorkovich, Egor Volkov managed to weather through ranks of Russian government with ease and speed of interstellar rocket. In 2021, his promotion to vice-prime minister was natural – most capable government official who singlehandedly managed a counter-measures against both US sanctions and global economic downturn, Volkov was fruit to promotion. Unlike Golubev, this prodigy is not hyper-loyal service dog – but he may have an idea of Russia's success in survival.

This quiet summer evening in Sochi was Putin's last sacrifice to procrastination. His choice wasn't a finale – unlike Dima Medvedev, neither candidate was somebody Putin valued as a friend. Currently, Volkov runs the government as an acting Prime Minister – but he should be confirmed (or replaced with popular governor Golubev) before The State Duma returns from holidays, not later than in 10 days.

Russian president made a small sip of tea and decided for a walk along the shore embankment. Making just three steps down the stairs, Putin slipped and fell on a stone floor. His personal bodyguard who jumped to help,

only worsened the fall – Putin’s head stroke the stone step and cracked. Feared Russian leader was dead in a second.

In less than 5 minutes, the tragic incident was reported to Moscow. Anton Vaino, the head of Presidential Administration, could not believe the report but the head of personal detail of Putin was grim but firm: President of Russia has just passed away in a stupidest possible domestic incident. Vaino’s problem was terrible: on one hand, the interim between Prime Minister approval created a rare sort of power vacuum; The Constitution designates Prime Minister to succeed in case of death of decapacitation of the President – but says nothing about acting official. Is Volkov eligible to interim succession to Putin? Will anyone dare to recognize his authority?

As closest Putin’s confidant, Anton Vaino knew everything about President’s hesitations over future leader of the government and legal successor. Putin shared his concerns over Volkov – his age, ambition, generational differences and – how Putin put it is – “softness to liberals”. But Ivan Golubev, a surprise gift from otherwise stalwart Security Service, scared Vaino. The bodyguard is not only loyal – he prays loyalty, and Vaino rightfully suggested that Golubev may challenge every outcome of the situation (except himself, but it was too late as Putin didn’t commence any candidacy to The State Duma).

Vaino asked the commander of Putin’s personal detail to wait for further orders, and, keeping the line to Sochi opened, called Nikolay Patrushev – a powerful head of the Security Council. Informally, Patrushev deputized Putin in many Kremlin minor affairs, and the late president usually sought his advice in complex cases. Patrushev was stunned by tragic news from Sochi, and immediately understood Vaino’s concern. His advice was to swear in Egorov as soon as possible and let him announce Putin’s death. “This will constitute a very temporary nature of the situation, - said Patrushev, - this teenager couldn’t have dreamt of this. He will be genuinely overwhelmed and unlikely to declare anything except allegiance to Putin’s legacy”.

Vaino connected Sochi call with dialing White House’s number of Volkov – he was sure acting Prime Minister is in his study as they spoke just 30 minutes ago. Volkov didn’t answer a direct call on secured line. Vaino paged his secretary, and she found Volkov in the White House few minutes later. “Egor, - said Vaino with a grave-ly voice, - this is the saddest news you may have ever

expected to hear. Vladimir Vladimirovich is dead.”

Within next 30 minutes, sleepy political machinery of Russia not only woke up but accelerated to unknown speeds. Secured lines were overloaded with calls, Kremlin’s special mobile service went down as connected clients erupted to unknown levels of activity. The leader’s stupid death opened too many opportunities and endangered so many lives and fortunes that otherwise steady system went into overdrive.

In 20 minutes, two elite regiments of Rosgvardia were boarding helicopters at their base in Schelkovo. General Zolotov, who received news on Putin’s departure about the same moment as Anton Vaino, directed his commandos to intercept ascending acting Prime Minister. “He should not leave The White House alive. Shoot on engagement, just destroy him and everybody near, regardless the fact they are FSO. Don’t care. We just need him out”.

FSO Commander, who also got very early warning via his service channels, was sending enforcements to counter the threat – he may not know Zolotov’s intentions, but a natural reflex of a bodyguard required him to concentrate on a new “first person” – who is in his custody now.

Defence Minister Sergey Shoygu, informed by Vaino, immediately dispatched a Spetznaz regiment (conveniently located just one mile away from The White House) to secure the “center of power”. Taking a second thought, Shoygu also ordered lockdown of the vicinities by another rapid response regiment.

Egor Volkov sat in his huge office, awaiting the Chairman of Constitutional Court, former Prime Minister Dmitry Medvedev, who should arrive to swear him in as a president pro tempore. Also, Vaino said, deputy head of General Staff and reserve communications officer with nuclear codes are coming soon to pass over the real scepter of Russian political power – “the briefcase”.

As young man, Volkov never enjoyed security detail. He somehow developed relations with his personal bodyguard and obeyed his guidance, but it was clearly uncomfortable when few other unknown guys with hidden earphones emerged around his office in just few minutes from an overwhelming phone call. Vaino and speechwriters will be bringing the text of his announcement... soon... may be that’s them arriving in helicopter that lands on the terrace of the White House...

Few seconds later, Egor Volkov heard grenade blasts and massive shooting for the first time in his life. The helicopters brought some people who started to shoot and waged an assault on Prime Minister. His personal guards reacted, dragging him over a floor to a safe enclosure, at a moment when Rosgvardia spetsnaz trooper fired a propelled grenade in a window of his office.

Two minutes later, legal successor to Vladimir Putin was dead, as well as his killer – next wave of military helicopters landed on the White House terrace, with GRU specops exterminating resistance and securing the government headquarters. But when Artur Vaino and Chair of the Constitutional Court reached the spot, Russia had no legitimate leader whom Constitution assigns to lead the country in this very special case.

Shock and awe of this evening has been terminated by Sergey Shoigu: he personally carried awful news to Russians, informing them also about not-so-successful suppression of the coup 'd'état lead by "some people close to the late President who wanted to benefit from a crisis". Hastened Constitutional Court judgement assigned a role of president pro tempore to another vice-prime minister, longest serving in government (creating a precedent for future botched successions). Russian Army established curfew in Moscow and several cities "until situation stabilizes".

The chain of tragic events in Sochi and Moscow led to very high levels of alert both in the U.S. and China. But as situation in Russia started to normalize after state funerals and proclamation of mandatory presidential elections, Western governments weighted the chances of change in vicious Putinland.

By 2023, Russian foreign operation became a real pain for NATO, US and even China. Official and private military advisors were sent by Putin to a growing list of African, Asian and Latin American states. His agents of influence were pushing a message of "promise of stability under Russian security clout" to every autocrat in the world. When Hungary voted to quit NATO and begin secession from EU, every politician feared Russian troops in Budapest – but Viktor Orban was clever enough to abstain from 1956' re-enactment.

Abrupt departure of Putin and his possible chosen successor created a special kind of power vacuum in Moscow: president pro tempore Dmitry Kozak recused from an election bid, as did popular Minister of Defense

Sergey Shoigu. Both put an argument that "new Russian president should represent younger, dynamic and patriotic generation" – clearly hinting on Ivan Golubev, Putin's second choice of successor.

Golubev, who had been briefly detained under a suspicion of participation (or at least knowing) of Zolotov-Sechin-Miller's plot to capture Russian power, soon was cleared and "considered running". As conditions of a military curfew prevented any public activity, and military censorship raiding mass media (not only blanking out undesirable reports, but also removing plotter's sympathizers from editorial rooms), it was clear that possible candidates can only emerge as consensus candidates of remaining power clans. Shoigu, Vaino, Kozak and Patrushev (who retained his role in Security Council as he helped GRU to cleanse plotter's supporters from FSB, FSO and other security apparatus, and pledged allegiance to "lawful transition") agitated Golubev to run as a consensus candidate. Under Putinesque tradition, Communist Party and Liberal Patriotic Party (renamed after the death of founder Zhirinovskiy by his son) offered their phony candidates.

Ivan Golubev, 39-years old Governor of Samara region, had risen to power from obscurity. Just 6 years ago he served in FSO – first as a bodyguard, and later as a strategist for Putin's security detail. Naturally gifted man, he managed to educate himself in law and government, using online courses from world's best universities. His English was formidable yet very accented, but he undoubtedly possessed management talent, decisive charisma and strong character. As Putin was recruiting "younger cadres", Golubev appeared on the list of candidates for promotion – and in 2019 appointed as interim governor to Far Eastern region of Chita. Within weeks, he had to deal with deadly floods, earthquake and massive displacement of population. To a surprise, he handled the task successfully, and was soon appointed to much more valuable Samara region.

Demonstratively loyal and politically neutral, Ivan Golubev excelled in Samara too. In just two years, he managed to gain local support and popularity by purging long-famed corruption ring in the region, stabilized state services (with a stress on health and education), and completed 25-year long project of a new Volga bridge, unofficially called "Forever Unfinished" by locals.

Golubev's management style comprised a strong hand and well-defined motivation. His personal style was

demonstratively modest, and even Navalny couldn't find any incriminating connections between the governor and corrupt parts of Russian elite.

"Small Kremlin Politburo" sat with Ivan Golubev to discuss post-election design – whether Russia should complete Putin's edition of Constitution, expand the role of the Cabinet, leaving President more ceremonial and control functions. Members of older elite, Kozak, Shoygu and Vaino were also concerned of their "friends and partners" who depended on the state budget. Shoygu and generals were chasing the issue of foreign operations – highly profitable for them personally but quite costly on a political level. But Golubev carefully avoided direct answers and promises to temporary allies – he declared that his presidential campaign will be about "listening the country" rather than "pleasing it with promises".

As late November voting date approached, Golubev's landslide victory became obvious. Russia once again felt in love with "military big man" (except that new darling was – unlike Putin – undoubtedly big, over 6'6" and quite bearish in a body assembly). Kremlin and White House veterans grew worries on a prospective President – he avoided alliances, at least known to power mongers, made very modest promises to voters (therefore giving bleak hopes for state budget raiders) and took very moderate tone on foreign policy issues (sending "dangerous consolatory signals to adversaries in Washington" as Patrushev concluded in a classified memo to other members of "small Politburo").

Meanwhile, Ivan Golubev did built alliances – but using highly secure communications channels provided to him by former colleagues in FSO. Security detail comms are protected from all "interested" parties as they have to prevent dangers from any possible perpetrator. Secret alliances were made with a select number of governors and government officials who were not engaged in Putin's regime corrupt schemes. Few of the chosen were informed they are under consideration for "upper government positions". Golubev's FSO colleagues reached out to their US Secret Service counterparts to convey a message that new Russian president will not expand projection of power and reconsider Putin's international strategy (as with Kremlin veterans, Golubev opted for non-binding wording).

On election night of November 26, 2023, the country expectedly exhaled with a relief. A turbulent departure of Putin and resulting bloody stir ended, and Ivan Gol-

ubev, Russian president-elect, was to deliver a victory speech next morning. He did, but as his campaign was about listening, Golubev mostly covered the issues he learned from voters – social inequality, poor health and adult care, troubles with corruption and government inefficiencies, all this traditional Russian "fools and roads" assortment. His inauguration was a month away, scheduled for December 30 – and he only promised the population (and really worried elites) that his action plan will be laid down to this date.

President pro tempore Dmitry Kozak has started to pass the current authority to Golubev shortly after elections – number of large and small secrets Russian leader should learn about is quite staggering, as well as number of clans and other influence operators around him. Some of the secrets were known to Ivan Golubev as he had some hints from a past FSO service, some were completely new as they covered military role of The Commander-in-chief, and some were gruesome mysteries known to closest lieutenants. 40-years old workaholic, Golubev dived into statecraft with ease. While Kozak was still making decisions, he conveyed all presidential briefs to the president-elect, carefully assisting (at least as he thought) the ascension.

In separate quarter of Kremlin, where – in Putin's days – FSO maintained a secure residence in case President decides to stay in office overnight – Golubev was working on his presidency' plan with a very close circle of advisers. They routinely maintained two versions of the document – a very consequential one, for demonstrative purposes, with continuity to the late President's agenda with few corrections (like more thorough process of Constitutional amendments); but the real plan was different.

Golubev decided for much more modest inauguration ceremony than Russians grew accustomed in the days of Putin. No motorcades cruising the city, causing a stall of civil traffic, no lavish multi-camera Hollywood-like performances – swearing in occurred in presence of acting Government, regional governors, Federation Council and State Duma members. Very few dignitaries of Putin's days got invited to Kremlin – five religious' leaders, a handful of generals, few retired politicians (to underline a continuity) and no single "famed national artist" (although rumors circulated that Nikas Safronov offered one senator one million dollars and free personal portrait for a pass). But the whole procedure went very differently than attendees expected.

After Presidential oath, Ivan Golubev took the scene for a program speech on his presidential plan. Deputies and senators made special faces “we are very interested in what you say but we’re actually sleeping”. Kremlin’s small Politburo was lulled with a fake plan Golubev shared with them fortnight. Meanwhile, some additional FSO detail took positions in the hall of Great Kremlin Palace, mostly unnoticed by anyone.

From the very first sentence Golubev read, small Politburo began to panic. This was completely different speech, outlining a deep shift in every aspect of Russian power, political life and personal fate of all present in the hall (and many thousands outside). Instead of softened continuation, President outlined new country and new regime. Golubev was actually not delivering a speech but signing and reading aloud decrees that disbanded State Duma and Federation Council, imposed renewed curfew and elements of counter-terrorist operation in Moscow and several other cities, immediate removal of all acting heads of crucial state-owned companies and recall of all troops from abroad. Newly appointed acting Prosecutor General was present, and immediately tasked with criminal persecution against those who “appropriated the country to their own riches”.

FSO officers ordered speechless audience out – hundreds of dismissed politicians were escorted by foot to gates of Kremlin (but some of most notorious members of Putin’s clique detained in a wait for prosecutor’s arrest warrants). FSO officers – to a great irony of the case – stopped any personal car from picking up “the boss”. Displaced former owners of the Russian state were thrown out of Kremlin into a whirlwind of snow, dirty slush of Moscow sidewalks and angry crowd of busy Muscovites who just heard of Golubev’s stunt on a live broadcast.

Few former officials and generals stayed in Kremlin this day to receive orders from the President. Sergey Shoygu and younger General Staff commanders assumed control over military and pledged full allegiance with Golubev’s plan. A strange mixture of unhinged military dictatorship and openly liberal political goals, pronounced from an inauguration tribune, emerged in Moscow.

In an urgent communication with American President, Ivan Golubev informed of succession and laid down deconfliction plan with the West. Russia will curtail military exposure worldwide, resort to purely defensive military doctrine and will call for further international reduction of

nuclear weapons and delivery means. Russia will abandon East Ukraine unconditionally and start negotiations with Kiev on possible future roadmaps for Crimea. On domestic issues, Golubev assured US President, that Russia will restore law and order, and full respect to human rights as soon as “corrupt and aggressive criminal gang ring” is purged. Golubev promised that political rights will also be restored as Russia gets more ready to stable liberal electoral democracy. “But as for now, I have to curtail the parliament and political activity in order to prevent possible reversal of liberal course that is mutually beneficial to the West and Russia”. To American President’s surprise, Golubev doesn’t mention any need for concessions from the West – no word of economic sanctions, spy mania or limitations of Russian foreign broadcasts. Liberal surrender of Russia seems unconditional and severe.

Golubev’s communication with Chinese president Xi was more complex. Russian president assured his colleague that peace and trade with China remain a core priority of the country. He asked for an understanding of his snap anti-corruption measures (referring to Xi’s own politics) and suggested that if China used some of the arrested officials as a backchannel to Kremlin, recourse such channels to him. While Golubev’s tone was friendly and assuring, Xi felt that Russian leader is much more concerned on Chinese infiltration in Russia than his predecessors.

In weeks, Russian power was redrawn completely. To compensate the lack of legislative power, Golubev suggested the Constitutional Assembly that Putin conveyed for sought amendments, will draft new legal system completely. Entertaining the power to delegate 200 members to the chamber, in addition to 400 already selected by Duma and Senate, Golubev overweighed the Assembly with liberal lawyers and law scholars (inviting few exiled and émigré professionals).

Within days, Golubev’s Provisional Government not only took full control over state monopolies and opened investigations against former management but announced imminent and rapid split and privatization of assets. Business regulations were eased, politically motivated tax charges dropped and pardons for past convictions issued. By late January, most exiled businessmen, including Mikhail Khodorkovsky and Leonid Nevzlin, returned to Russia and were welcomed by the country.

...

Some 12 months later, President Ivan Golubev addressed the nation with State of Russia speech. He praised compatriots for their help of rooting out “deep pockets of corruptioners’ resistance”, and once again referred to a staggering sum of looted money Russia tries to recover from arrested former officials and Putin’s friends. Golubev promised “business as usual” for most regions and industries of Russia, claiming that curfew is still needed in Moscow as “situation remains tense”, and insisting that mass media still has to be tightly controlled “to prevent outbursts of fascist, nationalistic propaganda and cleansing of corrupt previous regime”.

...

Some 3 years later, President Ivan Golubev only added to his almost identical speech some promises of future democratization – as Constitutional Assembly finally drafting new law, he was looking for an emergence of political parties that will be able to compete for votes in Russia’s new free and fair elections “when time comes”.

...

In 2035, finally introducing new Constitution to the country, President Golubev underlines that “enemies of the democracy will inevitably attempt to steal our motherland and restore a corrupt nationalist regime”, and therefore he suggests the referendum that will empower him to retain life-time presidency as the only guarantor of human and political rights of the citizens of Russian Federation. As a generous sign of his democratic intentions, he pardons several political prisoners, including Alexey Navalny who has been charged for multiple violations of the curfew.

Indicators

Russia is a complex and multi-faceted society that consists of both antiquated and very modern elements. Same observation relates to the elites of the country, as they comprise aging Soviet nomenklatura, beneficiaries of 1990s’ and newer generations of careerists.

Russian society may look as controlled by Kremlin’ regime, deafened by media propaganda and hostile to the West – but underneath the solid surface there is a whole lot of differences, conflicts and divisions.

Among distinctive qualities of Putin’s regime, we should notice one very important: exaggerated attention to public opinion. As we mentioned time and time above, the reason for this derives from **survivalist nature** of Russian regime. For Putin and his “small Politburo”, ability to sense changes in public opinion, levels of support or disgust, efficiency of propaganda and other indicators are **tools of survival**¹⁷¹. Knowing desires and hopes of the majority allows preventive maneuvers, corrections of existing policies and media messaging.

As both scenarios above suggest, Russia enters a protracted period of political stagnation. Between 2019 and the earliest “time-determined” domestic crisis in 2023-2024, core indicators to watch are:

1. Putin’s health, mental stability and misanthropy:

this self-evident indicator should include a thorough analysis of Russian President’s absence time from public life. There are a few reasons to follow this attentively. Longer pauses he takes from direct governing (generally imposing periods of no tactical changes) doesn’t mean he concentrates on strategizing or plotting against the West. As he ages, the interest in active governing decreases while natural desire for stable, eventless routine expands. More Putin isolates himself from day-to-day issues less capable he becomes in dealing with crises. Also, his visibly growing misanthropy broadens a gap between him and key government officials who have to deal in vain and under a threat of the President’s intervention. **Weight of the indicator: between 2019 and 2023 – medium to high; from 2024 onwards – very high to crucial.**

2. Shifts in regional economic and social funding:

few indicators in Russian economy and social stability matter more, especially strategical bordering regions (Kaliningrad, most of Far East, Crimea and Caucasia). Since 2011, when Moscow once again redrew tax distribution pattern, almost all Russian regions became totally dependent on federal transfers while their social responsibility to state workers and healthcare consumers grew. Most often, Kremlin adjusts federal transfers according to

171 For example, see - <http://www.counter-point.org/%D1%80%D0%BE%D1%81%D1%81%D0%B8%D1%8F-%D0%BA%D0%B0%D0%BA-%D0%B0%D0%BD%D1%82%D0%B8%D0%BB%D0%B8%D0%B1%D0%B5%D1%80%D0%B0%D0%BB%D1%8C%D0%BD%D0%B0%D1%8F-%D0%B5%D0%B2%D1%80%D0%BE%D0%BF%D0%B5%D0%B9%D1%81/> (English text by Marlene Laurrelle here - Laruelle, Marlene. “Is nationalism a force for change in Russia?” *Daedalus* 146, no. 2 (2017): 89-100).

unpublished public opinion monitoring in order to prevent outbursts of social discord. These adjustments can be seen quarterly in Finance Ministry reporting. Sizable changes in the disbursements as well as big changes in number of transfers will indicate government concern and/or Putin's orders based on "predicative thinking". **Weight of the indicator: if budget system remains unchanged, this indicator has very high importance through all years between now and 2030s'.**

3. The issue of conscription is an important indicator that should be closely followed as it remains purely political (Russian Army has no operational needs in conscripts as it is able to enlist enough volunteer personnel). Conscription (approximately 220,000-240,000 soldiers) is viewed by both Kremlin and Ministry of Defense as a brain-washing exercise targeted at country's youth rather than rational deed. Defense Minister Shoygu quite openly recognizes that¹⁷² and stipulates plans to maintain involuntary service at least until 2025, but on political level conscription remains an important "trade-off" that may be put in action in case of governing troubles. Conscription remains highly disliked and feared enterprise for most Russian mothers, it also continuously reproduces corruption on various levels and creates local social turbulences (especially in Moscow, St. Petersburg and other major cities). In is a plausible option that Putin may trade conscription to society as he receives signals on growing discontent. **Weight of the indicator: important, growing towards 2024.**

4. Belarus. Before 2024, the political development of **"United State of Russia and Belarus"** is an ideal solution to a Constitutional crisis that looms for Vladimir Putin in the end of the current term. As "United State" will become a superior structure to Russia (especially in military and security issues), Putin can safely withdraw to a position of the Head of United State retaining full control over tools of power. More Russian Federation presses for a scenario that triggers a factual mechanics of a unification, more likely that "isolationist scenario" develops. There are several reasons for this projection, but one is the most important of all: expansion of Russian defense

structures way over to Brest seriously shifts security balance in the center of Europe. With Russian Army positioned between Grodno and Polish border, Suwalki corridor is indefensible and Russia – at least verbally – addresses security concerns over enclave of Kaliningrad. This positioning equals a knife to the throat of the Baltic States and Poland and (at least on military maps) solves insecurities that require Russia to maneuver in the region. With this solution Russia may be assured of relative security of the Western borders and – more importantly – feel it has a perfect hinge on Polish government as well as hostile Baltic countries and may resort to a purely defensive logic (as described in the scenario). Unification with Belarus also allows two important actions that currently are restrained: first, on a formal side, it perfectly legitimizes an editing and rewriting of The Constitution, and second – on informal side, allows a revision of social contract (because it now covers two nations). **Weight of the indicator: decisive before 2024. As the trigger time approaches, Russia may even opt for forceful annexation of Belarus – especially when Lukashenko blocks the annexation or calls for popular disagreement with it.**

5. Kazakhstan. More complex case than Belarus, Kazakhstan waits for an inevitable succession crisis – with warring factions in the government, pro-Russian and pro-Western and no clear heir to President Nazarbayev. Currently, Russian policy towards Kazakhstan is below the radar, and Kremlin made significant efforts to silence nationalists who called for "new Donbass in Northern Kazakhstan" (two regions with predominantly Russian population). Undoubtedly, with Nazarbayev's departure Russia will put a pressure on Kazakh elites to choose pro-Moscow path; if a response from Astana comes in a form of resistance or disagreement, Putin may opt for radical steps. He cannot "lose" (in his calculations) one more close ally to "Global West". Moscow's attitude to Kazakhstan succession is a litmus test for a strategic direction: if – with or without Putin – Russia opts for "active influence" in Astana succession, it will be torn into expansionist, aggressive and militarized scenarios; subtle or muted reaction to

172 <https://www.rbc.ru/society/24/12/2018/5c21183a9a7947e22de4da2f?from=main>

events following the death of Nazarbayev are rather signaling that Moscow is bound for isolationist scenario. Also, Astana will be a conflict spot for a perspective Chinese-Russian relation – two “allies” have very different political expectations in regard to Kazakhstan. **Weight of the indicator: important to critical; further into 2020s’, the choice between expansionism and isolationism will be determined almost in full by the “Kazakh question”. Also, if radical Muslim terrorism grows further in Central Asia, security of southern Siberian border becomes a survival question for Russia, pressing Moscow for more active play in the region.**

6. Brain drain measures: since 2012, when Vladimir Putin returned to power, Russia experiences one of the largest waves of a brain drain. Several researchers attempted to calculate its scale (references), but the figures are unreliable as nature of emigration has changed since the end of the USSR. The conservative estimate counts between 80,000 and 110,000 Russians – mostly young, affluent and educated – who left the country **each year following 2011**. Unlike Jewish emigration in 1970s’ and 1980s’, this wave do not break ties with Russia, or denounce citizenship and remain “accounted” under state statistics – but their productivity, social and financial capital, results of academic work are not Russian anymore. Until 2016-2017 when the trend became notable, Kremlin was stipulating this migration as they considered these refugees “discontent population”. The measures to counter brain drain were essentially “positive”: create opportunities for young aspiring scientists and social activists, pouring grants and “super-grants” onto them – both in science and NGOs. Also, as Russia currently (and for the next 4-6 years) enjoys 18-22 years-old population surplus and has no troubles in conscription, it even eased regulation for conscript-age youth to travel internationally. But soon (2026) the country will nose-dive in numbers of 18-22 years-old (results of the crisis of 2008), and likely will feed deficiency of research and culture production due to the emigration losses of 2012-2018. Every measure that limits ability of youth to travel will affect primarily affluent urban teenagers; unlike other generations of Russians the kids grew up with full assurance of

“open world” and will suffer greatly. So, regulation that limits the education migration, the work-travel migration and affects younger people will be signs of isolationist development, complementing already existing travel restrictions for security service officers, policemen, border guards and certain military personnel. **Weight of the indicator: less important before 2026, with radical growth later. If Kremlin power ops for such measures, it is likely that total self-isolation of the country is around the corner.**

7. Informal negotiators: Putin is a mortal human being, but also, he is not a superman-politician. His health and his power hold can deteriorate without visible signs – at least for external observers. But for his close circle and people close to Kremlin this will not be a concealed secret. One of the best indicators of some changes in Moscow will be a number and level of “informal messengers” and negotiators who approach Western governments and institutions in seek of various gains (from a removal from sanctions list to policy advisory). It is important for Western governments to exchange information on such approaches as they may be extremely timely and useful indicators of both positive and negative trends in Moscow. **Weight of the indicator: important throughout the whole period.**

We tried to offer some non-standard indicators as we are convinced that other scenario thinkers already suggested econometrics, political polls and foreign policy priorities as logical and correct thermometers for Kremlin’s direction.

Escape the Template Thinking

Ramifications to U.S. Security

Russia is often called “a country with an unpredictable past” because its rulers like to re-write and re-evaluate the history of the nation. On the future side, Russia is a country that suffers path dependency and therefore is a pleasure to a forecaster: the society and the government follow obvious roads, behave predictably and deliver almost always known results. Only under an extreme and cannibalistic pressure, as it happened in the time of Peter the Great and in the age of Joseph Stalin, Russian nation demonstrates its immense ability to mobilize and create miracles – but at an outrageous cost.

When we assess current security threat Russia presents to the United States, we must underline that almost all components of this threat have been created then, at the years of passion and blood, state violence and immoral (if not criminal) exploitation of the nation’s ability. The size and stretch of Russian empire – from Baltics to Pacific Ocean, from North Pole to the heart of Asia – should be credited to Tsar Peter. Russian military and nuclear might has been created and conceived by Stalin’s paranoid brain that feared The West and dreamt of a global domination.

As of 2018, Russia is the only nuclear superpower capable of the same scale strike as US do. The only other nation that possesses not only inherited components of nuclear triad but the technology and capacity to develop new weapon systems and maintain deterrence parity. Russia remains a key space nation, still has very capable Navy and brutal, modern Air Force although the Army is many times smaller than it was at the height of the Cold War. While Vladimir Putin and his generals may opt for an aggressive rhetoric, current force design of Russian Army is not suited for a massive attack operation in a continent-sized war. Even with the latest changes (Kofman, 2018, CFR, 2018) in Russian military structure, the Army is still a defensive force on a conventional level. Russian strategic nuclear command (Space and Air Forces) remain entangled with limitations of START treaties and has very few “new arrivals” of weapons – even if Vladimir Putin proudly announces them as a “New Year gift” to Russian people.

In 2018, nobody can escape a discussion of “non-linear”, “hybrid” or cyber threat that comes from

Russia. An apparent heir to Soviet Masters of Active Measures, Russian “info-warriors” make more noise than real damage, at least for now. Russian Army and intelligence had invested a lot of resources into the cyber capabilities (both defensive, offensive, espionage and social engineering required for it). The outcome of this investment is quite doubtful – while Russian government-backed hackers managed to break into DNC servers and some other systems in the US (also, in Ukraine), there’s few signs Russia as nation benefits from these crimes. Contrary, cyber operations invoked new wave of sanctions and worsened economic situation for most Russians.

This picture is both complex and simple, and therefore difficult to explain. Russia is #1 threat to US security just because it holds equal nuclear arsenal; at the same time Russia is no match (even close) to US Army conventional and projection abilities. Russian economy is 1/10 of American, and almost 50% of the budget revenues come from energy sales (prone to price fluctuations). Unless United States falls in something like Great Depression (while Eurasian rival escapes the same with some miracle), Russia will remain smaller, weaker and less influential state than US, or China, or even India (if we speak in a perspective of 10-15 years).

Our analysis supporting the scenarios suggests that for the United States a **security threat from Russia will remain relatively similar** while Vladimir Putin seats in Kremlin and makes most foreign policy decisions – with minor exceptions. Putin’s political moves in 2008-2018 may look offensive – but almost all of them pursue **perverse defensive goals**. Russia’s attempts to project more influence outside the borders – including wars in Georgia, Ukraine (with an exception of Crimea), military build-up along western borders, operation in Syria and adventures in Central Africa – are “illusionary” actions, although they produce fear, death and pain. Russia behaves like an aggressive Mad Man to deter hostile actions against itself – while most of the actions exist only in Putin’s imagination.

With all due respect to Russian military, space and aviation industry, the sectors are not capable to provide a massive weaponry build-up and support a frontal offensive; same should be said in relation to Russian Army.

Real and imaginary threat emanating from Russia will have different dynamics over the period of a forecast. As we explained in “International agenda” chapter, essential reasons for Kremlin’s malign foreign activity are

(1) domestic, and (2) related to allied countries, primarily Belarus and Kazakhstan where Moscow has its own expectations and only (3) – events and trends in the West (and generally “far abroad” as Russians put it). The graph below demonstrates general combination of factors and projected level of Russian activity that may threaten US and global security (especially if US institutions overreact to “illusions”):

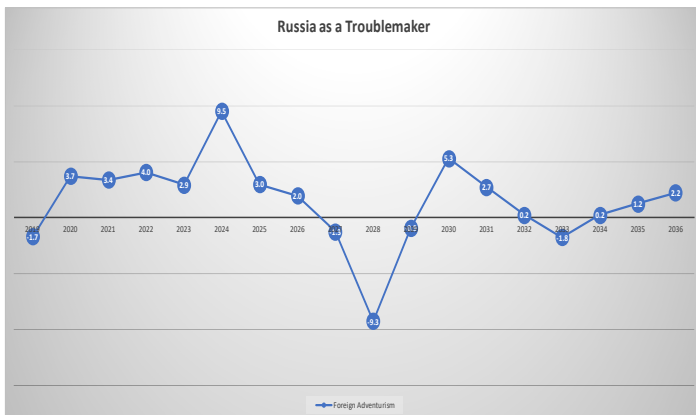


Figure 1: With 2018 level taken as a base, we project minor decrease of Russian activity abroad in 2019, with a gradual growth between 2020 and 2023. This increase is mostly determined by specific policy towards allied states (Belarus and Kazakhstan), less by looming US elections in 2020 and possible shift of power in Washington (probability +0,3/0,4). Major increase in 2024 may (but not mandatory will) be ignited by Russian presidential elections (probability +0,2/0,25). Possible decrease in Russian foreign activity after the critical 2024 (probability +0,2/0,175) with its lowest point in 2024 hints on “Isolationist Russia” scenario – less and less reasons to project power and expend wealth outside.

We underline three important perspective “threats” Russia may pose to the outside world:

- **Expansion of “illusory operations” beyond control of Kremlin and occasional over-reaction by the West.** Russia already performs foreign adventures using non-governmental paramilitary forces (like “Wagner” private military contractors in Ukraine and Syria and CAR, or newer groups spotted in Libya). The operations may not always be successful. Adversaries of Russia-backed

governments may occasionally employ more capable military contractors. Although these stunts may have some geostrategic goals, Putin’s primary intention is **demonstrative** (except Ukraine and partially Syria). He wants to demonstrate that Russia has successfully re-emerged from an abyss of post-Soviet desperation and once again is able to project the power (possibly more cleverly than the USSR), on par with the United States. Also, when these stunts happen, Russia is sometimes represented by private military contractors who pretend they act of pure profit-seeking – and creating for Kremlin an option of plausible deniability. What is most dangerous in the regard of projection operations is D.C.’s **over-reaction**. **Sub-threat:** Russian “non-governmental” foreign power projection operations trigger major military conflict in Africa or Middle East, endangering US allies in the regions or damaging supply routes.

- **Major technological disaster in Russia** that invokes memories of Chernobyl; internal conflict in Kremlin like one in 1986, with anti-Western forces taking lead. Instead of an expected gradual decrease in foreign aggressiveness and arms race, the domination of paranoids in “new Politburo” may lead to unpredictable and therefore dangerous decisions, including “retaliation” as they may consider the West responsible. Even more dangerous could become a disaster that is attributed to Ukrainian para-military or government forces: with an existing (and perspective) level of neurosis towards the neighbor country, this possible event becomes a clear pretext for a war.
- **Irresponsible use of cyber capabilities:** further in Digital Age, we see more and more danger in irresponsible/unauthorized or intentionally rogue use of offensive cyber capabilities. A networked, spiderweb structure of Russian security services and military intelligence (accompanied – for further complexity – with non-government actors) creates severe additional risks in the field. Unprovoked attacks on infrastructure, hacking and intelligence gathering in digital domain, “deep fakes” injections¹⁷³ and many other known and unknown risks are possible. Besides of rogue Russian actors,

173 https://motherboard.vice.com/en_us/article/594qx5/there-is-no-tech-solution-to-deepfakes

there is a clear possibility that other not-so-friendly states may pose as Russians while attacking US digital infrastructure or assets.

Be assured, Russian strategists in Kremlin have very similar calculations: “hybridization” of conflicts is a mainstream of country’s military thought (see Gerasimov, 2013 and further reading), and it is considered major security threat for Russia as well, while with different accent. Traditionally, since Soviet time, Kremlin is less cautious about possible physical attacks but prioritizes a danger from “psychological”, “cultural” and “political” warfare. Another paranoid conviction makes further expansion of US information projection onto Russian-speaking (and minority languages of Russia in particular) population more and more risky. Same risks accompany all forms of exchanges – academic, cultural and even sports.

Mediation of risks

With a volume before this part, we constantly underline several important features:

- **Secondary role of the foreign policy in Russia;** domestic events and dynamics influence foreign policy much stronger than vice versa.
- **Growing trends of self-isolation;** both government and populace are dissatisfied and disillusioned with “Western” attitudes towards Russia. These feelings are multiplied by slow economy, growing social problems and complex demographic problems the country faces in 2020s’. Option of “self-concentration” will, under our projections, become an important tone in political thinking and practice closer to 2024 Presidential elections – and may determine all future developments in Russia.
- **Outsourcing of power tools:** the very difference between Western and Russian analysis of Kremlin’s regime lies in the acceptance of “vertical of power”. For Russian observers, Putin’s regime looks as an anamorphic spiderweb with loose joints and low ability to streamline (whatever) decisions or actions. Kremlin outsources a lot of power tools to local clans, largest businesses, Putin’s chef, whoever offers credible proposal.
- **Survivalism:** a crucial feature of Russian ruling regime, that predicates its maneuverability and sometimes logic of moves. Rarely Russian leader is a passionate sacrificing person – most likely he is or

will be a trickster who navigates power labyrinth with only desire to hold the scepter as long as possible.

- **Preparing for the worst:** not essentially the quality of Russian government but the feature of national mentality. In some cases, it determines reactions and short-term steps, in domestic and foreign policy alike.

With these features in mind, we suggest some general guidelines and ideas for Russian risks mitigation:

1. **Avoid putting Russia in the center of an international debate** (and any policy except nuclear and missile disarmament), as this affects Russian perception and empowers adventurism. Russia as a factor of international security should be respected but not praised or verbally execrated.
2. **Avoid equalization of Soviet threat to Russia threat:** not only this comparison aggrandizes current Russia without a proper ground and feeds Moscow’s adventurism, it also misleads public and media, analysts and decisionmakers. Russia is not an ideological, rigid and fearsome state with openly stated expansionist goals, but survivalist, weaker state that sees too many threats to itself and prioritizes defense.
3. **Confront with caution, compete with an open visor:** the nature of survivalist regime is closely intertwined with “Mad Man” strategy imitation. Regardless of Putin’s presence or absence in Kremlin, in the nearest future Russia will aggressively repel any criticism or verbal confrontation but will retreat and turn tail when facing open and grounded competition. For example, Russia will skillfully oppress and humiliate US media (including Radio Liberty and Voice of America) in response to any trouble US regulators cause to RT America, - because, in their reading, this is an ungrounded verbal confrontation.
4. **Do not fear Russia self-isolation but avoid accelerating it:** Russian political history moves in cycles – openness and adaption of Western achievements are followed with isolation, political regress and autarky. This is a natural, persistent quality of Russian power tradition as well as of Russian national character. External forces should avoid direct, forceful or even rhetoric intervention while the cycle changes direction – not because Russia may

retaliate aggressively but because of unpredictability of the outcome¹⁷⁴. If Russia decides “to close the doors”, that decision is none of the outsider’s business (even if this shift turns repressive and defies human rights concept).

5. Shaming is the last option in deals with

Russians: While the USSR cared about the reputation of Communism (this is an arguable statement, but yes – Politburo did care), Russia did not inherit the institution of national reputation. Contrary, Putin’s Russia enjoy its rogue status and openly makes fun of Western biases (see RT, 2015^{175, 176}). The only reputational damage Russian government and Russian population consider serious is a humiliate and irreversible defeat in obvious circumstances (like losing a “already won” sport match). It is impossible to battle current (and future) Russian leadership with arguments that chastise their actions. Sometimes it is wise to ignore Russian teasing and trolling, developing a radical “answer” in a domain where Russia is vulnerable.

6. Make American way of life (including democracy, free market and human rights) great again:

In 1990-2010s’, US information policy has abandoned an important achievement of the Cold War – an attraction of American way of life, humanitarian superiority of the U.S. One of the terminal weapons of the Cold War were not Trident missiles or Pershing-2 IRMs but a critical difference between restricted, fearsome and controlled Soviet reality and free, consumer-oriented and just American reality. For US Congress, every victory over domestic problems, inequalities, disproportions are a new – and the best – argument in competition with current (and future) Russian autocracy.

7. Be sure Russians feel fatigue: Fatigue is Russian national curse. People and government alike, Russian

may suffer dullness and uneventfulness, purposeless pressure and totality of oppression – but the limit of these non-happenings is much closer. Changes bring more suffering or more air, but first they bring hope. When pressure is permanent, the hope fades away and “something has to be done”.

Once again, similar to indicators advisory, we try to be unconventional. Russia is a complex adversary ruled by a complex compendium of tradition, novelty and biases.

174 In Modern times, Western interventions in cycles of Russian path happened in 1770-1790s’ – with a wave of revolutions starting from American colonies to Great French revolution (when it was more an influence than meddling), but it produced a backlash in Russian development than ended with Vienna Congress and 40 years of Russian military domination in Europe; with Crimean War – on the verge of succession, Russian Empire’s defeat in Crimea had initiated a wave of reforms that empowered the economy and the society to accelerate from feudal times to the modernity; in 1905, with a defeat in Russo-Japanese War, Russia threw itself into a chain of revolutionary events that ended with 1917 Bolshevik takeover. Soft and sympathetic reaction of the Western World to 1987-1991 downturn in Russian modernization provided a window of democratic opportunity for Russia, but backlashed as the U.S. and other Western powers couldn’t develop sustainable Eastern policy.

175 <https://www.youtube.com/watch?v=THrZZ95i8zQ>

176 <https://www.youtube.com/watch?v=SQQwBfux9i0> (with subtitles, feat. Margarita Simonyan)



sanctions

ENDER
ND PRIVATE

Labral
ed States.

SEP
200
A

14973

ONE HUNDRED

BENJAMIN FRANKLIN

Fa

BANK

The Sanctions Scenario



By Ilya Zaslavskiy

Sources of discontinuity

For over a decade now, Russia has been meddling in neighboring and Western countries and attempting to disrupt the international world order. However, the West has been very slow, passive and always reactive to Russian policy, reluctantly adopting sanctions in response to Kremlin's aggressive actions. This was the case in 2003-2004 when the Russian government expropriated the Yukos oil company (which had many western shareholders);¹⁷⁷ in 2006 and 2009, when Gazprom created artificial pretexts to shut down stable supply of gas to Europe via Ukraine;¹⁷⁸ and in 2007, when Russia-backed hackers unleashed a cyber-attack on Estonia, and later the U.S. stock exchange, power grids, and other critical infrastructure in 2010-2011.¹⁷⁹ In 2008 Russia with almost complete impunity and under artificial pretexts, attacked Georgia and established control of two of its secessionist regions – Abkhazia and South Ossetia.

It was not until 2012, when the U.S. government initiated first actions against the Russian kleptocratic regime by introducing Sergei Magnitsky Rule of Law Accountability Act.¹⁸⁰ Even that measure, however, focused primarily on a narrow set of issues, such as corruption and gross

human rights violations related to the Magnitsky money laundering and murder case. After Russia's annexation of Crimea and invasion of Ukraine's eastern territories, the U.S. government adopted a series of sanctions targeting entities and individuals that perpetrated those actions. Again, these were relatively narrow measures aimed at counteracting actions directly related to Ukraine.

After Russian entities and agents had been caught in meddling in the 2016 U.S. presidential elections (the investigation is still ongoing just like the one examining Russia's role in the Brexit referendum and other important European policy initiatives), the U.S. Congress profoundly changed the applicable criteria for sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA) adopted in 2017.¹⁸¹ This was a watershed moment which opened a new chapter in U.S.-Russian relations. The Executive Branch (just before President Barack Obama left power) initiated sanctions against the Russian security services and its embassies, and the Trump Administration and Robert Mueller have sanctioned or indicted a number of Russian agents, facilitators of disinformation.¹⁸²

The sanctions by the executive branch have been quite narrow. The most powerful and broad step has been the application of CAATSA against a group of oligarchs in April 2018 as it started to target most powerful oligarchs and industries around Putin in a qualitatively new way (for their broader corruption and proximity to Putin, not just for specific actions against Ukraine).¹⁸³

177 Smith, Chris, The "Yukos Affair" and its implications for politics and business in Russia, Commission on Security and Cooperation in Europe, published on July 13, 2005, accessed at <https://www.csce.gov/international-impact/events/yukos-affair-and-its-implications-politics-and-business-russia?page=3>

178 Timeline: Gas crises between Russia and Ukraine, Reuters, published on January 11, 2009, accessed at <https://www.reuters.com/article/us-russia-ukraine-gas-timeline-sb-idUSTRE50A1A720090111>

179 Tamkin, Emily, 10 Years After the Landmark Attack on Estonia, Is the World Better Prepared for Cyber Threats?, Foreign Policy, published on April 27, 2017, accessed at <https://foreignpolicy.com/2017/04/27/10-years-after-the-landmark-attack-on-estonia-is-the-world-better-prepared-for-cyber-threats/>

180 Horton, Alex, The Magnitsky Act, explained, Washington Post, published on July 14, 2017, accessed at https://www.washingtonpost.com/news/the-fix/wp/2017/07/14/the-magnitsky-act-explained/?utm_term=.115c313e2a88

181 Stedman, Scott, and Ilya Zaslavskiy, How to select Russian oligarchs for new sanctions?, Free Speech, published in June 2018, accessed at https://www.underminers.info/s/HowtoselectRussianoligarchsfornewsanctions_updated.pdf (pp.3-6)

182 Prokop, Andrew, All of Robert Mueller's indictments and plea deals in the Russia investigation, Vox, updated on Mar 22, 2019, accessed at <https://www.vox.com/policy-and-politics/2018/2/20/17031772/mueller-indictments-grand-jury>

183 Weaver, Courtney, and Kathrin Hille, US imposes sweeping sanctions on Russian business, Financial Time, published on April 6, 2018, accessed at <https://www.ft.com/content/b793c4b8-3996-11e8-8eee-e06bde01c544>

Potential Triggers by Putin's Kremlin

However, the underlying feature of the sanctions' outlook, at least in the foreseeable future (next few years), is that the main trigger for sanctions has always been Putin and actions of his circle, not proactive West trying to preempt Russia's aggression against its people, neighbors or NATO allies.

The collective West in general has been mostly reactive and superficial in its responses to Russia in terms of sanctions. Nowhere, western sanctions are near what the US and its allies did against Iran's nuclear program (oil and gas investment and exports were blocked) or Belarus's crackdown on the civil society (big bulk of the leadership personally sanctioned and major exports, like oil products, prohibited).¹⁸⁴

Among western allies, the U.S. has been the leading force that drove these, however, light and superficial sanctions. Within the U.S. almost exclusively U.S. Congress has been the leading force that has almost always pushed the White House to impose new sanctions. As for U.S. allies there have been no major anti-Kremlin sanctions that the E.U. or other countries imposed first before the U.S. Western allies have been treading behind the U.S. and were led by it on the Magnitsky Act, on aggression against Ukraine and on meddling in western political systems.

So, the bottom line is that for now and quite likely in the short term in the foreseeable future the West will be:

1. Triggered by Putin's actions, not by its own logic or proactive stance
2. In the West the U.S. will continue to lead
3. Within the U.S. Congress will remain the driving force for sanctions

So, what are the next possible trigger actions (sources of discontinuity) by Putin? And under what conditions can the above three rules change?

Other scenarios in this report have outlined various forms of further aggression that Putin's and post-Putin's regime can take against its own people, neighbors, U.S. and its western allies. It is quite self-evident that the U.S. and NATO countries will be primarily concerned (and react with more sanctions) against actions taken against them, less so against Russia's neighbors or Russian people. However, clearly with neighbors any further aggression against the Baltic countries, Ukraine or Georgia – U.S. allies in the region – will be taken more seriously than other post-Soviet states. And repressions against own population will be met with sanctions depending on how egregious and visible (known to western public) they will be.

The most likely aggressive scenarios in the short to medium term are:

- Direct or hybrid attacks on Ukraine
- Anschluss of Belarus
- Provocation of the NATO's Article 5 on collective security in the Baltics
- Meddling in Kazakhstan's succession
- Further meddling in Western elections and political processes, especially in the U.S. presidential and Congressional elections

With Ukraine Putin's regime is likely to try destabilizing not only the upcoming presidential elections¹⁸⁵ and the political situation in their aftermath but also chip away Ukraine's sovereignty over further bits of territory in the Black Sea besides the Kerch Straits, in eastern Ukraine and on the shoreline between Crimea and Eastern Ukraine. It is more likely to try to do that through hybrid means and "local" insurgents but may also resort to direct attacks if the U.S./NATO are perceived to be engaged in some other major conflict elsewhere (Middle East, Venezuela, North Korea, etc).

Forced unification of Belarus¹⁸⁶ is being considered

184 Woehrel, Steven, Belarus: Background and U.S. Policy Concerns, Congressional Research Service, published on April 15, 2010, accessed at https://www.everycrsreport.com/files/20100415_RL32534_275c441141ef3f3526b511a19c5192a15e3dd600.pdf

185 Krasnikov, Denys, Russian meddling in Ukraine's presidential election will be 'colossal,' interior minister says, Kyiv Post, published on Dec 30, 2018, accessed at <https://www.kyivpost.com/ukraine-politics/russian-meddling-in-ukraines-presidential-election-will-be-colossal-interior-minister-says.html>

186 Goble, Paul A., Moscow officials currently preparing for Anschluss of Belarus, Larionov says, Euromaidan Press, published on Sep 30, 2018, accessed at <http://euromaidanpress.com/2018/09/30/moscow-officials-currently-preparing-for-anschluss-of-belarus-larionov-says/>

deployment of the military.

by almost all authors in this report as this issue has been raised recently in policy-making circles in both countries and seems like a convenient and easiest way for Putin to extend his rule. He could seek to gain legitimacy by being elected as the president of the new union state of Belarus and Russia, rather than stay in power until 2024 and then get re-elected under the existing Constitution for another term to 2030. In my view, the decision on Anschluss with Belarus will depend on two key considerations for Putin: will it boost his popularity ratings like it did with Crimea in 2014 and will it provide a lucrative field for plunder by his inner circle (overall Belarus is likely to require more investment than profit to Russian budget as was the case with Crimea). If economic conditions are dire and the elites are fighting for the shrinking pie inside Russia, plunder of Belarus will present a temporary solution to inter-elite squabble.

As for the Baltics, this is where the main difference with the above scenario on military confrontation authored by FRF Team lies (otherwise the two scenarios are consistent on almost all points). Putin's leadership has a high incentive to try to destabilize NATO alliance by trying something not exactly at the level of Article 5 of the joint agreement but some provocation just below it. Any direct and costly military campaign with elements of the Russian army is counterproductive and will trigger full scale response from the alliance. But what if there is a highly prepared provocation using primarily internal Russian speaking population? A protest in Riga or Narva after made up conflict on ethnic lines that involves violent takeover of, say, city council? And volunteers from Russia flooding the region to support Russian population against repression rather than a call for independence?

It is possible that the Kremlin and its proxies engage in a limited demonstration of violence in the Baltics states without an overt

Everyone will understand that Russia has something to do with the incident but no direct proof, the authority of the local government is questioned but not fully overthrown but only questioned even in, say, the limits of cities of Riga or Narva. Something aggressive and violent against the ally state but that is just below the threshold of Article 5 but at the same time shows that the alliance is not ready to deploy its collective military response. This is the case where the Kremlin may be ready to gamble with ruining global confidence in Article 5 at the cost of imposition of new western sanctions. Once again this will be most likely tested out if Putin's circle finds it expedient internally and on world stage, possibly with the silent backing of China ("we can rattle NATO with impunity, look, it became a paper dragon").

Kazakhstan is undergoing a difficult succession process with the 78-year old president Nursultan Nazarbayev unable to figure out how exactly and to whom he wants to pass the presidential power while he retires to the position of the Leader of the Nation (Yelbasy) and Chairman of the enhanced Security Council.¹⁸⁷ Over the past decade, Russian officials have been prevaricating on the fact that northern Kazakhstan historically belongs to Russia, that Russian population is being diminished and not respected, while Putin himself questioned Kazakhstan's statehood. Overall, it does not seem that attacking Kazakhstan is among Kremlin's priorities. However, under certain circumstances this may become expedient to Kremlin. For example, if China goes to further conflict with the U.S. and both Russia and China will want to further remove western influence in Central Asia, they might agree on carving out "zones of influence" in Kazakhstan during the vulnerable succession period.

As for the West, there are numerous indications that even after being caught red-handed in meddling in electoral and other political processes in the West, the Kremlin persistently continues aggressive interference. There are claims that Russia will meddle in the E.U. Parliament elec-

187 Hall, Nathalie, Who Will Run Post-Nazarbayev Kazakhstan?, The Diplomat, published on Oct 30, 2018, accessed at <https://thediplomat.com/2018/10/who-will-run-post-nazarbayev-kazakhstan/>

tions¹⁸⁸ and upcoming U.S. 2020 presidential elections.¹⁸⁹ It seems highly plausible that Russia will try to yet again help Donald Trump to get re-elected, while diminishing and confusing Democratic candidates against him and between themselves. In addition, while it is a more complex task, it would only be natural if Russian agents started to meddle more in U.S. Congress elections. After all, if interference in 2016 elections has not yet put a halt on Russia's ongoing active measure, it can't be ruled out that Kremlin will not double down and gamble on further interference from the executive into legislative branch. It has done so in other countries, why not try more in the U.S.?

Clearly, in all of these scenarios, Russian aggressive behavior will be a key trigger (encouraged in turn by a combination of perceived expediencies internally and externally), and the West, especially the U.S., would need to respond with some sanctions and other countermeasures.

What Can Change Current Triggers and Responses?

Most likely, the U.S. will remain a key Western force countering Putin's actions and, within the U.S., Congress would continue to lead in that process. But what can change sources of discontinuity qualitatively – i.e. are there any scenarios in which the West/the U.S. will start to act proactively and preemptively against the Kremlin? Can something trigger sanctions other than Russia's aggressive behavior? Can there be a leading force in the U.S. and the West in general other than Congress?

A key factor in the short term will be the scale of revelations that may come out of the Mueller investigation in the U.S. and ongoing investigations in the U.K. over Russia's meddling in the Brexit referendum. Currently, it looks like the former might be a bombshell while the latter is being subdued by the Theresa May's government who does not want to reverse the process of Brexit (and any major revelation on meddling will most likely lead to higher de-

mand for a second "clean" referendum). There could be other disturbing revelations in the West that could critically amplify anti-Russian stance of policy-makers and create public demand that some serious sanctions and other countermeasures are taken.

It seems that the U.S. may choose to proactively act against the construction of Nord Stream 2¹⁹⁰ even if Russia does not do any more aggressive actions, as there seems to be a growing and rare consensus on that front between the executive and legislative branch in the U.S. Notably, these sanctions might be targeted not only against Kremlin-controlled gas company Gazprom but also Gazprom's western partners which would mark a qualitatively new development in the history of sanctions against post-Soviet Russia.

Another variable from the Western side that can mobilize the U.S. and then the West in general, if some candidate makes Russian interference a key electoral issue and beats Trump. Then the U.S. president may find it useful to build on the momentum and create a new western coalition against Russia, work with Congress on further sanctions and proactive countermeasures.

Even if the next U.S. president is not initially focused on proactive sanctions, he or she may introduce certain firm red lines against further Russian aggressive actions, such no more meddling in U.S. political processes or enforcement of certain military conditions in Syria or Venezuela. If the Kremlin then trespasses those lines, it could unleash a much more robust and consistent development of long-term sanctions against Russia that would seek not only to limit Putin's current policies but actually force him or his successor to change them.

Description of Changes

Some of the short-term scenarios that would mostly see reactive responses of the West have already been mentioned above. But what can happen in the longer term

188 Leta, Opinion: Russia will definitely interfere with European Parliament elections, Baltic News Network, published on Jan 17, 2019, accessed at <https://www.cnbc.com/2018/03/19/russia-will-target-european-elections-in-2019-former-nato-boss-says.html>; <https://bnn-news.com/opinion-russia-will-definitely-interfere-with-european-parliament-elections-196251>

189 Windrem, Robert, and Ben Popken, Russia's propaganda machine discovers 2020 Democratic candidate Tulsi Gabbard, NBC News, published on Feb 2, 2019, accessed at <https://www.nbcnews.com/politics/2020-election/russia-s-propaganda-machine-discovers-2020-democratic-candidate-tulsi-gabbard-n964261>; <https://www.politico.com/story/2019/01/29/dan-coats-2020-election-foreign-interference-1126077>

190 Nienaber, Michael, U.S. warns German companies of possible sanctions over Russian pipeline, Reuters, published on Jan 13, 2019, accessed at <https://www.reuters.com/article/us-germany-usa-russia-pipeline/us-warns-german-companies-of-possible-sanctions-over-russian-pipeline-idUSKCN1P70FR>

and how can the outlook for sanctions be affected in the longer term beyond Trump's term to 2020 and Putin's term current term to 2024? And how strong can these sanctions influence Russia and its policies?

To answer these questions, we need to first establish some definitions on the "effectiveness of sanctions". In my view, western sanctions can be measures against four intended levels of impact:

1. Symbolic response from the West to show some minimal response and some semblance of unity among allies (i.e. putting few high-level Russian figures on SDN lists without any meaningful consequences for Russia's existing policy). These sanctions are just one step away from not doing anything in response to aggressive actions and serve face-saving value for the West.
2. Still limited but broader response that puts few dozen names of high-level Russian officials and some state companies under various financial and visa restrictions (i.e. without directly affecting any core strategic industries or exports of Russia). These sanctions do not aim to change policy and mostly have little cost of the West itself but they do seek to reduce resources available to the Kremlin to continue carrying out its existing strategy.
3. Much more robust sanctions that are aimed at hundreds of top officials, their families and proxies in the West and hundreds of state entities, including strategic like oil and gas exports, cuts Russian banking from SWIFT and prohibition for western investors to deal with any Russian sovereign or large corporate debt (i.e. similar to anti-Iranian style sanctions). These sanctions aim not only to reduce resources but to more rapidly change the Kremlin's aggressive policies. They come at a considerable cost for the West but still the West is ready to pay the price in order to block Russian aggression completely and reverse it as rapidly as possible.
4. Full scale "regime change" kind of sanctions (i.e. something that has been applied against Somali and recently Venezuela). This would be applied against Russia only in case of trespassing of a major red line for the West, such as invasion of the Baltics. These are

sanctions that act on all possible issues short of direct military confrontation and ultimately seek to change regime in Moscow, not just reverse its policies.

So far, we have seen U.S. and European sanctions are somewhere between #1 and #2 above. There is no coherent or determined sanctions policy to actually reverse Putin's aggressive strategy, only a desire to show some unity of response in the West and to try to reduce resources available to the Kremlin without any significant, even marginally significant, cost to the U.S. or its allies in Europe.

Oftentimes, experts attempt to examine the effectiveness of the Western sanctions through the lens of the cohesion of the Russia elite. This is a futile approach, as the Russian business elites are not going to easily discard their loyalty to the regime even under harsh conditions. They depend too much on the state, have a stake in the survival of the leadership and its corrupt system and are closely monitored by the repressive state.

However, this does not mean that the issue of elite silent defection to the West (even if marginal) and elite cannibalism at home (fighting over a shrinking pie without challenging the Kremlin's overall leadership structure) should be downplayed. The same goes for overall brain drain and emigration of young/qualified population. In the long term these developments erode regime's capabilities even if its main policies remain intact.

As opposed to speculations about splits in the elite, a current level of effectiveness should be measured through financial scales. By now western sanctions had two major impacts on Russia's ability to continue with the same policies. Both lie in the financial sector and relate to the ability to raise debt and attract investments.¹⁹¹

Firstly, after prohibition to take loans above 30-day period there has been a major blow to the ability of major Russian state corporations to raise long term debt, a feature that became an ingrained part of economy under Putin. A major exception to that rule has been Gazprom that has continued to borrow billions of dollars in Europe. This shows that the West does not want to upset industries that could have a major negative effect on the West itself. However, Russian banks and energy companies like Novatek found ways to borrow through new financial meth-

191 Keatinge, Tom, This time, sanctions on Russia are having the desired effect, Financial Time, published on April 13, 2018, accessed at <https://www.ft.com/content/cad69cf4-3e40-11e8-bcc8-cebcb81f1f90>

ods or from China.

Secondly, Russia is experiencing a major cooling effect on investments. Western companies have significantly cut down their investments across Russian economy and there are now signs that this is changing significantly any time soon.

However, Russia has managed to resiliently bear these financial setbacks and western sanctions in general while Putin's elites remain loyal to him.

Calculations show that since attack on Ukraine in 2014 western sanctions have contributed to only about 30% deterioration of the Russian economy while major negative effect 70% had come from the drop of the oil price.¹⁹² With the recent oil price rise, Russia managed to recuperate and withstand sanctions.¹⁹³

Indeed, if western sanctions remain at the current symbolic to limited level between #1 and #2 mentioned above, commodity prices will remain the biggest curb or boost for the Kremlin's finances and thus ability to project power abroad. In the current state of affairs, Putin wants the removal of sanctions without giving back any meaningful concessions because he is assured that he can survive this level of sanctions without even changing his core policies.

Therefore, one can see two common sense outcomes from this context. Firstly, Putin himself might change his attitude to western sanctions if the oil price significantly falls over an extended period of time. If a mere reduction of resources to underpin existing policies is no longer sufficient and the regime faces collapse in execution of measures that uphold social stability and support for the

government, Putin might be forced to seek a compromise on at least some sanctions in a qualitatively new level (i.e. he would be ready to give real concessions, such total withdrawal of Russian operations against U.S. elections). However, fully removing Russian military from Eastern Ukraine seems like a step that Putin would not take unless he is in really desperate economic position as domestically this would be seen as a total political loss.

Alternatively, if the oil price does not help the West, qualitative change is likely to happen after Putin steps down from power. How that can happen is a separate discussion held in other scenarios in this paper, but there is a high chance the successor will want to start from scratch with the West and reverse the effect of sanctions to boost the economy.

Another key factor that is also beyond deeper examination of this scenario but remains its key determinant is the outlook for China-Russia relations. If China, with its powerful financial resources and economic leverage, decides to align itself with Russia against the West and its sanctions against both countries, then a falling oil price might not lead the Kremlin to seek any meaningful compromise.

Related to this is Russia's ability not only to attract non-Western investments but also to export its money to non-Western jurisdictions. For example, if Russia is not allowed to develop and export certain raw materials, will it be allowed to develop them in Africa and export from there? The same goes for access to prohibited production and high-tech electronic equipment, super computers, know how, etc. How effectively can the West prevent that reaching Russia through third parties? The answer to that question may play a crucial role in Russia's ability to continue engaging in external aggression.

Given the above context and factors, there are two basic long-term scenarios for sanctions against Russia: moderate and extreme.

First – and this is the most likely scenario - is that sanctions remain at the level of 1-2 mentioned above. The West manages to curtail some of the most egregious threats from Russia against its democratic systems and

192 Kuvshinova, Olga, The Russian Economy Has Lost 8,4% of its Growth, Vedomosti, published on Feb 5, 2016, accessed at <https://www.vedomosti.ru/economics/articles/2016/02/05/626922-ekonomika-lishilas>

193 Troianovski, Anton, Russia keeps getting hit with sanctions. Do they make a difference?, Washington Post, published on Aug 22, 2018, accessed at https://www.washingtonpost.com/world/europe/russia-keeps-getting-hit-with-sanctions-do-they-make-a-difference/2018/08/21/f466db1c-a3ec-11e8-ad6f-080770dcddc2_story.html?utm_term=.121a77352072

contains Russian aggression within its today's limits. The Kremlin does not leave eastern Ukraine but is no position to step up the aggression as the escalation of sanctions is determinantal to social and political stability in Russia.

Under that scenario there are forces in the West that suggest that weakened Russia under Putin should be kept at the same level of sanctions but otherwise Russia should be ignored, no need for proactive policy of containment of the regime or engagement with the civil society as the West has other bigger problems to worry about. In the same scenario, a different point of view prevails in the West. While Russian aggression is contained at a relatively low cost to the West, Russia's determination not to reverse its policies and to stay under sanctions is seen as the long-term threat that does require continued proactive approach both to new methods of containment of Putin's circle and engagement with the society.

Which of the two positions wins will be depended on the calculation on how much more damage even a weakened Russia under moderate sanctions can exert on western allies and what other priorities would dominate the agenda?

A key issue under this scenario will be whether the West, especially Europe, will continue to see the viability and pro-Western choice of Ukraine as its priority and Kyiv as its core ally. A weakened Russia can offer the West halt its interference inside NATO countries, it can even give concessions in the Middle East, South America and elsewhere. But as long as Putin's regime is in power, it will see democratic and successful Ukraine as its existential threat. Therefore, even weakened regime in Moscow will throw all of its available resources to undermine Ukraine. The West thus might have temptation to throw Ukraine under the bus and pragmatically exchange its security in exchange of priorities inside the West and elsewhere in the world.

Second scenario is much more extreme and different from the more or less status quo first scenario as it envisages qualitatively different set of changes. In this scenario Russia engages in a one or multiple acts that lead the West to the acknowledgement that Russia must be contained, if necessary, at a considerable cost as otherwise it presents a serious, or even existential threat to some members of

the NATO alliance and to western democratic institutions. This perception of threat may come from a variety of actions in the military, security or political spheres and may include the following:

While any of these outcomes are not necessarily likely, they are far from implausible, given Russia's track record in any of these areas. In these circumstances, the U.S. and its allies will need to present a unified front and stepped up program of sanctions to effectively neutralize and reverse Russian abrasive efforts to destabilize Western world. This would inevitably involve at least level #3 sanctions as described above.

Notably, for the West to achieve such consensus it would need to establish facts and acknowledge their meaning. In today's world of fake news, conspiracy theories and partisan approach to Mueller's investigation it will be difficult. Even more difficult it can take to get to acknowledge the scale of threat if the Kremlin manages to amplify voices of its supporters (paid and inadvertent) in the West. As recent research shows when it comes to sanctions and basic tenets on policy towards Russia, there is a whole group of high-level western experts who often end up "blaming the West for the Cold War and portraying Western sanctions against Russia as a return to a "morally bankrupt" and "unjust" "Cold War mentality".¹⁹⁴

194 Smaglyi, Kateryna, Hybrid Analytica: Pro-Kremlin Expert Propaganda in Moscow, European and the U.S., Institute of Modern Russia, published on Oct 2018, accessed at https://www.underminers.info/s/Smaglyi_Hybrid-Analytica_10-2018_upd.pdf, p. 14

Scenario	Indicators for the short to medium term (1-5 years)	Indicators for the long term (5-12 years)
For all scenarios	<ul style="list-style-type: none"> - Scale of Russia's arms race with the West, transfer of military capacity to rogue states - Russia's role in global drug trafficking and sponsoring terrorists - Interference in Ukraine, Belarus, Kazakhstan, the Baltic - Scale of elite cannibalism in Russia - Russian investments abroad, especially outside West - Inflow of FDI from China - Oil price and its effect on the short-term budget 	<ul style="list-style-type: none"> - Alliance with China in avoiding/counteracting U.S./Western sanctions - Russia's ability to develop and import analogs of crucial western know how, electronics - Scale of elites' defection to the West - Scale of brain drain and emigration - Putin's health/succession candidates - Oil/other commodity prices and their long-term impact - Ability to circumvent sanctions by individuals and entities
Specific for moderate (or status quo)	<ul style="list-style-type: none"> - Financial well-being of sanctioned state corporations 	<ul style="list-style-type: none"> - Reversal of Russian aggressive long-term policies
Specific for extreme	<ul style="list-style-type: none"> - Sovereign debt status 	<ul style="list-style-type: none"> - Ability by sanctioned banks to develop alternative ways to operate without SWIFT

Ramifications for U.S. Policy

A key ramification for the U.S. government which is obvious on the one hand but often underestimated by policy-makers and experts is that sanctions is one the few "scenarios" vis-à-vis Russia where the U.S. can actually have an upper hand and have a pro-active role in the long term.

But before that the U.S. government and society will need to properly acknowledge whether they indeed consider themselves in the state of hybrid war with Russia or not, as there are many alternative views floating around, including from coopted figures, on what is actually hap-

pening. It is worth repeating that:

The unexpected conclusion... is that European and American sanctions against Russia have not only considerably restrained and impeded Russia's international contacts at the political level but have simultaneously created additional professional opportunities for Russian and Western intellectuals. At the background of Russia's deteriorating relations with the West, they suddenly found themselves at the very heart of "track II diplomacy" efforts. Russia's invitations to the Valdai Club, as well as its generosity and first-class hospitality, have proved hard to decline. To a significant degree, Russia is testing the Western intellectual community and its ability to resist the Kremlin's many temptations and co-optation strategies.¹⁹⁵

It is quite possible that Putin's behavior can be changed only under force and pressure, not through diplomacy and that even in the best-case scenario (unless the U.S. and its allies are ready to sustain significant costs from comprehensive "Iranian style" sanctions) the Kremlin will not reverse its aggressive policies.

The U.S. government would have to always weigh how much sanctions cost the U.S. itself and its allies against potential long term benefits they can get from sanctions. The U.S. would also have to make a hard choice on how committed it should stay in upholding Ukraine's sovereignty and security against various odds that may include Germany's rapprochement with Russia at the expense of Ukraine.

In case of extreme actions from Putin and his successor, the U.S. has little choice but to be proactive with fullest possible toolbox of sanctions in order to avoid an even bigger conflict with Russia such as military engagement.

However, the U.S. faces a dilemma on how proactive it wants to be even under moderate scenarios. When choosing even at #2 level of sanctions against limited number of high officials and entities, the U.S. faces a choice of how much these sanctions should affect Russian people and broader industries versus individuals around Putin and their proxies.

Putin invariably tries to compensate his inner circle and shield entities that he considers as strategic at the expense of the rest of society. A common-sense ramification

195 [Ibid, p.8](#)

from that is a need to develop nuanced sanctions that are difficult to pass on the shoulders of Russian people. And whenever the Kremlin does that to have substantial and effective media capability to try to pass this information to Russian people.

This brings us to another obvious but not immediately apparent conclusion that sanctions should be a part of the broader containment and engagement strategy with Russia where the US makes a distinction between the government and people and has a nuanced calculation of costs and long-term implications on both sides.

Recommendations for the U.S. Government

It is clear that when dealing with such a large and complex country like Russia, the U.S. government can't simply engage only in a sanctions policy. National interests of the U.S. require an adoption of a comprehensive multi-layered containment strategy that employs both sanctions against aggressive actors and actions of the current Russian regime and engagement with elements of Russian society that can lead to long term positive changes.

This as a new "upgraded" containment strategy, not an iron curtain but a glass wall (so that both sides see what is going on as objectively as possible) with multiple doors for contacts for members of the elite that chose to defect from the regime, whistleblowers, civil society and thought leaders.

Sanctions should be carefully tailored to target as wide as possible circle of Putin's insiders and any of their family members or other proxies that use proceeds of corruption or dirty methods against neighbors and western democracies. The same goes for the Kremlin-connected entities. When necessary industry wide sanctions should be applied without hesitation if national security or democratic institutions are at stake.

Recent proposals from a bipartisan group of U.S. senators suggest the U.S. could soon introduce stiff new

sanctions on Russia over its meddling in U.S. elections and aggression against Ukraine that could include wider sanctions against Russian sovereign debt, oil and gas, cyber and banking sector.¹⁹⁶ This bill, the "Defending American Security from Kremlin Aggression Act," known as DASKA, would also create U.S. policy offices on cyber defenses and sanctions coordination, a centralizing measure that is clearly missing in terms of a coherent policy of counter-acting Russian propaganda and direct meddling against NATO allies. It is clear that even these measures are just a fraction of the full U.S. potential in terms of imposing more painful sanctions against Russian aggressive kleptocratic regime.

However, whenever possible the U.S. government should try to distinguish between Russian society and Russian government/policy-makers and seek to primarily punish the latter. The Russian government often aims to pass the buck from the negative effect of sanctions from Putin's insiders to the broader population.¹⁹⁷ The U.S. government should support innovative ways to communicate these outcomes to the Russian people directly. Projects that improve online content and work on a global free wife from a satellite are some of the obvious lower hanging fruits to complement sanctions policy.

As for sanctions themselves the U.S. government has a whole variety of instruments to choose from, every time weighing their odds against the perceived threats they are meant to fight.

One the most difficult tasks of U.S. foreign policy in the next decade will be to disentangle Russia's policy from China's and avoid uniting them against ongoing and future US sanctions, that could lead to a formal alliance against the U.S., smuggling of sanctioned equipment and other joint hostile actions.

The U.S. should also closely monitor Russian investments abroad, ensuring that they do not allow it to significantly circumvent intended sanctions. The U.S. should definitely sanction Gazprom and its partners before the construction of Nord Stream 2 gas pipeline. This pipeline aims to undermine existing gas infrastructure and regu-

196 Zengerle, Patricia, U.S. senators to try again to pass Russia sanctions bill, Reuters, published on Feb 13, 2019, accessed at <https://www.reuters.com/article/us-usa-russia-sanctions-exclusive/u-s-senators-to-try-again-to-pass-russia-sanctions-bill-idUSKCN1Q22J9>

197 Ahn, David, speech in the DMGS-Kennan Distinguished Speakers Series: The Impact of Sanctions on Russia's Elites, Wilson Center, on Feb 04, 2019, accessed at <https://www.wilsoncenter.org/event/dmgs-kennan-distinguished-speakers-series-the-impact-sanctions-russias-elites>

lation on gas competition in Europe, erode transatlantic security by coopting German elites and put Ukraine and Central European allies in a vulnerable economic position.¹⁹⁸

There could be selective sanctions against the elites, and they could be provocative and proactive when expedient. For example, the U.S. Treasury can pit members of Russian elite against each other and against members of Putin's inner circle by introducing various levels of sanctions for their assets and proxies. Envy and contempt among them would foment distrust and erode loyalty on both sides.

In addition, the U.S. government officials sometimes do not even have to impose but it is enough to threaten with SWIFT cancellation or oil embargo to set the alarms in the Russian government.

Finally, any sanctions policy should be accompanied by a robust and as massive public relations campaign as possible.

Firstly, the U.S. government should not forget to convey to its own population and policy-makers, to those of the allies and to the Russian society at large that sanctions against visas and assets are not infringing against anyone's innate rights but are simply removing some privileges.

Secondly, the U.S. should demonstrate carrot and stick policy explaining clearly under what conditions specific sanctions can be removed and why they were introduced in the first place. This helps to fight Russian disinformation that try to present sanctions as unilateral capricious actions trespassing international rules.

Thirdly, the U.S. should actively engage Russian young people and Russian diaspora outside Russia (after all unlike Cold War era Russian borders remain largely open and there is a huge emigration from Russia). There is a huge potential to demonstrate attractiveness of democracy to young and diaspora members with the goal to show alternative views of Russia while Putin is still in power and to have thousands of qualified people with a benevolent view on democracy to take positions of power and influence in post-Putin Russia if the right circumstances permit. The option not to engage these groups of people will undoubtedly backfire against long term interests of the U.S. as Russia has been trying to engage them with its own toxic anti-democratic ideas.

In the long term, the U.S. may need to introduce some policies that are complimentary to the idea of sophisticated modern containment strategy.

The U.S. should expand whistleblower protection schemes to include not only state level or national sport whistleblowers, but also those who want to expose how corruption works in corporations within kleptocratic states.

Major Russian state banks found many ways to de-facto circumvent sanctions.¹⁹⁹ The U.S. government should expand sanctions to include second and third tier banks in Russia as part of ongoing sanctions so that Russian actors are less able to overcome the full impact of sanctions by using these smaller banks.

¹⁹⁸ Zaslavskiy, Ilya, Corruption pipeline : the threat of Nord Stream 2 to EU Security and Democracy, Free Russia Foundation, published in 2017, accessed at <http://www.4freerussia.org/wp-content/uploads/2017/10/Corruption-Pipeline-web.pdf>

¹⁹⁹ Zaslavskiy, Ilya, How Russian Banks Survive Under Sanctions, Charter 97, published on Sep 14, 2015, accessed at <https://charter97.org/en/news/2015/9/14/168909/>



Central Market, Voronezh, 2009. Photo courtesy of Konstantin Rubakhin, all rights reserved

State Crony Capitalism



By Ilya Zaslavskiy

Sources of Discontinuity

Outside of Russia, the regime's emissaries often concede that the current state of affairs is far from perfect, and there are even occasional admissions of corruption, inefficiency, and lack of democratic process. Such admissions are invariably followed up with qualification that the West features similar vices on comparable scale.²⁰⁰ In 2018, Russia dropped from the 135th to 138th position on the list of 180 countries featured in the corruption index compiled by the Transparency International watchdog, tying with countries like Guinea, Iran, Lebanon, Papua New Guinea and Mexico.²⁰¹

By all accounts, Russia's problems with corruption are pervasive and worsening. The current regime is not only incapable but resistant to eliminating it.²⁰² As one western expert put it in a summary of his study on the subject:

"In recent years, corruption has played an ever-larger role in the regime's stability. It serves as a force

to co-opt and control the political elite and to replace formal institutions with something more flexible and more amenable to the needs of a consolidated authoritarian regime... The approaching fourth term of President Putin will continue to increase the role of informal institutions in Russian politics, in which corruption plays an increasingly large role in the Kremlin's management of the political process.²⁰³"

In fact, corruption is not just an integral part of the current political process. Even the norms and values of the current elite in the Kremlin, the "neo-Gulag values" (i.e. coming from the world of Russian prison system and forced labor camps) are centered on corruption and the elite itself is based on the fusion of three groups: former Communist party officials, ex-KGB and other law enforcement agencies, and criminal groups.²⁰⁴ Corruption has become an innate part of their modus operandi because they mostly share several fundamental beliefs that western policy-makers are missing.

200 Milov, Vladimir, Andrey Medushevsky and Ilya Zaslavskiy, Constitution and Economy after Putin. A Roadmap for a new Russia, Free Russia Foundation, published in 2018, accessed at <https://www.4freerussia.org/wp-content/uploads/2018/09/AfterPutin-full.pdf>, p.6

201 Russia Ties Lebanon in 2018 Corruption Perceptions Index — Transparency International, The Moscow Times, published on Jan 29, 2019, accessed at <https://themoscowtimes.com/news/russia-ties-lebanon-in-2018-corruption-perceptions-index-transparency-international-64328>

202 Zhigalkin, Yury, Kleptoparasitism and poverty. Russian economy is operating according to the gulls' law, Svoboda, published on Feb 16, 2019, accessed at <https://www.svoboda.org/a/usa-today-russia-kleptoparasitism/29773379.html>

203 Buckley, Noah, Corruption and Power in Russia, Foreign Policy Research Institute, published in April 2018, accessed at <https://www.fpri.org/wp-content/uploads/2018/04/buckley.pdf>, p. 1

204 Zaslavskiy, Ilya, How Non-State Actors Export Kleptocratic Norms to the West, Hudson Institute, published in Sep 2017, accessed at https://s3.amazonaws.com/media.hudson.org/files/publications/Kleptocratic_Norms.pdf, pp.5-10

- Post-Soviet proxies genuinely hold a righteous belief that those in power—that is, themselves and their equally wealthy and powerful Western counterparts—are the only real and rightful decision-makers. The rest are, to use their Gulag terminology, “prison dust”—nobodies at the bottom of the hierarchy.
- Not only in their states, but also everywhere in the West, everything and everyone is for sale, or susceptible to manipulation or some form of control.
- Individual human life does not matter anywhere, unless it is someone from your inner circle or from among power-brokers.²⁰⁵

After the collapse of the USSR, the West has mostly failed to export its democratic norms to the post-soviet region. Instead, the main import of corrosive practices along with outright corruption has been happening from kleptocratic regimes, especially from Russia, to the West itself.

This toxic background of domestic political reality and aggressive export of corruption from Russia to the outer world should force western-policy makers ask pertinent questions.

Can Russian corruption get even worse or it had already hit rock bottom? Can it improve after Putin leaves power?

Corruption can definitely get worse, as Russia still has a potential to fall much further in that respect. The reasons for such discontinuity are multifold. Firstly, inside Russia the corrupt leadership – i.e. Putin’s inner circle of insiders from St. Petersburg times and high-ranking members

of the security apparatus who oversee and benefit from major criminal network - has managed to make corruption systemic through a key driver usually associated with the Russian mob. It is called collective gang responsibility (“krugovaya poruka”) and has been Putin’s signature method to spread and maintain his influence in corridors of power.

By entangling more and more federal and regional circles in the corruption as a network and a hierarchy and spreading it not only as economic but also political method of running the country he is removing last institutes and leaders who can resist it from the top. He is the ultimate arbiter (as the most powerful figure at the top of this pyramid) but he can’t feasibly control all moving and competing parts in the ever-growing corruption networks below.

The only way he can restrain growth of corruption is to have different corrupt factions in power compete with each other on the pretext of fighting corruption. However, given that the currency and end game in that game is not governance or transparency but loyalty and security for the regime, stopping corruption will never be a target, only temporary and narrow tool of expediency in suppressing defiance of any factions and their growth in power.

A possible example of how this can unfold is in the possibility that Russia will become an even bigger global drug dealer than it currently is. Recent events, where Russian diplomatic channels²⁰⁶ and big vessels in distant part of the world with unprecedented volumes of drugs,²⁰⁷ plus growing ties with criminal networks that produce drugs (Afghanistan, select countries in South America, etc.) suggest that the Kremlin may already be on that path.

Secondly, external sources of discontinuity for corruption scenarios are arguably even more important as the state weakened by internal corruption on a systemic level is even more prone to catch additional decrease outside.

Kleptocracies are known to learn from each other in the methods to advance their interests. Russia is surrounded by kleptocracies of different size, some of them are

205 Ibid, pp. 8-9

206 Hodge, Nathan and Mary Ilyushina, The drug smuggling scandal Russia wants to wish away, CNN, updated on March 1, 2018, accessed at <https://www.cnn.com/2018/02/28/europe/russia-drug-smuggling-argentina-intl/index.html>

207 Russian sailors held in Cape Verde on suspicion of smuggling nine tonnes of cocaine, Reuters, published on Feb 2, 2019, accessed at <https://www.reuters.com/article/us-russia-capeverde-drugs/russian-sailors-held-in-cape-verde-on-suspicion-of-smuggling-nine-tonnes-of-cocaine-idUSKCN1PROEF>

arguably even more corrupt and authoritarian than Russia (such as Turkmenistan, Azerbaijan, Iran and some other states in the broader Caspian region).

More importantly, Russia is increasingly heavily influenced and arguably cultivated through corruption by powerful China.²⁰⁸ Russia elites have resisted attempts to be subdued by Chinese corruption but people like Igor Sechin, CEO of Rosneft who has allowed his company to sell about \$70 billion worth of future Russian oil at discounted prices in dubious cash-for-oil deals, had already opened doors for this kind of creeping corrupt influence.

Just one grim example that might be seen as radical but still plausible. What if China largely gets impunity for its concentration camps in Uyghur region (the West does nothing about it except diplomatic lip service) and replicates and expands this experience of forced labor and re-education camps to other parts of the world? And Russia joins in this development?

In my view, the whole story of Gulag – massive soviet prison system – has shaped Russian attitudes to corruption. Through Gulag it got normalized. Compounded with impunity to China this can be a catalyst for new forms of rampant corruption in unexpected regions (such as for Tatars of Crimea, an ethnic minority which is being already heavily suppressed by Russian security services).

Even more plausible and closer to home for the U.S. is the impunity with which Russia has been exporting its corruption and associated cooptation of western elites and political class in the West. One of the many examples of that would be the construction of Nord Stream 1 and 2 pipelines. The former already brought massive corruption and cooptation not only inside Russia (such as the case of Arkady Rotenberg intermediary companies) but also in Germany itself (the case of Nordic Yards being corrupted by former minister of energy and Gazprom board member Igor Yusufov and Russian organized crime).²⁰⁹

Cooptation has taken place not just at the level of Gerhard Schroeder, ex German Chancellor who now works for Gazprom and Rosneft, but at middle-ranked echelons of German bureaucracy.²¹⁰

Many more examples of Russian employment of corruption and organized crime as tools of political and economic subversion in the West have been shown in multiple reports, vividly summarized in Senator Ben Cardin's report from early 2018 detailing two decades of Russian state activity against democracies.²¹¹

Description of Changes

According to most scenarios in this report the economic outlook for Russia under Putin is grim, and at best Russian economy will be stagnant and at worst declining. The only possible exception to that can be a period of prolonged high oil prices but currently this seems unlikely.²¹²

Given such scenario, there will be more or less a permanent situation of a "shrinking pie", accompanied by even more fierce corruption and factional strife by the elites competing for decreasing resources. Growing corruption within Russia will inevitably mean further cannibalism of elites which has already started under Putin in the last few years (see above scenario on elites' cohesion that describes cases of Vladimir Yevtushenkov, Ziyavudin Magomedov, etc.).

The values of the elites described above are, however, unlikely to change. Neither will the elites start to challenge the leadership of the country, unless there are excessive rampant repressions en masse.

Since 2014, reacting to worsening economic conditions from sanctions, declining oil price and exacerbated corruption, Russian business class largely reacted in the following way:

208 See scenarios by FRF Team, V. Inozemtsev and D. Sokolov that touch this issue in detail.

209 Zaslavskiy, Ilya, Corruption pipeline : the threat of Nord Stream 2 to EU Security and Democracy, Free Russia Foundation, published in 2017, accessed at <http://www.4freerussia.org/wp-content/uploads/2017/10/Corruption-Pipeline-web.pdf> pp.7-9

210 Von Martin, Lutz, and Nagel Lars-Marten, Karrieresprung aus Berliner Ministerium zu Gazprom, Welt, published on Oct 09, 2016, accessed at <https://www.welt.de/politik/deutschland/article158636618/Karrieresprung-aus-Berliner-Ministerium-zu-Gazprom.html>

211 U.S. Senator Ben Cardin releases report detailing two decades of Putin's attacks on democracy, calling for policy changes to counter Kremlin threat ahead of 2018, 2020 elections, U.S. Senate Committee on Foreign Relations, published Jan 10, 2018, accessed at <https://www.foreign.senate.gov/press/ranking/release/cardin-releases-report-detailing-two-decades-of-putins-attacks-on-democracy>

212 However, betting on the long-term outlook of oil prices is a gamble worse than gambling itself and is beyond the scope of this paper.

- The elites, especially oligarchic billionaires, lined to Putin publicly praising him and not challenging his foreign policy, meanwhile asking him and the government for additional tax breaks and other privileges.
- Small and medium-sized businesses also did not pose any political challenge, but being unable to ask for significant help from the state and the government, resorted to the only known mechanism. They moved many of their businesses back to the shadow economy to avoid paying taxes and reduced their investments, eliminating any long-term commitments.²¹³

Given that natural resources, financial reserves and fire power to suppress any discontent of Putin's regime are quite sufficient to linger on for a foreseeable future, it is reasonable to expect the above reactions of the Russian business class to continue while Putin is in power. Meanwhile Putin will further extend collective gang responsibility through the political and business class and other strata.

In the past seven years Putin's take on collective gang responsibility included public adherence of Duma and Federation Council members to a state-level ban on approvals for immigration of Russian orphans into western families, to annexation of Crimea and arguably to an unfair pension reform. For business elite and oligarchs, it was also support of Crimea's annexation and public support for Russian counter-sanctions against the West.

In future, Putin's collective gang responsibility can include even more abrasive and corrupt/unethical approvals of further fiscal measures that rob national reserves and increase already unprecedented income inequality, Anschluss with Belarus, expropriation of private property (both domestic and foreign of any perceived enemies of the state).

Can, at least in theory, Russia recover from corruption and see an era of moral revival and recovering economy even without high oil prices? A report by Vladimir Milov (commissioned by Free Russia Foundation) shows

that this is clearly possible after and when Putin steps down from power and the new government does not consist of his cronies and adherents.²¹⁴ However, it would be unwise for the West to bet on the scenario that systemic corruption gets eliminated through Russia's internal reform quickly after Putin.

While there are many factors that make such anticipation unwise, the biggest potential impact may come from external factors, especially resurgent China with global ambitions. If Russia -both under Putin and after him - in the next decade gets weakened both politically and economically, then China may use not only its power but also cooptation through corruption as a mechanism to have a gradually growing role in formulating the Kremlin's foreign policy (or at least aligning it with its own agenda). If Russia is weakened economically but not yet politically, it can still present a competition with its corruption to China rather than an alliance or subordination.

Notably, a key factor for the West in this situation will be Russia's and China's reaction to western sanctions and other political and economic tensions between NATO and Eurasian powers likely to grow over the next decade. The question of sanctions against Russia will inextricably be linked to Russia's efforts to export (or not) its corruption, cooptation and other subversive and corrosive practices.

There are two crucial factors here that can significantly influence the ensuing changes. Firstly, how much the U.S. and its NATO allies allow sanctions against Russia and China to mesh these two kleptocracies into some sort of alliance. There should be a careful policy to avoid that from happening, perhaps, by making sure enough competition and antagonism remain between industries of the two countries.

Thus, for example, even under scenarios of deep conflict with both countries it would not be wise to simultaneously ban Russian oil exports and Chinese oil imports. The same goes for other strategic items of export and import.

213 Zaslavskiy, Ilya, *The Tsar and His Business Serfs. Russian Oligarchs and SMEs Did Not Surprise Putin at the Elections*, Wilfried Martens Centre for European Studies, published in Sept 2016, accessed at <https://www.martenscentre.eu/sites/default/files/publication-files/russia-elections-russian-oligarchs.pdf>

214 Milov, Vladimir, Andrey Medushevsky and Ilya Zaslavskiy, *Constitution and Economy after Putin. A Roadmap for a new Russia*, Free Russia Foundation, published in 2018, accessed at <https://www.4freerussia.org/wp-content/uploads/2018/09/AfterPutin-full.pdf> pp.12-18

Even more importantly, it is imperative that the West exercises not just a policy of sanctions and power projection (if necessary) but combines it with a parallel policy of containment of Russian and Chinese corruption for export and a policy of self-restraint.

In relation to corruption export from Russia and China it requires a much more robust policy of self-restraint on monetary cash flows that are allowed from this country in the West. This would be a painful exercise of reducing own consumption and appetite of certain industries and groups within the West that have benefited from such inflows (real estate, lawyers, financial managers, public relations and lobbyists, and coopted policy-makers and experts).

However, only through wide acknowledgement that such inflows have a negative multiplier effect of corrosion of governance in the economy and undermining of democratic institutions (and thus broader democratic values in the society), can dramatic changes related to Russian corruption be prevented in the West itself.

In short, the West has to both hinder Russia's and China's corrupt influence in the world and at the same time partly seal itself from powerful corrupt and cooptation impacts, if necessary, with a significant short-term loss, otherwise dramatic changes will happen not only in Russia or Eurasia but in the U.S. itself.

The global change that can ensue from this may be that the West will manage to keep its democracy and institutions more or less intact from the corrosive influence of corruption export, but large sways of Eurasia and Africa would still be highly influenced by negative impact of corruption and other aggressive policies from Russia, China and other regional leaders of kleptocracy.

Two most visible emanations of the latter development are that Russia becomes a much more robust Eurasian drug and arms dealer, provider of hacking services, human trafficking and other organized crime. Most importantly, however, in the long term that Russia does not find it so easy to meddle in other countries' electoral processes and other corrupt attempts to subverts political orientation of any powerful Eurasian states.

Indicators to Watch

Scenario	Indicators for the short to medium term (1-5 years)	Indicators in for long term (5-12 years)
Corruption stays at the same level in Russia	<ul style="list-style-type: none"> - How much privileges are the business elite/ oligarchs ask from the state and how much smaller business go into the shadow economy to avoid taxes 	<ul style="list-style-type: none"> - Impunity and ease with which Russia can export its corruption and cooptation as tools of political and economic subversion to other countries, especially in the West
Corruption increases in Russia	<ul style="list-style-type: none"> - How much Russia stops/reduces export of corruption and internalizes it after Western sanctions start to target corruption - How much Russia invests into corruption and cooptation specifically for political meddling in the West 	<ul style="list-style-type: none"> - Does Russia lose political independence in any significant form to China given long term rampant corruption and weakened political system - What methods of corruption is Russia learning from other kleptocracies
For both scenarios	<ul style="list-style-type: none"> - How much further has Putin entangled political and business elites in outright corrupt and criminal acts publicly (i.e. instances of public affirmation of collective gang responsibility) - Has the West allowed advance of Nord Stream 2 and subsequent corruption export and cooptation of elites in Germany and in the dependent Central Europe 	<ul style="list-style-type: none"> - How have Russia and China reacted to western sanctions and have they aligned their global corruption and cooptation strategies and other foreign policy tool kits. - Drug trafficking, illegal arms trading and other major crimes by Russia and the scale of the Kremlin's role as a regional/global mastermind.

Ramifications for U.S. Policy

Even if Russian corruption and its export to the West stay at roughly the same level in the long term, the ramifications for the West are significant. In effect, Russia along with other powerful kleptocracies, especially China are offering global political leaders an alternative how to achieve and sustain power. Under certain outcomes where corruption and cooptation as a tool is used widely in Eurasia, the best that the U.S. and NATO can hope for is just to seal themselves off and try to maintain viability of their governance and democratic institutions and values.

Corruption from Russia is already having a global impact and the question remains how successfully Russia has used it along with active measures and other med-

ding to undermine democracy in the West. One of the biggest revelations in that regard in the short term will be the release of Robert Mueller probe in to Russia's meddling in 2016 U.S. presidential elections.

However, even if its revelations are limited, it is quite likely that under Putin export of corruption will continue rampantly unless met with sanctions and filters that can adequately prevent dirty cash flows from Russia reaching the West, including through offshore anonymous accounts. The U.S. and its allies are already taking slow and often reluctant steps in reducing the sway of offshores in their economies, but a much more qualitative leap is needed.

It is quite possible that after some - yet another significantly egregious - act of export of corruption, Western policy-makers will realize that the price of giving up some major cashflows and financial and trade interactions with Russia would still be beneficial in the long term.

However, they would face a dilemma on how to achieve public acknowledgement of the issue if no direct conflict is taking place with Russia and short-term costs for some vested industries are quite high. May be some contingency plans and public relations strategies need to be prepared in advance.

The biggest single ramification is that both the U.S. and its allies already see enough of damage from Russian corruption in order to start developing an upgraded and comprehensive containment strategy of Russian kleptocracy.

Recommendations for the U.S. Government

Acknowledging Russian and other Eurasian corruption export to the West as a long-term and creeping but still an existential threat for the U.S. and NATO countries by members of the policy-making community is the first imperative step. Without wide public support and focus on this agenda democratic countries will be incapable of

upgrading their countermeasures and preparing a comprehensive and effective containment strategy.

The starting and central focus of it should be to filter undesirable financial flows from Russia which will require setting up independent financial and legal expertise that would not trust Russian counterparts. Russia has been caught abusing international financial and other economic institutions for years.²¹⁵ This would require measures not only against Russian financial channels but also reforms vis-à-vis offshore zones and anonymous companies and accounts with anonymous beneficiaries.²¹⁶

Another fundamental measure would be to reform international law enforcement and financial anti-money laundering and other oversight mechanisms such as Financial Action Task Force, FATF. Russia has been seen to abuse them for years, recently even inflicting direct damage on the U.S. Treasury itself.²¹⁷

In this respect, U.S. and other Western policymakers and legal experts should consider creating a concept of "legally failed states" to reflect that law enforcement against kleptocratic states is a threat to western national and legal security. If that analysis – and it needs to be carried out as soon as possible - is confirmed by U.S. policy-makers, then the next logical step would be to stop any interaction with Russian law enforcement and Justice ministry in areas where their disinformation and corrupt practices may inflict any damage on the U.S. institutions. The U.S. and its NATO allies should consider large-scale reform of Interpol and Europol to reflect presence of "legally failed states" in their interactions with kleptocracies.

The U.S. should apply a whole set of new sanctions tailored specifically against corruption export – such as against Putin's

215 Zaslavskiy, Ilya, Export of Corrosion: How Practices from Russia Penetrate and Undermine US and UK, Convention of the Association for Slavic, East European, and Eurasian Studies, presented on November 16, 2013, accessed at https://imrussia.org/media/pdf/Research/Ilya_Zaslavsky_How_Corrosive_Practices_from_Russia_Penetrate_and_Undermine_US_and_UK.pdf pp.18-26

216 Judah, Ben, and Nate Sibley, Countering Russian Kleptocracy, Hudson Institute, published in April 2018, accessed at <https://s3.amazonaws.com/media.hudson.org/files/publications/CounteringRussianKleptocracy.pdf> pp. 6-11

217 Cormier, Anthony, and Jason Leopold, Russian Agents Sought Secret US Treasury Records On Clinton Backers During 2016 Campaign, BuzzFeed News, published on Dec 20, 2018, accessed at <https://www.buzzfeednews.com/article/anthonycormier/russian-agents-sought-us-treasury-records-on-clinton-backers>

inner circle embezzlement and methods for wealth storage and corruption schemes in the West with exposure of western enablers and beneficiaries when applicable.

The U.S. must also tackle a broader problem of corrosive cooptation and infiltration of what has been termed as the Kremlin hybrid analytica, i.e. political disinformation tailored for western policy-making and academic communities.²¹⁸ Specifically, the following measures can be considered:

- Upgrade Foreign Agents Registration Act (FARA).²¹⁹
- Create ethical codes for retired state officials and what is expected of them in terms of subsequent service in the private sector.
- Upgrade sector and industry level ethics codes for lawyers, real estate, bank managers, academic researchers, think tank and university administrators.
- Increase incentives for academic grants from non-tycoon level (alumni and anonymous grants especially). Give more control to independent third-party due diligence and encourage public discussion on donations by broad academic community and civil society.
- Constantly review due diligence processes of academic institutions and require compulsory research on states that have broken legal systems, and demand that they use regional sources in local languages. Avoid conducting superficial due diligence only within Western jurisdictions and only with the use of English language sources.

- Where involvement with a particular kleptocratic country or entity is unavoidable due to national security or a policy priority, require compulsory modification to standard operating procedures in conjunction with recognized Western state and NGO country experts who have experience in local human rights and Corporate Social Responsibility (CSR) issues.
- Expand whistleblower protection schemes to include not only state level or national sport whistleblowers, but also those who want to expose how corruption works in corporations within kleptocratic states.
- Encourage professional associations to cherish the institution of reputation. Create guides on Western enablers in all key capitals.
- Encourage investigative analysis of kleptocratic oligarchs in the media, avoiding sensational coverage that presents them as role models with an attractive lifestyle. Analyze origins of their money, expose their norms and practices.
- Provide support for the anti-kleptocratic activists around the world to have legal security, proper funding, safe online capacity, access to expertise in legal and industry matters.²²⁰
- Expand Western sanctions to gross human rights violators and thieves from around the world. Follow with second and third tier banks in Russia as part of ongoing sanctions and add dozens of Putin's cronies and insiders to the ban list.
- In the long term, apart from sanctions, the U.S., jointly with other western governments and lawmakers should consider introducing a "corruption tax" or some other form of fiscal fine on oil, gas and other commodity exports from abusive and kleptocratic states, especially Russia along the lines of fiscal mechanisms on Fair Trade and the global carbon trade. This is not a sanction per se, but close to it, is a fiscal signal.

218 Smagliy, Kateryna, Hybrid Analytica: Pro-Kremlin Expert Propaganda in Moscow, European and the U.S., Institute of Modern Russia, published on Oct 2018, accessed at https://www.underminers.info/s/Smagliy_Hybrid-Analytica_10-2018_upd.pdf

219 Judah, Ben, and Nate Sibley, Countering Russian Kleptocracy, <https://s3.amazonaws.com/media.hudson.org/files/publications/CounteringRussianKleptocracy.pdf> pp. 7-8

220 It is unprecedented that the U.S. government finally started to use references to ongoing corruption cases outside the U.S. or even Russia, something that Russian opposition activists have been suggesting for years. https://www.underminers.info/s/HowtoselectRussianoligarchsfornewsanctions_updated.pdf p.5

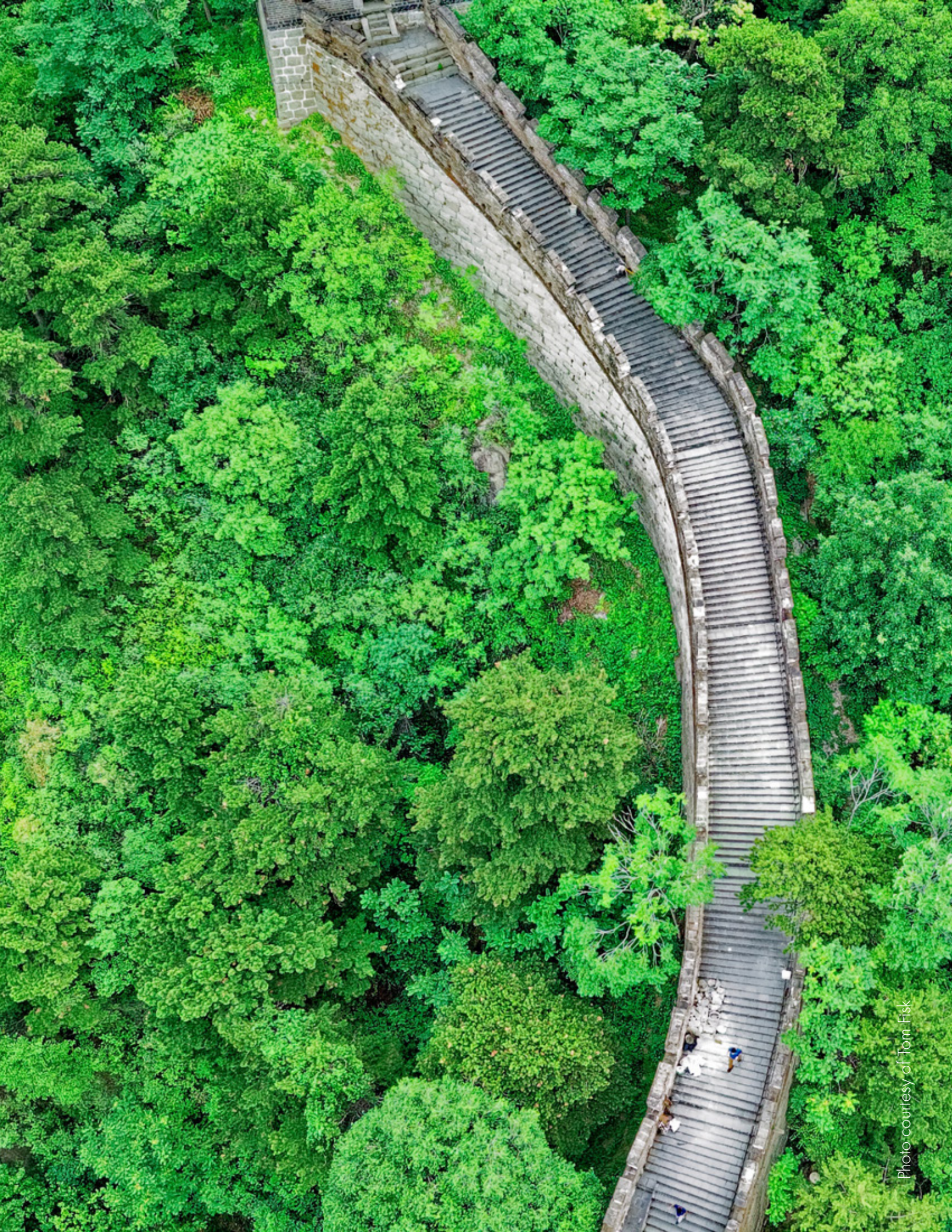


Photo courtesy of Tom Fisk

Russia and China in 2030



By Dr. Vladislav Inozemtsev

Discussions of major trends in Russia's economic, political and social development routinely stress 'the China factor': a large number of economic and geopolitical shifts precipitated by the continued rise of the world's largest economy and its most populous nation. Beijing is frequently portrayed as Russia's 'strategic partner' on whom Moscow increasingly relies in its economic plans and geopolitical aspirations, and arguments are made that 'pivot to the East' (or, in other words, the outreach toward the Pacific²²¹) should be the centerpiece of the Russian strategy for the coming decades. This chapter considers how well-grounded are such assertions and plans and what scenarios may realize by 2030 in Russia-China relations.

Historical Sources of Discontinuity

The Soviet and post-Soviet Russia's attitude to China for the most part of their history, had been shaped by the hope that China would side with Russia in its anti-Western/anti-capitalist stance. Vladimir Lenin praised the Xin-

hai Revolution of 1912 as an important landmark in anti-capitalist struggle in Asia, insisting its outcome on the global stage 'depends, in the end, of the fact that Russia, India, China, etc. represent the overwhelming majority of the Earth's population.'²²² In 1940s, Joseph Stalin actively supported Chinese communists in their campaign against Chan Kai Shek as he anticipated that Chinese communists would 'create a system resembling a democratic dictatorship of both workers and peasants, but being *par excellence* an anti-imperialist one'²²³. In 1998, Yevgeny Primakov called for an unrealistic Moscow-Beijing-New Dehli 'axis' amid the intensifying tensions between Russia and the United States²²⁴. In 2014, the Russian elite counted on China to replace lost Western partners in providing Russia with funds, technology and high-tech products it badly needed after the country faced both the U.S. and European trade and investment restrictions²²⁵.

For the entire history of Russo-Chinese relations, Russian political considerations have been intertwined with economic ones as the trade volume rose from \$5.86b in 1992²²⁶ to its peak of \$95.3b in 2014²²⁷. Even though the goal of \$200b volume projected by 2020 by Putin in his 2016 *Bloomberg* interview²²⁸ still looks overly ambitious, by the end of 2018 the \$100b threshold may well be bro-

221 The 'pivot to the East' is nowadays often identified in Russia with the drift towards the Pacific (see, e.g., a series of reports 'Towards the Great Ocean' from the first one entitled 'The New Globalization of Russia' (2011) (http://valdaiclub.com/a/reports/toward_the_great_ocean_or_the_new_globalization_of_russia/) up to the sixth 'People, History, Ideology, Education: Rediscovering the Identity' (2018) (<http://valdaiclub.com/a/reports/report-toward-the-great-ocean-6/>) (sites retrieved October 8, 2018) published by the Valdai Discussion Club crafted by a team headed by Professor Serguei Karaganov.

222 Ленин, Владимир. 'Лучше меньше да лучше' в: *Полное собрание сочинений*, т. 45, с. 404 (Lenin, Vladimir. 'Better less but better' in: *Complete Works*, vol. 45, p. 404) [in Russian].

223 Сталин, Иосиф. 'О перспективах революции в Китае' в: *Сочинения в 18-ти томах*, т. 8, с. 366 (Stalin, Iosif. 'On the prospects of the revolution in China' in: *Collected Works in 18 vols*, vol. 8, p. 366) [in Russian].

224 See: Волхонский, Борис и Иванов, Андрей. 'Китай подвёл Примакова' в: *Коммерсант*, 1998, 24 декабря, с. 4 (Volkhonsky, Boris and Ivanov, Andrey. 'China Betrayed Primakov' in: *Kommersant*, 1998, Dec. 24, p. 4) [in Russian].

225 For thoughts of Russian politicians on this issue see: Кашин, Василий. 'Поворот на Китай: как компенсировать на Востоке потери от западных санкций' (Kashin, Vassily. 'The Turn towards China: How to Compensate in the East the Losses Caused by Western Sanctions') [in Russian] at: <http://www.forbes.ru/mneniya-column/mir/252849-povorot-na-kitai-kak-kompensirovat-poteri-ot-zapadnykh-sanktsii-na-vostoke> (site retrieved October 9, 2018).

226 See: 'Российско-китайское торгово-экономическое сотрудничество' (Russia-China Trade and Economic Cooperation) [in Russian] at: http://russian.people.com.cn/200309/22/rus20030922_80671.html (site retrieved October 6, 2018).

227 See: 'Российско-китайский диалог: модель 2016' (Russia-China Dialogue: Model 2016) [in Russian], Moscow: Russian International Affairs Council, 2016, table 1, p. 14

228 See: Putin, Vladimir. 'Interview with John Micklethwait, September 1, 2016 (full transcript)' at: <https://www.bloomberg.com/news/articles/2016-09-05/putin-discusses-trump-opec-rosneft-brexite-japan-transcript> (site retrieved October 7, 2018).

ken as Russian leaders advance bilateral trade as a solid foundation for strategic partnership between Moscow and Beijing. Chinese investment into Russia surged 7 times between 2006 and 2016, and this fact is also often cited as a proof of a strong economic alliance between the partners. But all these figures should be treated by some caution for at least two reasons.

On the one hand, the growth of economic interaction between Russia and China is unbalanced in several aspects. Yes, the advances in trade are obvious, but it is China that profited most from such a cooperation. The Chinese imports to Russia that rose 22 times between 1996 and 2016²²⁹, and may reach \$51-52.7b by the end of this year²³⁰, by around 90 percent consist of industrial goods while the share of these produce in Russian exports to China fell from above 65 percent in 1996 to less than 7 percent today²³¹. Russia that ran a \$5.25b surplus in the bilateral trade as recently as in 2001, turned to a \$18.7b deficit by 2010²³². Today, the share of oil, oil products, gas and coal in Russia's export to China stays at 74 percent, well above the average figure of 64 percent for Russia's exports to all its trading partners²³³. So it's obvious that Russia just diversifies its traditional exports

by sending its primary commodities to China (in 2016 it became the larger supplier of crude to China, surpassing Saudi Arabia²³⁴) rather than finds new markets for its processed goods, and therefore follows the path of all other commodity economies that develop their relations with Beijing. Moreover, while China became Russia's largest trading partner by 2016 and accounts for 15.6 percent of Russia's foreign trade turnover from January to August 2018²³⁵, Russia's share in Chinese exports is much lower, staying now a bit beyond 2 percent so Russia still not making it to the list of ten largest trading partners of People's Republic²³⁶. As it comes to FDI (I do not mention loans), the picture is even bleaker with overall amount of the Chinese investments in Russia staying in between \$3.25 and \$5b – 4-5 times less than those flowing into neighboring Kazakhstan²³⁷.

On the other hand, it seems Moscow's expectations concerning the Russia-China economic cooperation were too optimistic – once again primarily because they were fueled by some geopolitical observations from the very beginning. Unlike the U.S., which combines enormous economic ties with China (their trade turnover hit \$635b in goods sold to each other in 2017²³⁸) with harsh criticism

229 See for 1996 http://www.mid.ru/ru/maps/cn/-/asset_publisher/WhKWb5DVBqKA/content/id/548594; for 2016 <https://ria.ru/economy/20170113/1485621451.html> (sites retrieved October 10, 2018).

230 Projections based on the data of Russia's Customs Committee for Jan.-Aug. 2018 with comparison with monthly distribution of Russia-China trade turnover for the whole year 2017, see: http://www.customs.ru/index2.php?option=com_content&view=article&id=25865&Itemid=1977 (sites retrieved October 10, 2018).

231 The data based on: <http://russian-trade.com/reports-and-reviews/2018-02/vneshnyaya-torgovlya-rossii-s-kitaem-v-4-kv-2017-g/> (site retrieved October 6, 2018).

232 See: Портяков, Владимир. 'Российско-китайская торговля: политико-экономический дискурс' (Portyakov, Vladimir. 'Russia-China Trade: Political and Economic Discourse') in: Сафронова, Елена (ред.) *Китай в мировой и региональной политике: история и современность*, вып. 16 (Safronova, Elena (ed.) *China in Global and Regional Politics: Before and Now*, 16th Issue) [in Russian], Moscow: Institute for the Far East of the Russian Academy of Sciences, 2011, table 5, pp. 167-170.

233 The data based on: <http://russian-trade.com/reports-and-reviews/2018-02/vneshnyaya-torgovlya-rossii-s-kitaem-v-4-kv-2017-g/> (site retrieved October 6, 2018).

234 See: Мануков, Сергей. 'Россия стала главным поставщиком нефти в Китай' (Manukov, Serguei. 'Russia Becomes the Main Supplier of Crude Oil to China') [in Russian] at: <http://expert.ru/2017/01/23/rossiya-stala-glavnyim-postavschikom-nefti-dlya-kitaya/> (site retrieved October 9, 2018).

235 According to the Russia's Customs Committee, see: http://www.customs.ru/index2.php?option=com_content&view=article&id=25865&Itemid=1977 (sites retrieved October 10, 2018).

236 According to WTE web-blog, see: <http://www.worldstopexports.com/chinas-top-import-partners/> (site retrieved October 9, 2018).

237 See: Коростиков, Михаил. 'Китайские инвестиции приноравливаются к российской экономической специфике' в: *Коммерсант*, 2017, 31 мая, с. 8 (Korostikov, Mikhail. 'Chinese Investments Get Used to Russia's Economic Peculiarities' in: *Kommersant*, 2017, May 31, p. 8) [in Russian].

238 Data provided by the United States Census Bureau, see: <https://www.census.gov/foreign-trade/balance/c5700.html#2017> (site retrieved October 9, 2018).

of China's human rights records²³⁹ and a kind of geopolitical containment of People's Republic²⁴⁰, Russia's actions were all the times based on an assumption China might become not an addition to its partnership with the Western world, but rather a substitution for it. As the first sanctions were imposed on Russia back in 2014, the Kremlin leaders argued China will easily substitute both U.S. and EU as a most important source of loans, investments, high-tech and even know-how for Russia – but it soon appeared that nothing of this became the case, not so much because Beijing was afraid of running against the Western regulation but rather since China saw no reasons for fostering its relations with Russia that remained, and still remain, much 'tougher' negotiator than a lot of other China's partners across the global periphery. Between 2000 and 2018, China invested 10 times less than the Western companies, in Russia's automotive industry; 23 times less in retail and wholesale trade; and up to 30 times less in oil- and gas exploration projects; the Chinese entrepreneurs are at the same time those who complain the most about the losses they encountered in Russia²⁴¹. In recent months it appears several Chinese companies started to comply with the U.S. sanctions against Russian banks and enterprises, trying to avoid additional deals with them²⁴².

One should also admit that the 'strategic partnership' in geopolitical issues also fell short of Russia's expectations. There were a lot of hopes in the Kremlin in 2008, and later in 2014 concerning China's recognition both of 'independence' of Russia's client states of South Ossetia and Abkhazia and of Crimea's attachment to the Russian Federation; instead of this, Beijing reaffirmed its position on territorial integrity of Georgia and Ukraine and proceeded cooperation with both. Russia also becomes increasingly disturbed by strengthening of China's positions in post-Soviet Central Asia where the Chinese companies outnumber the Russian ones and where China invests bil-

lions of dollars in badly needed infrastructure projects that Russia definitely cannot afford. Even as President Xi announces that China wants to confront the American 'unilateralist trading policy'²⁴³, Beijing shows now a much more balanced approach to major international issues than Moscow does.

Therefore, the cooperation between Russia and China, however intensive it may seem, lacks many features of really strategic relationships. First, it's no sign for any synergy appearing from it: Russia is not so much benefiting from its ties with China – it remains just another market for Chinese industrial goods and an additional supplier of energy resources to China; no 'producing chains' using either Russian or Chinese technologies for expanding both countries companies' outreach to the third countries never became a reality. Second, it seems the Chinese have no intention of helping Moscow to modernize Russia's economy, trying to increase presence in the primary sector while concentrating the final manufacturing in their homeland – and there is a good reason for that since China, as world's largest industrial economy, possesses no interest in industrializing its neighbor. Thirdly, the Chinese leadership remains stuck to its course of 'peaceful development' that puts economic advances well before political ones – and therefore Beijing will not sacrifice its economic ties with the West for political support of Russia's bold foreign policy actions. Major challenges to further Russia-China cooperation may emerge not so much from the tangible tensions in either economic or political spheres, but rather from the impetuously growing gap between the real, or even prospective, conditions of such cooperation and its imaginary picture created by unrealistic minds of the Kremlin leaders. The Russians are still expecting too much of China, and it will be a simple fatigue and disillusionment, and not a real economic or geopolitical conflict, that may push their cooperation into a steady decline.

239 For the record, see: Pils, Eva. *Human Rights in China: A Social Practice in the Shadows of Authoritarianism*, Cambridge, Malden (Ma.): Polity, 2017.

240 See, e.g., Luttwak, Edward. *The Rise of China vs. The Logic of Strategy*, Cambridge (Ma.), London: The Belknap Press of Harvard Univ. Press, 2012, pp. 213–247.

241 See: У Фэй. 'Взгляд с той стороны: как России привлечь китайские инвестиции' (U Feig. 'A View from Another Side: How Russia Can Attract Chinese Investment') [in Russian] at: <http://www.forbes.ru/finansy-i-investicii/348085-vzglyad-s-toy-storony-kak-rossii-privlech-kitayskie-investicii> (site retrieved October 9, 2018).

242 See: 'Часть китайских банков присоединились к санкциям против России' ('Some Chinese Banks Join Anti-Russian Sanctions') [in Russian] at: <https://rg.ru/2018/09/15/chast-kitajskih-bankov-prisoedinilis-k-sankciyam-protiv-rf.html> (site retrieved October 8, 2018).

243 See: 'Китай намерен противостоять политике односторонних действий' ('China Intends to Counter the Unilateral Actions Policy') [in Russian] at: <https://ria.ru/economy/20180911/1528293293.html> (site retrieved October 8, 2018).

Outlook for Sources of Continuity and Discontinuity

Looking forward, a rather obvious fact emerges: both Russia and China will likely continue their policies of bilateral cooperation – once again not because their forms are perfect and since their aims look similar but since, on the one hand, their leadership already invested a lot of bureaucratic efforts and personal authority into this project and, on the other hand, both nations are becoming more and more restricted by the West in their strategic choices. The alliance between Russia and China looks natural in current circumstances, but this doesn't necessarily mean it will evolve without any significant problems and difficulties.

For Russia, its 'pivoting to the East' (which means not so much a drive towards the Pacific, but rather a turn towards China²⁴⁴) seems critically important for at least four reasons.

First, the turn towards the 'East' is seen in Moscow not only (and, maybe, even not so much) as such, but as a turn away from the 'West' which symbolizes Russia's growing 'independence' from both Europe and the U.S. and underlines the 'sovereignty' which President Putin continuously praises. Like a desecrated family member, Moscow wants not so much to reconcile with his/her wife/husband, as to part with her/him at least for a while just to show that it might be better to live separately (there is a deep, though causeless, feeling in the Kremlin that Europe and the U.S. are suffering unbearable losses from disruption of their ties with Russia, and Russia's drift towards China will bring them back to terms sooner or later). The grievance that stays behind such a new political course, shouldn't be underestimated as a general cause for a quite significant part of Kremlin's moves.

Second, this turn symbolizes both the revival of Russia's former imperial/colonial glory reflected by the con-

quest and subsequent development of the Eastern Siberia and the Far East, and a quite crucial task of modernizing these territories that president Putin recently declared to become 'a national priority for Russia for the 21st century'²⁴⁵. The regional elections in some of these territories held in September, 2018 clearly reflected how unhappy the local citizens are with the speed of development of the Russian Far East (I would even argue that the comparison with China makes their dissatisfaction significantly stronger²⁴⁶) – so the goal of promoting the regional development, of re-establishing Russia as both a continental power and the European stronghold on the Pacific looms even more timely. Moscow thinks of Beijing as of a 'natural ally' in the development of these regions hoping the Chinese demand will foster both industrial and infrastructural growth here (and though this assumption may appear misleading, it affects Russian decision-making).

Third, the turn to the 'East' is also caused by a vital necessity to acquire an economically sound and strong partner which may secure Russia's access to high quality consumer goods, technology and capital and become an unlimited consumer for Russian commodities. After 2008, alongside with the rise of its geopolitical aspirations, Russia started to realize how vulnerable it is in economic sense – and from this time on it pushes Moscow into Beijing's embrace. Moreover, while in 2000s and even in early 2010s Russia expressed its willingness to follow the Western free market path, now it looks more and more carefully on the China's experience believing it might become a good alternative to the 'liberal' economic model since it secures a stable and effective long-term control over a competitive and growing economy by an unelected and corrupted political elite.

Fourth, and the last important reason is the overall 'asiatization' of Russian politics reflected by creating the 'vertical of power', nationalizing the *de facto* life-long tenures for bureaucrats, and encouraging a 'free conversion' of power into money, and vice versa. At the ideolog-

244 Since mid-2000s, China became a total substitute to the 'East' in Russian sociological discourse despite the fact geographically 'Russia's East' was still the West: if one travels to the East of Moscow she or he will arrive to Novosibirsk, Kamchatka, southern parts of Alaska, northern Quebec, Ireland, Britain, and Denmark – but by no means to either Beijing or Shanghai (see for greater detail: Inozemtsev, Vladislav. *China's Impact on Russia's Economy*, Stockholm: Swedish Institute of International Affairs, 2018, pp. 2-3).

245 Putin, Vladimir. 'The 25th APEC Economic Leaders' Meeting in Danang: Together Towards Prosperity and Harmonious Development' at: <http://en.kremlin.ru/events/president/news/56023> (site retrieved October 7, 2018).

246 See: Дьячков, Сергей и Иноземцев, Владислав. 'На отшибе. Почему стратегия развития Дальнего Востока терпит крах' (Dyachkov, Serguei and Inozemtsev, Vladislav. 'On the Outskirts: Why the Developmental Strategy for the Russian Far East Is Failing') [in Russian] at: <http://www.forbes.ru/biznes/355747-na-otshibe-pochemu-strategiya-razvitiya-dalnego-vostoka-terpit-krah> (site retrieved October 7, 2018).

ical level all this merge into the concept of 'Eurasianism' pretending Russia has not only European, but also Asian, 'historical roots'; while 'the Russian style of leadership and its sacral status were inherited from the Mongol Empire', where 'China is also rooted'²⁴⁷, so therefore Russia should 'naturally' engage with the Central Asian nations and China for accustoming to their traditional values and practices. In this sense China symbolizes not so much an ancient and unique civilization or a successful and diversified economy, but a kind of imaginary 'Asian ethos' that many times became quite popular and seductive for the Russian elite, especially in uncertain and challenging times²⁴⁸.

To summarize, the Russian elite is not so much bewitched by its *rapprochement* with China as it simply feels itself quite secure since it experiences no pressure for revisiting both the principles according to which it governs the country and its 'ideological' foundations (as mentioned earlier, it resembles to me the politics of the Russian princes in the 13th centuries who preferred to subjugate themselves to the Mongol *khans* rather to the Teutonic knights because the first didn't interfere into their domestic institutions and had no intention to endorse new faith in the Russian lands²⁴⁹).

For China, its close alliance with Russia serves several purposes as well.

First, it looks highly symbolic: Russia these days certainly becomes the junior partner in a Sino-Russian alliance, and it means a lot for the Chinese who were for centuries counted as an inferior people vis-à-vis its north-

ern neighbor and now are looking for some revenge. From the treaty of Nerchinsk to the Soviet times when China accepted assistance from the USSR – all this now might be forgotten as Russia turns into an economy eight times smaller than China and becomes incorporated into the Shanghai Cooperation organization where it accounts for only 9.1 percent of combined GDP of its member states²⁵⁰. The Chinese authors are openly pointing out the importance of this 'restoration of historical justice' for their nation²⁵¹.

Second, there is some feeling that Russia's past achievements might make a good use for the Chinese industry, first of all as the military, nuclear, and space sectors are concerned. Till 2008, China was the largest buyer of Russian arms and ammunition; till 2015, it widely used, in many cases illegally, Russian military and space technologies; even now it continues to manufacture military equipment using the know-how effectively stolen from Russia. The chance of continuing such a 'cooperation' with Russia and to use Russian remaining intellectual potential makes Chinese leadership ready for fostering the political and economic ties with Russia, where the Chinese companies and citizens feel themselves not constrained by any formal norms and requirements²⁵².

Third, the people in Beijing realize the great importance and a huge potential for Sino-Russian commodity trade as Russia still supplies only 10 percent of all oil consumed in China²⁵³ and may be capable to cover up to 7-8 percent of country's natural gas consumption as the shipments start in 2020²⁵⁴. Besides this, Russia supplies

247 *People, History, Ideology, Education: Rediscovering the Identity*, Valdai Discussion Club Paper, September 2018, p. 22.

248 See: Schimmelpennick van der Oye, David. *Russian Orientalism: Asia in the Russian Mind from Peter the Great to the Emigration*, New Haven (Ct.), London: Yale Univ. Press, 2010.

249 See for greater detail: Inozemtsev, Vladislav. 'Russia Pivoted East Centuries Ago' in: *Moscow Times*, 2014, May 28, p. 8.

250 Calculated by nominal exchange rates, World Bank 2017 data.

251 See the best review of the topic: Галенович, Юрий. *Китайские претензии: шесть крупных проблем в истории взаимоотношений России и Китая*, Москва: Русская панорама, 2015 (Galenovich, Yury. *The Chinese Claims: Six Major Problems in the History of Russia-China Relations*, Moscow: Russkaya Panorama Publishers, 2015) [in Russian].

252 See: Кузнецова, Екатерина. 'Туризм в красном тереме' (Kuznetsova, Ekaterina. 'Tourism in a Red Palace') [in Russian] at: <https://www.vedomosti.ru/opinion/articles/2016/07/06/648112-turizm-krasnom-tereme> (site retrieved October 8, 2018).

253 Calculated from the data provided by: *BP Statistical Review of World Energy 2018* (see: <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>) and 'Россия в 2017 г. осталась основным поставщиком нефти в Китай, оставив позади Саудовскую Аравию' ('In 2017, Russia Remains China's Largest Oil Supplier Leaving Saudi Arabia Behind') [in Russian] <https://ru.reuters.com/article/businessNews/idRUKBN1FEONX-ORUBS> (sites retrieved October 9, 2018).

254 Calculated from the data provided by: *BP Statistical Review of World Energy 2018* (see: <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy.html>) and Старинская, Галина. 'Россия и Китай договариваются об увеличении поставок газа' (Starinskaya, Galina. 'Russia and China Debate Increase in Gas Shipments') [in Russian] <https://www.vedomosti.ru/business/articles/2018/09/13/780729-rossiya> (sites retrieved October 9, 2018).

China with coal, electricity, timber²⁵⁵ and various metals which looks very important not so much due to competitive prices that the Chinese are able to get because of their monopolistic market position, but primarily because of Russia's proximity that appears quite important in the times maritime routes might be easily cut off in case of, e.g., China-U.S. military showdown.

Fourth reason for China's 'romance' with Russia might appear to be short-lived, but it still is much cited now: the importance of the huge Eurasian landmass which can become a 'playing ground' for all those 'Belt and Road' strategies²⁵⁶ that became China's semi-official geopolitical doctrine. Even while I'm extremely doubtful about the prospects of turning either Russia or the post-Soviet Central Asia, not to say the Russian North, into viable and useful 'bridges' connecting East Asia and Western Europe²⁵⁷, it seems there is some luster in Beijing concerning all these projects, and this reinforces Russia's bid for a 'strategic partnership'.

So, even on China's side there is little enchantment caused by its *rapprochement* with Russia, the leaders in Beijing will stay on the current course simply because the emerging partnership looks economically beneficial for China and because Russia is malleable and ready for further concessions.

Therefore, it seems to be rather few factors have the potential to derail the current path of Russia-China cooperation. On the one hand, it develops steadily due to Russia and China common interests and because both nations' elites share similar views on foreign and domestic issues and stick to the similar principles in governing their countries and oppose the same trends and actors on the international scene. On the other hand, and it has no less importance, that first of all Russia, but China as well, in recent years became involved in some new 'projects' (from the occupation of Crimea to the trade showdown with the U.S.) which they cannot terminate without causing huge

damage to their elites' domestic standing. This also contributes to the overall predictability of both Russia's and China's policies – and also of their policies vis-à-vis each other.

Looking at Russo-Chinese relations over the past twenty years, it is hard to document any major tensions that were able to cause their demise or at least deep rethinking, while in Russian-American relations one might see at least three periods of engagement (in early 1990s, in 2001-2002 and in 2009-2011) and three cases of estrangement (in 1999-2000, 2003 and later, and from 2014 till nowadays), and in Russia-EU relations – two periods of *rapprochement* (in 2003-2004 and in 2009-2011) and two periods of disengagement (after 2004-05 and from 2014 onward). Taking all of this into account, Russo-Chinese relations seem to be an area of Russian policy which is the least exposed to any kind of unpredictable changes, or 'flips'; its evolution may be only gradual, and by 2030 great surprises are not expected here.

Sources of continuity and discontinuity specifically for the 2020s

Another crucial issue that cannot be neglected while considering likely scenarios for Russo-Chinese relations is the factor of personalities which shape them. During the last 30 years, Russia and China were ruled by only four leaders each. Both countries showed a strong drive for restoration of 'strong state' and their elites most of the time were and still are equally hostile to Western values of democracy and of human rights. The trend culminated in personalistic regimes installed by President Putin after 2012 and by Chairman Xi in 2016. The first is now called not so much the president but 'the national leader' and is openly identified with Russia²⁵⁸ while the ideas of the second are now encrypted into both the Communist Party's Program

255 The latter issue raises constant concerns in Russia's Far East as the Chinese advance their harvesting of Russian woods, see, e.g.: Куанова, Мадина. 'Каждый день мы видим, как уходят составы с деревом в Китай...' (Kuanova, Madina. 'Every Day We See Trains Loaded by Timber Heading for China...') [in Russian] at: <https://www.sibreal.org/a/29035867.html> (site retrieved October 9, 2018).

256 See for more detail: Miller, Tom. *China's Asian Dream: Empire Building along the New Silk Road*, London, New York: Zed Books, 2017.

257 See: Иноземцев, Владислав. 'Транзита не выйдет' в: *Ведомости*, 2012, 29 ноября, с. 4 (Inozemtsev, Vladislav. 'Transit will not happen' in: *Vedomosti*, 2012, Nov. 29, p. 4) [in Russian] and Inozemtsev, Vladislav. 'Russia as a «Transit Country»: A Pure Illusion' in: *Aspen Review Central Europe*, Fall 2012, pp. 78–82.

258 See the quote in: 'No Putin, No Russia,' Says Kremlin Deputy Chief of Staff' at: (site retrieved October 6, 2018).

and into China's Constitution²⁵⁹.

It seems that President Putin now has no chances for leaving the top position in the Russian bureaucracy²⁶⁰, whatever it's called, and Chairman Xi will definitely use the right to stay in his capacity for the third consecutive term that was granted to the Chinese leader by the National People's Congress in March, 2018²⁶¹. Both points seem quite important because one can be rather sure that there will be no change of either Russia or China rulers till at least 2027 when Chairman Xi's third term expires – and therefore the year 2030 we are taking for the horizon of our forecast may definitely be treated as the time of either the continuing Putin-Xi alliance or as the time when both Russia and China start to reconsider their legacy – but even in the latter case the developments will be dominated by the previous logic since in two or three years the well-established political course of any superpower rarely changes in a dramatic way and the long-time alliances are not dissolved.

Moreover, there are not too many reasons to believe both China and Russia may change their paths in economic sphere. During the last twenty years the Chinese government engineered a sound economic strategy based on a solid domestic consumer demand; it amassed the largest currency reserves in the world and secured its every need for commodities, not to say it established a world-class R&D system – so therefore one can expect the growth rates to go further down, but not a systemic crisis to happen. At the same time Russia evolved into a typical commodity economy and failed in all its attempts to modernize²⁶²; industrial exports diminished while the state control over the economy grew; nothing points to any chance this course might change since it correlates with the basic interests of the Russian political/financial elite. So, one should not expect either China and Russia get new economic dynamics, and therefore their trajectories will continue, reinforcing China's superiority over Russia and Moscow's dependence from Beijing. This trend might be challenged and reversed only due to either unexpected or specially designed impulses from outside, like a new

global economic crisis, coordinated efforts by the Western powers to limit either Chinese or Russian political ambitions, or by a major military conflict.

Three Scenarios for the Future

Looking at the Russia-China future in greater details, I would outline three most likely scenarios, ranging from the most 'optimistic' one to those less favorable for Russia.

The first scenario may realize under the general conditions that I would call hostile for both Russia and China. For becoming closer allies and for developing more enhanced cooperation Moscow and Beijing quite paradoxically need to face common challenges and threats, both economic and political.

Under this scenario we take for granted Russia continues its occupation of Crimea, the showdown in Eastern Ukraine goes on, from time to time descending into active military operations, and the Western sanctions against Moscow deepen. China at the same time continues its military build-up, becomes a naval power second only to the U.S. while the West (first of all the United States) tries to contain it by imposing various trade and investment restrictions.

These developments might cause a set of rather positive consequences for Russia-China relations.

First, the geopolitical tensions will help to keep the commodity prices high, with oil breaking through \$100/bbl mark as soon as in 2020, and going further up because the United States, driven by its desire to relocate back its previously outsourced industrial facilities, becomes interested in rather cheap dollar, which will depreciate by 20-30 percent against major global currencies by mid-2020s. This will help Russia to amass record currency reserves and provide its energy sector with funds needed for new development and transportation projects. At the same time due to increasing U.S. pressure on Europe for seducing it to achieve 'energy security' from Russia and to buy U.S. produced shale gas and oil, the European energy market will become less attractive for Russia, and

259 See: Buckley, Chris and Bradsher, Keith. 'China Moves to Let Xi Stay in Power by Abolishing Term Limit' at: <https://www.nytimes.com/2018/02/25/world/asia/china-xi-jinping.html> (site retrieved October 6, 2018).

260 See for greater detail: Kotkin, Stephen. 'Will Putin Ever Leave? Could He if He Wanted?' at: <https://www.wsj.com/articles/will-putin-ever-leave-could-he-if-he-wanted-1520635050> (site retrieved October 6, 2018).

261 See, e.g.: 'China's Xi Allowed to Remain «President for Life» as Term Limits Removed' at: <https://www.bbc.com/news/world-asia-china-43361276> (site retrieved October 6, 2018).

262 See for greater detail: Inozemtsev, Vladislav. 'Ist Russland Modernisierbar?' in: *Transit* [Vienna], Heft 42, 2012, SS. 78 – 92

after 2025 Moscow may increase the share of its oil and gas shipments to China from 23.2 percent and less than 1 percent in 2017²⁶³ to 30-35 and 20-25 percent respectively. This will make China a truly indispensable partner for Russia and consolidate further their political alliance.

Second, the reappearance of Russia as a No 1 energy supplier and its clear shift to China as the main customer for its commodity exports will result both in the growing of Russian consumer goods market and in the vital need for making the Eastern parts of the country more suitable for everyday life. Under such conditions Chinese exports to Russia will explode, first of all represented by e-commerce that in recent years grew at double digit numbers and by 2025 will increase to \$40-45b a year from \$18.5b in 2017 while the share of international shipments shoot up from 8 to 37 percent during last seven years driven primarily by China's AliExpress²⁶⁴. The Chinese will supply the Russian Siberia and the Far East with critical infrastructure and engage both in residential construction and in developing of local transportation, even though they will not be allowed to acquire control over large resource deposits and will not be ready to invest into new industrial facilities in the region. In any case, the trade cooperation will advance, and Russia's Eastern provinces will get their share of prosperity, thus securing more friendly border relations with China and encouraging Chinese private investments into the region.

Third, with the U.S. remaining hostile to both Russia and China both nations will turn to Europe as a long-term economic partner and even a situational political ally. This

will provide the Chinese with more reasons to foster their 'Road and Belt' project investing not only into the Central Asian, but also into Russian 'infrastructure corridors', including (maybe) both the railroads and highways from Kazakh-Russia border towards Poland and Finland²⁶⁵ and the Northern Sea Route circumventing the Russian Far North²⁶⁶ which now has a very little importance. I doubt Russia can gain significantly from these projects in purely economic and financial sense²⁶⁷, but they definitely will consolidate the position as a 'bridge' between Asia and Europe Russian leaders dreamed for years²⁶⁸, and, which is much more important, put closer together many Russian regions by means of Chinese investment (it looks nowadays that Russian road and infrastructure development has completely stalled, and without the external push it cannot be rejuvenated whatever money are allocated for reaching such a goal).

Fourth, I can envision another external challenge that might bring Russia and China closer and enhance their cooperation – and this may be the spread of pan-Turkish feelings and beliefs all around the Central Asia, where Russia and China believe they are the only masters. Turkey becomes increasingly active in the region in recent decades, and both Russia and China feel threatened by the Islamization which is on the rise in Russia due to increasing inward migration from post-Soviet Central Asian nations and in China where the government eventually turned the Xinjiang autonomous region into a kind of a 'police state'²⁶⁹. The fight against Muslim radicals might become a huge joint project for Russia and China which is

263 For 2017, see: 'Россия нарастила экспорт нефти в 2017 году на 1%' ('Russia Increases Its Oil Exports by 1 percent in 2017') [in Russian] at: <https://tass.ru/ekonomika/4855275> and 'Россия в 2017 г. осталась основным поставщиком нефти в Китай, оставив позади Саудовскую Аравию' ('In 2017, Russia Remains China's Largest Oil Supplier Leaving Saudi Arabia Behind') [in Russian] at: <https://ru.reuters.com/article/businessNews/idRUKBN1FEONX-ORUBS> (sites retrieved October 9, 2018).

264 See: 'Какой станет электронная коммерция в 2018 г. и далее?' ('What Will E-Commerce Look Like in 2018 and Beyond') [in Russian] at: <https://www.shopolog.ru/metodichka/analytics/kakoy-stanet-elektronnaya-kommerciya-v-2018-godu-i-dalee/> (site retrieved October 9, 2018).

265 The concept of such a 'transport corridor' is presented in detail at Russia's Ministry of Transport web-site, see: <https://www.mintrans.ru/activities/215/217/25/28> (site retrieved October 9, 2018).

266 On NSR see, e.g. Storey, Ian. 'Russia's Arctic Shipping Ambitions Go Off Course' at: <https://www.straitstimes.com/opinion/russias-arctic-shipping-ambitions-go-off-course> (site retrieved October 9, 2018).

267 See: Inozemtsev, Vladislav. 'Russia's Northern Sea Route Ambitions' at: <https://jamestown.org/program/russias-northern-sea-route-ambitions/> (site retrieved October 7, 2018).

268 This idea shaped Mr. Putin's presidency from its very beginning, see: Путин, Владимир. 'Россия: новые восточные перспективы' (Putin, Vladimir. 'Russia: New Eastern Perspectives') [in Russian] at: http://www.ng.ru/world/2000-11-14/1_east_prospects.html (site retrieved October 9, 2018).

269 See: Human Rights Watch: 'Eradicating Ideological Viruses: China's Campaign of Repression Against Xinjiang's Muslims' at: <https://www.hrw.org/report/2018/09/09/eradicating-ideological-viruses/chinas-campaign-repression-against-xinjiangs>, а также: 'Концлагерь на 10 миллионов уйгуров' ('A Concentration Camp Built for 10 Million of Uighurs') [in Russian] <https://meduza.io/>

able to strengthen their security ties and promote additional economic cooperation in the post-Soviet space, while any potential quarrels between Moscow and Beijing over the Central Asia may greatly undermine Sino-Russian alliance.

Last but not least, being put under external pressure, Russia and China may start to develop some new forms of cooperation in economic and financial sphere – first of all for securing their financial independence from the U.S. I mean here the increase of transactions in their national currencies²⁷⁰ (of course, with renminbi playing the leading role); creation of financial clearing systems for facilitating business transactions; engineering a credit and payment card network disconnected from American banks and money transfer centers. I wouldn't say both countries are looking forward for making their national currencies fully convertible and trying to elevate them to a position of global reserve currencies (a lot on this issue was said for years, but still too little was really done²⁷¹), but the deep integration of financial systems may provide a long-awaited push to the economic cooperation.

To finalize, I would say that the economic rapprochement between Russia and China under the remaining soft pressure from the West looks as the best option for the Russian economy allowing it to grow without any dramatic structural changes, to develop country's Far Eastern regions and to integrate into the wider Eurasian economic system. Taking into account that Russia's Putin will not change his foreign policy agenda while the United States starts to realize China's rise becomes really dangerous, the above scenario looks quite realistic with around 20 percent probability of happening.

The second scenario may realize if the global economy returns 'to normal' and the political tensions ease, even if Russia remains attached to its aggressive and autarchic policy. In this case the different attitudes to the

wider world will contribute to the downward trend in Russia-China cooperation.

Under this scenario China resolves its quarrels with the U.S. peacefully while subsequently taking the lead in the new phase of globalization as chairman Xi outlined in his Davos speech of 2017²⁷². At the same time Chinese leadership reorients towards building an environmentally sustainable economy (we already have seen a lot of efforts undertaken in this direction in recent years²⁷³), and such a turn decreases global demand for energy in general, and the Chinese one in particular. The most important task for Beijing becomes to 'sell' its model of globalization to the world, and therefore Russia which remains hostile to globalization as such, cannot be a valuable partner, even though the rhetoric of 'strategic partnership' is still in use.

If these trends prevail, I would expect much less favorable environment not only for Russia-China relations, but, and this is much more important, for Russian economy and the country's prospects in general.

First, the overall ease of U.S.-China tensions after the Democrats recapture both the Senate and the White House in 2020 will have a stabilizing effect on the global economy which will become obvious during a new financial crisis of 2021-2022 when China together with the U.S. appears as both consumer and lender 'of last resort' for many affected nations. The Chinese leadership continues its military build-up, but it comes at slower pace and looks not so disturbing as before; at the same time driven by domestic issues and by the sense of cooperation with Europe, Beijing launches the largest ever campaign for ensuring the ecological sustainability of its economy that presupposes huge hikes in resource efficiency and the growing attention to the sources and technologies for producing renewable energy. Unlike Russia, China will continue to grow, and, once again unlike Russia, it will still be much less straightforward in expressing its geopolitical

[feature/2018/09/18/kontslager-na-10-millionov-chelovek](https://www.rbc.ru/economics/04/10/2018/5bb61fb69a79478a30eec190) (sites retrieved October 8, 2018).

270 The debate intensified in recent months as the U.S. sanction mount; for greater details see: Старостина, Юлия и Ткачёв, Иван. 'План по де-долларизации российской экономики' (Starostina, Yulia and Tkachev, Ivan. 'A Plan for De-Dollarizing of the Russian Economy') [in Russian] at: <https://www.rbc.ru/economics/04/10/2018/5bb61fb69a79478a30eec190> (site retrieved October 7, 2018).

271 President Putin called for 'full convertibility' of the Russian ruble back in 2003 (see: Путин, Владимир. 'Послание Федеральному Собранию Российской Федерации, 16 мая 2003 г.' (Putin, Vladimir. 'Address to the Federal Assembly of the Russian Federation, May 16, 2003') [in Russian] at: <https://www.prlib.ru/en/node/438193> (site retrieved October 7, 2018).

272 See: 'Xi Jinping's Keynote Speech at the World Economic Forum in Davos, January 17th, 2017' at: http://www.china.org.cn/node_7247529/content_40569136.htm (site retrieved October 7, 2018).

273 See, e.g.: Kahn, Matthew and Zheng, Siqi. *Blue Skies over Beijing: Economic Growth and the Environment in China*, Princeton (NJ), Oxford: Princeton Univ. Press, 2016, pp. 7–22.

aspirations preferring to unveil them beyond the terms of the time period analyzed since only by 2035, as the resolutions of the Chinese Communist Party suggest, China will start its transition to 'a fully developed nation' which it hopes to become in 2049²⁷⁴.

Second, the oil prices start to decrease from 2020 onwards due to the ease of geopolitical tensions, the stable growth of the U.S. oil and gas production, the drop in overall consumption, and, last but not least, because of the sharp rise in U.S. dollar exchange rate that follows the financial crisis. The Brent benchmark price breaks below \$40/bbl by 2021, and the Chinese energy consumption levels out by 2022. Both developments provide a heavy blow to Russian economy which just started to invest more in its energy sector following the local oil prices boom of 2018-2019. The Chinese turn down the Russian offers to increase the oil supplies and cancel plans for a western gas pipeline via Altai into the Xinjiang autonomous region. By 2022 Russia runs an all-times high \$50b trade deficit with China as Moscow is forced to renegotiate and lower the prices for both oil and gas it supplies to Beijing. After several years of talks the Kremlin finally agrees to grant the state-controlled Chinese companies the rights to explore and operate new oil and gas fields in Siberia and in the Russian Far East as well as to build their own pipelines for securing at least stable cash flow from the energy supplies to China.

Third, the Russian Eastern provinces witness a full-scale exodus of people for the core Russian regions as it becomes more and more obvious that the territory is *de facto* leased to the Chinese, and there is no hope for quality of life to improve since all the new investments are channeled into developing of new oil, gas, and ores deposits and in constructing roads and ways for exporting their produce to China. Even the Chinese express no interest in 'colonizing' the vast Russian lands, the locals realize they are left on their own by the federal government and try to leave. The Far East and the Eastern Siberia, even without any bids for autonomy, turn into the most problematic regions for Moscow since Putin's approval ratings

drop well below 20 percent by 2024. The major Russian companies gradually cease their operations in the region being unfit for the competition with the Chinese ones in any kind of business.

Fourth, as both the geopolitical tensions ease and the importance of oil- and gas- rich nations of Central Asia diminishes, Beijing makes decisive choice in favor of the so called Maritime Silk Road project²⁷⁵ to the Road and Belt initiative channeling billions of dollars into construction of world-class seaports alongside the entire route from Malacca straight to Suez and into building high-speed transport corridor from Yunnan to the Myanmar coast of the Andaman sea. The Central Asia tries to turn to Russia, but Moscow is unable to support Kazakh and Kyrgyz infrastructure projects while trying to prevent building oil- and gas- pipelines crossing the Caspian Sea in hopes for a continuing control over the westward exports of Kazakh oil. After president Nazarbayev dies in early 2020s, anti-Russia riots erupt in northern Kazakhstan leading to massive exodus of remaining Russians back to their homeland; as the result, the Eurasian Union collapses by mid-2020s²⁷⁶.

Fifth, the cooperation between Moscow and Beijing still continues – but in this case not so much because Russia believes it is beneficial for its national development, but rather because Kremlin has no alternative. China remains Russia's loyal political ally, openly praising Russian leadership for its domestic policy and for continuing 'sovereign' stance on global arena – and uses the consequences of both for securing even better terms for trading with Russia and for exploring its natural resources. At the same time, Moscow is unable to take a tuff position vis-à-vis Beijing since Russia remains a global outcast with China remaining one of its few friends and partners. The China factor becomes one of the most challenging topics inside the Russian domestic political agenda by 2030 since the vast majority of the electorate consider the official policy as a kind of national treason.

In this scenario, which, I would say, looks like the most realistic one with up to 70 percent probability of

274 According to the timeline approved by the 19th Congress of the CPC; see: *Business Review of China's 19th Party Congress*, London: PriceWaterhouseCoopers, 2017, pp. 3, 4.

275 See for greater detail: Ghiasy, Richard; Su, Fei and Saalmal, Lora. *The 21st Century Maritime Silk Road*, Stockholm & Berlin: SIPRI and Friedrich Ebert Stiftung, 2018, pp. 4–10.

276 On the possible causes of Eurasian Union's demise see: Inosemzew, Wladislaw und Kusnezowa, Ekaterina. 'Putins unnütziges Spielzeug' in: *Internationale Politik*, 2012, N^o 1 (Januar-Februar), SS. 78–87 and Barbashin, Anton and Inozemtsev, Vladislav. 'Eurasian integration: Putin's futureless project' in: *Aspen Review Central Europe*, 2014, No 2, pp. 68–71.

evolving, the course of events will definitely mark the decline of Russia's power and influence as compared to those of China. Beijing will barely try to alienate Russia, but the imaginary world in which the Kremlin leaders still live, will fall apart and this will cause extremely nervous reaction from Moscow. As the Chinese communists regarded Soviet ones after Stalin's death as 'revisionists', Moscow will consider Beijing as someone who is ready to make concessions to the West even if it simply wouldn't be the case. Nevertheless, neither Russia will abandon its alliance with China since it has no viable alternatives, nor China will not become Russia's adversary because of evident benefits of cooperation with Moscow. China will remain helpful for Russia – but much more for its survival rather than for its development.

The third scenario may realize if China's economic development goes bust and the country itself becomes a center of a global financial crisis (I would argue that there are many factors that make the Chinese economic growth unstable, but nobody knows whether they really will derail it). If this happens it might become a huge shock for the Russian leadership forcing it to reconsider its attitude to both the Western and the 'Asian' paths of economic and social development.

Although the economy of China looks sound and demonstrates strong growths, it definitely has many fundamental shortcomings. Most experts cite the credit overload of state-owned enterprises²⁷⁷, the growing bubble in the local housing market²⁷⁸, the excessive expansion of consumer credit²⁷⁹ and the disturbing demographic trends in a country that never experienced labor force shortages²⁸⁰. These problems don't necessarily mean a collapse of the Chinese economy, but both the global economic crisis and the intensifying showdown with the U.S. may

well contribute to the end of Chinese 'economic miracle' (I'm not even talking about the obvious fact, that no one nation. Whether European or Asian, hasn't experienced continuous economic growth for several decades in a row) – and for China not necessarily a deep slump, but even balancing with economic growth rates close to zero will mean such an end. Moreover, in such a case many experts forecast a chance for a political destabilization in the country as the living standards even now exceed those that cause a huge demand for democratization in nations like South Korea²⁸¹, so the economic difficulties being able to de-sacralize Communist Party's rule, might have dramatic consequences for China's future.

If China's growth stops it will have two different, but equally important, consequences for Russia. On the one hand, it will provoke a deep and prolonged fall in demand for Russia's traditional goods. Even now around of 40 percent of regional exports from Eastern Siberia and the Far East go to China, and not less than 25 percent of regional gross product is produced by the industries in one or another way dependent from Chinese demand or investments²⁸².

The standstill of Chinese economy will mean a deep slump for the economic activity in Russia's neighboring regions which may shed off up to quarter of their regional product. At the same time, I expect the Chinese partners will cut their purchases of Russian oil and gas, which will provoke a spillover effect for Russia's economy as a whole. The disruption in trade would intensify Russia-China tensions in political sphere as well. On the other hand, and it seems even more important, the disillusionment in Chinese economic model might change the overall attitude to China inside Russia's political elite. These days those in Russia who praises China's successes do this mentioning

277 See: Qinglian, He. 'Defusing Debt Bombs: Behind the Mixed Reform of China's State Enterprises' at: https://www.theepochtimes.com/defusing-debt-bombs-behind-the-mixed-reform-of-chinas-state-enterprises_2685259.html (site retrieved October 10, 2018).

278 See, e.g.: Shepad, Wade. *Ghost Cities of China: The Story of Cities without People in the World's Most Populated Country*, London, New York: Zed Books 2015 and Balding, Christopher. 'Why China's Can't Fix Its Housing Bubble' at: <https://www.bloomberg.com/view/articles/2018-06-24/why-china-can-t-fix-its-housing-bubble> (site retrieved October 10, 2018).

279 See: Hongyuran, Wu; Yi, Han and Wang, Fran. 'As Consumer Credit Surges, Analysts Ask: Where's the Spending Boom?' at: <https://www.caixinglobal.com/2018-09-04/as-consumer-credit-surges-analysts-ask-wheres-the-spending-boom-101322552.html> (site retrieved October 10, 2018).

280 See, e.g.: Rapoza, Kenneth. 'China's Aging Population Becoming More Of A Problem' at: <https://www.forbes.com/sites/kenrapoza/2017/02/21/chinas-aging-population-becoming-more-of-a-problem/#41d1208e140f> (site retrieved October 10, 2018).

281 See for greater detail: Acemoglu, Daron et al. 'Income and Democracy' in: *American Economic Review*, vol. 98, 2008, No 3, pp. 808–812.

282 See: Зуенко, Иван. 'Как китайские регионы решают проблемы за счёт соседства с Россией' (Zuenko, Ivan. 'How China's Regions Solve Their Problems at the Expense of the Russian Neighbor') [in Russian] at: <https://carnegie.ru/commentary/62026> (site retrieved October 9, 2018).

not so much Chinese political system or its human rights policies but citing its impressive economic and technological achievements. Without this component, the seductive power of China's path will diminish in Russia quite soon; the illusions about prospective inflow of Chinese investments will deteriorate sooner than expected – and without them Russia becomes more inclined to cooperate with the West than with the 'East'. If China's economic growth suddenly stalls, Russia's choice between Europe and Asia will definitely dominate the early 2030s political agenda, with major virtues of 'Eurasianism' being discredited.

Of course, I should mention that this scenario looks the least probable one (I will attribute to it around 10 percent probability) but one shouldn't exclude it entirely because the Chinese economy seems to be overheated and the methods the Communist party rules the country actually look grossly outdated.

Concluding this section, I would argue that the main element uniting all scenarios of Russia-China relations till 2030 is Russia's huge dependency from China and its evident status of a subordinated partner. Due to different factors – from the scope of economy to the degree of interconnectedness with the global markets; from the quality of political management to the differences in the regional development; and also, many others – Russia looks completely unable to shape its relations with China which directions and future today totally depend on Beijing. China teams up with Russia as a political ally, but it definitely is much more interested in economic cooperation; if a change of ruler happens in Moscow, China would continue its economic dealings with Russia as before. Russia will not be able to terminate cooperation with China even if a pro-Western government comes to power in Moscow. Russia has no means to seduce China to reconsider the terms of economic ties established in recent years – it can only look on how China behaves. And I would even argue that if the U.S. propose a radically new concept of aligning with China for establishing *Chimerica*²⁸³ *not in purely economic but also in some geopolitical sense, Beijing will immediately abandon Moscow as an ally if some favorable conditions would force it to contemplate about such an option.*

Indicators (Potential Triggers) for the Three Scenarios

For the first of the three scenarios to realize, a profound confrontation between the U.S. and China should erupt in the coming years and to remain in place for the most part of 2020. I would argue that several events look essential for such an outcome. First of all, the trade negotiations between Washington and Beijing collapse in early 2019, and not only the high tariffs are imposed by mid-2019, but also several direct restrictions will apply: the U.S. totally outlaws the Chinese telecommunication devices while China retaliates with a new round of industrial espionage and with a formal terminations of recognition of the U.S. intellectual property rights. At the same time China puts in custody several U.S. businessmen claiming they acted on the Chinese soil as 'foreign agents' and initiates a massive sell-off of the Treasuries. Even without any kind of a military showdown the Sino-American relations deteriorate dramatically. President Trump's approval ratings surge since he proves right in his tuff approach to 'anti-American' and 'non-democratic' China so he is re-elected in 2020 and continues his course. If this all happens, the Chinese will soften their attitudes to Russia trying to manage a real alliance between the two countries. It might become even stronger if the U.S. launches a series of measures for cutting the Chinese off the global commodity markets which would mean the increasing need for Sino-Russian cooperation. Since both Xi and Putin become real global outcasts after they both extend their power after 2023 and 2024 crushing some democratic resistance by their people, a strong and sustained Sino-Russian alliance becomes their only viable option.

The second, and the most probable scenario, needs simultaneous actions from both China and Russia to become a reality. In this case one can assume that the U.S.-China trade negotiations end with a great success and the Americans would enjoy much stronger influence on China's economy and policymaking in exchange for tighter economic cooperation and further American opening to China; at the same time the Russia-friendly candidates perform poorly in both presidential and parliamentary elections in Ukraine in 2019, Belarus rejects the proposal to reunify with Russia, and President Putin launches another series of assaults on Russia's neighbors. As the result,

283 The term was coined by an economic historian Niall Ferguson, see: Ferguson, Niall. 'Team «Chimerica»' in: *Washington Post*, 2008, November 17, p. A19.

both the U.S. and the European Union impose much tighter sanctions of Russia, and President Trump, using his renewed alliance with Beijing, reinforces China to side with these sanctions. Even the cooperation with Russia looks economically reasonable, the Chinese start to curb the trade with Russia while the death of President Nazarbayev of Kazakhstan in 2023 results in Sino-Russian showdown over the fate of the post-Soviet Central Asia. Of course, this scenario might bring much less dramatic consequences, but the two essential points remain the same: on the one hand, the U.S. and China should reconcile on economic issues, and, on the other hand, Russia's relations with the rest of the world must deteriorate.

The third, and the last, scenario, may realize if the continuing trade showdown between Washington and Beijing results in profound economic crisis in China triggered by a steep decline in American imports, full scale debt crisis and collapse on the real estate market. As the Chinese crash of 2020 becomes deeper than the Asian one of 1997 and causes a four-fold decrease of Russia's exports to China as well as the withdraw of the major part of the Chinese portfolio investments into Russia the Russian elite turns to other opportunities for both economic and political cooperation. President Putin hands two disputed islands back to Japan in 2022 and refuses to change the Constitution to run again in 2024 putting forward a more liberal-minded successor. So during the time gap between early 2020s when Russia decides to reconcile with the West, and the late 2020s when President Xi is dismissed after a coup in Beijing and Chinese economy starts to recover, the Moscow-Beijing 'axis' becomes almost completely undermined, and the Russian-Western ties become much stronger than the Russia-China might be even after some 'repair'.

Conclusions

Today, both China and Russia find themselves as two of the West's main competitors²⁸⁴ – but I doubt they can be called foes.

As China looks and acts as an ascending power, and Russia is definitely in decline²⁸⁵, the main challenges and even threats in the future may arise only from China. But even weak and declining Russia may play a crucial role in geopolitical games into which both the U.S. and China are involved. I would completely agree with Parag Khanna, an American strategist, who once depicted the United States, the European Union and China as the 'First World' powers, saying that Russia belongs to the 'Second World' in a sense that nations like it are unable to get on par with any of these leaders, but their support to one of them might be vital for balancing their influence²⁸⁶. Russia may be counted as the largest 'Second World' nation and looks quite important for at least three reasons.

First, it still is one of the two global nuclear superpowers and possesses significant conventional military capabilities – so if Moscow decides to form a genuine alliance with China (which isn't the case nowadays, but may occur if the West intensifies its pressure on the Kremlin) this will greatly increase the latter's military outreach and form an alliance well comparable with NATO by the number of active troops, all types of tanks and multiple rocket launchers, in all kinds of artillery and outnumbering it by the amount of nuclear warheads but lagging behind in air and naval forces²⁸⁷. Such an alliance could become a nightmare for the entire Western world, especially as Russia becomes less and less predictable polity. Secondly, both China and Russia have a strong voice in international

284 See: Kendall-Taylor, Andrea and Shullman, David. 'How Russia and China Undermine Democracy' at: <https://www.foreignaffairs.com/articles/china/2018-10-02/how-russia-and-china-undermine-democracy> (site retrieved October 8, 2018).

285 A good perspective is provided in: Wimbush, S. Enders and Portale, Elizabeth (eds.) *Russia in Decline*, Washington (DC): Brookings Institution Press, 2017.

286 See: Khanna, Parag. *The Second World: Empires and Influence in the New Global World*, London: Allen Lane, 2008, pp. 9-11.

287 See: <https://www.youtube.com/watch?v=sUWJdjbHJkk> (site retrieved October 8, 2018).

arena, being UN Security Council permanent members and possessing huge influence on many developing nations. With their authoritarian systems performing rather well economically, the China-Russia partnership may represent a kind of alternative to the liberal world – maybe not as seducing as the Soviet Communism was, but too influential to be neglected.

Third, Russia, even with its tiny share of 2.6 percent of global GDP, possesses the longest shore facing the Pacific Ocean among all the Pacific nations and tries to emerge as an important regional actor, so in some time it may act as a balance in a huge Asia-American Pacific chess game as now both American nations and the Asian ones are completely equal to each other by their respective shares in the global gross product and international trade²⁸⁸. All this makes any genuine Russia-China *rapprochement* challenging for the entire Western world and for the United States as a Pacific power in particular and therefore the best possible option for the U.S. would be to prevent such an alliance from evolving. I would even say that this task outweighs all the other issues that may affect the U.S. attitude towards Russia, like its military incursion into Eastern Ukraine, its support for Syrian leader Bashar al-Assad, its flirtation with Iran, and even its irresponsible encouragement of state sanctioned terrorist acts or meddling into foreign elections.

While assessing the relationships between Russia and China and building its own relations with any of these countries, the American leaders should take into account several rather obvious, but quite important, factors.

First, it should be taken as a starting point that the *rapprochement* between Russia and China, or, better to say, Russia's alignment with China, is entirely situational. Russia for a long time considered China as an important actor on the international scene (it was Mikhail Gorbachev who first admitted, that for the Soviet Union good relations with China are not less important than good relations with the United States²⁸⁹), but it started trying to build a close

partnership with it only after the rift in Russia's relations with the West became obvious. The Shanghai Cooperation Organization, formally founded in 2001, was a dormant structure till 2003-04 when Moscow realized that its alliance with the United States was destroyed by the military operation in Iraq (only then its permanent bodies like the Secretariat and the Executive Committee were established and the 20-year strategy for economic cooperation was adopted). Later it became more solid and strong as Russia engaged into military adventures in Georgia and in Ukraine, and the Western powers started to treat it as an outcast. Today Russia badly needs relations with the West to be restored or it will see its international credibility fully destroyed. Therefore, it may turn away from China if the U.S. decides it can allow to 'forgive' Russia and to resume 'normal' relations with Moscow in exchange for rather symbolic concessions but at the cost of easing, if not abandoning, its ties to Beijing.

Secondly, it seems to me that even without some Western moves Russia-China alliance cannot last forever due to two fundamental reasons. On the one hand, Russia isn't accustomed to ingratiating itself with any nation that openly expresses its superiority over it (it was one of the reasons the partnerships between Russia and the U.S. and Russia and the European Union consequently failed). So as China grows further and the new generation of Chinese officials becomes less 'politically correct' (this might be easily realized while participating in many Russian-Chinese talks), the Russian officials feel themselves offended and this disparity will at the end ruin the alliance. On the other hand, President Putin and the current Russian elite believe that 'Soviet Union was the same Russia, just called by another name'²⁹⁰ – and therefore are obsessed by keeping a strong Russian presence over the entire post-Soviet space (the intervention in Ukraine proves this in a perfect way). But China will not stop its penetration into the post-Soviet Central Asia since it considers the region a zone of its own strategic interests²⁹¹. There should be little doubt Russia and China will collide

288 See: Kuznetsova, Ekaterina and Inozemtsev, Vladislav. "Russia's Pacific Destiny" in: *The American Interest*, 2013, Holidays (November – December), Vol. IX, No. 2, pp. 67 – 73

289 Back in May, 1986 Mikhail Gorbachev, addressing the Soviet ambassadors, for the first time admitted the relations with China are not less important than those with the United States (see: Горбачёв, Михаил. *В меняющемся мире*, Москва: Издательство «АСТ», 2018 (Gorbachev, Mikhail. *In A Changing World*, Moscow: AST Publishers, 2018, [in Russian]), p. 30).

290 Путин, Владимир. 'Интервью трём российским телеканалам' (Putin, Vladimir. 'Interview to three Russian TV Channels') at: <https://ria.ru/politics/20111017/462204254.html> [in Russian] (site retrieved October 7, 2018).

291 See: 'Central Asia's Economic Evolution from Russia to China' at: <https://worldview.stratfor.com/article/central-asia-china-russia-trade-kyrgyzstan-kazakhstan-turkmenistan-tajikistan-uzbekistan> (site retrieved October 10, 2018).

over the Central Asia in the next twenty years or so as the current regional leaders will pass away or step down.

Thirdly, it should be noted that inside Russia the current relations with China are commonly considered as unequal and unfair. Moreover, both the Russian elite and the Russian public have no deep trust in China's leadership and Chinese institutions. There is nothing similar to the obsession with Europe or the U.S. where the Russians are buying homes, opening their primary banking accounts, and send their children for study. Even with the idea of a strategic partnership being intensively advocated and professed, before the current crisis around Ukraine the Russians believed China is the greatest danger for their country's territorial integrity²⁹² (no such polls have been conducted in recent years). In the Far East, where contacts with the Chinese is much more intensive, a huge part of the population believes the Russian government makes too much concessions to the Chinese while their economic presence destroys the local communities and environment. With around 3 million Russians permanently residing in the EU countries these days, there are less than one thousand who got the Chinese resident permission so far. As soon as the official propaganda ceases to encourage pro-China sentiments among the Russian people the popular mood may change quite soon, providing additional reasons for breaking the Sino-Russian alliance.

Taking all the above into account, I would argue that today there is a right time for the West to tax the stamina of Russia-China ties (and this option will remain open for at least several years to come). For this to be done at least two major initiatives from the American side are needed.

First, the major part of the 'sources of conflict' that exist between Russia and the U.S. in Europe and/or in the Middle East, must be not so much neglected (since they are acute and will not be resolved soon) as just temporarily taken out of the agenda. Some 'great compromise' on Ukraine, Syria, and the post-Soviet space in general might be offered to Moscow in exchange for aligning with the U.S. in the Pacific and for downgrading the relations with China in military and economic spheres. Russia under Mr. Putin pretends to be a major player on the international scene, and it wants to 'play big' – so an alliance with the U.S. and Japan in the North Pacific of a kind re-

sembling NATO and the U.S.-European partnership in the North Atlantic may become the best possible way to bring Russia 'back to normal' in nowadays geopolitics. Since Moscow turned to Beijing primarily because it run into conflict with the West and possessed no other possible allies in the East, it's worth to try diverting it from China by reestablishing the relations with the Western powers, but in the Eastern part of Eurasia.

Second, the U.S. should offer Russia an ambitious strategy for reviving its Far East and Siberia by providing technologies used by both Americans and Canadians for developing their Northern territories, including Alaska; a common approach must be elaborated towards the trade in energy resources in the Pacific with coordinated moves on part of the U.S., Canada, Russia and Australia, making China just one of the customers for Russia's commodity exports; the U.S. should lead the efforts aimed at a comprehensive Russia-Japan reconciliation and on securing the reunification of the Korean state with respect to potential Russian economic interests in its northern section. In other words, an economy comparable with that of 'Asian tigers' should be built in the Russian Far East based on the mix of American technologies, Russian labor and raw materials, and Japanese industrial chains that nowadays are looking for the options to relocate some of their production facilities from China.

All this doesn't mean Russia should be given a *carte blanche* in Ukraine or wherever else; it means only that the United States must avoid the restoration of an old 'East-West' divide resembling one existing during the Cold War and realize that in the 21st century the 'North-South' showdown might become much more important for shaping global politics, with Russia definitely belonging to the North²⁹³. All the other issues Russia is now involved it will be much more difficult to solve as Moscow turns into China's lapdog in coming years that looks quite probable if the West does not try to reintegrate Russia into its orbit and to detach it from China.

Ramifications and Recommendations for the U.S. Government

As one looks on the current relations inside the U.S.-China-Russia 'triangle' one would realize that the

292 According to FOM pollsters (2013), see: <https://fom.ru/politika/11086> (site retrieved October 10, 2018).

293 The argument is developed in: Inozemtsev, Vladislav. 'Russia and America Can Reset Relations by Looking North' in: *Financial Times*, 2017, October 9, p. 9.

United States now faces two revisionist powers (with one, namely Russia, being more focused on the political, and the other, namely China, on the economic issues). My strongest point is that the U.S. cannot afford these days to counter them both at the same time and therefore to force them to become closer to one another. The main task for the United States in today's world which some call the world of 'returning history'²⁹⁴, should be to split the Sino-Russian alliance and to deal with two powers separately, preventing their consolidated stance on the global arena.

The alternative options here require making hard choices. In case of rapprochement with China and alienation of Russia the United States will definitely pay a high economic price because such an alliance may come only with China getting a full access to the American market, including free flow of direct investments and at the same time it might frustrate some U.S. most loyal friends, and first of all the Japanese. Moreover, I can hardly imagine that even 'friendly' China will stop its rearmament program and will abandon the idea of achieving regional superiority in the East Asia which may almost inevitably lead to a new confrontation. In case Washington chooses to stay firm on China while seducing Russia to 'return' to its 'European' path, the task would also be extremely complicated one since the Americans would need to accept the old Cold War-like geopolitical thinking of the Moscow political elite and deliver some concessions to Russia both in Europe and in the Pacific (moreover, I doubt that there might be any significant economic benefits produced by such an alliance).

My advice would, nevertheless, be to try to 'reset' the relations with Russia rather than with China, for several reasons.

First, Russia during the recent several decades proved it might be a democratic, liberal, and peaceful country.

The Soviet Union under President Gorbachev and Russia under President Yeltsin were the nations that were inclined to adopt the Western principles and values – while the Chinese never proved they want anything from the West, except some economic cooperation, and therefore are definitely far less predictable than the Russians.

Secondly, the potential rapprochement with Russia looks much less challenging in economic sense: Russia is now a classical commodity economy, totally dependent on the advanced countries in many aspects and being unable to cover its basic requirements for high-tech goods. For several decades to come, Russia wouldn't become an economic powerhouse being able to challenge either Europe or America, and therefore it's simply more secure to 'invest' in it rather than to continue to transfer the newest Western technologies to China which proved to be perfect in using and developing them for its own benefit.

Third, by approaching Russia the U.S. may resolve many more problems in Europe and in the Middle East than by cooperating with China which has neither real influence nor general interests in the region. Of course, Russia had grossly violated the international law by invading Ukraine and annexing Crimea; its human rights record is quite unimpressive – but the country these days desperately needs the relations with the West to be restored; so, the joint American, European, and Russian efforts might produce serious results to the region – while in the case of China the U.S. simply doesn't possess any levers that might change Beijing's policies.

Fourth, one needs to take into account the relative might of both Russia and China. While Russia claims it's one of the two nuclear superpowers, it possesses neither conventional military capabilities nor economic potential to feel itself completely secured at the time of China's rise. On the contrary, China now feels itself definitely superior to Russia in any possible sense – therefore, I would say that the weaker (and actually declining) partner in this coalition seems readier to cooperate with an external power than the stronger (and the rising) one.

Fifth, and the last point: the U.S. may try to reconcile with Russia by putting the 'Pacific card' on the table. The Americans need new allies in the Pacific – and Russia looks as a perfect one first of all because Russia's Pacific coast and the adjacent regions are far less developed than those of China. U.S. has nothing to offer to the Chi-

294 See, e.g.: Kagan, Robert. *The Return of History and the End of Dreams*, New York: Alfred A. Knopf, 2008.

nese in this part of the world, but for Russia the cooperation with the U.S., Japan and Canada looks crucial especially as the Russian leaders claim the development of the country's Far East should become the most crucial task for the coming decades.

Thus, finishing, I would reiterate that the U.S. should do everything it can to prevent the Sino-Russian alliance from strengthening further, whatever it might cost; and it seems these days that Russia is the best partner to engage with in order to contain China, and not vice versa.



Soccer fans celebrate on the streets after Russia's team scores victory over the Dutch team, Moscow, 2008. Photo courtesy of Konstantin Rubakhin, all rights reserved

De-escalation



By Alexander Morozov

The Kremlin's Transition to the Policy of De-escalation

The degree of propensity toward conflict that the Kremlin's policymaking generates makes the political regime in Russia less stable than similar Eurasian regimes. What are the prospects for a possible transition of the Kremlin to the policy of de-escalation? We should note right away: we are not talking from the standpoint of transitioning to a liberal democracy – that transition is simply impossible, but rather from the standpoint of minimizing the costs generated by the system and preserving the statehood and national interests of Russia.

The first agenda item that the ruling class will have to address with Putin's departure (under any circumstances) will be the issue of maintaining order, that is, keeping the entire system in a safe and operating condition.

The situation will be in the hands of Putin's most influential associates. There will be a short period of bargaining and identifying what positions are occupied by each of the major "shareholders of the corporation." Chemezov, Sechin, the Kovalchuks, Bortnikov, Shoygu, and Sobyenin will have to make sure that they are forming a "transition alliance" whose stability will be critical for the subsequent situation. The head of the Central Bank and

the chairman of the Constitutional Court will have to also join this alliance.

Outside this inside circle are all the remaining "chiefs inside the system" – heads of regions, heads of ministries and departments, leaders of political parties, deputies of both State Duma chambers and regional parliaments, and so on. They will have to maintain close contact with their unofficial benefactors in the "transition alliance" and set their courses depending on the benefactors' decisions.

Past experience with such transitions in many countries has shown that the military cannot fully take control without first reaching a consensus with civilian experts from the economic and financial bloc, and that the civilians are unable to keep the situation under control without the support of the military.

Despite the so-called "Battle of Towers" – that is, the intense bureaucratic fighting between "resource centers" inevitable in such systems of power – there is no reason to believe that the rapid formation of a "transition alliance" will face serious problems. The army, special services, the economic bloc, state corporations, fiscal authorities, and the constitutional court will all remain completely loyal to "Putin's choice" as there is no convincing alternative vision among the upper echelons.

The most consensus-ready person will have the highest chances of acceding to the head of state during a transitional period. Each of the shareholders will individually have to weigh the possible consequences of the bet that all of them will have to collectively place on the figure of the successor. Thus, the question of the "next Putin" will be addressed before the elections, and the elections themselves will be solely a demonstration of how effectively the transition alliance continues to support the work of the system without Putin.

The set of requirements for the "new Putin" is quite high. He must be a class A official, with experience managing a large territory or a large agency, eligible for military service, having sworn a military oath, and capable of serving as commander-in-chief, able to maintain amicable and conflict-free relationships with most of the regime's major shareholders, sufficiently prepared to handle international issues, as well as commanding a good

understanding of Russia's financial and economic system, and at the same time able to maintain the delicate balance between influential ethnic, corporate, and bureaucratic groups.

The list of such candidates is short. Some of the heavyweights do not make the list because of their high propensity for conflict (like Sechin), others because of their misanthropy (Poltavchenko). The current assumption is that the consensus will need to be made in regards to one of these figures: Sobyenin, Kiriyyenko, Chemezov, Lavrov, Shuvalov, Kudrin, and Medvedev. Also, there is the possibility that Putin may choose to transfer power to a young successor from the ranks of new governors. But in the event of Putin's death, the transition alliance will not concede to this option as there is too much risk associated with it.

It is hard to imagine that the transition alliance will have any problems arising from the need to hold presidential elections. The population will vote for any candidate presented by the alliance under the banner of guarantees to maintain "loyalty to Putin's legacy" as a whole.

It is customary to emphasize the severity of internal conflicts between various resource groups, for example, between the FSB and "Kadyrovtsy" or between the political *siloviki* from the Security Council and the "economists," and so on. However, even if such conflicts have an effect during the formation of the transition alliance, they are unlikely to be critical. Of course, there will be bargaining, but it is unlikely that of the any majority shareholders will immediately get crushed. Even if that happens, it will not be the main political topic of the transition.

De-Escalation. What Is It?

The fundamental topic of the transition, which has implications for both the future of Russia and for the outside world, is that the axis of division within Putin's corporation, among its major shareholders, runs along the line of "policy of escalation / policy of de-escalation." There are influential leaders set on a hardline continuation of Putin's policies. But there are also those who would like to save the system but with a "reduction of costs." This reduction of costs, i.e. de-escalation, coincides with the maximum that Russia's neighboring countries and members of the North Atlantic Alliance can count on.

What does de-escalation include? Four groups of actions:

1. Withdrawal from Donbass along with rapid and comprehensive transfer of the separatist territories to Ukraine. This is an entirely realistic step. (In contrast to the "Crimea problem" which, like the annexation of Sudetenland last century, cannot be resolved by anything other than war).
2. Cessation of the Kremlin's annoying activities in the format of "information war" and active "political special operations" in European countries. That is, complete closure of the "corridor" which was used to intervene in the affairs of Montenegro, Greece, the UK, and the US, cessation of communications in the style of public trolling, and cessation of rewarding groups engaged in cyberwar.
3. Reduction of demonstrative military activity.
4. Shutting down of the political talk shows purposefully fueling the hysterical militaristic and revanchist sentiments of the population.

Any steps in one of these directions will evidence the beginning of a new process within the Kremlin.

It is apparent that for the leaders of the West and for the neighboring post-Soviet regimes, the main issue concerning the transition alliance will be determining whether there is a promising group of de-escalation supporters in it.

Looking at today's political landscape, it can be argued that supporters of de-escalation both in Russia and abroad will have to bet on Kudrin or Sobyenin (and not on Chemezov or Medvedev). They are the ones able to offer guarantees to all shareholders, preserve the general outline of Putinism and, at the same time, create a strong group of de-escalation supporters within the transition alliance.

The Role of the Society

What role can various social groups, parties, and trade unions play during the time of transition?

First of all, it must be emphasized that supporters of the transition from Putinism to a liberal democracy won't be able to play any significant role in this situation.

Those who have previously worked for Kudrin, Prokhorov, Mamut, Aven, Fridman, Medvedev, Chubais, Yumashev, and others will be in a strong position, since the employees of their clienteles will be offered the opportu-

nity to join the transition alliance at lower levels. In a weak position will be those remnants of liberal organizations that are radically anti-Putin and at the same time do not have the support of the population and cannot mobilize enough supporters to become participants in the political bargaining during the transition period.

The fundamental fact is that any attempt to activate the population during the transition must be presented to one of the stakeholders of Putinism as an instrument of its political fortification. But at the present moment there is not a single heavyweight at the top who would dare use “street support” against the other members of the transition alliance.

It is obvious that civil organizations (due to their small size and weak influence even in capital cities), parliamentary parties and trade unions (due to conformism), radical ultra-right and ultra-left organizations (due to susceptibility to infiltration and controllability) cannot play a significant role during the transition in Russia.

Media Hubs, Moderate Putinists, and Émigrés

However, a certain role will be played by three “communication hubs,” each of which can contribute to the big picture of the transition.

1. An important role is played by network newsmakers. At present, the Kremlin has a tight grasp of all the hubs that create the overall news picture. Some of them are under the control of Usmanov, the other is under the control of Kovalchuk, and the “keys” to the state media are in the hands of Gromov. However, there is a broad field of “guerilla media” which command a large distribution resource.

The vortex of all public group activity at the time of transition will be concentrated around the media. In such situations, supporters of escalation always advocate measures to immobilize the media and support repression, while supporters of de-escalation advocate bargaining and the policy of “engaging” the national media community in the transition process.

Only media siding with de-escalation can sway the attitudes of the population on the eve of the first elections following the transition.

2. The second important hub: in Russia there is a miniscule number of supporters of liberal democracy and

the complete dismantling of Putinism; however, there are diverse groups that will support the de-escalation policy, especially in large cities.

This makes possible the emergence of a resource tool in the format of a so-called “civil forum” that can unite moderate Putinists, various groups of intellectuals with humanist attitudes, and modern-thinking youth from large cities.

Such a forum has some chances of putting up a good fight to prevent the complete victory of escalation supporters and making the transition smoother.

It is apparent that at the present moment the only person who can act as the creator of such a forum is Alexey Navalny. Currently he is in a difficult political situation, and in the event of a transition he is risking being arrested or exiled. Nevertheless, his political track record has shown that there is an opportunity for one person to address the anti-oligarchic sentiments of the lower social groups advocating “justice” (which Navalny demonstrated in 2017 during his so-called “presidential campaign” at numerous rallies in many Russian cities) and at the same time modernizing the attitudes of young people harking from creative industries, small business, and the student community (which Navalny displayed during various political campaigns in large cities).

Old liberal groups will be uncomfortable in such a civil forum since they will not get to occupy within it their expected place. But this does not really matter because the realistic political goal can only be to fortify the resources of de-escalation supporters among the stakeholders of the regime, and not to seize Kremlin by means of an imaginary uprising.

3. The third hub important for the transition is locat-

ed outside the Russian Federation. Currently, around the world there is a large number of “supporters of cooperation with Russia” among holders of Russian passports, as well as among European politicians and businessmen. At the same time, they recognize that Russia’s political regime will never be liberal-democratic, and therefore it is necessary to deal with “whatever there is.”

However, most of them are in a complicated position after 2014 and will undoubtedly back the supporters of de-escalation during the transition. This means, in a sense, a paradoxical task at hand: to use the energy of those *putinverstehers* in order to minimize the costs of the transition. All the current “partners of the Kremlin” are interested in doing business with Russia, and subsequently in de-escalation.

This applies to all other European and global realistic-minded circles associated with the Kremlin today, with the exception of the ideologically indoctrinated neo-rightists who view Putin and escalation as a favorable forum to feed the flame of anti-Americanism and dismantle the EU. Realistic-minded Russians outside Russia are interested in creating a “shoulder” of support for the de-escalation devotees in Russia in the event of a transition. This means that this “shoulder” may be relied upon outside Russia to support the civil forum.

It is also important to take into account that after 2014 a number of “points of growth” have appeared outside of Russia: Khodorkovsky’s efforts, the Kasparov Forum in Vilnius, the Boris Nemtsov Forum organized by Zhanna Nemtsova, and the Marat Gelman public cultural initiative in Montenegro. Any of these initiatives, as well as new ones that may spring up, should be viewed from the point of view of whether an informal or formal structure outside of Russia can be used as a resource lever to act as an intermediary between Russian and foreign supporters of de-escalation.

Practical Priorities for De-escalation

The essence of a realistic view of the transition alliance is to take into account that the real structure of Putinism is not just a “power system” but also as a form of social organization.

The consensus at the time of transition provides for guarantees for influential ethnic groups that already have each its own special status and perks, as well as guarantees for state corporations, institutions vitally needed to

ensure stability, and other entities.

Any transition alliance team will inherit a difficult legacy with extremely entangled, non-institutional communication within groups that control resources.

The elimination of Putinism is a false beacon. **The real purpose around which a transition consensus can be formed is the preservation of Putinism but severing a number of swollen growths that continuously increase costs.**

Keywords: reduction of costs and de-escalation.

If such a turn of events works out to be possible in the first phase, then the prospects of transforming the society will also remain. Such a turn of events would fully meet the interests of Russia’s population and provide for the preservation of sovereignty, plus, it can be safely supported by the West, as well as Russia’s closest neighbors in the East and the South.

Today the US strategy that has some influence on Russia is implemented via three nodes:

1. Penetration control measures
2. Media in the Russian language and languages of the neighboring countries (BBG)
3. Established system of foundations working with Russians (NED, etc.)

In general, this system has adapted to the new conditions (post-2014) and is working effectively.

In which direction will this system develop in the 2030-35 outlook?

In the US, there is an institutional group in Congress specializing in Russia. Its role in criticizing Putinism and supporting the Russian opposition is extremely important. However, it appears that a “second shoulder” will also be needed, that is, the creation of a long-term political node within the American establishment, advocating de-escalation but placing a stake not on the opposition but on a relatively non-toxic part of the bureaucracy.

Of course, this is done not for the purpose of *putinverstehers* and recognizing the legitimacy of Putin’s claims against the West, but in keeping with the task of creating a new moderate environment of Russia’s educated class.

In other words, in parallel with the center of sup-

port for the Russian political opposition which already exists in the Congress, it is necessary to create a second gate, within which the agenda of de-escalation would be formed with the participation of young Russian officials, a new generation of academic scientists, and young researchers of international relations.

In the interests of de-escalation, it is necessary to act not only using traditional political instruments, but also by utilizing the same channels that the Russians themselves use.

There are three such channels — a system of circumventing sanctions, European politicians who advocate cooperation with the Kremlin, and fugitive Russian oligarchs.

A wide network of communications to circumvent sanctions. A large number of Russian operators and businessmen from many countries participate in it. The sanctions bring them income, but further escalation deals them a blow because it labels the schemes that are considered quasi-legal today as outright toxic. Therefore, this can be a favorable community for the formation of future supporters of the moderate course.

New European parties. It is also obvious that the Kremlin will continue working with the so-called European “new parties” now and in the future. Although the “new parties” are not yet sufficiently influential in Europe, the Kremlin attaches great importance to them, basing its reasoning on the concept of destroying the old system of party / political representation in liberal democracies. Inside the “new parties” there are many European “populists” who want to work with Russia, but escalation limits their opportunities. Therefore, these parties are also a favorable community, which in certain circumstances may be useful for de-escalation.

The fugitive oligarch community. There is a serious problem posed by the fact that major businessmen who have left Russia – above all, those who fled the country due to a conflict with Putin’s entourage – are not creating institutions and are not interacting. (Mikhail Khodorkovsky is an exception to this rule.) It is necessary to take consistent action to stimulate the communication among the Russian “*nouveau riche*” abroad in the interests of policies alternative to those of the Kremlin in the future.

Early Indicators of De-escalation

The beginning of the de-escalation process will fea-

ture symptoms similar to those observed at the onset of “Medvedism” that brought about the concept of “*perezagruzka*” (“reset”).

However, there will be a significant difference: de-escalation led by the Kremlin will not be a broadly heralded new course and will take place under the “post-Crimea” conditions, i.e. in a much more well-formed corporate state than it was in 2009-2010.

The stake in the dialogue should be made on the younger system bureaucrats, ones who did not get affected by personal sanctions but have public service experience.

After a long period of confrontation, it is impossible to focus only on restoring trust and interaction in the main institutional formats (joint commissions, dialogue routes addressing the primary agenda, etc.).

This means that at the first sign of de-escalation, three new infrastructures should be deployed:

“CARITAS.” Involving charitable and religious organizations (as it was done in the late 1980s and early 1990s). Rapid restoration of contacts, projects between American and Russian charitable organizations, recruitment of new youth for internships in the U.S. and Europe with the support of American foundations through official Russian charitable and peacemaking organizations.

“ELON MUSK.” A large new gate will be needed, creating an exchange between young American and Russian supporters of technological modernization. To a certain extent, this will be a return to the short period of “Medvedism” when Moscow developed cooperation between Skolkovo and MIT.

“URBANISM.” Russia has been continuing to actively implement strategies to improve cities and public spaces. A large number of regional and federal officials are involved. Direct contacts between city mayors and city administrations have always served as an important tool for smoothing the general atmosphere of international relations. It will be necessary to quickly deploy a program to restore and develop these contacts.

For all three areas – charity, technological futurology, and urbanism – there are counterparts in Russia ready to cooperate even in the current environment. They can serve as the medium that will quickly improve the overall climate of relations between the United States and Russia.

This raises the question as to what strategy can the Congress and the State Department implement in respect to protecting human rights and strengthening civil society institutions in Russia, and consequently in respect to the Russian political opposition.

One should keep in mind that today and under the conditions of possible de-escalation alike, the Russian political opposition is too weak a player. Its influence is limited and its current leaders are unlikely to have a serious impact on civil mobilization. Just as it was during the “Medvedism” years, these circles are likely to take the position of rejecting the de-escalation policy seeing in it the “cunning of the Kremlin.”

Since the Russian opposition has been depoliticized, the best scenario for interacting with it would be not an interaction with American party structures, but rather bringing into the spotlight interaction with non-political opinion leaders in the United States, such as writers, filmmakers, church leaders, and other influential people known for their social position.

There are no political organizations in Russia, but there are many commendable people with progressive views who have long been in the opposition and under pressure. Therefore, emphasis should be placed on personal interaction.

In other words, at the first sign of the beginning of de-escalation by the Kremlin, actions should be aimed at the rapid awakening of the non-politicized young populations in large cities, for they can serve as the backbone of this process.



Photo courtesy of Konstantin Rubakhin, all rights reserved

Succession after Putin's Unexpected Death



By Alexander Morozov

"The 90-day Problem"

Scenario: Unexpected Death of Vladimir Putin

This scenario is not a full-fledged situational analysis containing all the necessary components of a strategic forecast. Rather, it describes the possible consequences of an event that can happen at any moment during the timespan for which the forecast is made. This includes "tomorrow" (i.e. the immediate future from this day in 2019) as well as the very end of the timespan (Putin is currently 66 years old, and it is entirely likely that he will live to be 80 without giving up actual power – which shifts the implementation of this scenario to the years 2031-2032). It is clear that the proportion of uncertainty – both in terms of events and trends – increases as more time passes from the current moment. However, we consider it necessary to describe the logic of internal and external reactions to a major event, namely "unexpected death of the leader of the authoritarian Russian regime," in order to emphasize the importance of a short period – 90 days – during which, according to the Constitution of the Russian Federation, a new President should be elected.

The scenario does not specify the possible timeframe of the event, except for those cases in which the "when" factor is crucial. Like most static regimes, Putin's "vertical of power" only allows the very smallest internal changes to its structure and implementation processes. The current model is "Putin in the center, the 'new politburo' around

him, 'the technocrats' are responsible for the economy, and 'the loyal dogs' are responsible for security"; the likelihood that it will remain unchanged after five or even ten years is extremely high. The turnover of individuals in it will be minimal, because the actual battle for positions around Putin has long been completed.

Formalities and Informalities

In the event of the Russian president's unexpected death or his inability to perform his duties, the powers are temporarily transferred to the head of the Government – currently Prime Minister Dmitry Medvedev – including control of the army and special services.

According to the Constitution, elections must take place no later than 90 days after. These events automatically, according to the Constitution of the Russian Federation²⁹⁵ (Art. 92, Part 2) and the Law on the Election of the President of the Russian Federation²⁹⁶ (Art. 5, Parts 3 - 6), set in motion the countdown of time during which it is possible to make significant changes if not to the essence of the country's policies, then definitely to the details of their implementation. From the formalities standpoint, upon the cessation of Putin's functioning as President, the prime minister immediately assumes the office of acting president, and the Federation Council convenes a special meeting (within no later than 5 days) and schedules the early election.

However, as is often the case in Russia, formalities are not the only thing that determines the course of events. Our research shows (and other experts agree²⁹⁷) that in such a situation two administrations will play a key role – Executive Office of the Government and Executive Office of the Security Council. During this period, the mighty Administration of the President will be left without a "pres-

295 <http://www.constitution.ru/10003000/10003000-6.htm>

296 <http://docs.cntd.ru/document/901838122>

297 <http://old.inliberty.ru/blog/1813-scenariy-nomer-n-sluchilos-zavtra>

ident," and thus lose its key political role. The PM, having become the Acting President, will first of all rely on his own executive office, and to a much lesser degree on the office of the late president. During the "90 Days" the Kremlin's Administration will primarily be a technical office dealing with the preparation for holding the special presidential election.

The regime stakeholders will need to rapidly decide on the "consensus candidate" for presidency and then very quickly inform the public that a consensus has been reached.

The history of Russian politics shows that all those who ever express doubt about the person that ends up winning, suffer great losses throughout the new leader's entire period of rule.

We believe that the political regime is in a state where consensus will be achieved without major conflict. The coup d'état scenario is rather unlikely – above all, because Putin has created a diversified structure of law enforcement agencies that makes it very difficult for one entity to gain control over the others. Remembering the events of 1993 plays an important role here: deploying military units in Moscow and attempting to declare a state of emergency exposed the enormous costs of such a decision. Another problem is, in the event of a political crisis commanders of elite special forces will demand written orders knowing that their actions may be unconstitutional and expose them to charges of violating the military oath and high treason.

Nevertheless, the three-month period before the legitimization of the new president by means of an election will be eventful as assessments of the entire term of Putin's rule will take place. Those domestic and international

assessments made by various influential groups will influence the policy of the presidential successor. A struggle will unfold over which part of Putin's legacy should be considered positive and placed at the center of the "policy of succession" and which part should be hidden away from the spotlight. The United States has no other way of responding to the consensus successor, except to express cautious optimism and propose a new stage in the development of relations, quickly and accurately identifying realistic expectations from this new milestone.

The Role of Mass Media

In accordance with the Russian tradition, Putin's death will place the country into a state of grand-scale mourning, which will include all executive and legislative bodies, community organizations, and especially the media. The death of a leader who had led the country (and shaped the agenda) over the course of twenty or more years is, without any doubt, a serious crisis, no matter how one qualifies the role of this leader in history. After Putin's regime has created an almost absolute system of media control (2010-2013), we have been constantly observing the phenomenon when central media controlled by the Kremlin appear unprepared for emergency situations and begin to respond with political continuity only 24 hours later.

Naturally, some "stencils" for behavior exist, both as an inheritance from Soviet times, like the protocol for "gun carriage races,"²⁹⁸ and simple information forethought (i.e., all news services maintain constantly updated versions of obituaries for key government figures).

Due to the fact that the "Putin period" has already surpassed the reign of Brezhnev (18 years) and is closing in on the record set by Stalin (29 years), and considering the significant changes in the field of media practices, it is difficult to predict in advance whether the Russian state-owned media will adopt the "catastrophic" protocol of Stalin's era (with cries of desperation like "For whom did you forsake us, father of all nations?!") or the somberly official style used for the deaths of Brezhnev, Andropov, and Chernenko ("Surefooted collective leadership escorts the faithful Leninist...").

The key media role in this emergency situation is

298 "Gun carriage races" is a mocking name for the period in Soviet history spanning 1981-1985, during which several members of the Politburo, from party ideologist Mikhail Suslov to Secretary General Konstantin Chernenko, died one after another.

performed by the PM becoming the acting president (he practically becomes the sovereign “master” who is limited in only three actions: dissolving the Duma and the Federation Council, changing the Constitution, and calling a referendum). He will bear not only the responsibility to “announce the change of power,” which has both symbolic and formal significance, but also “ranking” all other stakeholders, from their membership in the funeral commission to the order in which they walk behind the coffin. Just as is the case with other authoritarian regime leaders’ deaths, we will see the entire lineup of key stakeholders on TV broadcasts of the funeral, since each one of them will need to appear at the funeral in order to showcase their status.

Political control over the media is currently in the hands of the two First Deputy Chiefs of Staff of the Presidential Administration – Alexey Gromov and Sergey Kiriyenko – but independent newsrooms, headed by experienced political managers of Putinism, also play a big role. They could be called “hubs that manufacture meanings” in modern Russia. In terms of operating information media, negative agenda management prevails (the Kremlin establishes what cannot be shown or can be shown only in an acutely negative and critical light). In a positive agenda management or in reactions to emergency situations, the “hubs” are relatively free – as long as the Kremlin has not indicated that a given topic or event is banned.

There is reason to believe that in the event of a crisis brought on by Putin’s death, the management of the news process – from informative to intonational aspects – will be less “uptight” than at present, and this sudden emancipation can play a significant role.

Today there are four media hubs, and there is hardly any reason to believe that their number will decrease or increase: (1) MIA Russia Today / RT-Russia Today (Dmitry Kiselyov and Margarita Simonyan), (2) political broadcasting group of Channel One Russia (Andrey Pisarev) and VGTRK (Oleg Dobrodeev and Evgeny Bekasov), (3) Izvestia news hub, working for all the outlets of the National Media Group (the Kovalchuk brothers; the actual head of the media group is Alexander Ordzhonikidze), and (4) Yevgeny Prigozhin’s less formal Media Factory (RIA FAN and its satellite entities), which includes a large group of Internet resources and network news sharing technologies.

Essential here is not only the control over television, but also over key Internet media sources, especially those

that are popular with mobile users (the farther the event point is from 2019, the more significant the role of mobile access to news will be). Accordingly, the list of the most influential (and therefore critically dangerous for the Kremlin) resources includes news aggregators (Mail.ru and Yandex), social networks (VKontakte, Odnoklassniki, Facebook, Instagram, and Twitter), and, unexpectedly, information exchange sites (such as smi2.ru), since the headlines they generate for the news stories produced by the hubs have a great influence on the population attention management.

The main problem lies in the fact that the Kremlin does not have one unitary center of political management of the media, and, for a number of reasons, will never have one. Alexey Gromov influences television, Sergey Kiriyenko influences the Internet (within certain limits), and some major media are fully oriented by their owners’ political managers who “coordinate” their agendas with their handlers from the Kremlin and personally with Putin.

In a critical situation, the leadership of the Presidential Administration and, in part, the acting president, face a very difficult task to handle within a few hours: they must quickly assemble the necessary political scheme of interpreting the events and quickly blocking the dangerous, provocative, or erroneous behavior of individual media outlets. More than likely, the leadership of the Presidential Administration has neither a scheme, nor a ready-made system of “blocks” and, due to some special aspects of Putin’s regime, such a scheme or system cannot be planned or engineered in advance.

Therefore, in a matter of hours after Putin’s sudden death, there will be a fiery struggle over the operational control of the mainstream media. It will involve several mechanisms of power – from existing informal tools (Alexey Gromov’s influences and Sergey Kiriyenko’s instructions) to even more informal “friendly connections” (for example those established by Vyacheslav Volodin during his work in the Administration), as well as actual takeovers of control by force (using the FSB and other special services).

Follow the Money

The Kremlin cash fund consists of the entire budget of the Russian Federation, which is controlled by the president himself, plus specific reserved shadow funds (the so-called “Putin’s *obschak*”), plus the obligations of large

“men of property.” The transfer of power is first and foremost a transfer of control over a gigantic, intricate system of funds controlled by the Kremlin – above all the state budget.

Then the issue of the so-called “Putin’s notebook” will come up. That is, the records as to who has kept assets under Putin’s control, where, and what those assets are. The “consensus candidate” must receive this inheritance, otherwise he will be unable to manage the entire system. It remains an open question whether the acting president is “entitled” to have access to this register, and whether anything changes if, before his supposed death, Putin replaces Medvedev with another person as the Head of the Government.

Naturally, the FSB leadership and some stakeholders have some sort of a general picture of how those assets are distributed. But this does not guarantee the preservation of those assets until a legitimate “heir” of those assets appears – one who has been given the authority to manage them like Putin. Some of the assets holders will feel relieved of their obligations since it will be difficult to prove the opposite.

It is easy to predict that surrounding those assets there will be a clash between the FSB, various financial groups, even individuals who know those assets’ origin, etc., all fighting for their interests.

It is difficult to assess the value of Putin’s personal “reserve fund.” Estimates of \$1 trillion provided in the Piketty report encompass all investments made by Russians abroad during the period of Putinism, but that is not Putin’s reserve fund. It is unlikely that it can be more than the cumulative net worth of the top 10 Russian billionaires, i.e., it somewhere between \$50 and \$100 billion. These are big numbers, and a struggle will undoubtedly ensue; in fact, this will be the most serious obstacle in the path of the post-Putin alliance towards reaching consensus.

Navalny. Opposition

Despite the weakness of Russian opposition political organizations, various “opposition-minded” groups, communities, and clubs exist in the country today and will continue to exist in the future – not just in Moscow, but in all cities with a million-plus population. These groups constantly participate in elections (especially local offices) and organize actions to protest local issues (environmental protection, preservation of architectural her-

itage, construction and development, etc.). Opposition political groups, and above all Alexey Navalny and his supporters, will need to decide whether to take people to the streets immediately after Putin’s death or wait for the announcement of early elections. Rallying people up right away is only done when expecting immediate success. However, in the conditions of mass mourning and mobilization of police forces, such success is impossible. The Russian opposition’s lawfulness and commitment to peaceful protest will lead them to the decision to launch campaigns only from the moment the election has been announced. At that point, the goals for Navalny and other opposition groups will be to demand open elections that will include Navalny and possibly two or three more independent candidates.

By that time, the Kremlin’s post-Putin coalition will have reached a consensus on the “successor.” They will face a choice whether to suppress the opposition immediately, at the beginning of the election campaign (by declaration of the state of emergency, prohibition of political activities, arrest of Navalny, trashing organizations’ offices, etc.) or to allow the opposition (both imaginary and real) to enter the elections, in order to provide the successor with greater internal and external legitimacy. If the successor who satisfies the stakeholders is Chemezov (or any other representative of the “strong-arm wing” of Putin’s regime), the second option is out of the question. However, if Sergey Sobyenin (or, needless to say, Alexei Kudrin) ends up being the successor, then open elections cannot be ruled out. During the first transfer of power, the Kremlin will be confident that the “consensus candidate” will receive double the votes of any runner up. In this case, if Navalny (or another non-systemic opposition leader) is not allowed to run in the presidential election, he will be in the same position General Alexander Lebed was in 1996, so the powerholders will have to offer him some kind of an option to continue his political career. This means that before the decision on his admission to the election, there will be negotiations to discuss what he is expecting after the campaign, whether he will recognize the victory of the “successor,” and whether he is ready to accept some position in the executive branch.

Obviously, besides the post of prime minister, the most powerful post is that of chairman of the Constitutional Court, which makes it possible to drastically influence the country’s future development.

Reaction of the U.S., Advantages, and Issues

The United States cannot have any influence on the outcome of this struggle, because – unlike during the “transition of power” in the early 1990s – the President of the United States is not an essential figure for the legitimation of a political choice made in Russia. Most likely, none of the parties will seek direct support from Washington under the “90 Days” conditions, nor will the US be able to either provide support to a favorable candidate or carry out measures to block the promotion of an undesirable one.

Key political issues in preparing for policymaking in the event of Putin’s unexpected death followed by a “lawful” development (acting president, announced elections, an obvious “consensus candidate”):

- How to react if it becomes clear during the campaign that there is a real struggle between two successors who will continue Putinism, e.g. between Kudrin and Chemezov.
- How to react to Navalny being banned from running in the presidential election.
- How to react to Navalny being allowed to run in the presidential election.
- Whether to recognize the election results.

The answer to these questions depends on a principled consensus in the United States. Both strategies meet the interests of the United States: (1) further depletion of Russia in the setting of confrontation, (2) de-escalation. Both have their advantages and their costs.

There are several issues that should be analyzed directly in the context of the American political system. For an outsider to give simple recommendations is both difficult and, most likely, improper.

However, in the event of the Russian leader’s unexpected death, in addition to the obvious issues of global security, we believe that several issues should be on the agenda of political discussion in Washington:

1. How coordinated should the official Washington’s reaction be to a sudden change of leadership in Russia? Relatively speaking, when receiving the sad yet joyful news from Moscow about Putin’s death, should the Administration maximize its efforts on ensuring that the Congress make only carefully

considered statements? (In our opinion, absolutely. Any polyvocality from Washington can damage both the consensus, i.e. unbalance the situation in Moscow, and the forces potentially more friendly towards the West, since carelessly supporting them by irresponsible statements will discredit them both for the purpose of the consensus, and for future cooperation).

2. It is necessary to come to a decision on “stability” in Russian politics, since the direct support for the “continuity of the course” will be impossible, especially after 2020, when the “Boss of the White House” will most likely change. Accordingly, the question arises whether to literally express condolences at all (and even more so, send a delegation to attend the state funeral), or to make an announcement along the lines of “free borsch in honor of Putin’s death”?
3. The Administration, the Congress, and foreign policy think-tanks should have a coordinated position on the signals sent in this situation through back-channels or, as much as it is possible, on whether they should be silenced and deliberately marginalized?

It is apparent that even a leader of Russia who comes to power after Putin’s death and who will embody Putinism in its worst form – with a focus on further militarism, opportunistic politics in international affairs, a game of “re-dividing of the world,” and so on – will be in an invariably weaker position than Putin. Also, without Putin’s charisma and political history, that leader will experience many more problems in domestic politics than Putin has had so far.

A political consensus on the successor (“Putin-2”) is possible around such figures as Sergey Chemezov (CEO of the Rostec Corporation), Defense Minister Sergey Shoygu, or any of the young governors who are *siloviki* bloc “graduates.” Such a “Putin-2” is to a certain extent advantageous to the United States because after a “long dictator” any person will be in a weak political position. In this scenario, no political decisions are required, since such a president at the head of Russia will almost inevitably create much greater risks for the Russian economy.

The successor’s attempts to create a “Eurasian policy” and conduct a tough dialogue with the NATO states will work not in his favor, as was the case with Putin, but against him. If the Russian leadership quickly reaches a

“consensus on the hypothetical Chemezov,” there will be no problems in plotting a new US policy on Russia, because the simplest and most logical way will be to continue the old policy of toughening sanctions and increasing security measures against intrusions. The question of a new policy on Russia will come up in a situation where the consensus reached in the Kremlin results in the selection of a more liberal successor (i.e. a “consensus on the hypothetical Kudrin or Sobyenin”), or – what is unlikely – the schism in the post-Putin group and the emergence of an opportunity for competitive elections.

This opens up the prospects of having some impact on the situation by means of the strategy contained in the so-called “Matlock Plan,” that is, to outline the possibility of lifting sanctions under certain circumstances, while freezing the problem of Crimea. This does not mean that the plan can be implemented. But in any event, used as a reference it would have a positive impact on the situation.

The advent in a post-Putin Russia of an administration, which, without changing the main vectors of anti-Westernism, would reject active measures of a military and subversive nature against the U.S., Europe, and neighboring countries, would return to traditional forms of economic lobbying, withdraw from Donbass, and stop the media war against the West and its own population that’s working up the atmosphere of preparation for war – this is the desired (and possible) outcome of the scenario examining a sudden change of power in the Kremlin.

tion but allowed to run in order to boost the legitimacy of the successor. In this case, the Kremlin’s media will promote the idea that Navalny is a nationalist and a neo-fascist, and that his candidacy is worse than that of “Putin-2.” The objective will be to make the people seriously scared of Navalny and create within them a bias in favor of the Kremlin candidate. Referencing the events in Ukraine and Venezuela one can expect that by allowing Navalny to run for presidency, the Kremlin will in any case actively position him as an American-sponsored candidate.

The United States, as well as European countries, cannot back out of expressing support for the participation in elections of a candidate from the opposition. The problem of non-recognition of the election results can arise only in the event there is a second round with a very small difference in the number of votes (like in Ukraine’s experience) and mass protests breaking out immediately after the results are announced. This is an unlikely scenario in the context of the “90-Day Problem.”

Therefore, the US Administration can but clearly define its political expectations: the cessation of destabilizing interventions, the withdrawal from Donbass, and the discontinuation of the media war.

A much bigger problem is presented by the “Navalny crisis.” There is still a possibility, however slight, that Navalny will not be eliminated from the presidential elec-

Authors and Contributors



Pavel Elizarov

Pavel is a Russian opposition activist who left Russia in 2012 due to Bolotnaya Square case. He is now based in Portugal where he works as an IT professional and continues his political activities via Internet. Pavel has made a critical contribution to this effort, having served as the report's main Editor and Designer.



Vasily Gatov

Mr. Vasily Gatov is a Russian journalist, media executive and strategist. His professional expertise includes media development and technology, the issues of censorship and media effects, and media innovation. Gatov is currently a visiting fellow at Annenberg School at University of Southern California. His recent work includes academic and professional analysis of Russian and Eastern European media, history of Soviet and Russian press and Cold War communications. As a journalist, Vasily Gatov reported on many episodes of recent Russian history: from 1986' Chernobyl nuclear disaster to 1991' failed coup'd'état, Boris Yeltsin's presidency and the first Chechen war (1994-1997). He later served as an executive and strategist for several Russian media companies, including RenTV network, Media3 (Russia's largest print conglomerate in 2007-2012), and RIA Novosti, a national multimedia news agency. While working for RIA Novosti (2011-2013), Gatov founded Novosti Media Lab, the research and development company, fostering innovation in communication and the social impact of media.



Vladislav Inozemtsev

Dr. Vladislav Inozemtsev is a Russian economist, founder and director of the Center for Post-Industrial Studies in Moscow and a member of the Scientific Advisory Board at the Russian International Affairs Council.

He headed the Department of International Economic Relations at the Faculty of Public Governance, Moscow State Lomonosov University in 2010-2012 and served as Professor at the Higher School of Economics in Moscow in 2014-2015 being subsequently a fellow with CSIS, Atlantic Council and SAIS in Washington, DGAP in Berlin. IWM in Vienna and the Polish Institute of Advanced Studies in Warsaw. From 2002 to 2009, he was head of the Scientific Advisory Board of the journal *Russia in Global Affairs*.

Dr. Inozemtsev had published a monthly journal *Svobodnaya Mysl* between 2003 and 2011 and the Russian edition of the internationally recognized newspaper *Le Monde Diplomatique* in 2006-2007. In 2011, he served as the Managing Director of the Global Political Forum, organized in Yaroslavl under the authority of then-President Dmitry Medvedev.

Dr. Inozemtsev is the author of over 20 books published in Russia, France, China, Poland, the United Kingdom, and the United States, and of more than 1000 articles in academic and daily press all over the world.



Vladimir Milov

Economic adviser to Alexey Navalny; former Deputy Minister of Energy of Russia (2002), adviser to the Minister of Energy (2001-2002), and head of strategy department at the Federal Energy Commission.



Alexander Morozov

Mr. Alexander Morozov is a Co-Founder of the Boris Nemtsov Center and Fellow at the Charles University's Faculty of Arts in Prague. He is a famous Russian political analyst and blogger. In 2011, the Medialogy project named him among Russia's top-50 most quoted political analysts.

Between 2008 and 2017, he worked as a contributing columnist for Forbes.ru, Snob.ru, Colta.ru, Republic. From 2011 to 2014, he served as Editor in Chief of the oldest Russian intellectual magazine 'The Russian Journal' (russ.ru).

Mr. Morozov is the founder of the Moscow Bloggers Club which he ran from 2008-2011. From 2011 to 2015, he was a Guest Lecturer at the Ruhr University in Bochum, Germany. In 2015-2016 he worked on staff of the German media outlet Deutsche Welle.

He holds degrees in journalism and philosophy from the Lomonosov Moscow State University where he studied from 1976 to 1985.



Dr. Denis Sokolov

Dr. Denis Sokolov is a Senior Nonresident Fellow at Free Russia Foundation, Senior Advisor at CSIS, and former Visiting Fellow at the Kennan Institute (2016). He is an expert on issues of informal economy and gray zone conflicts with geographical specialization on Russia, Central Asia and Northern Caucasus. Since 2009, Dr. Sokolov has conducted fieldwork in the Northern Caucasus, studying transformation of rural communities, urbanization and migration spurred by globalization. His nationwide, regional and global research projects focus on issues ranging from the role of Russian-speaking combatants in Syria; proliferation of Salafi Islam and its impact on rural communities; migration from Dagestan to Western Siberia as part of expansion of energy extraction activities in Russia; economic displacement of ethnic Russians by migrants from Dagestan and the Chechen Republic in the East of Stavropol Krai; and to regional conflicts linked with this migration process.



Konstantin Rubakhin

Konstantin is a Russian investigative journalist and eco-activist who headed a movement to save Khoper National Park in Russia. For this activity he was persecuted and was forced into exile to Lithuania. He is now based in Latvia where he continues to fight Kremlin's corruption and its attempts to influence the West and subvert democratic institutions. Konstantin has generously provided photos from his Ten Years of Protest series to illustrate this report.



Ilya Zaslavskiy

Mr. Ilya Zaslavskiy is Head of Research at Free Russia Foundation which he joined in 2015.

Until 2010, Mr. Zaslavskiy worked on gas stream projects as part of the management team of a Russo-Ukrainian energy giant TNK-BP, — a joint venture between British Petroleum and Russian oligarchs that was eventually taken over by Rosneft. Mr. Zaslavskiy's work involved in project coordination with the U.S. and British teams, foreign embassies, banks and other stakeholders in Moscow. It included analysis of oil and gas fundamentals, work on carbon credits and gas flaring mitigation, Gazprom's supply and demand model for Eurasia, company policies in former Soviet space and in Europe and its engagement strategy.

Since his move to the U.S., Mr. Zaslavskiy has worked to expose the Russian political subversion in oil and gas sectors against Europe and the U.S. He has articulated "export of corrosive practices" term and detailed the multiple levels of such strategy, including in the energy sector. His analysis from the 2013 report *How Corrosive Practices from Russia Penetrate and Undermine U.S. and UK* published by Institute of Modern Russia accurately predicted that ignoring the Russian corruption and disinformation would result in major national security implications for the West.

In 2014, during his fellowship at Chatham House, Zaslavskiy published work exposing the unsavory realities of the Russian hydrocarbon sector, such as losses to budgets in politicized international deals, inadequate investment in exploration, and exaggerated projections. One of the reports titled *The Myth of Russia's Energy Strength* was later reprinted by Newsweek.

Mr. Zaslavskiy's published works include: *Advancing Natural Gas Reform in Ukraine* (published by Council on Foreign Relations, New York, December 2018), *The Kremlin's Gas Games in Europe: Implications for Policy Makers* (published by the Atlantic Council, Washington, D.C., May 2017), *How Non-State Actors Export Kleptocratic Norms to the West* (published by the Hudson Institute, Washington, D.C., October 2017), *The Tsar and His Business Serfs: Russian Oligarchs Did Not Surprise Putin at the Elections* (published by the Martens Center, Brussels, Sept 2016).

Free Russia Foundation is an independent nonprofit organization with a 501 (c) 3 status registered in the U.S. in 2014.

The work of Free Russia Foundation is focused in three key mission areas:

1. Advancing the vision of a democratic, prosperous and peaceful Russia governed by the rule of law by educating the next generation of Russian leaders committed to these ideals;
2. Strengthening civil society in Russia and defending human rights activists persecuted by the Russian government; and
3. Supporting formulation of an effective and sustainable Russia policy in the United States and Europe by educating policy makers and informing public debate.

Free Russia Foundation is a non-partisan and non-lobbying organization and is not affiliated with any government organization or agency.



4FREERUSSIA.ORG