

## Summary event report

Briefing discussion with **Laza Kekic**, Regional Director for Central and Eastern Europe and Director of Country Forecasting Services, at the Economist Intelligence Unit, London.

### “Quo Vadis Russia?”

Russia is an exceptional country by all accounts. It has a world-power legacy and a nuclear weapons arsenal even though it is currently rather isolated. It has an economy with strong growth rates that benefit from its natural resources but this growth is unsustainable and is already slowing down. It has undergone a different transition towards capitalism than the countries of Central and Eastern Europe. It has an ageing population, and it is confronted with a series of dilemmas in its international relations. The internal trends are currently manageable but potentially alarming.

Laza Kekic identified four sets of tensions that render Russia's future potentially alarming:

1. Fear of a new revolution and/or a temptation to revive the 1990s
2. Authoritarianism/ Democracy
3. Need / Fear of Foreign Capital
4. Cooperation/ Rivalry with the West

The unchartered privatization of the 1990s created a severely distorted economy and the practices of informal trading, rent-seeking, price distortion and corruption, which led to the formation of an oligarchy. A proto-capitalist class was virtually created overnight with a strong control over the key sectors of the country's economy. Russia underwent a very specific transition to a market economy, distinct from the other CEECs. In effect, due to the political importance of the country, this was rationalized by the opinion that the key markets/ sectors could neither be fully opened to foreign capital nor could they be fully privatized. The recent developments of the Yukos affair were a wake-up call for many that Russia is not a typical case of a country in transition but that a unique form of state capitalism has developed. A revisiting of the past could be undertaken, though it is very likely that the new oligarchy will resist any form of drastic change. Nonetheless, the state is gradually reasserting its control and influence over the natural resources of the country. In effect, the country's natural resources are both a blessing and a curse, since reliance on income from gas and petrol has helped maintain growth rates but has also led to a range of socio-economic deformations.

At the same time, there exists a strong ambivalence towards foreign investment. Although it is appreciated that foreign investment is necessary to revitalize certain sectors of the economy, there exists a strong underlying suspicion vis-à-vis the influence of foreign actors or the potential conditionality criteria that may be attached.

Under President Putin there has been a creeping authoritarianism with increased control over the media and a weakening of the opposition. By no means has Russia become an authoritarian state but it cannot be characterized as a fully-functioning democracy either. There exist contradictory popular attitudes, even with occasional nostalgia of the Stalinist past but it seems unlikely that dictatorial rule can be re-imposed. Nonetheless, there is widespread concern of what the future holds. Putin's term runs out in 2008 and, given that there is no opposition, no firm consolidation of democratic rules and procedures and a concentration of power in the President's hands, the day after is rather disconcerting.

Finally, the foreign policy dilemmas of Russia oscillate between a desire to cooperate with the West, particularly in areas of common interest, and a deep-seated rivalry with the US and the EU. The fallout between Russia and the US over Iraq may not be mentioned much but it is deep-seated despite the personal relationship between Putin and Bush. Cordial relations between the two countries cannot but be affected by the recent lessons learnt (i.e. that the US is prepared to implement preemptive strikes unilaterally, and that the UN order matters only to a degree) and by Russia's own weakness in preventing such actions. Indeed, Russia's nuclear deterrent is fading and it is not an easy task to maintain the operability of this power (something the US does not plan to make any easier). With regard to NATO, there exist increasing elements of cooperation and the clarity of the NATO agenda provides a clear slate for discussion and negotiation. Nonetheless, Russia is concerned with NATO encroaching on what it believes is its geographic sphere of influence. It is this aspect of its relations with the EU that is the most sensitive. Bilateral relations between Russia and the European powers could be characterized as rather good given that there are important common interests (particularly with regard to the energy sector) but in practice, the atmosphere between the EU and Russia is especially tense. There exists a lack of long-term vision on the part of the EU with regard to Russia – and clearly Russia cannot be a component of the EU's European Neighbourhood Policy (ENP). The EU has been divided and has often sent mixed signals to Moscow. This has not facilitated relations between the two and it is a fact that the EU has not been very effective in handling a militarily strong and politically weak Russia. Furthermore, certain aspects of the ENP, largely directed towards the former Soviet republics, can be perceived by Russia as encroaching in its sphere of influence. Additional tensions are raised by the Russian minorities within the EU new member states and by the different world-views between the two with regard to sovereignty (cf. the issue of Chechnya). The EU's role in supporting Russia's transition is different from the cases of Central or Eastern Europe since EU accession does not serve as a driving force or an anchor for transition and democratisation. Thus, it is important for the EU to be more imaginative in its handling of Russia and to present ENP as potentially a positive sum game for both sides. It can also try extending a hand of understanding on a number of delicate matters that may have been mishandled (i.e. Bezlan). In light of all this, dealing with Russia could be seen as test-case for the EU's common foreign policy.

Russia must manage the four tensions (outlined above) if it is to maintain stable growth rates. The EU on its part must extend the scope of interaction, communication, trade and exchange with Russia since it is only through intensified relations that it can assist in easing some of the tensions and supporting reform efforts in Russia.