

# Engaging Russia and its regions: challenges and opportunities for the West

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## Engaging Russia and its Regions: Challenges and Opportunities for the West

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Relations between Russia and the West are at a difficult stage. At present, there exists a real danger that both sides will grow increasingly fatigued with the slow and difficult process of Russia's economic and political reforms. Nevertheless, opportunities for improved relations between Russia and the West do exist. The August 1998 financial crisis has helped to highlight the complexities of Russia's transformation and the failure of the West's Russia policies. Policymakers in the West have tended to focus on nuclear issues rather than systemic change, on personalities rather than on institutions and policies, and on the central state rather than on Russian regionalism, one of the key forces driving Russian state-building over the past decade.

The author argues that in order to develop a coherent set of Russia policies, Western policymakers need to start with a frank assessment of Russia's power and the state of its reforms. Russia faces a very different social, political and economic reality than the does the West. Moreover, conceptual gaps exist between Russian and Western perceptions of international relations in the 21<sup>st</sup> century. In particular, the challenges and opportunities posed by regionalism are understood in very terms. In engaging Russia and its regions, the West should acknowledge these differences, while at the same time clearly defining its interests in an increasingly globalized world.

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By Andreas Wenger



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for the West**

*By Andreas Wenger*

***Working Paper No. 11***

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## Introduction\*

Russia's relations with the West are currently going through a difficult phase. For several years, Russia's economic and political transformation process has made only slow progress, and the limited ability of the Russian state to initiate structural reform has become all too obvious. Policy debates in both Russia and the West have tended to focus on highly contested issues, such as Nato enlargement, Russia's August 1998 financial crisis, the 1999 war in Kosovo, the second Chechen war, which began in 1999, a series of corruption and media scandals, and the US plan to develop and deploy a national missile defense (NMD) system. Slowly but steadily, Russia's frustration and disappointment with the West and Western fatigue with and indifference towards Russia have been growing.

Many in Russia are frustrated with Russian reformers, who, they say, have been applying Western economic and social models to Russia. In the critics' view the West shares responsibility for the many failures of Russia's reforms but is not prepared to acknowledge Russia's growing isolation or to include Russia in its cooperative institutions. Indeed, Western policymakers are seen by many Russians to be intent on exploiting Russian weaknesses, hiding their geopolitical agendas behind the rhetoric of globalization.

In the West, however, many are tired of the slow pace of Russia's reforms and with a lack of positive results from Western assistance. Russia will only be able to overcome its economic woes, they say, with ongoing political reforms that

\* Research on the article does not reflect developments after 11 September 2001. The author would like to thank Jeronim Perovic, Andrey Makarychev, Graeme Herd, David Averre, and Martin Nicholson for their thoughtful comments and recommendations. Special thanks go to Michelle Norgate and Lisa Watanabe for their invaluable help with the manuscript and to Marco Zanoli for his help with the layout of the text.

promote democratic and transparent institutions. However, they argue, Russian policymakers are often more concerned with augmenting their own power and wealth than with serious political, juridical, economic and military reforms. Many Western observers tend to believe that as long as this is the case, and as long as Russian elites uphold their illusions that Russia is a great power, the West will set its foreign policy priorities elsewhere, and will view forging a deeper partnership with Russia as, at best, a secondary obligation.

These views stand in stark contrast to the West's willingness to cooperate with Russia in the early 1990s. During the years immediately following the end of the Cold War, Russia's relations with the West were shaped by the Western notion that Russia was a country preparing to liberate itself from communism and to make the transition to democracy and the free market. The days of "Bill" and "Boris", which represented a fundamentally changed climate between the two superpowers, are sadly over. US President Clinton's last two years in office were marked by mounting (Republican) criticism of his policies towards Russia. Against the backdrop of Russia's August 1998 financial meltdown and the 2000 US presidential elections, such criticism culminated in a "Who lost Russia?" debate reminiscent of the "Who lost China?" debate of 1949.<sup>1</sup>

The year 2000 was an important turning point for Russia's relations with the West, not least because presidential elections were held in both the United States and Russia. Since US President George W. Bush arrived at the White House in early 2001, US-Russian relationships have generally been deteriorating. To blame are the discord over US missile defense plans and a shift in US foreign policy priorities. It remains to be seen whether the positive aspects of the first Bush-Putin summit of 2001 in Ljubljana will remain political rhetoric or will translate into something more substantive.<sup>2</sup> Given the uncertainty of the future of US-Russian relations, attention has been shifting to Russia's relations with Europe. Although one could argue that the EU member states are Russia's natural regional partners, EU-Russian relations have encountered their share of problems and are developing only slowly.<sup>3</sup>

The voices of those in Western and US policy circles who perceive Russia as a secondary power have become stronger over the last year. Yet the West cannot afford to turn its back on Russia, as much for Russia's weakness as for its strength. Russia's domestic transformation continues to have significant implications for

1 For a good example of this, see Kim R. Holmes, Hon. Casper W. Weinberger, Hon. R. James Woosley, and Ariel Cohen, "Who Lost Russia?" *Heritage Lectures*, No. 629 (Washington, D.C.: The Heritage Foundation, 8 January 1999).

2 See, for example, Celeste A. Wallander, "An Overview of Bush Administration Policy and Priorities on Russia," *Harvard Program on New Approaches to Russian Security Policy Memo Series*, No. 187 (March, 2001), available at <http://www.fas.harvard.edu>.

3 See, for example, Hiski Haukkala and Sergei Medvedev, eds. *The EU Common Strategy on Russia: Learning the Grammar of the CFSP* (Helsinki: Ulkopoliittinen instituutti and Berlin: Institut für Europäische Politik, 2001).

Western security, in both a global and a regional sense. The West needs Russia as a partner in order to address the nuclear and chemical weapons legacy of the Cold War, to secure regional stability in the Balkans, the Middle East, the Caucasus, and Central Asia, and to manage trans-border security issues such as terrorism, migration, drug trafficking, money laundering, and ecological disasters.

Opportunities for improved relations between Russia and the West are not entirely absent. There have been signs of hope for Russia's reforms since Vladimir Putin's election as president. Russia's economic recovery was better than expected in 1999 and 2000,<sup>4</sup> and after the reform of the Federation Council and Putin's compromises with the Communists in the Duma, these two organs are now loyal to the president.<sup>5</sup> Putin has increased Russia's international presence, regional cooperation in the Balkans is not seriously in danger, and diplomatic options for solving issues of disarmament and arms control seem to be improving. Yet two key questions remain open: Can the West muster enough political will to once again engage Russia and its regions? And does Russia accept that for structural reforms to succeed, there is no substitute for domestic political commitment and initiative?

Although there is no alternative to engagement and long-term cooperation with Russia, the West is still seeking a strategy for its Russia policies. The August 1998 financial crisis forced Western policymakers to accept the complexities of Russia's political and economic reform process and to lower their expectations of quick results. However, Russia's default highlighted the failures of the West's policies on Russia and increased the willingness of Western policymakers to learn from ten years of experience: Western aid packages have not accelerated, but rather have slowed down structural reform; Western policies have been focused on nuclear issues, and not on systemic change, on personalities, and not on policies or institutions, on central state structures, and not on Russian regions and society; and Western experts have underestimated the level of corruption at all policy levels and have held a somewhat naïve view on Russian federalism that has been guided by the assumption that decentralization is good.<sup>6</sup>

Russia's new regionalism has been one of the key driving forces of the transformation process in the past decade – as an element of change that was shaping

4 See the CSIS Russia brief, "The Russian Economy in July 2000," available at <http://www.csis.org>; the UN's *2000 Human Development Report for the Russian Federation*, available at <http://www.undp.ru>.

5 See the RFE/RL *Russian Federation Report* 1, No. 20 (30 July 2001), available at <http://www.rferl.org/rpw/>.

6 See, for example, Ariel Cohen, "The Watershed in US-Russian Relations: Beyond 'Strategic Partnership,'" *The Heritage Foundation Backgrounder*, No. 1252 (Washington, D.C.: The Heritage Foundation, 17 February 1999), especially 7–8; Michael McFaul, "Getting Russia Right," *Foreign Policy* (Winter 1999–2000): 58–73; Holmes, Weinberger, Woosley, and Cohen, "Who Lost Russia?"

both the vertical reorganization of administrative power within existing state structures and the horizontal reorganization of power transcending state structures. More actors, some of them representing new economic and social forces, are now participating in Russia's political processes, compared to the late 1980s. The increasing assertiveness of Russia's regions, in domestic and international affairs, has been much debated in this context.<sup>7</sup> State building in Russia was driven by decentralization for much of the 1990s. This changed, however, with the 1998 financial crisis and the beginning of the second Chechen war. Regional leaders lost their battle with the Kremlin during the Duma election campaign of 1999.<sup>8</sup> Moreover, state building under Putin – so much has become clear in the past year – is currently marked by a strong recentralization effort.<sup>9</sup>

The swing from decentralization to recentralization occurred in part because it became apparent to Russian observers that Russia's regions were unable to become a positive force for structural change. Regional elites had failed to secure sustainable economic growth patterns, and their inefficiency and incompetence had often compounded the problem of widespread corruption and weak political and social institutions in the regions. Western states have increasingly concentrated their cooperation, technical aid, re-training, and development programs on Russia's regions over the past few years. However, it remains unclear whether Russia's regionalization is a positive phenomenon, and if not, under which circumstances it could become one. Whether Putin's federal reforms will be a successful source of structural change also remains to be seen.

Western policymakers might be tempted to muddle through in their Russia policies. This paper argues that "muddling through" will not be enough, for both Russia and the West face the danger of strengthened traditional perceptions and misperceptions, and these would unnecessarily limit their policy options. If the West wants to develop a more coherent and long-term strategy for engaging Russia and its regions, Western policymakers must assume that the Russian trans-

formation process is far from finished and that much ambiguity will remain during that process for the foreseeable future.<sup>10</sup>

Chapter 1 of this paper argues that the West's Russia policies should start with a frank assessment of Russia's power and reforms. It summarizes the current challenges and opportunities of Russia's social, political, and economic transformation. Chapter 2 outlines the conceptual gaps that exist between Russian and Western perceptions of the driving forces of international relations in the 21<sup>st</sup> century and argues that the West should acknowledge these differences, while at the same time clearly defining its interests in relation to Russia. Chapter 3 addresses the state of Russia's regionalization in an increasingly globalized world and discusses the positive and negative implications of this key politico-economic process. Chapter 4 summarizes Western perceptions of the increasing assertiveness of Russia's regions and differentiates between a skeptical security perspective and a more optimistic economic perspective. In conclusion, chapter 5 contains a series of policy recommendations based on the preceding analysis.

7 For a general overview, see Jeronim Perovic, *Die Regionen Russlands als neue politische Kraft: Chancen und Gefahren des Regionalismus für Russland*, Studies in Contemporary History and Security Policy, Vol. 6 (Bern: Peter Lang, 2001). More specifically on the role of Russia's regions in an international context: Stephan De Spiegeleire, "Gullivers Fäden: Die russischen Regionen und die Aussen- und Sicherheitspolitik der Russischen Föderation," in *Russland und der Westen*, ed. Hans-Joachim Spanger (Frankfurt a. M.: Campus Verlag, 1998), 150–176; Andrey Makarychev, "Foreign Policies of Sub-National Units – the Case of Russian Regions," in *New and Old Actors in Russian Foreign Policy: Conference Proceedings*, ed. Jakub M. Godzimirski (Oslo: Norwegian Institute of International Affairs, 2000), 121–153.

8 For more information on the 1999 Duma elections, see Eberhard Schneider, *Die russische Staatsdumawahl 1999*, Berichte des BIOST 3 (Köln: Bundesinstitut für ostwissenschaftliche und internationale Studien, 1999).

9 Nicolai Petrov, "Brocken Pendulum: Recentralization Under Putin," *Harvard Program on New Approaches to Russian Security Policy Memo Series*, No. 159 (November 2000), available at <http://www.fas.harvard.edu>.

10 On the need for a coherent Russia policy, see Robert Legvold, "Russia's Unformed Foreign Policy," *Foreign Affairs* 80, No. 5 (September/October 2001): 62–75.

## Russia and its regions in the context of a tripartite revolution

Every effort to address the question of Western policy towards Russia and its regions must start with the realization that Russia is in the midst of a tripartite revolution. First, it has not yet found its post-Soviet identity. Second, as a consequence of Russia's bleak economic picture, the debate about the country's political transformation has gained preeminence since Putin's coming to power. And third, Russia is going through a recurring cycle of acute financial crises and significant economic change.

The current weakness of the Russian state – with its image and rhetoric of a political giant and the capacities and power to act of an economic dwarf – makes its further development difficult to project. The Russian peoples will have to cope with the hardships of a political and economic transformation process torn apart by real and self-made complexities for some time to come; at the same time, the West cannot afford to tire of the quick changes in Russian politics, of the newly emerging actors and fluid institutions, or of the many signs of recurring financial and economic crises.

### *1.1 Russia in search of its post-Soviet identity*

Russia's ongoing search for a post-Soviet identity is fraught with challenges incomparable to those of any other former communist country in Eastern and Central Europe: Only Russia has had to come to terms with both the loss of an ideology and the loss of an empire. Russia's power has unquestionably diminished to the extent that its very status as a great power has been called into question. But what is Russia if not a great power? Who are its friends? What are its interests? And at what level of international politics will it find its place?



No clear answers to these questions, and no new consensus on Russia's post-Soviet identity, have emerged as yet. On the contrary, Russian elites are still debating the most basic aspects of Russia's character and political and economic structure. The agonizing and never-ending argument about where Russia perceives its position to be in relation to the West and Asia is just one case in point.<sup>11</sup> Another is the question of Russia's "natural" borders: Russia – in the form of the Muscovy State, the Tsarist Empire, or the Soviet Union – was, first of all, a geographical concept. Russia's external borders defined its cultural and international identity, and Russia's internal territorial organization was intimately linked with the nature of its political regime. Today, with 25 million Russians living outside their "motherland," the concept of Russia's borders has become fuzzy.<sup>12</sup> So, how should Russia's external borders be defined? And more importantly, what kind of federalism should be established? In the past year, Putin has made it clear that he wants to regain control over the regions and establish a clearer hierarchy of power from the center to the regional and local levels. However, the question of whether the center-region relationship will be an open and democratic or an authoritarian one is still undecided – as is the question of how effective Putin's federal reforms have been so far.<sup>13</sup>

There is also no doubt that a majority of Russians think of Russia as a unique country, very different from the West, that they are sensitive to its great history, and that they are proud of its manifold cultural heritage. What little perception there is of a new post-Soviet identity, however, seems to have grown rather from a profound sense of isolation than from a positive definition of Russian society and its political and economic integration into a globalized world. Russia, and in particular Moscow's foreign and security policy elites, feel marginalized in Europe by the major Euro-Atlantic powers. Their tremendous sense of isolation is fuelled by their almost automatic assumption that the West cannot but wish to exploit Russia's current weakness; and that sense of isolation is also mirrored in the wide-spread view, held by many Russians, that Western policies are responsible for their country's continuing economic and social crises.<sup>14</sup> Leaving aside for

11 Russia's relationship with Western Europe has always been an important, yet disputed issue. For an overview on the historical and contemporary debate, see Wolfgang Geier, *Russland und Europa: Skizzen zu einem schwierigen Verhältnis* (Wiesbaden: Harrassowitz, 1996); Kurt R. Spillmann and Andreas Wenger, eds. *Russia's Place in Europe*, Studies in Contemporary History and Security Policy, Vol. 1 (Bern: Peter Lang, 1999).

12 Dmitri Trenin, *The End of Eurasia: Russia on the Border Between Geopolitics and Globalization* (Moscow: Moscow Carnegie Center, 2001), 11.

13 On the double reading of Putin's reforms, see Andreas Rüesch, "All Power to the Kremlin? Putin's Authoritarian Tendencies," *NZZ Online, English Window (Background)*, 11 July 2001; Robert Ortung, "How Effective are Putin's Federal Reforms?," *EWI Russian Regional Report* 6, No. 10 (21 March 2001) (online version).

14 See, for example, Yuri Federov, *Democratization and Globalization: The Case of Russia*, Carnegie Endowment Global Policy Program Working Paper, No. 13 (Washington, D.C., 2000), especially 9, 19.

now the question of how sensitive Western policies have been to Russia's interests, a positive approach to these issues must start from the premise that the prime responsibility for most of Russia's current problems – and consequently the prime responsibility for overcoming these problems – lies with Russia itself.

Russian elites perceive Russia as a prisoner of its relationship with the West. They argue that the West is increasingly reluctant to take into account Russia's interest in its role as a great power. At the same time, they know that Russia's future depends critically on continuing multilateral and bilateral technical assistance and financial help from the West. Often the Kosovo crisis is cited as the point at which the willing partnership of the early 1990s turned into what Aleksei Pushkov has labeled the "enforced partnership" of the early 21<sup>st</sup> century.<sup>15</sup> This view usually includes as its primary focus Russia's relations with the United States, a prevalent element in Russian politics into the 1990s. It is doubtful, however, whether such a perception accurately reflects today's realities of Russian power. Russia's relations with the only superpower of the post-Cold War era will remain an important factor in Russian foreign and security policy. Nevertheless, a simultaneous reorientation of Russia's foreign policy toward the major European Union countries will undoubtedly gain in importance and is already evident in Putin's new thinking.<sup>16</sup>

Russia's search for a post-Soviet identity is set to continue. The country's identity crisis highlights an unfortunate paradox that has resulted from the growing fatigue and disenchantment of a large proportion of Russia's population about its role in the creation of a vision of itself and of its role in the world: Although words such as "corrupt" and "criminal" are never far away when Russians are asked to describe their view of state institutions and the ruling elites, Putin's rise to power was propelled by a growing popular conviction that only a strong hand could lead Russia out of its current crises and into the future.<sup>17</sup> Russian politics are still, therefore, based on powerful personalities rather than on transparent political institutions.

15 See Alexej K. Puschkow, "Zur Partnerschaft verurteilt?," *Internationale Politik* 9 (1999): 49–56; Beitrag von Alexej K. Puschkow, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 116. Bergedorfer Gesprächskreis, 2./3. Oktober 1999 im Präsident Hotel, Moskau (Hamburg: Bergedorfer Gesprächskreis der Körber-Stiftung, 1999), 40. [Author's translation].

16 Alexei G. Arbatov and Dag Hartelius, *Russia and the World: A New Deal*. Policy Recommendations Based on the International Project: "Russia's Total Security Environment," (New York: EastWest Institute, 1999), 19 (online version).

17 For data on the polls, see Viktor Peshkov, "Don't Treat the Putin Puppet Better Than the Rest: What the Public Likes About Putin," *Russian Election Watch* 8 (15 March 2000): 19–21.

## 1.2 Russia in the midst of a major political transformation

Assessing Russia's political transformation is like asking whether the glass is half full or half empty. The answer will depend as much on the point of reference of the person who responds as on a clear assessment of positive and negative trends driving political change. One observer may say that, given that the Russian state and Russian society have been structured along highly centralized and authoritarian lines since the 16<sup>th</sup> century, progress so far towards a more pluralistic and decentralized political process based on free elections and freedom of speech has indeed been remarkable.<sup>18</sup> Another observer, however, whose point of reference may be a transparent and democratic political system based on the rule of law and a "bottom-up" system of checks and balances would argue that the daily presence of elite corruption brings to mind terms such as "manipulated democracy," "patronage politics," or "defective democracy" to describe the Russian political system.<sup>19</sup> A Western report used the term "criminal-syndicalist state" to describe Russia as a state controlled by tightly interlinked cadre of corrupt officials, business people, and criminals.<sup>20</sup> Russia is still in the process of moving away from its communist past to an as yet uncertain system, and authoritarian and democratic forces make for an ambiguous, fluid, and unfinished picture.

The biggest achievement of the young Russian democracy has been a series of free elections supported by a reasonably free media. However, the Russian political process, lacking any real party politics and a broader political and social consciousness at the regional and local level, still resembles what some observers have termed "elective monarchy."<sup>21</sup> The fact that elections have become the only legitimate way of assuming power in today's Russia is no small achievement. Neither is a series of relatively free parliamentary elections at the federal and regional level, a development unprecedented in Russian history.<sup>22</sup> But although

18 See, for example, McFaul, "Getting Russia Right;" Timothy J. Colton and Michael McFaul, *Are Russians Undemocratic?* Carnegie Endowment Russian and Eurasian Program Working Paper, No. 20 (Washington, D.C., 2001).

19 Yabloko leader Grigorii Yavlinskii argued in a recent article in "Obshchaia gazeta" that Russia under Putin has now a "defective" and "unstable" democracy and that the Kremlin is trying to bring not only the media but all non-government organizations into a government dominated "cooperate state". Grigorii Yavlinskii, "Liberalizm dlia vsekh," *Obshchaia gazeta*, 28 June 2001.

20 Frank Cilluffo and Gerard Burke, eds. *Russian Organized Crime*, Global Organized Crime Project, CSIS Task Force Report (Washington, D.C.: CSIS, 1997), 26.

21 Beitrag von Lilia Schewzowa, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 116. Bergedorfer Gesprächskreis, 2./3. Oktober 1999 im Präsident Hotel, Moskau (Hamburg: Bergedorfer Gesprächskreis der Körber-Stiftung, 1999), 45. [Author's translation].

22 For further reading on the meaning of the first free elections for regional development, see Jeffrey Hahn, "Democratization and Political Participation in Russia's Regions," in *Democratic Changes and Authoritarian Reactions in Russia, Ukraine, Belarus, and Moldova*, eds. Karen Dawisha and Bruce Parrott (Cambridge: Cambridge University Press, 1997), 130–174.

the electoral choices have narrowed considerably, Russia is missing a strong party system on the national level, with only the Communist party and Putin's "The Bear (Unity)" getting past the 20% mark in the 1999 Duma elections.<sup>23</sup> Political parties play an even smaller role at the regional level, where only 10–20% of the candidates for regional offices declared themselves as party representatives during the election period 1994–1997. Instead, most delegates see themselves simply as lobbyists for special (mostly economic) interests.<sup>24</sup>

There is no better example for the manipulative character of Russian democracy than Putin's rise to power. His victory was built on the then newly-founded party "The Bear," formed from scratch at the eleventh hour by Kremlin forces in an attempt to overcome the opposition stemming from Primakov's and Lushkov's "Fatherland-All Russia" movement. Putin was not elected by virtue of a political program. On the contrary, he made a point of having no program and by making a fresh start. His ascendance, rather, was characterized by heavy use of the media and the carefully projected image of a "strong hand" against the background of the war in Chechnya.<sup>25</sup> Putin's election confirmed that the political and financial sectors had considerable power in the televised media business; since his election, and in the wake of the NTV affair, the freedom of the media has diminished even further.<sup>26</sup>

The fact that the number of political actors in the domestic and the foreign policy fields has increased is reassuring, when compared with the very small number of actors who decided on the policy course of the Soviet Union during the Cold War. There is, however, a great deal of work needed in the area of political elite-building. Russia needs a new generation of leaders who are responsible for the most urgent needs of Russian society and who are not primarily focused on their personal enrichment and an expansion of their own power. Compared with countries such as Poland and Hungary, Russia has seen a high level of elite continuity since the fall of the communist regime, especially at the regional level.<sup>27</sup> Chances for democratic development vary across regions. While some regions have seen increasingly intense political competition among a growing number of

23 See Schneider, *Die russische Staatsdumawahl 1999*.

24 Maikl Makfol and Nikolai Petrov, *Politicheskii al'manakh Rossii 1997*, Vol. 1 (Moscow: Moskovskii Tsentri Karnegi, 1998), 51.

25 See Holmes, Weinberger, Woosley, and Cohen, "Who Lost Russia?;" Schneider, *Die russische Staatsdumawahl 1999*; Otto Luchterhandt, "'Starker Staat' Russland: Putins ehrgeiziges Programm," *Internationale Politik* 5 (May 2000): 7–14.

26 For in-depth background information on the state of the Russian media, see the RFE/RL six-part report "Russian Media Empires," available at <http://www.rferl.org>. Graeme P. Herd, "The Counter-Terrorist Operation in Chechnya: Information Warfare Aspects," *Journal of Slavic Military Studies* 13, No. 4 (December 2000): 57–83.

27 Perovic, *Die Regionen Russlands*, 160–165; Alla Chirikova and Natalia Lapina, *Regional Elite: A Quiet Revolution on a Russian Scale*, Regionalization of Russian Foreign and Security Policy Working Paper, No. 4 (Zürich: Center for Security Studies and Conflict Research, 2001).

actors who follow a commonly accepted set of norms and rules, many other regions have witnessed a reproduction of the centralized and hierarchical structures of the Soviet state, leading to patronage politics of the worst kind. While transparent and flexible political institutions are a vital precondition for structural economic change and foreign investment, this has only been accepted and acted upon in a few Russian regions.<sup>28</sup>

Russian society is now undoubtedly more pluralistic and open than it was in the late 1980s. Nevertheless, the development of a local and regional consciousness based on bottom-up politics is not yet complete. Russian culture has always been based on communities rather than on individuals. Individuals have long been expected to subordinate their interests to the interests of the state.<sup>29</sup> This cultural legacy stands in the way of any economic initiative the new middle class may display, and at the same time it echoes the widespread feeling that Russia is only ever stable if ruled by a strong leader. Political processes in Russia – at the federal level and even more so at the regional and local levels – are still dominated by executive power and powerful personalities and are not based on the rule of law and a system of institutional checks and balances. Both the growing importance of the powerful oligarchs and governors over the past decade, and the broad support for Putin's attempt to strengthen the central hierarchy of power, have their roots in Russia's traditional political culture.<sup>30</sup>

Finally, Russian politics have witnessed an unprecedented and growing degree of decentralization over the 1990s. The dynamics of regional politics and the relations between the regions and the court politics of Moscow have been the driving forces of Russia's economic, political, and social transformation over the past decade. Russia's regionalization and its consequences for the development of Russian society and for Russia's foreign policy have attracted more and more attention from policymakers and analysts in Russia and in the West.<sup>31</sup> Yet

28 See Vladimir Gel'man, "Regime Transition, Uncertainty and Prospects for Democratization: The Politics of Russia's Regions in a Comparative Perspective," *Europe-Asia Studies* 6 (September 1999): 939–956; especially 941.

29 An example is the Russian National Security Concept (introduced by Yeltsin in December 1997 and slightly revised by Putin in January 2001) where a clear distinction is made between the interest of the state, the society, and the individual. See "Kontseptsia natsional'noi bezopasnosti Rossiiskoi Federatsii," *Rossiiskaia gazeta*, 26 December 1997; "O Konceptsii natsional'noi bezopasnosti Rossiiskoi Federatsii," *Nezavisimoe voennoe obozrenie*, 12–14 January 2000.

30 For a good overview of Russian political culture, see Gerhard Simon, "Zukunft aus der Vergangenheit: Elemente der politischen Kultur in Russland," *Osteuropa* 5 (May 1995): 467–471.

31 For an overview of the literature on Russian regionalism, see Perovic, *Die Regionen Russlands*, especially 36–40. Major Western studies on Russian regionalism include: Andreas Heine-mann-Grüder, *Der heterogene Staat: Föderalismus und regionale Vielfalt in Russland* (Berlin: A. Spitz, 2000); Peter J. Stavrakis, Joan DeBardeleben, and Larry Black, eds. *Beyond the Monolith: The Emergence of Regionalism in Post-Soviet Russia* (Washington, D.C.: Woodrow Wilson Center Press, 1997); Peter Kirkow, *Russia's Provinces: Authoritarian Transformation Versus Local Autonomy?* (New York: St. Martins Press, 1998); Mary McAuley, *Russia's Politics of Uncertainty* (Cam-

Russia's decentralization process has been ambiguous and unstable due to the unsettled nature of the relationship between the center and the regions – a fact that will be analyzed in more detail below.

Russia's political space has become more pluralistic and the balance of political forces has somewhat stabilized over the past ten years. Basic democratic factors such as free elections have taken hold and are increasingly regarded as a normal part of the political process. However, tensions between democratic and authoritarian forces have been accentuated by Putin's reforms and will make for ambiguous politics for years to come. The consolidation of political institutions, both at the federal and regional levels, has been very slow. The level of corruption and the number of politicians with a criminal past will clearly have to be reduced before a further consolidation of Russia's democracy can occur. This will not be easily achieved so long as the economic crisis does not take a definite turn for the better and allow for bottom-up political and economic activities at the local and regional level.

### 1.3 Russia witnessing significant economic crises and changes

Russia's problems today are in one way or another rooted in the devastating economic crisis and the inability of the political elites to sustain structural change. The erosion of Russian power is reflected in a 1999 gross domestic product (GDP) of only 58% of the 1989 level – a GDP smaller than Austria's;<sup>32</sup> in a reduction in the formation of capital; in a withering away of the nation's industrial core; and in an unprecedented reduction of the country's science and technology base.<sup>33</sup>

The August 1998 financial meltdown proved beyond doubt that no amount of foreign aid could compensate for the deficiencies of the Russian economy. On the contrary, aid from the International Monetary Fund (IMF), the World Bank, and other Western sources – driven by a political agenda rather than by sound economics – diminished the pressure on Russian authorities to undertake the very structural reforms such foreign aid was supposed to support. Admittedly,

bridge: Cambridge University Press, 1997); Kathryn Stoner-Weiss, *Local Heroes: The Political Economy of Russian Regional Governance* (Princeton, N.J.: Princeton University Press, 1997); Andreas Kappeler, ed. *Regionalismus und Nationalismus in Russland*, Nationen und Nationalitäten in Osteuropa, Vol. 4 (Baden-Baden: Nomos, 1996).

32 Beitrag von Ulrich Cartellieri, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 116. Bergedorfer Gesprächskreis, 2./3. Oktober 1999 im Präsident Hotel, Moskau (Hamburg: Bergedorfer Gesprächskreis der Körber-Stiftung, 1999), 84. [Author's translation]; also the CSIS Russia brief, "The Russian Economy in July 2000."

33 See Efin S. Khesin, "The Intersection of Economics and Politics in Russia," in *Russia and the West: The 21st Century Security Environment*, eds. Alexei G. Arbatov, Karl Kaiser, and Robert Legvold (New York: EastWest Institute, 1999), 98–128.

Russia's economic recovery in 1999 and 2000 was stronger than expected.<sup>34</sup> Yet this was due mainly to import substitution and a relatively high world oil price, which in turn shows how fragile the Russian economy remains. Given Russia's low tax base, its economy is dramatically and dangerously dependent on world prices for raw materials.<sup>35</sup>

Russia has neither a command economy nor a market economy. As one astute observer recently noted, Russia has lost the few advantages of the former without winning the great benefits of the latter.<sup>36</sup> Although a large part of Russia's production assets are now in private hands, Russia lacks the legal and regulatory infrastructure necessary for the smooth functioning of a market economy. The Russian banking system is in a dismal state, and few serious attempts have been made at restructuring it since the August 1998 crash.<sup>37</sup> Russia has a second economy of 40–65%, depending on whose estimates one believes.<sup>38</sup> This second economy generates no tax revenue, and a high level of barter trade further undermines already low tax revenues.<sup>39</sup> High taxes make the black market all the more attractive and contribute to widespread corruption and an increase in the growth and power of organized crime.<sup>40</sup> The Putin government seems to recognize that tax reform is urgently needed, if the state wants to activate spending, create new jobs, and launch important national programs aimed at catching up with the Western world in the area of high technology. The new law on taxation introduced as of January 2001, however, is primarily aimed at a redistribution of tax revenues in favor of the federal government vis-à-vis regional governors, rather than an overall tax reduction.<sup>41</sup>

34 See the CSIS Russia brief, "The Russian Economy in July 2000;" and the UN's *2000 Human Development Report for the Russian Federation*.

35 Klaus Mangold, "Wirtschaftsfaktor Russland: Die deutsche Wirtschaft hat Anlass zur Hoffnung," *Internationale Politik* 5 (2000): 1–6; CSIS, "The Russian Economy in July 2000."

36 Cartellieri, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 84. [Author's translation].

37 See CSIS, "The Russian Economy in July 2000;" Beitrag von Andrej A. Kokoschin, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 116. Bergedorfer Gesprächskreis, 2./3. Oktober 1999 im Präsidenten Hotel, Moskau (Hamburg: Bergedorfer Gesprächskreis der Körber-Stiftung, 1999), 89. [Author's translation].

38 John C. Gannon, Speech to the DFI International & Henry L. Stimson Group, 9 December 1999, available at <http://www.cia.gov>. In his millennium address on 29 December 1999, President Putin said that the share of the shadow economy in the GDP of Russia amounts to 40%. Vladimir Putin, "Russia at the Turn of a New Millennium," available in English at [http://www.pravitelstvo.gov.ru/english/statVP\\_engl\\_1.html](http://www.pravitelstvo.gov.ru/english/statVP_engl_1.html).

39 Taxes paid in money account for roughly 60% of total tax revenue. See EastWest Institute, *Russia: Federal Budget and the Regions* (New York: EastWest Institute, November 1999).

40 On the connection between the shadow economy and corruption, see the articles on "Shadow Relations" in the Russian journal "Pro et Contra:" "Tenevye otnosheniia," *Pro et Contra* 4, (Winter 1999).

41 For further information on the tax reform, see "Winners and Losers in Tax Reform," *EWI Russian Regional Report* 5, No. 30 (2 August 2000) (online edition).

Over the past decade, the Russian state has lost many of its most important regulatory functions in relation to the redistribution of resources. Only 14–15% of the total GDP is reallocated through the central budgetary system, according to a recent study.<sup>42</sup> The center of economic activities has clearly gravitated from the federal center to the regions over the past years. The financial relations between the center and the regions – despite recent reform initiatives – remain opaque. The dramatic unevenness of regional economic development provides a major challenge to the regulatory power of the center. The growing economic gap between Russia's regions is accelerated by global economic forces, which reach only a limited number of albeit important regions.<sup>43</sup> In the absence of a clear federal economic program for systemic reform at the federal level, the better-placed regional economies will remain unwilling to support weaker regions through taxes collected and redistributed federally.

Russia's financial dependence on the West in general, and on Europe in particular, has been growing over the past few years. The heavy reliance on Western loans and credits has been counterproductive, slowing down structural change and resulting in corrupt or at least non-accountable practices. Capital flight in recent years has been enormous, amounting to an estimated US\$ 15–20 billion in 1999.<sup>44</sup> The amount of capital taken out of Russia and deposited in Western banks has been considerably greater than the amount of capital gained through Western economic assistance to Russia – the negative balance represents capital that could have been made available for the much-needed restructuring of the economy, for social programs, and for investment.<sup>45</sup> European firms are major investors in Russia, and more than 50% of venture capital in Russia is European.<sup>46</sup> The European Union is Russia's largest trading partner, representing 32% of Russian exports and 34% of its imports in 1996.<sup>47</sup> By 2000, 40% of Russia's foreign trade was with the EU and it is calculated that this will increase to over 50% with the first wave of EU enlargement.<sup>48</sup>

Parallel to its increasing financial dependence on the West, Russia is undergoing a process of gradual de-industrialization. Only the oil and gas sector has been able to increase its exports, which now account for more than 70% of the

42 EastWest Institute, *Russia: Federal Budget and the Regions*.

43 Economic unevenness among the Russian regions is illustrated by the fact that a small group of ten regions in 1998 accounted for over 60% of the country's overall export volume and for over 40% of its import volume. For further data, see Goskomstat Rossii, ed. *Regiony Rossii statisticheskii sbornik 1998*, Vol. 2. (Moscow, 1998), 782–783.

44 Mangold, "Wirtschaftsfaktor Russland: Die deutsche Wirtschaft hat Anlass zur Hoffnung," 3.

45 Khesin, "The Intersection of Economics and Politics in Russia," 106.

46 Arbatov and Hartelius, *Russia and the World: A New Deal*, 36.

47 Khesin, "The Intersection of Economics and Politics," 113. For updated data see: [www.europa.eu.int](http://www.europa.eu.int).

48 David Gowan, *How the EU Can Help Russia* (London: Center for European Reform, 2000), 7.

country's export revenues.<sup>49</sup> The result is that Russia's economy is dangerously dependent on world energy prices. Russia runs the risk of being integrated into the world economy as an energy and raw material producer. Russia has not used the revenues from its energy exports to develop advanced manufacturing industries, and it has not used them to develop a modern high-technology industry. Russia has a weak high-tech sector and a weak manufacturing industry: the average plant and its equipment are three times older than the OECD average and it has a productivity rate 20% below US standards.<sup>50</sup> A vicious cycle is at work here: instead of accelerating long-term systemic change, energy revenues have made it possible for Russia to focus on its short-term concerns and to postpone a serious restructuring of the economy time and again.

Finally, Russia's science and technology potential has been crumbling since the end of the Cold War. Russia is facing a brain drain of dangerous proportions, with the number of scientists at less than 60% of 1990 levels.<sup>51</sup> Russia's best-qualified labor, its engineering and scientific know-how, its most advanced technologies have been concentrated in the military industrial complex. With the federal defense budget amounting to only 2.4% of its gross national product in 2000,<sup>52</sup> Russia's arms industry is also in deep trouble. The conversion process is stalling for lack of funds, and, consequently, Russia's former science and technology potential is being eroded. Today, most of Russia's military output is exported – some of it to questionable destinations – complicating Russia's political relations with the very nations it is dependent on for its economic recovery.<sup>53</sup>

All this suggests that Russia will not emerge from its current economic slump for quite some time. Russian economic growth will remain stifled in the short- and medium-term. Russians need to accept that the current crisis is not a passing phenomenon. Russia is a fundamentally weak state and has yet to recover from the fall of the Soviet empire. At the same time Western policies towards Russia and its regions should be based on pragmatic expectations: Russia will not be a Western-style democracy with a functioning market system any time soon. Russia's tripartite revolution – an economic, political, and social transformation process of unprecedented scope – will be a long process measured in decades, not years.

Unlike the German and Japanese post-World War II recoveries, which were driven by internal social and economic changes closely monitored by an outside hegemon, Russia faces the far more complex perceptual dilemma of how it

49 Cartellieri, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 84. [Author's translation].

50 CSIS, "The Russian Economy in July 2000;" Cartellieri, in *Russland in Europa: Zehn Jahre nach dem Kalten Krieg – politische und wirtschaftliche Herausforderungen*, 84. [Author's translation].

51 Khesin, "The Intersection of Economics and Politics," 101.

52 See the UN's *2000 Human Development Report for the Russian Federation*.

53 Khesin, "The Intersection of Economics and Politics," 109–110.

should balance the political legacies of a superpower with the economic capacity of a developing state. Russia's political elites recognize that the country's main security threats stem from its internal development and that economic recovery alone will provide the basis for a long-term revival of Russia. Putin, in particular, has made this clear. At the same time, however, Russia's new president wants to strengthen the state and restore Russia's great power status.<sup>54</sup> This is not an easily achievable objective. Although Putin's first year in office has brought with it a flurry of activities to bridge the gap between these two seemingly contradictory goals, the question of whether domestic reform will occur in an authoritarian or democratic manner remains open. The same is true with regard to Russia's structural integration into a globalized world. It remains to be seen whether Russia is aiming at a multipolarity similar to that of the 19<sup>th</sup> century or a multipolarity represented by the many focal points of the economic and information technology networks of the 21<sup>st</sup> century.

In contrast to the Yeltsin years, which were marked by a gridlock between the executive and the legislative government branches, in today's Russia Putin has the chance to define change as a matter of choice and not simply as a necessity dictated by an acute crisis. Time is of the essence, however: muddling through will not be enough. If Russia fails to focus on policies to restructure the economy and fails to provide the necessary social and institutional environment to do so, it runs the risk of becoming a failed state. With 33 million or more of its 144 million inhabitants living below subsistence levels,<sup>55</sup> with a dramatically growing gap between rich and poor, with the world's highest rate of narcotics consumption,<sup>56</sup> with 70% of its surface freshwater failing to meet existing norms,<sup>57</sup> with a life expectancy of less than 57 for men and of less than 67 for women and a mortality rate higher than the birth rate,<sup>58</sup> with 80–90% of its potatoes and vegetables harvested from private plots, and, although a land reform is underway now, with a dwindling amount of cultivated land<sup>59</sup> – Russia needs to assess its limits realistically.

54 See Otto Luchterhandt, "Starker Staat Russland," *Internationale Politik* 5 (2000): 7–14; Klaus Mangold, "Wirtschaftsfaktor Russland: Die deutsche Wirtschaft hat Anlass zur Hoffnung," *ibid.*, 1–6; William R. Smyser, "Putin spielt die deutsche Karte," *ibid.*, 15–20; Margareta Mommsen, "Sphinx im Kreml: Was kann der Westen von Putin erwarten," *ibid.*, 21–24; Walter Schilling, "Russlands Militärmacht," *ibid.*, 25–28; Alexander Sergunin, "Regionen contra Zentrum: Ihr Einfluss auf die russische Aussenpolitik," *ibid.*, 29–36.

55 Perovic, *Die Regionen Russlands*, 212–213.

56 Alexander A. Pikayev, Elena Nikitina, and Vladimir Kotov, "Harmful Legacies and Dangerous Weaknesses," in *Russia and the West: The 21<sup>st</sup> Century Security Environment*, eds. Alexei G. Arbatov, Karl Kaiser, and Robert Legvold (New York: EastWest Institute, 1999), 229.

57 *Ibid.*, 231.

58 See "WHO Issues New Healthy Life Expectancy Rankings," *WHO Press Release* (Washington, D.C. and Geneva, Switzerland, 4 June 2000).

59 René Nyberg, "Russia and Europe," *European Security* 8, No. 2 (Summer 1999): 17.

If Russian politicians want to successfully turn around the dangerous downward spiral of the past decade, their current focus on upholding the image of a great power and a top-down approach to reforms will not do. Forces driving economic and social reforms from the bottom-up must complement federal leadership. Russia's hopes lie with its young generation that is active at the local and regional level. New economic and social forces that are capable of driving change are emerging, such as the small businesses, local and regional islands of economic globalization, increased travel outside Russia, and better outside connections through the Internet.<sup>60</sup> These forces are still in their infancy. In the long-run, however, it is essential for Russia's recovery that they become part of a new Russian political agenda.

The Russian transformation process is still in an ambiguous state – that much is obvious. Yet what does this mean for the West? First, the fact that the Russian military is no longer perceived as a direct expansionist threat is certainly a very big plus. Russia's military power nevertheless remains of great concern to the West, as much due to its weakness as to its strength. A general lack of funds and the weakness of the Russian state have led to a privatization of the security sector.<sup>61</sup> Independent regional and local, economic and political actors are complicating the effective control of weapons of mass destruction. The dismantling of nuclear submarines, the elimination of chemical weapons agents, and the proliferation of nuclear and missile materials, technologies, and expertise represent non-traditional security risks, directed not primarily against the territorial state but against the fabric of modern societies.<sup>62</sup> None of these risks stop at the Russian border. This suggests that there is an urgent and shared interest in continuing cooperation between Russia and the West, a cooperation made difficult due to the conceptual gaps between the two parties with regard to international relations in the 21<sup>st</sup> century.

60 See Gannon's speech to the DFI International & Henry L. Stimson Group.

61 Sam Nunn and Adam N. Stulberg, "The Many Faces of Modern Russia," *Foreign Affairs* 79, No. 2 (March/April 2000): 46, 52.

62 See Pikayev, Nikitina, and Kotov, "Harmful Legacies and Dangerous Weaknesses."

## Conceptual gaps between Russia and the West: the distribution of power in a "glocalized" world

Apart from the many ambiguities of the Russian transformation process, a sometimes very different understanding of the main trends driving international relations in the 21<sup>st</sup> century further complicates cooperation between Russia and the West. Such conceptual gaps form the basis of mutual misperceptions that have negative effects on Russian-Western relations in general and on domestic political debates in particular. The West, on the one hand, tends to underestimate how much Russia still focuses on traditional security threats, either in connection with border problems or other factors of regional instability in the Caucasus, in Central Asia, and in the Far East, or with military balances in the Euro-Atlantic and the Asia-Pacific areas. Russia, on the other hand, tends to perceive the much discussed globalization trends as a modern form of Western hegemony rather than as an effect of technological, economic, social, and political trends that Western states themselves are in no way able to completely control.

The most basic concepts of international politics – such as power and sovereignty – take on different meanings in Western and Russian political and academic debates. In the West the debate about power in the "Information Age" is founded in Joseph Nye's distinction between "hard" and "soft" power. Power in the global information society depends less on territory, military power, and natural resources than on information, technology, and institutional flexibility.<sup>63</sup>

63 See Robert O. Keohane and Joseph S. Nye (Jr.), "Power and Interdependence in the Information Age," *Foreign Affairs* 77, No. 5 (1998): 81–94; Joseph S. Nye (Jr.) and William A. Owens, "America's Information Age," *Foreign Affairs* 75, No. 2 (1996): 20–36.

Russia's foreign and security policy debate, however, is dominated by a traditional perception of power – influence flowing from military power, in particular – vested in the territorial state and brought to bear through geopolitics and geo-economics. Russian elites tend to focus on the state as the single source of sovereignty with interests of its own. Western perceptions, however, are dominated by the drifting apart of the territorial, societal, and economic space and the loss of state monopoly. With the territorial state in decline, new concepts and ideas – such as fragmented sovereignties, overlapping authorities, virtual networks, vanishing borders, and new regional entities – are emerging.<sup>64</sup>

### 2.1 *The twin forces of globalization and localization: Western perceptions*

The twin forces of globalization and localization have dominated western perceptions of the forces driving today's international politics. Globalization describes the increasing integration of individual states and actors into a global economy with the concomitant deepening of transnational cultural and political exchanges and the growth of institutions and structures beyond state borders. The cross-border movement of goods, services, ideas, and capital has been dramatically accelerated by the information revolution. Modern information technologies have minimized the previous limitations imposed by space and time on worldwide capital and industrial mobility and have led to the tendency towards global trade and investment decisions.<sup>65</sup>

But success in a global economy is more than the result of interchangeable production factors. Success also depends heavily on the local societal and institutional framework.<sup>66</sup> By localization we mean the way in which local factors such as workforce skills, hard and soft infrastructure, legal norms and political institutions empower local communities and actors to attract mobile capital and human resources, business deals, and multinational firms. Success *in* a global economy

64 See, for example, Ole Waever, "International Society: Theoretical Promises Unfulfilled?" *Co-operation and Conflict*, No. 1 (March 1992): 97–128; R. O'Brien, *Global Financial Integration: The End of Geography* (London: Pinter Publishers, 1992).

65 For a survey of the literature on globalization, see Marianne Beishaim and Gregor Walter, "Globalisierung: Kinderkrankheiten eines Konzepts," *Zeitschrift für Internationale Beziehungen*, No. 1 (1997): 153–180; also see Thomas Christiansen, Pertti Joenniemi and Bjarne Lindström, "Nationality and Regionality: Constituents of Political Space Around the Baltic Rim," in *Neo-Nationalism or Regionality: The Restructuring of Political Space Around the Baltic Rim*, ed. Pertti Joenniemi (Copenhagen: Aaland Islands' Peace Research Institute and Copenhagen Peace Research Institute, 1997), 17; Jeronim Perovic, *Internationalization of Russian Regions and the Consequences for Russian Foreign and Security Policy*, Regionalization of Russian Foreign and Security Policy Working Paper, No. 1 (Zürich: Center for Security Studies and Conflict Research, 2000), 9–11; *21st Century: World Development Report, 1999/2000* (New York: Oxford University Press, 2000), available at <http://www.worldbank.org/wdr/2000/>.

66 Christiansen, Joenniemi, and Lindström, "Nationality and Regionality: Constituents of Political Space Around the Baltic Rim," 18–19.

requires the right amount of local autonomy needed by actors to maximize the capacity for quick action in a highly flexible and mobile business environment. Success *of* the global economy depends on the availability of a functioning global regulatory infrastructure and global governance, needed to balance economic benefits with social drawbacks.

Thus, the central question of "glocalization" – understood as the coming together of the twin forces of globalization and localization – is a political one, namely, how should power and authority be concentrated at the right political level, so that the capacity for action of international and key local (economic) players can be maximized. Western European states have been going through a process in which power and authority have simultaneously been moved upwards to the (supranational) European Union and downwards to the subnational local level (to units like mega-cities) and to transnational regional entities (transnational super-regions). Though economic forces have been driving this process, politics will have to decide how to strike the right balance between international and local forces, a task that will prove a key challenge. The centralization of political authority at the supranational level must be complemented by the empowerment of local and regional entities, or democratic deficits will increase and legitimacy of political decisions will decrease. Aware of this danger, the European Union committed itself to the principle of subsidiarity under the Maastricht treaty. Whatever political issues can be decided at a low level should not be pushed up to the supranational level.<sup>67</sup>

What Western Europe is witnessing today is not the end of the nation state but the return of overlapping authorities. Although rapidly growing economic interdependence is generally increasing the "permeability" of borders and is softening the monopoly of the state, globalization is developing in an international system still dominated by states. And although many of today's most important economic developments and potential conflicts are evolving on a sub- and trans-state regional level rather than on an inter-state level, the state is still the prime negotiator and representative in cases of conflicts of interest. This suggests that though the state is not withering away, it has to change its functions and adapt them to the new conditions of a rapidly changing international environment. The citizens and the business communities of modern Western-type democracies increasingly perceive the state as the provider of public services such as security, welfare, education, and law.<sup>68</sup>

67 See Wolfgang Danspeckgruber with Arthur Watts, *Self-Determination and Self-Administration: A Source Book* (Boulder: Lynne Rienner, 1997); Louise Fawcett and Andrew Hurrell, eds. *Regionalism in World Politics: Regional Organization and International Order* (Oxford: Oxford University Press, 1995).

68 See Richard Rosencrance, "The Rise of the Virtual State," *Foreign Affairs* 75, No. 4 (1996): 45–61; Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (London: Harper Collins Publishers, 1995); Thomas Bernauer, *Staaten im Weltmarkt: Zur Handlungsfähigkeit von Staaten trotz wirtschaftlicher Globalisierung* (Opladen: Leske und Budrich, 2000); Keohane and Nye, "Power and Interdependence in the Information Age."

Regional entities provide for a more pluralistic alignment between identity and territory than the alignment represented by exclusive state sovereignty.<sup>69</sup> The dominating model for the future political order of Europe is a “Europe of regions.” Yet Western analysts make the distinction between two qualitatively different conceptions of regionalization.<sup>70</sup> One conception is state-centric, is driven by politics, and aims at the reorganization of power within the traditional hierarchy of administrative structures. The other is driven by forces from within and outside the state, follows a political logic dominated by economics, and aims at the creation of new institutional power along new regional structures. It is important to keep these two distinct levels of analysis apart, not least because they help highlight the differences between Western and Russian perceptions of regionalization processes.

In response to the twin forces of globalization and localization, the West is in search of a new equilibrium of power and authority on two levels. On the one hand, “glocalization” demands a vertical reorganization of power and functions within the traditional hierarchy of existing administrative structures. The new economic and social forces, on the other hand, call for a simultaneous horizontal reorganization of power and functions transcending state structures. The vertical axis represents federalism at one end and separatism at the other, and the horizontal axis represents supra-regionality of the European Union at one end and region-building in form of subnational and transnational structures at the other.

From a Western perspective, federalism stands for a consensual balance between the bottom-up approach to region-building of the federal units and the top-down approach to region-building of the federal state. Federalist systems start with the will of local entities to delegate authority to a higher level. In Switzerland and the United States, for example, the sovereignty of the federal state is founded on the will of the people to form a confederation of already existing territorial units (cantons and states, respectively).<sup>71</sup> Local autonomy is upheld with the principle of subsidiarity. In recent years federal states have responded to the challenges of “glocalization” with decentralization of administrative power that aims to encourage an increased local capacity to act in a global market, to use scarce public resources more efficiently, and to enhance legitimacy at the local level.

Separatist movements highlight the fact that the balance between the top-down approach and the bottom-up approach to region-building can endanger the

69 See Christiansen, Joenniemi, and Lindström, “Nationality and Regionality: Constituents of Political Space Around the Baltic Rim.”

70 For definitions of regionalism, regionalization, region, etc., see Perovic, *Die Regionen Russlands*, 27–35.

71 On the different understandings of federalism in Russia and the West, see Perovic, *Die Regionen Russlands*, 110–117.

unity of a federation. The driving forces of such movements are often ethnically, culturally, religiously and/or economically motivated. Separatism aims to install independent political institutions to safeguard a region’s perceived territorial identity. In so far as separatism is based on a traditional nation-state logic, it has been less of a problem for Western states facing new economic forces – with the obvious exception of long-standing conflicts of a primarily political nature that involve critical domestic security issues (Northern Ireland, Basque, etc.).<sup>72</sup>

Europe now has a multi-layered structure, a fact that is evident if we look at the vertical reorganization of power. Western perspectives at this level focus on the parallel movement of state authority upwards to supranational structures like the EU and downwards to subnational entities within or across states. The European integration process was, from the beginning, driven by the forces of the economy and security and was aimed at overcoming the nation state. The political finality of the union is evident in its three-pillar structure. The “glocalization trend” poses new challenges for the Union, both in its function as an economic mega-region and in its capacity to maximize decentralized decision-making.

The regulatory framework of the EU common market attempts to structure the mobility of products and production factors at a global level. At the same time, Western analysts and policymakers recognize that economic growth patterns depend heavily on local initiative. It is often the local regulatory framework, below the level of the state, which dominates the decision-making of large multinational firms when they decide where to concentrate their assets. Such local initiative can be of either a subnational or a transnational character. The renewed interest in the political economy of both mega-cities and transnational super-regions – like the “blue banana” stretching from the English Channel along the Rhine Valley into northern Italy – have been generated by the economic logic of the “glocalization trend.”<sup>73</sup>

In the Western search for a new equilibrium of power and authority, the process of regionalization – both along the vertical axis of state structures and the horizontal axis of new institutional structures transcending the state – is perceived as fundamentally positive: Regionalization fits the economic principles of a global market place, and it is a key political factor in the democratic process, strengthening societies against the state and increasing the legitimacy of

72 See Ted Robert Gurr, *Minorities at Risk: A Global View of Ethnopolitical Conflicts* (Washington D.C.: United States Institute of Peace Press, 1993); Donald L. Horowitz, *Ethnic Groups in Conflict* (Berkeley: University of California Press, 1985). On the problem of separatism in Russia: Mikhail A. Alexseev, ed. *Center-Periphery Conflict in Post-Soviet Russia: A Federation Imperiled* (Basingstoke: Macmillan, 1999).

73 See Christiansen, Joenniemi, and Lindström, “Nationality and Regionality: Constituents of Political Space Around the Baltic Rim,” 19; Wolfgang Danspeckgruber, “Self-Determination, Subsidiarity, and Western Europe,” in *Self-Determination and Self-Administration: A Sourcebook*, eds. Wolfgang Danspeckgruber with Arthur Watts (Boulder: Lynne Rienner, 1997), 221–248.



centralized supra-national structures vis-à-vis local and regional entities. Regionalization provides the lubricant for a democratic reorganization of power necessitated by the twin forces of globalization and localization.

## 2.2 *Regionalization and the disintegration of centralist state structures: Russian perspectives*

Unlike perspectives generated by Western political culture, Russian perceptions of regionalization have emerged from a tradition of negative connotations. Only a strong central state, so the conventional wisdom held for centuries goes, could keep together the many territories and ethnic groups of the vast Russian empire. An increase in power at the periphery meant an increased danger to the unity of the state. Decentralization and local autonomy were accepted only in so far as they were pragmatic, that is, only in so far as they promoted efficient government of the large Russian spaces.<sup>74</sup> Such historical views have continued to influence the Russian debate about the dramatic regionalization of power in the 1990s and are evident in the widespread support for President Putin's moves to strengthen the central hierarchy of administrative power.

Russian policymakers and analysts have clearly focused their attention on events occurring along the vertical axis of the redistribution of power, while the Western focus has been on the horizontal axis of the redistribution of power away from the nation state. Russian perceptions of the forces driving today's international politics are dominated by the disintegration of centralist state structures and the potential negative consequences of such developments on Russia's status, influence, and position in a world increasingly dominated by the remaining superpower, the United States. The new assertiveness of regional and local actors in Russia reflects, to a certain degree, a global trend. However, in Russia regionalization has been developing as a clearly disintegrative phenomenon during the Yeltsin years. The power vacuum caused by the economic crisis and the inability of the central state to initiate structural reform – and not the forces of globalization – are dominating Russia's search for a new equilibrium of power. The fact that globalization processes are unevenly spread over the 89 regions of the Russian federation only aggravates the already existing power struggle between federal, regional and local elites.<sup>75</sup>

Russia, according to its constitution, is a federation of 89 subjects with equal rights. In addition, the initiative to flesh out the federal relationship between the center and the regions has been delegated to the subnational units. In practice,

74 Andreas Kappeler, *Russland als Vielvölkerreich: Entstehung, Geschichte, Zerfall* (München: Beck, 1992).

75 Andrei S. Makarychev, *Islands of Globalization: Regionalization of Russian Foreign and Security Policy*, Regionalization of Russian Foreign and Security Policy Working Paper, No. 2 (Zürich: Center for Security Studies and Conflict Research, 2000), especially 25–35.

however, Russian federalism is asymmetric and contractual rather than symmetric and constitutional.<sup>76</sup> The development of Russian regionalism in the 1990s was driven neither by a top-down approach to region-building nor by a bottom-up manifestation of growing social and political consciousness – and certainly no balance was achieved between the two. Rather Russian regionalism was the product of an on-going power struggle between federal and regional elites. The emerging regionalization was, in the words of Thomas Graham, a regionalization by default rather than by design: “While the more ambitious leaders seized more power locally, the more timid were compelled to assume more responsibility as a matter of survival.”<sup>77</sup>

With Putin's reforms, the balance has tilted towards a conception of federalism in which power is delegated top-down from the center to the regional subjects rather than delegated from the bottom-up. Clearly, the new Russian president wants to strengthen the vertical axis of power from the center across the regional to the local level. But the responsibilities, the tasks, and the resources assigned to each level of authority are less clear and will remain a matter of negotiation between governing elites. The Ministry of Justice, for example, identified in mid-1999 up to 50'000 bills contradicting the constitution and federal law in one way or another.<sup>78</sup> Even though the process of harmonization of federal, regional and local legislation has been started under Putin, it will take some time before Russia will be a “real” federation of subjects with equal rights.<sup>79</sup>

The need to redistribute power along the horizontal axis as stipulated by Western views of the “glocalization trend” is met at best with skepticism by Russia. Moscow's foreign policy elites go even further, perceiving globalization as a sinister form of US hegemony that aims to increase Russia's isolation and marginalize its influence on the international scene.<sup>80</sup> Another factor, which may be more important but which has often been overlooked till recently, is that Russia is still a long way from Western Europe's drive towards supranational integration. Although Russian regional and local elites tend to think in pragmatic terms, guided by economics rather than geopolitics, there is no strong regional globalization lobby either. Russia is only marginally touched by globalization and the impact has so far not been positive. On the contrary, the dramatic differences between the extents to which Russia's regions are participating in the globaliza-

76 For more on the federal constriction of Russia, see Heinemann-Grüder, *Der heterogene Staat*.

77 Thomas Graham, “The Prospects of Russian Disintegration is Low,” *European Security* 8, No. 2 (Summer 1999): 1.

78 Martin Nicholson, *Towards a Russia of the Regions*, IISS Adelphi Paper, No. 330 (Oxford: Oxford University Press, 1999): 42.

79 Perovic, *Die Regionen Russlands*, 141–151.

80 “Zeitungsbeitrag des russischen Aussenministers, Igor Iwanow, über die Aussenbeziehungen Russlands vom 20. Januar 2000,” *Internationale Politik* 5 (2000): 96–99.

tion process – only a small number of important regions are involved – give rise to increased domestic tensions.<sup>81</sup>

Finally, the nascent trans-border cooperation, particularly in Northwestern Russia, is a positive sign. Trans-border development and trade with Central Europe and the Baltics have raised hopes for economic growth. However, trans-border relations provide a complex variety of opportunities and challenges, not least because in these areas economic issues are often linked to security-related questions.<sup>82</sup> This again reminds us of the fact that Russian and Western views differ both in their perceptions of regionalization and also in their understanding of security in a globalized world.

### 2.3 Security in a globalized world: Russia's traditionalist perspective versus the broadening Western perspective

In the 1990s we have witnessed a widening gap between the way fundamental security challenges are perceived in Russia and the way they are perceived in the West. While the Western security community has adopted a broad approach to security, Russia's security debate is still heavily dominated by traditional concerns – a fact that is not adequately reflected in the policy debates of either Russia or the West.<sup>83</sup> Moreover, both Western and Russian experts tend to deal with these differences through political rhetoric rather than through a realistic assessment of the other side's most pressing security concerns. While Western analysts consider Russia's traditional policy a product of old thinking, Russian observers see Western talk about a broadening of the security agenda as a smokescreen covering a *Realpolitik* approach towards Russia.

Western thinking about security in the post-Cold War era set out from the almost universal view that the economically-driven processes of globalization will have a profound and lasting effect on international security. In the early 1990s the triumph of the market over socialist planned economies and the ever-increasing interdependence of world economic and financial forces were largely praised as mitigating conflicts and as making war obsolete. Yet such liberal views in favor of global governance and security were soon upset by the sobering realization that globalization does not necessarily foster global security. Growing interdependence between states in a still rather state-centric world system not only provides economic opportunities, but also increases the complexities of pro-

81 Makarychev, *Islands of Globalization*, 27–30.

82 See, for example, Alexander A. Sergouin, *External Determinants of Russia's Regionalization*, Regionalization of Russian Foreign and Security Policy Working Paper, No. 2 (Zürich: Center for Security Studies and Conflict Research, 2000), especially 23–26.

83 Alexei G. Arbatov, Karl Kaiser and Robert Legvold, eds. *Russia and the West: The 21st Century Security Environment* (New York: EastWest Institute, 1999), introduction and conclusion.

liferation issues, export control efforts, and the fight against transnational organized crime. The very unevenness of globalization increases inequalities and vulnerabilities between and within states and can lead to growing unpredictability – a phenomenon that became evident in the 1998 Asian and Russian crises.<sup>84</sup>

The debate between proponents of a broad concept of security and proponents of a narrow interpretation of security is still underway. However, today it is generally accepted in the West that the concept of security has a military dimension, but also an economic, a political, a socio-cultural and potentially an ecological dimension.<sup>85</sup> As we observe a clear shift from conflicts between states to conflicts within societies, security policy cannot be limited to issues directly linked to the threat and/or the use of military force by state actors. Today's conflicts are often identity-driven and are marked by a high level of violence and a large degree of emotion and irrationality. The successful prevention and resolution of such conflicts depends less on interstate action and more on local conditions, such as problems relating to minority rights, human rights, environmental hazards, drug trafficking and organized crime. The changing nature of conflict demands on the one hand a bottom-up approach to security policy, emphasizing the societal underpinnings of security (norms and institutions), and on the other hand a top-down approach focused on balances of military power, geopolitics and the diplomacy of security architecture.

Now that the conventional threat of Russia's military forces has gone, the West is concentrating on the non-traditional risks emanating from Russia's economic and social crisis. The United States has been focusing its attention on the safety of Russia's military infrastructure, particularly with regard to the control, non-proliferation, and dismantlement of nuclear, chemical, and biological weapons components, as well as on the Russian approach to international

84 See Joseph Kahn, "Russia's Crisis Reveals the Ugly Side of Globalization," *New York Times*, 30 August 1998; Kurt R. Spillmann and Andreas Wenger, eds. *Towards the 21st Century: Trends in Post-Cold War International Security Policy*, Studies in Contemporary History and Security Policy, Vol. 4 (Bern: Peter Lang, 1999), concluding section.

85 For further reading on the wider vs. narrower debate, see Barry Buzan, *People, States, and Fear: The National Security Problem in International Relations* (Chapel Hill: University of North Carolina Press, 1983); Barry Buzan, *People, States, and Fear: An Agenda for International Security Studies in the Post-Cold War Era* (Boulder: Lynne Rienner, 1991); Barry Buzan, Ole Waever, and Jaap de Wilde, *Security: A New Framework for Analysis* (Boulder: Lynne Rienner, 1998); Lawrence Freedman, "International Security: Changing Targets," *Foreign Policy* 110 (Spring 1998): 48–63; Edward Kolodziej, "Renaissance in Security Studies? Caveat Lector!" *International Studies Quarterly* 36, No. 4 (December 1992): 421–38; Keith Krause and Michael C. Williams, "Broadening the Agenda of Security Studies: Politics and Methods," *Mershon International Studies Review* 40, Supplement 2 (1996): 22–54; Richard Ullman, "Redefining Security," *International Security* 8, No. 1 (Summer 1983): 129–53; Stephen Walt, "The Renaissance of Security Studies," *International Studies Quarterly* 35, No. 2 (1991): 221–39.

terrorism and organized crime.<sup>86</sup> The Europeans, in addition, worry about trans-border ecological and migration issues and the illegal flow of money and drugs.<sup>87</sup> This is not to say that Western policy has not at times been affected by the geopolitical logic of, for example, Kissinger and Brzezinski, reflecting continuing mistrust of Russia.<sup>88</sup> However, as the issue of energy security and Western policy towards the Caucasus shows, such thinking is driven neither by military factors nor by territorial claims. Moreover, as the crises in Chechnya have proven beyond any doubt, geopolitical thinking is outweighed by clear consideration of Russian sensibilities regarding domestic politics and border-stability.

Russia acknowledges that its main security problems stem from within its own borders. We may consider it a reassuring sign that Russia's security and defense strategy papers emphasize how important it is that the Russian Federation overcomes the domestic economic and social crisis as a first step towards increasing its security and stability.<sup>89</sup> On a conceptual level, Russia has been moving into the direction of an expanded security conception. In the absence of any clear progress in these areas, and given the continued lack of funding and loss of control of the federal center over regional and local security issues, a refocusing of Russia's security priorities towards emerging new security threats from economic and institutional weaknesses has, however, proved difficult. In addition, Russia's desperate claim to its great power status, apart from its membership in the UN Security Council, rests primarily on its military (nuclear) arsenal, thus leading towards a traditional approach to security.<sup>90</sup>

When Russia turns away from its inner crisis and addresses potential risks from outside the country, the traditional problems prevail. Moscow's foreign and security policy elite, in particular, is concerned about unequal military balances along its European (Nato) and Asian (China) borders.<sup>91</sup> While such worries are

86 See Morten Bremer Maerli, "Managing Excess Nuclear Materials in Russia," in *Nuclear Weapons into the 21st Century: Current Trends and Future Prospects*, eds. Joachim Krause and Andreas Wenger, Studies in Contemporary History and Security Policy, Vol. 8 (Bern: Peter Lang, 2001), 47–68. On organized crime: *Russian Organized Crime and Corruption: Putin's Challenge*, Global Organized Crime Project, CSIS Task Force Report (Washington, D.C.: CSIS, 2000).

87 "Common Strategy of the European Union on Russia," 4 June 1999, composed by the Council of the European Union: <http://ue.eu.int/pesc/article.asp?lang=en&id=99908199>, 24 July 2000.

88 Anatol Lieven, "Ham-Fisted Hegemon: The Clinton Administration and Russia," *Current History* (October 1999): 308.

89 The second version – following the first version of 1997 – of the *National Security Concept of the Russian Federation* was published originally in *Rossiiskaia Gazeta*, 18 January 2000.

90 Lawrence Freedman, "The New Great Power Politics," in *Russia and the West: The 21st Century Security Environment*, eds. Alexei G. Arbatov, Karl Kaiser, and Robert Legvold (New York: EastWest Institute, 1999), 21.

91 See, for example, Vladimir Baranovsky and Alexei G. Arbatov, "The Changing Security Perspective in Europe," in *Russia and the West: The 21st Century Security Environment*, eds. Alexei G. Arbatov, Karl Kaiser, and Robert Legvold (New York: EastWest Institute, 1999), 44–73.

transformed into a feeling of weakness on the grand geopolitical chessboard, Russia faces more acute dangers with regard to border problems and regional stability in the Caucasus, in Central Asia, and in the Far East. The mix of anti-Russian tendencies in Russia's southern regions, instability in some of the neighboring countries, and an often overplayed threat of Islamic fundamentalism make up for a highly complex and fragile situation, especially in view of the energy issues involved.

Russia's more traditional approach to security reflects its limited integration into the cooperative structures of an economically increasingly interdependent Western world, as well as the dilemma between Russia's economic and institutional weaknesses and its great (military) power legacy. Yet Moscow's focus on the traditional security agenda has its price: The fact that conventional threats overshadow the new security risks complicates Russia's relations with those countries that are most directly engaged in cooperative endeavors to limit transnational risks. At the same time, regional and local actors opt for greater control over local security issues, causing further problems for a cooperative security approach. A vicious circle is thus at work here: The longer these non-traditional security problems accumulate unchecked, the higher the risk that they could give rise to regional instability.

Western and Russian views of the forces driving international relations in the 21st century are, therefore, markedly different. The conceptual gaps discussed as general trends above reflect distinct and unequal political, economic, and social realities, rooted in each party's own historical legacies and defined by unequal perceptions and capabilities. The "guns versus butter" issue remains hampered by the "fog of politics," as Richard Ullman reminds us: "States find it extraordinarily difficult to make even a rough calculation of benefits and costs between resources devoted to military purposes and those devoted to other societal needs."<sup>92</sup> While this applies to all states, the dilemma is extraordinarily daunting for a country like Russia, which is still in the middle of a grave economic and social crisis. If the West wants to deal successfully with Russia, it must acknowledge the many gaps between Russian and Western perspectives of the world. This is especially true with regard to the question of how Russia organizes its federal relations.

92 Richard H. Ullman, "Russia, the West, and the Redefinition of Security," in *Russia and the West: The 21st Century Security Environment*, eds. Alexei G. Arbatov, Karl Kaiser, and Robert Legvold (New York: EastWest Institute, 1999), 189–209.

## **The state of Russia's regionalization in an increasingly globalized world**

It has become clear over the last decade that Russia's search for the correct balance between decentralization and recentralization is central to the Russian transformation process. However, whether or not Russia's regionalization in its many manifestations is a positive phenomenon remains a matter of much debate. While some observers welcome the benefits of regionalization as a pluralistic alignment of Russia's political forces, others fear that the resulting fragmentation effects could threaten the inner stability of the country. Recently, this perceptual dilemma has been accentuated by Putin's reforms: While some welcome these reforms as a necessary precondition for economic reform, others fear that they raise the danger of an authoritarian backlash. On an international level, the conceptual gaps outlined above – a generally positive Western versus a generally negative Russian perception of new regionalisms – compound the difficulties of creating a common understanding of the opportunities and challenges that accompany Russia's regionalization.

The analytical scheme introduced above helps to highlight the current state of Russia's regionalization. Table 1 defines four types of regionalization processes: two poles on the vertical reorganization axis of administrative power within state structures and two poles on the horizontal reorganization axis of power transcending state structures. Each of these four poles – separatism, federalism, region-building, and supra-regionalism – poses a different set of challenges and opportunities for Russia's federal, regional and local elites. In order to deal successfully with the complexities of Russia's regionalization processes, each of these four challenges will be addressed one by one.

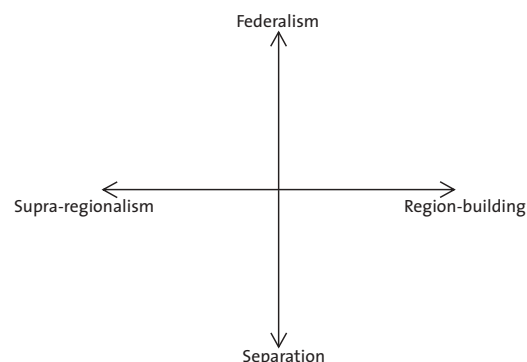


Table 1: Four types of regionalization processes

### 3.1 *The center can hold: disintegration is unlikely in the near future*

Russia's regionalization emerged by default from the ongoing economic and social crisis. Thus, the danger of separatism and potential disintegration of the Russian state played an important role in the hotly debated worst-case scenarios for Russia's future of the early 1990s. Now, after more than a decade of experience in dealing with Russia's post-communist transition, experts realize that it is highly unlikely that the Russian Federation will disintegrate into smaller regional units.<sup>93</sup> So why has separatism proved less of a problem to the Russian state than expected by many in Russia and the West during the early 1990s?

First, there have been fewer ethnic conflicts in the post-Soviet space than expected. The ethnic homogeneity of Russia is relatively high. Ethnic Russians make up for more of 80% of the Russian population.<sup>94</sup> This means that national self-governance is not a big threat to the unity of the country. Russia's least stable borders are in the Caucasus and Central Asia, where the unsolved crisis in Chechnya has considerable potential for further instability. But Chechnya is the exception rather than the rule: There are no other strong separatist movements in Russia today.<sup>95</sup> This can partly be explained by the lack of alternative charismatic leaders in the ethnic republics, but also because Russia's sense of national identity – though difficult to define – remains strong.

93 See, for example, Nunn and Stulberg, "The Many Faces of Modern Russia;" Graham, "The Prospects of Russian Disintegration is Low."

94 Graham, "Prospects for Russian Integration is Low," 4.

95 Arbatov and Hartelius, *Russia and the World: A New Deal*, 15.

Second, the fact that Russia's regions critically depend on the regulatory functions of the federal center tends to counterbalance whatever centrifugal tendencies there may be. Russia's regions are extremely diverse, and local and regional interests are not easily integrated into a credible policy. On the one hand, regional dependencies on Moscow are strong and manifold: Moscow monopolizes much of Russia's financial and institutional resources. Infrastructure and financial resources are lacking at the regional level, and independent regional and local economic initiatives are being held back by structural economic dependencies left over from Soviet times.<sup>96</sup> On the other hand, one should not overestimate Moscow's economic leverage over regional and local actors. Often regional autocracies are successful in accessing federal funds for their criminal and business interests. The fact that the center is unable to increase regional tax revenues demonstrates why centrifugal tendencies may not be very high in the first place.

Third, the fact that there is no clear separation of powers between the center and the regions works to the advantage of the federal elites. On the one hand, local and regional elites depend on personal ties to federal representatives and institutions, and they find it difficult to develop joint positions vis-à-vis the center. Generally, weak regional institutions and an often small regional knowledge workforce are no real match for Moscow's lingering authority and the widespread institutional legacy of Soviet paternalism. On the other hand, the center's ability to curtail the power of regional governors and oligarchs remains limited, even after Putin's reforms. Regional elites are often almost independent from the center and at the same time are highly reluctant to share their decision-making power with new actors at the regional and local levels. They thrive in a power vacuum, and this means, ironically, that there is no need for disintegrative rhetoric.<sup>97</sup>

There are, therefore, strong structural reasons why Russia will not break apart. Most Russian regions would find themselves economically and politically isolated within Russia and the former Soviet space, if they were to seek for independence. Finally, there is no outside power prepared to exploit Russia's weakness for its own territorial aggrandizement (although there is considerable outside support for Chechen leaders and terrorist activities in Chechnya).<sup>98</sup> There is consequently a good chance that the center will hold. However, this does not mean that Russia will not fail as a state. And one of the bigger hurdles to structural change is the unfinished nature of Russian federalism.

96 The role of the region in the Soviet system is explained in Perovic, *Die Regionen Russlands*, 91–94.

97 Nunn and Stulberg, "The Many Faces of Modern Russia," 46.

98 Graham, "The Prospects of Russian Disintegration is Low," 2.

### 3.2 *The unsettled nature of center-regional power relations as a hurdle to structural change*

The danger of separatism may not be very high in Russia. Yet this is not the result of a symmetric and constitutional federalism, which would provide a functioning framework for achieving a new equilibrium of administrative power. Russia has been witnessing an unprecedented degree of decentralization during the Yeltsin years. Although the pendulum has been swinging towards a recentralization trend since Putin was elected, the relationship between the center and the regions remains ambiguous and unstable. Power in regional Russia is not refereed by legal norms and transparent political institutions but by a set of power relations negotiated between key political elites. The federal, regional, and local legislation is consistent only to a very small extent. Most of the 42 bilateral treaties between the center and the regions contradict the constitution in one way or another. The same is true for a great part of legal documents passed by regional and local authorities. Regional Russia provides a highly disparate picture in economic, legal and political terms.<sup>99</sup>

This disparity is causing a number of problems for Russia: The center has lost its regulatory ability to balance national and regional interests. Moscow is unable to collect and redistribute tax revenues, and therefore it cannot balance out the differences between Russian regions, restructure the economy (especially the high-tech sector), or activate investment (direct or foreign) in economic growth, job creation, and important national programs. Furthermore, the Russian state has difficulty in speaking with a single foreign policy voice. Some of Russia's regions have become active individual players in Russian foreign and security policy making, and while some regional leaders have limited their interaction with the outside world to the promotion of trade and investment, others have negotiated international treaties and are trying to build up a network of diplomatic relations. Still others have opted for greater control over local security issues, have declared their right to defend their own territories, and are trying to take control of their defense industries and military assets.<sup>100</sup>

There was consequently very little opposition to Putin's reforms, which aimed to strengthen the center's control over the regions. Even liberal pro-Western economists in Russia are supporting Putin's recentralization effort as a means of equalizing the status of the regions and of stabilizing their relations with the center. They also tend to view opposition to autocratic tendencies at the regional level as a precondition for an improved business climate and a higher degree of trust from foreign investors.<sup>101</sup> Similarly, many in the West demand that further

credits and loans be dependent on increased transparency of legal and political norms and standards at the regional level. Western governments want to be sure they know who their negotiating partner is. Only a strong federal Russian partner, for example, will be able to live up to its commitments in controlling weapons of mass destruction (WMD). Independent activities of regional and local authorities tend to compound the difficulties of non-proliferation and export-control negotiations between Russia and the West.<sup>102</sup>

Putin, in his first year in office, was able to create through his rhetoric the image of a stronger state that had more central control over the federation's subjects. His success, however, was limited to short-term measures to overcome various crisis situations – in Chechnya, in the energy sector and in dealing with corruption and criminal investigations. Without a clear strategy for overcoming the continuing domestic crises, the urgently needed economic, juridical, federal and military reforms have progressed only slowly. Putin's regional reforms are based on a purely administrative approach to state reforms and have therefore benefited federal and regional bureaucracies. However, it is unlikely that they have increased the accountability of regional actors, reduced the level of corruption, or improved the social and economic conditions of regional Russia. It is also unclear whether Putin was able to strengthen the center's authority over regional governors and to raise the economic leverage of the center.

Both at the federal and regional level there is still no real concentration of accountable power needed to successfully carry out structural reforms and to thereby achieve sustainable economic growth. Russian federalism is marked by a "weak center–weak regions" situation.<sup>103</sup> Although Putin was able to consolidate his personal power on the basis of a generally high level of public approval, he was less successful in strengthening the central state structures. The center's ability to act still depends to a large degree on its capacity to negotiate the support of other power centers, such as oligarchs, security structures, media outlets, and regional autocracies. Although the governors lost their seats in the Federation Council – which meant that they adopted and implemented federal laws at the same time – they retained considerable influence over federal policies, particularly considering the economic power base of their regions. Putin agreed to form a new consultative body, the State Council, which consists of all governors and should advise the president on federal policies. Yet there is still no transparent system of checks and balances at the regional level.<sup>104</sup>

102 Nunn and Stulberg, "The Many Faces of Modern Russia," 56.

103 Graham "The Prospects of Russian Disintegration is Low," 6–7.

104 See Robert Ortung, "How Effective are Putin's Federal Reforms?," Natalja Lapina, "Regional Elites and the Federal Government: Conflict or Compromise?" *EWI Russian Regional Report* 6, No. 10 (21 March 2001) (online version); the Russian discussion on "Federalism in Putin's Russia," a conference held on 29–30 September 2000 at the EastWest Institute's Moscow Center as part of the Carnegie Corporation of New York's Russia Initiative. All papers are available at <http://www.iew.org/rrrabout.nsf/>.

99 Perovic, *Die Regionen Russlands*, chapter 3.

100 Nunn and Stulberg, "The Many Faces of Modern Russia," 52.

101 Makarychev, *Islands of Globalization*, 57.

The degree of influence the seven presidential representatives – representing the federal authority in the seven newly-created federal districts – have over the governors also remains unclear. The representatives were partially successful in harmonizing their districts' legislation with federal law and in coordinating the activities of law enforcement and security agencies. However, they do not control financial flows between the center and the regions. In addition, most of them have a military or security forces rather than an economics background.<sup>105</sup> The governor's support, therefore, remains a critical factor for Putin's capacity to solve economic problems and initiate structural reforms.

Regional power is also severely limited as a force for structural change. There is no common bottom-up vision for the Russian federal system. Russia's regions are so varied that joint positions vis-à-vis the center are the exception, not the rule. The economically better placed regions, in particular, are not prepared to pay the debts of the poor and backward subjects of the federation. As a consequence, the regions' preferred channel of communication remains a vertical one. The success of regional actors depends to a large degree on how much economic and political leverage they can muster in negotiations with federal representatives, leading to a situation in which strong regional elites – in the absence of any separatist rhetoric – enjoy a relatively large degree of political and economic autonomy, while weak regional elites remain locked into the old system of paternalistic dependencies. Finally, regional elites have difficulty establishing cooperative relations with institutions for local self-administration. Often they live in a permanent power struggle with local (city) elites.<sup>106</sup>

Ultimately, Russia needs to reduce corruption, develop an independent judiciary, build up transparent institutions and get used to strong political parties and programs instead of strong personalities and media outlets in order to overcome the current hurdle to structural change. Russia needs federal relations that provide the center with the necessary authority and economic leverage it needs to achieve sustainable economic growth and to overcome the current social crisis. Yet a top-down administrative approach to reform will not be enough. Economic and political reforms must start at the local and regional levels and must reach out to new economic and social forces that transcend traditional state structures, such as local businessmen and Russia's "islands of globalization," trans-border trade and supra-national integration.

105 Steve Solnick, "The New Federal Structure: More Centralization, or More of the Same?" *Harvard Program on New Approaches to Russian Security Policy Memo Series*, No. 161 (October 2000), available at <http://www.fas.harvard.edu/~ponars/>.

106 Perovic, *Die Regionen Russlands*, 183–189.

### 3.3 Uneven economic globalization and trans-border integration provide both challenges and opportunities for Russia

Russian perceptions of regionalization processes – with the notable exception of the debate about inter-regional associations – focused heavily on the vertical reorganization axis of administrative power during most of the 1990s. Only more recently has there been a growing interest in and debate on the challenges and opportunities provided by a horizontal redistribution of power that transcends state structures.<sup>107</sup> Clearly, this trend is driven from the bottom-up rather than from the top-down and results from the economic logic of the "glocalization" trend rather than from any grand political scheme by the center. On the level of region-building, the forces of regionalization involve subnational entities within and across the Russian state. On the level of supra-national integration, they center on the issue of Russia's relations with the European Union.

Russian subnational territorial units have emerged as independent domestic actors. The economically-strong regions, in particular, are gradually becoming international actors. Russia's integration into the world is, therefore, being driven by economic factors, not by hollow superpower rhetoric. Slowly, "islands of globalization"<sup>108</sup> are forming: Export-oriented regions, in particular, are generally in favor of liberalizing the Russian economy since they do not depend on the domestic market. The rise of actors driven by economic interests and by the spread of localization tendencies is an encouraging sign. Some of these new elites are more sensitive to the link between transparent business practices and foreign direct investment. Structural reform at home and openness towards the West are indeed in their own self-interest. If Russia is to sustain economic growth it will need many loci of dynamic growth, which can only emerge if the level of local and regional management skills, technical expertise and business knowledge is raised to Western standards.

Although the internationalization of regional Russia provides opportunities for bottom-up change, Russia's uneven globalization comes as a great challenge to the regulatory power of the center. Global economic forces do not affect most regions. Only a very few important and economically-strong regions profit from growing export potential and increasing integration into the global market. Moreover, a large part of Russia's export revenues depend on the oil and gas sector and on world raw material prices. Two serious problems accompany these developments: First, uneven globalization exacerbates internal tensions and could

107 On horizontal networking and international dimensions, see *ibid.*, 239–258; Oleg Alexandrov and Andrei Makarychev, *On the Way to the Global World: Communication and Networking Strategies of Russia's Regions*, Regionalization of Russian Foreign and Security Policy, Working Paper (Zürich: Center for Security Studies and Conflict Research, forthcoming).

108 Makarychev, *Islands of Globalization*.

increase domestic instability. Second, Russia runs the risk of becoming the world market's raw material backyard.

The center's ability to cope successfully with these problems depends on its capacity to initiate long overdue structural reforms. Russia needs to use its energy export revenues to develop its advanced manufacturing industries and its high-tech sector. The center has to increase its economic leverage over the regions, if it wants to achieve progress. High world energy prices have provided Putin with a window of opportunity for action. In 2000, Russia's gross domestic product increased by 7.7%,<sup>109</sup> with about one-third of the growth originating from oil and gas revenues.<sup>110</sup> Putin adopted a new tax code, initiated a land reform, and achieved some success in investigating illegal money laundering and tax evasion schemes. Given the prospect of a potential future fall of world energy prices and foreign debt obligations to the Paris Club of creditors of more than one-third of the annual state budget, it seems nevertheless unlikely that the center will be able to meet the domestic and international challenges of "glocalization" without strong regional and transnational support.<sup>111</sup>

Parallel to a gradual increase in interregional cooperation, trans-border trade and development provide opportunities for the economic integration of Russia in a globalized world. Russia's political elites should recognize what the Russian business community has already understood: Trans-border attempts at region-building should be encouraged as a means of developing border regions – regions that have limited access to federal funds – into investment corridors. Yet this will be difficult as long as Moscow's foreign and security policy elites are not prepared to recognize the fact that the old geopolitical approach to international relations will more often than not yield questionable results for today's Russia. A pragmatic approach with an emphasis on economic relations might be the better choice. This is all the more true because many of Russia's border regions increasingly face non-traditional security threats like migration pressures or the illegal flow of money and drugs – threats that cannot be solved without trans-border cooperation. Although this is – at least on a conceptual level – partly understood by some of Russia's new elites, the policy shift in praxis has so far remained limited due to regionally very different dynamics of trans-border development.

The prospects of trans-border trade and development differ considerably between Central Europe and the Baltic States, the CIS and the South, and the Far East. Central Europe and the Baltic states have the best opportunities. This region could serve as an important bridge for Russia's deeper involvement in European trade and economic affairs. Especially the Baltic Sea region could become a

109 CSIS, "The Russian Economy in April 2001-Highlights."

110 Ibid.

111 On Putin's reforms, see Roland Götz, *Präsident Wladimir Putins Wirtschafts- und Gesellschaftsmodell: Konzeption, Einflüsse, Realisierungschancen*, Stiftung Wissenschaft und Politik Studie 13 (Berlin: Deutsches Institut für Internationale Politik und Sicherheit, Juli 2001).

stepping-stone between Europe and Russia. Russian banks already have a relatively strong foothold in the region, and Russian business is gaining a foothold more quickly in those countries that belong to the first wave of candidates for EU enlargement than in current EU member states. Russian minorities in the Baltic States could well become the first EU Russians.<sup>112</sup>

Economic trans-border integration is less likely in the CIS space. Russia's economic relations with the South are deteriorating, and regional instability is an international concern. The geopolitics of energy development and transportation routes are a further impediment, as is the low competitiveness of Russian energy companies. Russia can achieve integration, but only by supporting its partners by discounting energy prices and forgiving debts. But unlike Yeltsin, Putin is no longer prepared to take on this burden. On the contrary, Putin is attempting to defend Russia's economic and security interests through hardheaded bilateral negotiations. This new approach has put many of Russia's neighbors in a difficult situation, and the chances of mutual prosperity through integration are decreasing.<sup>113</sup>

The Russian Far East has to become better integrated into the Asian-Pacific region, if the downward spiral of its social and economic development is to be stopped. Large parts of the industries of the Far Eastern regions are unprofitable, and investments there are extremely low. With the arms industry representing up to 80% of the regions' total industrial potential, the defense cuts hurt these regions most in terms of their social effects. Up to 15% of the population in some of these regions has left for the European part of Russia.<sup>114</sup> The Russian Far East has huge potential natural resources such as coal, oil, and gas. In practice, however, there are no funds for the high infrastructure development costs necessary to exploit the natural richness of the region. With no federal funds in sight, cooperation with China and Japan remains the only hope for economic stimulation and social stabilization.<sup>115</sup>

112 Arbatov and Hartelius, *Russia and the World: A New Deal*, 18–19. On the implications of EU enlargement on the Baltic States, see Sven Arnswald, *EU Enlargement and the Baltic States: The Incremental Making of New Members*, Programme on the Northern Dimension of the CFSP, Vol. 7 (Helsinki and Berlin: The Finnish Institute of International Affairs and the Institut für Europäische Politik, 2000), see especially pages 157–186 on the issue of Russian-speaking minorities.

113 Arbatov and Hartelius, *Russia and the World: A New Deal*, 16–17. On Putin's CIS policy, see the articles in *Osteuropa* 5/6 (May 2001) of Olga Alexandrova, "Schwierige Restauration alter Abhängigkeiten: Rußlands Politik gegenüber der GUS," 455–465; Jeronim Perovic, "Probleme der Anpassung an die neuen Realitäten: Russische Außenpolitik gegenüber der Ukraine und Weißrußland," 466–480; Uwe Halbach, "Zwischen 'heißem Krieg' und 'eingefrorenen Konflikten': Rußlands Außenpolitik im Kaukasus," 481–494; Birgit Brauer and Beate Eschment, "Rußlands Politik in Zentralasien," 495–508.

114 Arbatov and Hartelius, *Russia and the World: A New Deal*, 38.

115 A good overview on Russia's Far Eastern policy offers Trenin, *The End of Eurasia*, 208–231.



### 3.4 Russia's feeling of isolation: there is no substitute for closer cooperation with the EU

The above discussion of Russian opportunities for successful region-building across the Russian state highlights the importance of Europe for Russia's future. Russia feels isolated because it is excluded from the European process of supra-national integration. If Russia wants to overcome its economic crisis, a stronger focus on relations with the EU should be a high priority. Russia has to assess its limitations as a global power realistically and recognize the declining importance of bilateral US-Russian relations. The economic value of closer ties to China, India or the CIS is no substitute for closer cooperation with the EU, either. While the US remains a key partner for Russia in the latter's drive to overcome its many nuclear legacies, Russia heavily depends on the EU for developing its markets and for improving its regional security.

For Russia there is no alternative – the EU is its main economic partner, and Russia's economic dependence on Europe is bound to grow. Russia relies heavily on European loans and credits, and European firms are the biggest investors in Russia. The EU already accounts for more than 40% of Russia's foreign trade, a figure that will grow considerably with EU enlargement. Yet Russia is not without economic leverage in its relations with the EU. Its gas, oil, and petroleum products are of strategic importance to the EU countries.<sup>116</sup> Last year in Paris, EU leaders agreed to increase Russian energy exports to Europe and to develop new infrastructure projects.<sup>117</sup> The critical question is whether or not Russia will be able to use this leverage to initiate structural change at home and to achieve more balanced economic relations with a globalized European market.<sup>118</sup>

EU-Russia relations are not limited to economic issues. This is reflected in the EU-Russia Paris summit decision to cooperate more closely in the areas of security and defense policy. The EU's willingness to expand its role in the defense and security policy fields has increased Russia's interest in cooperating with Europe. Because Sweden and Finland are EU members, the EU already has a 1'300-kilometer border with Russia, and this border will grow with the union's

116 Khesin, "The Intersection of Economics and Politics," 113–120. For updated data see: [www.europa.eu.int](http://www.europa.eu.int).

117 "EU-Russia Summit 30-10-2000 – Joint Declaration," 30 October 2000, composed by The European Commission: [http://europa.eu.int/comm/external/\\_relations/russia/summit\\_30\\_10\\_00/statement\\_en.htm](http://europa.eu.int/comm/external/_relations/russia/summit_30_10_00/statement_en.htm), 31 August 2001.

118 On the Russian perception of EU enlargement: Timofei V. Borkov, "The Russian Challenge for the European Union: Direct Neighbourhood and Security Issues," in *Beyond EU Enlargement: The Agenda of Direct Neighbourhood for Eastern Europe*, Vol. 1, ed. Iris Kempe (Gütersloh: Bertelsmann Foundation Publishers, 2001), 47–64.

enlargement.<sup>119</sup> Europe cannot afford a weaker and less stable Russia. The EU and Russia have a common interest in the successful management of trans-border "soft" security threats, which include organized crime, terrorism, migration and ecological issues, security of nuclear power plants, and the destruction of chemical weapons agents.

The EU's common strategy on Russia provides a framework for the development of trade and economic relations and security cooperation. The development of this framework should be at the top of Russia's foreign policy agenda. First, the Northern dimension provides opportunities to increase trans-border trade and to build bridges between Russia and the EU. Second, the EU is aiming to help build up and strengthen Russian institutions at the regional and local level. Third, European scientific and educational programs are reaching out to Russia's civil society and are trying to build on Russia's dwindling scientific potential.<sup>120</sup> In addition, the EU member states have made a clear commitment to continue a policy of engagement with Russia.

Russia's policy vis-à-vis Europe contains a serious dilemma: Although the future of Russia is heavily dependent on good relations with the West, the European region is precisely where the most political troubles are occurring. In the early 1990s, Russia's foreign policy was fixated on its relations with the United States, and it underestimated the potential of closer relations with the EU. Today, Russian elites increasingly realize that the EU is Russia's most important future modernization partner. Germany, in particular, has become a key partner in trade, investment and security issues.<sup>121</sup> Putin seems to understand that Russia has only limited direct influence on the United States, which under Bush perceive Russia as a secondary power only and, consequently, have lost interest in engaging with it seriously.<sup>122</sup>

Instead, Putin is seeking to build closer ties with the EU and other Western European states. Yet European governments, and the German government in particular, will not be prepared to strengthen their relations with Russia if this means creating friction in the transatlantic relationship – so much has been made clear with the national missile defense debate. Most European governments will not actively oppose a US decision to go ahead with US NMD plans. The prospect of NMD deployment and the pending decision on a second round of Nato enlargement will therefore demand difficult foreign policy decisions from Putin.

119 "Rede des deutschen Außenministers Joschka Fischer bei der Jahresmitgliederversammlung des Deutsch-Russischen Forums am 15. Februar 2000 in Berlin," *Internationale Politik* 5 (May 2000): 99–102.

120 Detlev Wolter, "Gemeinsame Strategie gegenüber Russland: Ein neues Instrument europäischer Politik," *Internationale Politik* 9 (1999): 57–64.

121 William R. Smyser, "Putin spielt die deutsche Karte," *Internationale Politik* 5 (May 2000): 15–20.

122 See, for example, Celeste A. Wallander, "An Overview of Bush Administration Policy Priorities."

Considering the strategic importance of Russia's economic relations with the EU, Russian leaders cannot afford to pursue an uncompromising foreign policy position on these issues. Europe and the United States, however, will have to decide on the right mix of policies oriented towards short-term security and long-term economic solutions in order to engage with Russia and its regions.

## **Increasing assertiveness of Russia's regions: challenges and opportunities for the West**

The increasing assertiveness of Russia's regions brings with it challenges and opportunities for the West. The main issue the West faces in its relations with a regionalized Russia is how it can best support the development of an increasingly pluralistic and decentralized Russia without adding to the risks emanating from Russia's current weakness. The initial reaction from the West – still focused on the center and the nuclear legacies of the Cold War and characterized by a *Realpolitik* perspective dominated by nation-state interplay – was that it would be easier to deal with one central Russian government than with 89 regional administrations.

However, after 10 years of observing the developments in Russia, the West has started to become aware of some of the failures of its Russia policies. Slowly and reluctantly Western policymakers are accepting the complexities of Russia's transformation: Russia's regionalization, they now understand, is neither good nor bad. In some regions, and with regard to some issues, regionalization has been positive in terms of economic and social stability, in others it has not. Russia's new pluralism is marked, at least to some degree, by the increased intermingling of foreign and domestic policy and of economic and security issues in today's international relations.

Western thinking about Russia has had to undergo massive changes since the end of the Cold War, yet the West's approach to Russia has been far from unified and clear – not least because the West itself is still adapting to a changing international environment. Thus, the West has tended to react to Russian regionalization in two principal ways: Recognizing the challenges it faces with regard to Russia, the West has taken a short-term approach that has, in general, focused

on security issues. Yet at the same time, recognizing that Russian regionalization has opened up a range of opportunities, the West has also taken a long-term economic approach. These two approaches partly contradict and partly support one another.

#### **4.1 The fragmentation of Russian policymaking: a skeptical security perspective**

Policymakers and commentators in the West who approach Russia's regionalization from the short-term security perspective tend to be skeptical: The fragmentation of Russia's policymaking power and authority may have some geopolitical advantages, but overall it has complicated the management of the most pressing security issues concerning Russia and the West. This approach has a bigger impact on the American debate about the future of Western strategy for engaging Russia than on the European debate.<sup>123</sup>

The increased assertiveness of Russia's regions could entail some security benefits for the West. Several of the new regional elites have tended to balance out the still widespread nationalistic and isolationist tendencies of Moscow's foreign policy elite. The new pluralism at the regional level has given rise to elites that are more pragmatic than the federal authorities in their international outlook. The policies of these new regional actors are often primarily motivated by economic concerns, and tend to emphasize the importance of good relations with Western countries. They are not directly tied to the geopolitical priorities of the Kremlin. The highly divergent interests of the various regions have diminished Moscow's capacity to maximize its geopolitical leverage from alliances with partners like China and Iran. Growing regional assertiveness has thus made it less likely that the Kremlin will broker a sustained anti-Western coalition in the Asia-Pacific region or in the Middle East.<sup>124</sup>

Yet these potential geopolitical benefits to the West seem small, compared with the major problems the fragmentation of Russia's policymaking authority has caused with regard to the successful management of Western security priorities. The disparity between Russia's national and sub-national interests means that the center is unlikely to be able to implement a coherent and credible international strategy. The absence of a coherent Russian international strategy makes diplomatic relations with the West on such matters as the negotiation of an international agreement on energy development in the Caspian region and Russia's relations with Nato member states very difficult. With regard to Nato-Russia relations, take for example the issue of the Baltic States: While their inclusion in Nato would offer regions that have little support from the center important opportunities for trans-border trade and integration, the Kremlin will have to come to terms

123 See, for example, Nunn and Stulberg, "The Many Faces of Modern Russia."

124 *Ibid.*, 55.

with Nato's discussion and decision on a second round of enlargement that may include at least one of them.

The fact that the center cannot manage Russia's security policy any better than its foreign economic policy is particularly evident in the non-traditional security risks that have resulted from the weakness of the Russian state. The biggest immediate risks that Western policymakers perceive involve trans-border "soft" security issues.<sup>125</sup> The increasing assertiveness of Russia's regions has complicated the management of a wide spectrum of security issues that are relevant to both Russia and the West. For example, regional and local interests can interfere with the joint Western-Russian effort to dismantle nuclear and chemical weapons; they also increase proliferation worries, compound the difficulties surrounding export-control mechanisms, and increase the risk of local conflicts.

Under the Chemical Weapons Convention (CWC), Russia has committed itself to destroy its chemical weapons potential within a decade. The elimination of about 40'000 tons of chemical weapons agents is the most expensive part of Russia's disarmament effort. Yet local and regional demands made the dismantlement program inefficient and unnecessarily expensive. Many of the regions adopted laws prohibiting the transportation of chemical agents. This forced the center to plan for the construction of seven separate destruction facilities instead of one large one. In order to gain the support of local authorities and populations for its dismantlement program, Moscow had to promise heavy federal investment in regional and local infrastructure. In an effort to reassert federal control over the dismantlement program, Putin, more recently, has been successful in eliminating the legal requirement for destruction at storage sites. While this may decrease costs and increase the chances of a more successful future dismantlement program, Russia will need more time than the envisioned 10 years and more federal and foreign funds to live up to its international obligation to destroy its chemical weapons stocks.<sup>126</sup>

Regional and local actors see their cooperation in Russia's chemical weapons or nuclear submarine dismantlement programs as leverage for additional federal funds. This is not surprising, as these programs are primarily funded by federal and foreign money of which only a small amount goes to local or regional Russian contractors. Consequently, local and regional actors do not see dismantlement as a profitable business. The submarine dismantlement problem, for example, is considerable – Russia's nuclear submarines make up 70% to 75% of all

125 "Rede der amerikanischen Aussenministerin Madeleine Albright vor der Russischen Hochschule für den Auswärtigen Dienst am 2. Februar 2000 in Moskau (gekürzt)," *Internationale Politik* 5 (2000): 102–106.

126 The cost of destroying Russia's chemical weapons stocks is estimated to be in the \$6 to \$8 billion range. See Derek Averre and Igor Khripunov, "Chemical Weapons Disposal: Russia Tries Again," *Bulletin of Atomic Scientists* (September/October 2001): 57–63; Pikayev, Nikitina, and Kotov, "Harmful Legacies and Dangerous Weaknesses," 23.

accumulated radioactive waste, and the potential environmental and health impacts of a sunken submarine are comparable to the Chernobyl disaster. Yet at the current rate of dismantlement it would take up to a hundred years to get rid of them. Thus the West cannot afford to disregard evidence that local and regional (economic) interests are compounding the center's difficulties in managing the various dismantlement programs effectively.<sup>127</sup>

Russia's weakness and the limited control the Kremlin now has over new regional and local security actors have increased the problems of non-proliferation and are obstructing the development of effective export-control mechanisms. This is particularly relevant regarding the proliferation of nuclear and missile materials, technologies, and expertise. Although the danger of a black market emerging has often been overstated, gray-area nuclear and missile cooperation with countries of proliferation concern is a reality, and stopping it would cause considerable economic loss for regional Russia. Without funds from the center – 80% of the defense budget is used for salaries and other personnel expenses, and only a small portion is used for research and development<sup>128</sup> – the defense industry has started to sell its products to questionable partners. Today, 50% to 60% of Russia's military production output is exported, a development that is actively supported by Putin for economic and geostrategic reasons.<sup>129</sup>

Yet such a short-term arms export policy cannot be in Russia's interest in the medium- and long-term. First, arms exports to questionable partners could create security risks that at some point could negatively affect Russian interests. Second, the failure of the conversion process means that Russia is losing its best-qualified labor, its scientific and engineering elites, its greatest industrial potential and its most advanced technologies. Third, Putin's military reform is in a gridlock, with its focus on reductions and organizational restructuring rather than on military modernization and improved readiness.<sup>130</sup> These factors increase the leverage of local and regional business elites and of corruption vis-à-vis the center, making it hard to successfully manage non-traditional trans-border security risks.

Growing local assertiveness might also increase the risk of local conflicts or might multiply the difficulties of successfully managing conflicts. For example,

127 Pikayev, Nikitina, and Kotov, "Harmful Legacies and Dangerous Weaknesses," 211–219.

128 See "Russia: Strengthening the State," *Strategic Survey 2000/2001* (London: International Institute for Strategic Studies, 16 May 2001), 109–123, here 119.

129 Khesin, "The Intersection of Economics and Politics," 110; Maerli, "Managing Excess Nuclear Materials in Russia."

130 See Oksana Antonenko, "Putin's Military Reform Strategy," *IISS Strategic Pointers*, 24 November 2000 and Mark Galoetti, "The Politics of Russian Military Strategy," *IISS Strategic Pointers*, 21 July 2000, both available at <http://www.iiss.org/sp/>; also see Josefine Wallat, "The Role of Nuclear Weapons in Strategic Thinking and Military Doctrines: Russia," in *Nuclear Weapons into the 21st Century: Current Trends and Future Prospects*, eds. Joachim Krause and Andreas Wenger, *Studies in Contemporary History and Security Policy*, Vol. 8 (Bern: Peter Lang, 2001), 97–109.

the conflict in Chechnya has adversely affected Russia's relations with Europe. Putin's rise to power was closely linked to his electoral promise to stop all terrorist activities in Chechnya. The decision to achieve this goal through decisive military action was clearly his own and reflected the center's willingness to guarantee Russia's territorial integrity by all means. Now, however, Putin and the federal political elite are worried about the prospect of an open-ended military commitment in Chechnya and the high costs of a reconstruction program. Despite excessive use of military force, Russia was unable to destroy the Chechen guerrillas, and it has still not gained control over the territory. Yet stories have circulated alleging close links between Chechen commanders and Russian officials, on the one hand, and businessmen, on the other, and about financial fortunes made from the conflict.<sup>131</sup>

Through the conflict in Chechnya, Russia has unwittingly alienated the countries that are potentially its most important partners in cooperatively managing non-traditional security risks. In order to minimize the danger of nuclear and missile proliferation, the United States, the European Union, Japan and Norway have since 1992 financed more than 450 projects and 17'000 Russian scientists under the ISTC programs.<sup>132</sup> Such programs have been the most successful components of Western assistance to Russia and deserve further attention and funding.<sup>133</sup>

Western policymakers should acknowledge Moscow's sensitivity to increased local and regional assertiveness and the relevance of this sensitivity to the management of non-traditional security issues. They should be aware of the center's difficulties, and the limits imposed on it, in its attempts to integrate federal and local interests. And Western policymakers must accept that "soft" security issues, in particular, can no longer be solved with an exclusive focus on the federal center. Given the increasing privatization of security arrangements, the solution to the problems emerging from Russia's regionalization may depend as much on the economic logic of regional and local actors as on the narrow security perspective of the center.

131 For background on the Chechen war, see Anatol Lieven, *Chechnya: Tombstone of Russian Power* (Yale: Yale University Press, 1998).

132 Pikayev, Nikitina, and Kotov, "Harmful Legacies and Dangerous Weaknesses," 227.

133 Wallander, "An Overview of Bush Administration Policy and Priorities on Russia;" Pikayev, Nikitina, and Kotov, "Harmful Legacies and Dangerous Weaknesses."

#### 4.2 *The fragmentation of Russian policymaking: an optimistic economic perspective*

Policymakers and commentators in the West who approach Russia's regionalization from a long-term economic perspective tend to be optimistic: The fragmentation of the policymaking authority may at times make the domestic picture a little messy, but in the long-term it is a key factor for structural change in the Russian economy, enhanced trade, and economic and security cooperation with the West. Due to Russia's geographic proximity to an expanding Europe and the institutional nature of the European Union, this perspective is more closely aligned with the European than with the US discussion on the future of Western strategy vis-à-vis Russia.<sup>134</sup>

Regional assertiveness and the unevenness of Russia's globalization clearly increase inequalities among Russia's subnational units, and the gap between rich and poor is growing dramatically. While a number of very important regions are slowly being integrated into the global economy, most are not affected by global market forces.<sup>135</sup> Anti-globalization tendencies among the people and among federal and regional elites are strong and probably on the rise (as they are in the West). A Russia that feels isolated and marginalized by the West may at times be tempted to use great power rhetoric. A center that has lost much of its regulatory power may at times stress the need for a strong hand and more central control. But Russian elites know – despite their reluctance to act accordingly – that a top-down administrative approach to political and economic reform will not ameliorate Russia's situation.

Russia's regional and local islands of globalization, growing trans-border trade, development and cooperation are all crucial for the restructuring of the Russian economy and for its recovery. For Russia there is no alternative to integration into a globalized world via the Russian regions. Economic integration, however, depends on increased transparency of legal and political norms and institutions, on a reduction of corruption, and on a functioning system of checks and balances at the regional and local level integrating new economic actors and social forces. At the same time, the center's capacity to collect and redistribute tax revenues, to mitigate growing economic and social inequalities, to restructure the economy and to initiate sustainable growth must increase considerably. Russia needs a federal system that reflects a "strong center–strong region" relationship in order to overcome its current crisis.

<sup>134</sup> Douglas Merrill, "Cross-Border Co-operation in the Framework of Direct Neighbourhood – A Western Perspective," in *Beyond EU Enlargement: The Agenda of Direct Neighbourhood for Eastern Europe*, Vol. 1, ed. Iris Kempe (Gütersloh: Bertelsmann Foundation Publishers, 2001), 218–37.

<sup>135</sup> For an overview on the region's uneven involvement in foreign economic ties: Leonid Vardomskii, "Vneshneekonomicheskie svyazi regionov," in *Regiony Rossi v 1999g: Ezhegodoe prilozhenie k "Politicheskomu al'manaku Rossii"*, ed. Nikolai Petrov (Moscow: Moskovskii Tsentr Karnegi, 2001), 113–123.

If Western policymakers start with a positive, long-term economic perspective, growing Russian regional and local assertiveness will offer the West, in general, and European countries, in particular, many opportunities to successfully engage Russia and its regions. When Western policymakers look for trade and investment opportunities in Russia, they should recognize the importance of regional and local actors. When they define their policies to secure Europe's energy supply they should be aware of growing regional and local interests in deeper integration into international economic and security regimes. And they must accept that the successful development of economic and "soft" security cooperation between Russia and the West will depend as much on the latter's willingness to support the build-up of Russia's civil society at the local and regional level as on good relations with the center and the Kremlin.

## Policy recommendations

For more than a decade the West has been puzzled by the ambiguous nature of Russia's transformation process. Western policymakers have found it difficult to decipher whether or not Russia's regionalization has been a positive development. Although they have welcomed the new plurality of Russia's society, Western policymakers also fear that the increasing assertiveness of local and regional actors may endanger Russia's inner stability. President Putin's reforms have not changed this fundamental uncertainty, and the main question remains: Will Putin's Russia be able to initiate structural reform and to achieve sustainable economic growth, or will his reforms only benefit federal, regional and local autocracies and deepen the already massive economic gap between rich and poor?

The August 1998 financial meltdown has forced the West to accept the complexities of Russia's federal, economic, juridical, and military reforms. However, the United States and its European partners are still struggling to find a coherent and credible strategy on which to base their Russia policies. The present paper suggests that any attempt to find such a strategy must start from considerably *lower expectations* than those held so far. The development of liberal economic and political institutions in Russia needs to be understood as a long-term project, measured in decades, not years. Moreover, no amount of Western assistance can possibly match the effects that Russia's initiative and commitment could and should have on its own development. Western optimism and plans to help Russia transform its society and economy were exaggerated for much of the 1990s; in the new millennium the West must not overemphasize its disappointment over the slow progress of reforms. The West cannot "lose" or "win" Russia; ultimately Russia is responsible for its own future.

While Western assistance is not crucial for the further development of Russia's transformation, it could be vital for the successful management of the ever increasing economic and security problems that affect Russia and the West. Consequently, Western policymakers must force themselves to set priorities, and to do this they need clear guidelines. The West needs a *long-term strategy and policy for the engagement of Russia and its regions*, as much as it needed a strategy to contain the Soviet Union during the Cold War.<sup>136</sup> The old military threat has gone, and the West is finding it more difficult to muster the necessary political will to engage Russia anew. Yet there is more to Western policy on Russia than the West's reaction to the war in Chechnya, national missile defense, corruption and media scandals, and Nato enlargement.

The West must not turn its back on Russia, both because of Russia's weakness and because of its strength. Russia's status as a great power has been seriously eroded and is now limited to two of its Soviet era legacies: its nuclear arsenal and its permanent seat in the UN Security Council. Both Russian and European observers were not surprised to find that the Bush administration perceived Russia increasingly as a secondary power. However, the United States needs Russia to be a pragmatic partner in cooperative security arrangements, be it in the field of nuclear and chemical arms control and disarmament, in the fight against international terrorism, in efforts to establish effective non-proliferation and export-control regimes, or in securing regional stability in the Balkans, the Middle East, the Caucasus, and Central Asia. European states need additional cooperative arrangements to deal with "soft" security threats and trans-border issues like energy security, drug trafficking and money laundering, migration and terrorism, and nuclear waste and power plants.

Western strategy and policy on Russia must acknowledge the *significant conceptual gaps* between Russia's and the West's understanding of the meaning of security and regionalization in a globalized world. The West can afford to put the economy first; it can also afford to focus on globalization trends and on a consequent broadening of the traditional security agenda. But Russian perceptions run along different lines, and Western states should recognize that Russia's sense of isolation is a reflection of its limited integration into Western cooperative structures and of its traditional security concerns over border instability and military imbalances. In order to avoid misperceptions and political miscalculations, the West should define its interests clearly and assess Russian power frankly. The West should also take advantage of 10 years of experience of the Russian transformation process and should learn from its attempts to come to terms with this process. Careful examination of the past 10 years should show the West that it needs to focus its assistance on institutions, not personalities; on the rule of law, not the rule of executive power; and on systemic change of the economy, not narrowly defined security interests.

136 George F. Kennan, "The Sources of Soviet Conduct," *Foreign Affairs* 25, No. 4 (July 1947): 566-82.

Western strategy and policy should not simply focus on Russia's center; it should *engage the federal center and the regions*. The West should reach out directly to Russia's regions and capitalize on the economic and "soft" security opportunities provided by growing regional assertiveness. If the West builds such a strategy into its policies, its actions should be transparent to the center and, particularly regarding security matters, it should avoid infringing on the sovereignty of the federal government. Issue linkage – for example, making economic assistance or the restructuring of debt conditional on cooperation in the security field at the federal level – is not a feasible strategy because the center does not control the complex tradeoffs between guns and butter necessary for such a strategy. Incentives are therefore better directed at regional and local actors. And, if Western actors decide to apply sanctions or inducements, their aim should be to increase accountability at the local and regional levels.

Western cooperation, technical aid, re-training and development programs should be made available to *Russian society, not to the Russian state*. Western assistance should be bilateral, sector-specific, and accountable; it should not be multilateral, non-conditional, and non-transparent. It should reach out to the regional and local levels, engage private actors and encourage the creation of NGOs. It should build on the success of past cooperative programs in the fields of information, education and science, and it should aim to create transparent, flexible, economic and political institutions at the local and regional levels. Political and economic institutions that are more accountable and less autocratic and centralist are a precondition for an improved business climate and for the trust of foreign investors.

If the West is to shift its focus from the center to the regions and from the Russian state to Russian society, it is all the more important that it sets *regional priorities on the basis of clearly defined interests*. Western states and institutions should set themselves appropriate goals that can be achieved with limited means. Western assistance should focus on Russia's slowly emerging islands of globalization, on its export-oriented regions, and on local urban areas of growth. The Baltic and Central European regions, which provide opportunities for increased trans-border trade and "soft" security cooperation, deserve special attention.

The *US and Europe need to coordinate their strategy and policy towards Russia* more efficiently. One case in point is the issue of NMD deployment: Washington, and even more so its European partners, should be clear in their negotiation positions vis-à-vis Moscow. Eventually, Russia will have to accept the US decision on NMD deployment and the future of the ABM (Anti-Ballistic Missile) treaty. But in the meantime Moscow will uphold its opposition, which it will direct at Europe rather than at the United States. Another issue that requires clarification is the second round of Nato enlargement. President Bush recently stated that the United

States wanted the enlargement process to proceed.<sup>137</sup> This will not be easily accepted by Russia, although the Kremlin's influence on the alliance's decision is limited. However, the simultaneous EU enlargement process offers room for maneuver, as Russia does not oppose EU enlargement, even though the Union is strengthening its role as a security and defense actor. Russia's fear of increased isolation due to Nato enlargement may thus be counterbalanced by its interest in moving closer to Europe economically. However, the West can only use such room for maneuver if it coordinates its policies: While enlargement of the alliance will be led by Washington, the decision to expand EU relations and commitments to include Russia will be taken in Berlin, Paris, London, and Rome.

A successful long-term Western strategy and policy to engage Russia and its regions needs the continued *effort of the United States and Western European states and institutions*. The United States must remain patient. It must build on successful scientific programs (ISTC); keep up its support for Russia's nuclear submarine dismantlement and chemical weapons agents elimination programs with minimal negative interference from Congress; and find solutions in the areas of the proliferation of nuclear and missile materials, technologies and expertise, which balance Russia's economic dependence on military exports to questionable states with its interest in conversion programs to sustain some of its engineering and high-tech research and development base. The prospect of NMD development and ABM renegotiation means that the United States will shift its focus from arms control to cooperative arms-building.

Under the umbrella of the common EU strategy on Russia, the *European Union member states must take more political responsibility* for developing a coherent and sustained Western strategy that will engage Russia and its regions. First, the Northern dimension provides the EU with important opportunities for increasing trans-border trade and, in general, for building bridges between Russia and the EU. European collaboration with Russia should aim at mutually advantageous solutions to Europe's energy needs and Russia's investment and high-tech needs. Second, the EU states should build on existing programs directed at local and regional Russian institutions and on educational exchange programs as a means of strengthening Russia's civil society at the local and regional level. Third, the EU, and in particular Germany, should increase its foreign and security policy dialogue with Russia. Europe should step up its cooperative approaches to managing transnational "soft" security problems that include organized crime, migration and ecological issues, the security of nuclear power plants, and the destruction of chemical weapons agents. Only by cooperating closely, with a full

understanding of the conceptual differences between the two cultures, histories and political motives, can the West and Russia expect to gain the best possible advantages from the many opportunities that have emerged in the post-Cold War environment.

<sup>137</sup> See, for example, his remarks at Warsaw University, Poland, on 15 June 2001, when he stated "I believe in Nato membership for all of Europe's democracies that seek it and are ready to share the responsibilities that Nato brings. The question of 'when' may still be up for debate within NATO; the question of 'whether' should not be." The text of Bush's speech can be found online at <http://www.expandnato.org/bushwarsaw.html>.



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