

Executive Summary Background

No. 2084
November 19, 2007



Published by The Heritage Foundation

Domestic Factors Driving Russia's Foreign Policy

Ariel Cohen, Ph.D.

Despite its muscular foreign and defense policy, Russia is plagued with internal weaknesses, including a shrinking population and a mortality rate considerably higher than the rate for the rest of Europe. By curtailing political and economic freedoms, the Kremlin may have strengthened its rule but weakened Russian society. Grasping domestic factors is vital in understanding what is driving Russia's foreign policy.

As long as Iraq, Iran, and the war on terrorism continue to top Washington's agenda, it is not in America's strategic interest to challenge Russia, but the U.S. still needs to engage the Russian people and government and protect U.S. interests. Specifically, the U.S. should:

- **Continue** to negotiate and cooperate with Russia on issues of mutual concern,
- **Promote** Russia's integration into the global economy,
- **Provide** technical assistance in medical fields,
- **Increase** support for civil society groups,
- **Reach out** to the Russian people through public diplomacy, and
- **Establish** a multidisciplinary project to monitor Russia's domestic developments and how they influence Russia's domestic and foreign policy.

Demographic Crisis. Russia's drug addiction rates and declining demographics threaten many of the Kremlin's ambitions. Lower birthrates and high mortality rates have created a demographic crisis.

Disease, drugs, and alcoholism are major contributing factors in the high mortality rate. Furthermore, as Russia's Slavic population is declining, the Muslim population is increasing, changing the fabric of some regions and big cities. This demographic shift has led to considerable tension and some interethnic violence within Russian society.

Decline of Russian Liberalism. Because of Russia's diminished international influence and the economic chaos experienced during the Gorbachev and Yeltsin presidencies, Western models of political and economic liberalization quickly lost favor among the post-Soviet elites. They have since resurrected a model of statism, authoritarianism, and great-power jingoism. These extreme forces in Russia's political sphere are influencing the government. Classical liberal parties such as Yabloko and the Union of Right Forces are denied access to television and radio outlets, with the exception of officially allocated election advertising time, and at times are denounced as "agents of the West" by Russian elites and nationalist factions.

This paper, in its entirety, can be found at:
www.heritage.org/Research/RussiaandEurasia/bg2084.cfm

Produced by the Douglas and Sarah Allison
Center for Foreign Policy Studies
of the

Kathryn and Shelby Cullom Davis
Institute for International Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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The ruling elite has ushered in official “patriotism” and historical perspectives that occasionally brush off if not rehabilitate Stalinist repressions and laud state power. Nashi, a nationalist youth movement created and funded by the Kremlin, provides the street muscle and extras for mass pro-government demonstrations and to intimidate domestic opponents and foreign diplomats. The state has also revised the history of the tragic Soviet past. New textbooks praise Josef Stalin as an effective leader, whitewashing his crimes.

Xenophobia has spread throughout Russian society. Over half of the population endorses the idea of “Russia for [ethnic] Russians,” and racial violence has become increasingly prevalent as more violent, ultranationalist, anti-immigrant groups gain legitimacy. Russia’s Muslim population, particularly in the North Caucasus, has become increasingly susceptible to radical ideas as the line between citizen and immigrant is often blurred. This is an explosive mix, and the Kremlin has done little to stem the tide of extremism, perhaps to cultivate an “enemy within” to unite Russians and position the Kremlin as Russia’s only defense.

Managed Democracy. Despite the appearance of formal democratic processes, the Kremlin curtails democratic development. The corrupt, elitist system features an extremely powerful president and pliant state institutions. Russia, which ranks extremely low on various democratic indices, may be further downgraded if international organizations find major flaws with the December 2007 parliamentary elections and the March 2008 presidential election.

The Kremlin manipulates the election system to ensure the desired outcome. In 2005, it ended direct election of regional governors. Majority vote in electoral districts has been replaced by proportional election using national party lists, which the Kremlin can easily control. Minimum voter turnout requirements and the option of voting “against all” candidates have been eliminated to reduce the impact of voter apathy and protest votes in the next elections.

The media and civil society are severely curbed. Almost all media outlets, with the exception of the Internet, are controlled by the Kremlin. Public debate is limited, and foreign funding of

nongovernmental organizations is restricted by the government.

The Economy. Russia’s impressive economic growth is mostly due to its sale of raw materials, particularly oil and natural gas, and its spillover effect. The Kremlin has increasingly moved toward state control of key industries and assets. Expansion of the bureaucracy has increased the potential for widespread government corruption.

The energy sector is particularly known for corruption, restrictions on foreign companies, and consolidated state control. The Kremlin is also increasing its share of the aerospace, weapons production, shipbuilding, nuclear, and automotive sectors. These state-controlled industries will likely boost Russia’s military–industrial complex and could lead to a new Russian rearmament.

Conclusion. U.S.–Russian relations are at their lowest point since the end of the Cold War, and many trends in Russian foreign policy are justifiably disturbing. U.S. officials should develop a comprehensive strategy to serve America’s objectives, keeping in mind the significant internal vulnerabilities of the Russian state. Although the elites may not always recognize it, Russia, given its lack of strategic allies, can ill afford to “lose” the West.

The U.S. government should address Russia’s adverse domestic trends through a sustained American effort to reach out to the Russian public, businesses, and intellectual community and to empower the remnants of Russia’s free media and civil society. At the same time, some important areas of bilateral relations remain open to cooperation, and the U.S. government should do its best to encourage and sustain dialogue with its Russian counterparts.

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Background

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Russia's foreign policy assertiveness, funded by revenues from natural resources, makes many believe that a new energy empire is on the rise. The country today is ruled by post-Soviet security and military elites that have internalized the jingoistic values of the Russian Empire and the Soviet Union. These elites view the outside world almost exclusively through the lens of economic and military might. They also use foreign policy as a tool to buttress domestic support and to foster a perception that Russia is surrounded by enemies at a time when its democratic legitimacy is deteriorating.

Despite its projected might, the Kremlin is not capable of dealing with some of Russia's critical demographic, social, economic, and political vulnerabilities. These flaws may well challenge the current sense of stability in Russia, especially after the 2007–2008 election cycle or if the economy deteriorates.

As the proverb states, "Russia is never as strong as she appears, and never as weak as she appears."¹ Russian President Vladimir Putin modified this proverb in a May 2002 speech: "Russia was never as strong as it wanted to be and never as weak as it was thought to be."² Russia's strengths made the authorities and the public believe that their country is still a great power, yet Russia's many weaknesses limit its ability to act as one. Continuing state weakness combined with an increasingly bold foreign policy is a recipe for imperial overreach and systemic breakdown.³

For over a decade, the Russian authorities have failed to provide a coherent and modern nation-

Talking Points

- Russia is an energy-rich power that is facing severe demographic, social, economic, and political challenges.
- The demographic crisis is fueled by high mortality caused by high rates of cancer and cardiovascular disease, car accidents, and alcoholism. Growing Muslim populations are exacerbating social tensions.
- A statist authoritarian regime has emerged, leading to revised history textbooks, official "patriotism," ultranationalism, and xenophobia.
- Vladimir Putin's "sovereign democracy" marginalizes opposition by manipulating the media and civil society and by tailoring election procedures to keep the current regime in power.
- Economic growth and dependence on the energy sector have led to increased state intervention and consolidation of strategic assets.
- The U.S. should engage Russia and protect U.S. interests by cooperating on matters of mutual concern, assisting Russia's integration into the global economy, providing technical assistance in health care, promoting civil society, and expanding public diplomacy.

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building ideology or to overcome Russia's nostalgia for its lost empire. Most telling was Putin's statement in April 2005 that the collapse of the Soviet Union was "the greatest geopolitical catastrophe of the twentieth century."⁴ Rhetorical outbursts reflect the Kremlin's failure to confine itself to solving pragmatic tasks and its attempts to fill the post-Soviet ideological vacuum with a mix of the Soviet anthem, the imperial coat of arms, and the tsarist flag.⁵

Because domestic factors are increasingly driving Russia's foreign policy, Russia's internal weaknesses cannot be easily dismissed. To play the global role it claims for itself, Russia needs to put together a complex system of economic, technological, and social resources, but not all of these are easily within its grasp.

Both Congress and the Administration need to understand that Russia is resurging as an assertive autonomous international actor. However, as long as Iraq, Iran, and the war on terrorism continue to top Washington's agenda, it is not in America's strategic interest to challenge Russia openly. Rather, the U.S. should staunchly defend its national interests and involve Russia in resolving international crises when possible.

Specifically, the U.S. should:

- **Provide** technical assistance on pressing health care issues, such as the HIV/AIDS and tuberculosis epidemics, cardiovascular diseases, cancer, and health care management;
- **Increase** support for civil society groups working to advance media independence, rule of law, political liberalization, and tolerance in Russia;
- **Reach out** to the Russian people through a comprehensive public diplomacy strategy to debunk the myth of inherent American hostility toward Russia; and
- **Establish** a comprehensive multidisciplinary project to monitor the stability, security, and health of Russia's society and economy and how they influence Russian foreign policy.

Demographic Catastrophe

The great-power ambitions of Moscow's current elites cannot be realized without ample, developed, and highly skilled human resources. Since the 1980s, however, Russia has experienced dramatic declines in population, fertility, and life expectancy combined with increases in mortality and disease rates, including a rise in the rates of HIV/AIDS and tuberculosis infection.

From 1995 to mid-2007, Russia's total population dropped by 6.5 million people, down to 142 million—a decline of almost 4.4 percent.⁶ Such a drop typically is the result of war or mass emigration, but it is occurring in a largely peaceful Russia that has a growing economy and positive immigration rate. Russia's population is the world's ninth-largest but is projected to drop to 128.5 million by 2025 and 109.4 million by 2050.⁷

1. *Encyclopaedia Britannica Online*, s.v., "Russia," at www.britannica.com/eb/article-9109504/Russia (November 5, 2007).
2. Mark N. Katz, "Is Russia Strong or Weak," *SpaceWar*, July 10, 2006, at www.spacewar.com/reports/Is_Russia_Strong_Or_Weak_999.html (August 23, 2007).
3. Alexander Motyl, "Ukraine and Russia: Divergent Political Paths," *openDemocracy*, August 17, 2006, at http://opendemocracy.net/democracy-ukraine/russia_ukraine_3830.jsp (August 25, 2007).
4. Robert Fulford, "Putin's 'Managed Democracy,'" *The Financial Post* (Canada), July 15, 2006.
5. BBC News, "European Press Review: Russia in Shock," June 11, 2002, at <http://news.bbc.co.uk/2/low/europe/2037530.stm> (July 30, 2007).
6. Ekaterina Scherbakova, "Demograficheskie itogi 2006 goda" [Demographic results of 2006], *Demoscope Weekly*, March 5–18, 2007, at <http://demoscope.ru/weekly/2007/0279/barom01.php> (July 20, 2007); Russian Federal State Statistics Service, "Chislennost naseleniya" [Total acts of violence], at www.gks.ru/free_doc/2007/b07_11/05-01.htm (July 20, 2007); and Population Reference Bureau, "2007 World Population Data Sheet," August 2007, at www.prb.org/pdf07/07WPDS_Eng.pdf (September 14, 2007).

Because of the low birthrate and the high mortality rate, Russia is losing an average of 700,000 people per year. In 2006, the mortality rate was 15.2 deaths per 1,000 people, and the birthrate was just 10.4 births per 1,000 people. While the birthrate is low compared to other industrial states, the death rate, particularly among working-age males, is astonishing. Life expectancy for Russian males is only 59 years, five years below what it was 40 years ago and 13 years lower than the life expectancy of Russian women—one of the largest gaps in the world.⁸ The current solution of stimulating births by paying over \$4,000 per baby may create a hereditary welfare problem where there now is none and encourage growth among both Russia's Muslim population and its urban and rural poor.

The incidence of cardiovascular disease and cancer in the Russian population is among the highest in the world and accounts for the surge in Russian mortality rates. External (preventable) causes, such as accidents, account for 15 percent of deaths.⁹ Even with fewer cars per capita than other industrial states, the number of deaths in traffic-related accidents per 100,000 people is higher in Russia than in other industrialized countries. Homicide deaths reached 30,000 in 2006, equaling the number of deaths from accidental alcohol poisoning, but

even more died from suicide.¹⁰ Heavy alcoholism also helps to explain the high rates of heart disease. Many Russian men seem to choose lifestyles with dire health consequences.

Deadly Epidemics. Russia is suffering from epidemics of HIV/AIDS, assorted other sexually transmitted diseases, and tuberculosis. The HIV infection rate is growing faster in Russia than in any other country outside of Sub-Saharan Africa.¹¹ An estimated 1.3 million (1.1 percent) Russian adults are already infected.¹² AIDS-related deaths are hard to measure, partly because of Russia's tuberculosis epidemic. According to the World Health Organization, almost 150 people per 100,000 in Russia are infected with tuberculosis.¹³

The vast majority of HIV infections in Russia are associated with intravenous drug use, which is widespread among young people.¹⁴ According to some estimates, nearly 2 million Russians (1.96 percent) inject drugs.¹⁵ A Russian drug control official has predicted that the total number of drug users will grow from over 4 million to over 35 million by 2014.¹⁶ This dramatic rise is fueled by cheap opiate narcotics from Afghanistan and Central Asia¹⁷ and by domestically produced synthetic drugs.

Ethnic Changes. Central Asia is also a source of Muslim migrants. While the numbers and health of

7. *Ibid.*

8. "Russian Health and Demography: A Sickness of the Soul," *The Economist*, September 7, 2006, at www.economist.com/world/europe/PrinterFriendly.cfm?story_id=7891259 (July 20, 2007).

9. Russian Federal Statistics Service, "Key Mortality Indicators," at www.gks.ru/free_doc/2007/b07_11/05-07.htm (July 20, 2007).

10. Russian Federal Statistics Service, "Koeffitsienty smertnosti po osnovnym klassam prichin smerti" [Mortality rates for main causes of death], at www.gks.ru/free_doc/2007/b07_11/05-07.htm (July 20, 2007), and Organisation for Economic Co-operation and Development, *OECD Economic Surveys: Russian Federation*, 2006, at <http://puck.sourceoecd.org/upload/1006171e.pdf> (August 20, 2007).

11. UNAIDS, "2006 Report on the Global AIDS Epidemic," May 2006, at www.unaids.org/en/HIV_data/2006GlobalReport/default.asp (September 13, 2007).

12. Guy Faulconbridge, "Russia Warns of AIDS Epidemic, 1.3 mln with HIV," Reuters, May 15, 2007, at www.reuters.com/article/healthNews/idUSL1546187520070515 (July 27, 2007).

13. World Health Organization, WHO Statistical Information System, "Core Health Indicators," 2007, at www.who.int/whosis/database/core/core_select_process.cfm (September 10, 2007).

14. Yale University, Center for Interdisciplinary Research on AIDS, "Epidemiology of HIV/AIDS in Russia," 2007, at <http://cira.med.yale.edu/international/russiaepid.html> (September 12, 2007).

15. James Magee, "HIV Prevention, Harm Reduction, and Injecting Drug Use," AVERT, updated August 31, 2007, at www.avert.org/injecting.htm (September 12, 2007).

16. "In Sad Tally, Russia Counts More Than 4 Million Addicts," *Pravda*, February 20, 2004, at <http://newsfromrussia.com/main/2004/02/20/52421.html> (September 12, 2007).

Russia's ethnic Slavs and Orthodox Christians continue to decline, Russia's Muslim population is growing, rapidly transforming the ethnic makeup of Russian society.

Fertility and birthrates are much higher among Muslim ethnic groups than among ethnic Slavs. In 2006, predominantly Muslim regions had the highest population growth rates: 1.79 percent in Chechnya, 1.16 percent in Ingushetia, and 0.65 percent in Dagestan. The national average was -0.37 percent.¹⁸

Since 1989, Russia's Muslim population has increased by 40 percent, rising to 20 million—25 million. Moscow's Muslim population of about 2.5 million is the largest of all European cities. Muslims could make up a majority of Russia's conscript army by 2015 and one-fifth of the population by 2020.¹⁹

This has drastic political, cultural, and ideological implications for Russia. Ethnic Russians feel uneasy as the prevailing ethnically based notion of the Russian national identity is being challenged. The changing ethnic makeup of Russian society and the growing radicalization of Islam fuel ethnic tensions among Russian citizens.

Implications of the Demographic Decline.

These demographic shifts are already affecting Russia's ability to project power. The Russian military is failing to meet its recruitment targets because of a declining pool of fit conscripts and their semi-legal efforts to avoid the draft.²⁰ Some demographers predict that in just nine years—by 2016—the pool of conscripts will be half Muslim.²¹ It is also not clear that a majority Muslim, non-ethnic Russian army will willingly take on missions to carry the

Russian flag forward either in the “near abroad” (the 14 other former Soviet republics) or elsewhere.

In addition, the workforce will further shrink in size and quality. (See Chart 1.) The population is diseased, aging, and dying. In many countries, immigration has helped to mitigate the economic effects of population decline. In Russia, most immigrants are from Central Asian former Soviet republics and increasingly from China and Afghanistan. Yet, as growing xenophobia and racism in Russia suggest, ethnic Russians mostly disapprove of non-Slavic immigration.

The Russian government is unable to address the lingering health and demographic crisis. In 2004, health care spending reached a low of 6 percent of gross domestic product (GDP).²² In 2007, Russia intends to spend \$10.2 billion²³ on President Putin's “national priority projects,” but so far, this funding has failed to improve Russia's collapsed public health sector. (See Table 1.)

Ideologies and Tensions Within Russian Society

Russian society is unhealthy not only physically, but also ideologically. Russia's history and legacy provide context for its current trends.

From its beginnings in the 14th and 15th centuries, Russian imperial development was driven by muscular external aggrandizement and a lack of domestic accountability. In the mid-16th century, Ivan IV (Ivan the Terrible) annexed new territories with significant Muslim Tatar populations, and Russia emerged as a multiethnic, multi-faith state,

17. Human Rights Watch, “Lessons Not Learned: Human Rights Abuses and HIV/AIDS in the Russian Federation,” Vol. 16, No. 5(D) (April 2004), p. 16, at <http://hrw.org/reports/2004/russia0404/russia0404.pdf> (October 31, 2007).

18. Scherbakova, “Demograficheskie itogi 2006 goda.”

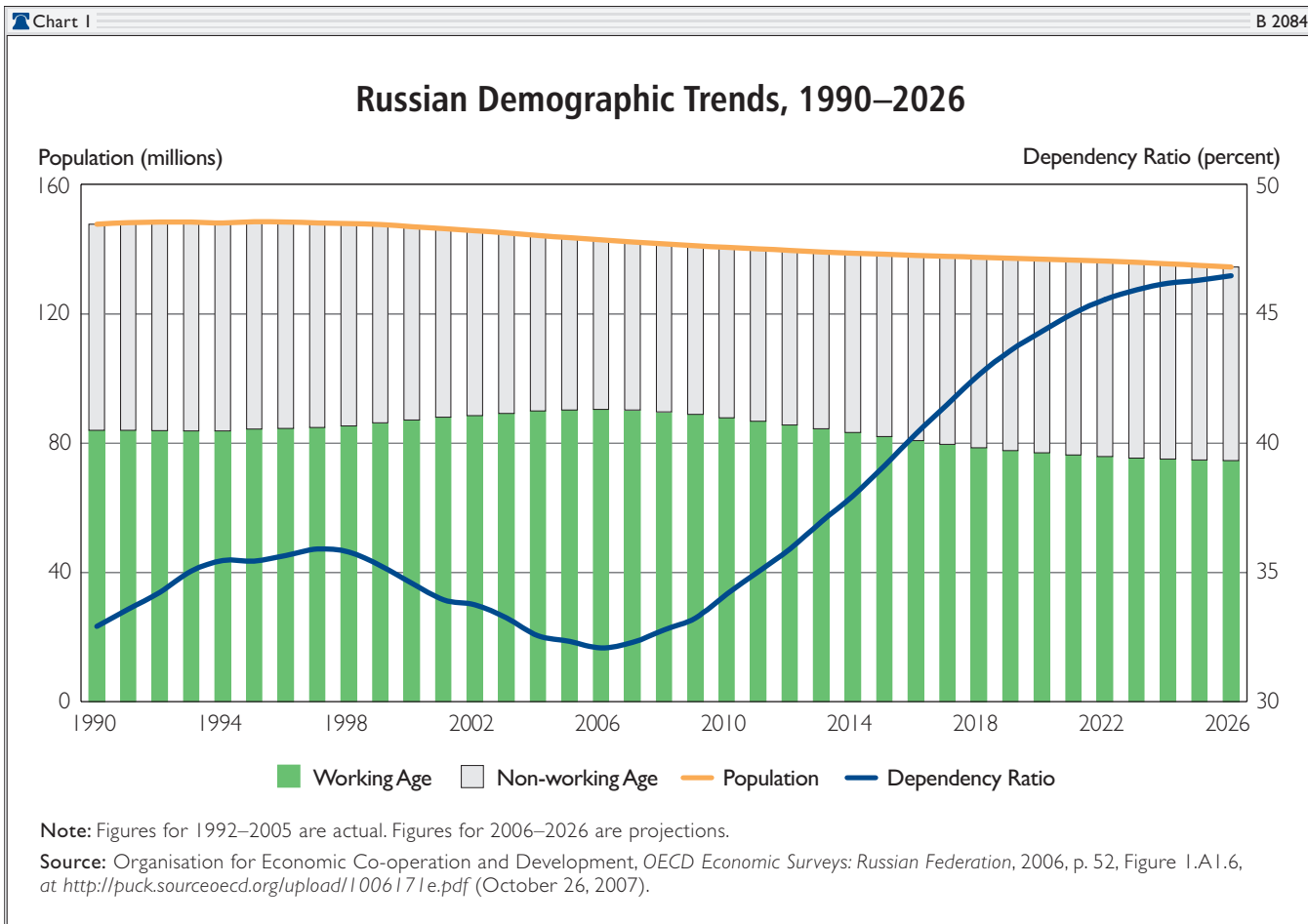
19. Michael Mainville, “Russia Has a Muslim Dilemma: Ethnic Russians Hostile to Muslims,” *San Francisco Chronicle*, November 19, 2006, at <http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2006/11/19/MNGJGMFUVG1.DTL> (July 25, 2007).

20. Judyth Twigg, “National Security Implications of Russia's Health and Demographic Crisis,” Center for Strategic and International Studies *PONARS Policy Memo* No. 360, February 4, 2005, at www.csis.org/media/csis/pubs/pm_0360.pdf (August 15, 2007).

21. Judyth Twigg, “Differential Demographics: Russia's Muslim and Slavic Populations,” Center for Strategic and International Studies *PONARS Policy Memo* No. 388, December 5, 2005, at www.csis.org/media/csis/pubs/pm_0388.pdf (August 15, 2007).

22. World Health Organization, “Core Health Indicators.”

23. RIA Novosti, “Russia to Raise National Project Spending 12% to \$10 bln in 2007,” August 23, 2007, at <http://en.rian.ru/russia/20070823/73753727.html> (September 14, 2007).



although dominated by Russian Orthodoxy. Its ideologists viewed Muscovy, nicknamed “The Third Rome,” as the heir to the Byzantine Empire, which was destroyed by the Ottomans in 1453. On the domestic side, the lasting model of the omnipotent state ruled by the czar produced generations of people who crave authority and value stability above freedom.

Since the 17th century, any moves to open Russia to the West have been followed by internal reactions and aggressive expansionism. By the 19th century, Westernizers who favored European ways were opposed by Slavophiles who courted foreign Slavs, appealed to the Russian Orthodox heritage, hailed political autarky, and denounced the West as an enemy.²⁴ Slavophile principles were simplified and adapted by Russian ethnic nationalists. Eurasianists called for the creation of

Table I B 2084

Planned Budgetary Expenditures for National Priority Projects

	2006		2007	
	Billions of rubles	% of GDP	Billions of rubles	% of GDP
Health	88.4	0.34	120.5	0.40
Education	25.3	0.10	31.2	0.10
Housing	35.4	0.14	46.2	0.16
Government Guarantees	26.5	0.10	33.5	0.11
Agriculture	16.2	0.06	18.7	0.06
Total (excluding guarantees)	165.3	0.64	216.6	0.72

Source: Organisation for Economic Co-operation and Development, *OECD Economic Surveys: Russian Federation*, 2006, p. 28, Table 1.4, at <http://puck.sourceoecd.org/upload/1006171e.pdf> (October 26, 2007).

a new Russian super-ethnos from the Baltic Sea to the Pacific Ocean, including Central Asia, by amalgamating Slavs and Turks. Throughout 75 years of Soviet rule, these ideological divisions among Westernizers, imperialist Eurasianists, and ethnocentric and Christian Orthodox Russophiles has persisted in Russian foreign policy.

Ideological Vacuum. After the collapse of the Soviet Union, Westernizers appeared to be ascendant, but only for a short time. The creation of the independent Russian Federation in 1991 was the first attempt to construct a modern Russian nation-state. Under President Boris Yeltsin, the Kremlin tried to organize a multiethnic society into a non-imperial nation-state, but without a coherent ideology or state-building strategy. By the end of Yeltsin's term, the barely reformed post-Soviet elites were beginning to reject Western liberal models because of Russia's domestic economic meltdown and diminished international influence.

For over a decade, Moscow has failed to articulate Russia's new ideology clearly. Many among the Russian political elite believe that ideas mean nothing in world politics and that only pure national interests matter.²⁵

Putin's United Russia party is sending a mix of "distinctly non-ideological"²⁶ messages for the "harmonious coexistence" of a market economy and a strong state while trying to blur the difference between Russian ethnicity and Russophone cultural orientation. The key liberal parties, Yabloko and the Union of Right Forces, have failed to gain sufficient support and are victims of political infighting. The Liberal Democratic Party of Russia and Rodina (motherland) have stuck to xenophobic slogans. Today, the major political parties are ready to use

xenophobic sentiments to some degree as a means to garner popularity among voters and to justify Russia's cantankerous foreign policy.²⁷

The Kremlin's current ideology has its roots in statism, authoritarianism, and great-power jingoism but with strong elements of capitalism. It is eerily reminiscent of the late Romanov empire but without its strong liberal opposition streak. As was the case after the 1905 revolution, the extremes of the ideological spectrum—ultranationalists, jingoists, and national-Bolsheviks—are heard loud and clear in public debate, while liberal voices are being hushed. The rule of law is severely lacking. The Russian experience suggests that after centuries of authoritarianism, there are no simple answers in the process of moving away from statist government involvement in politics and economic policy dictated by a "strong hand."

Official Patriotism. The Kremlin is trying to imbue Russia's youth with statist, patriotic, and religious ideas through the official national patriotic education program in schools. The Kremlin-backed parties have created youth units somewhat reminiscent of Komsomol (Communist Union of Youth), the youth wing of the Communist Party of the Soviet Union. In 2005, the Kremlin endorsed the creation of the Nashi (Ours) youth movement to prepare a loyal mob to act against possible public protesters.

Under Putin's guidance, high school history textbooks have been rewritten. The new texts view Josef Stalin's cruelty through the lens of strong leadership in a long line of autocrats going back to the czars. Russian history, it is said, at times demands tyranny to build a great nation.²⁸ The textbooks also link U.S. global "hegemony" to that of the Third Reich

24. *Encyclopædia Britannica Online*, s.v., "Slavophile," 2007, at www.britannica.com/eb/article-9068172 (August 23, 2007).

25. Konstantin Eggert, "Amerika v poiskakh Rossii, Rossiya v poiskakh sebya" [America is in search of Russia, Russia is in search of herself], BBC News, July 4, 2007, at http://news.bbc.co.uk/go/pr/fr/-/hi/russian/russia/newsid_6271000/6271308.stm (August 24, 2007).

26. Peter Lavelle, "Russia: Unified Russia's 'Ideology-Lite,'" Radio Free Europe/Radio Liberty, December 2, 2005, at www.rferl.org/featuresarticle/2005/12/9e265611-7d9e-4fce-81d8-240d54115271.html (August 24, 2007).

27. Galina Kozhevnikova and Alexander Verkhovskiy, "Posevnaya na polyane russkogo natsionalizma" [Sowing the field of Russian nationalism], Sova Center, July 27, 2007, at <http://xeno.sova-center.ru/29481C8/96A2F47> (August 15, 2007).

28. Andrew E. Kramer, "New Russian History: Yes, People Died, But..." *International Herald Tribune*, August 15, 2007, at www.ihf.com/articles/2007/08/15/news/letter.php (August 20, 2007).

and compare the mass murder of Soviet citizens by their government to the U.S. using the atomic bomb against Japan during World War II.²⁹

Critics warn that such an ideological historiography encourages “collective amnesia” and promotes nationalism. A recent poll showed that a substantial part of Russian youth hold positive or ambivalent views of Stalin and his legacy. The majority of respondents considered the Soviet collapse a tragedy, as Putin expressed in 2005, and two-thirds saw the U.S. as a rival and an enemy.³⁰ Such distorted perception of history is inherently anti-democratic.

National Identity Crises. A drummed-up foreign threat is being used to foster national solidarity, which is otherwise threatened by ethnic diversity. In a multi-ethnic state, the discrepancy between an individual’s ethnic and political–civil identity is dangerous. Russian leaders have only recently started to employ the terms “rossiyskaya natsiya” (Russian nation) or “rossiyskiy narod” (Russian people) to denote the country’s diverse population.³¹

The difficulties of defining Russia’s national identity are exemplified in the use of the terms *russkie* (ethnic Russians, who are descendants of eastern Slavs) and *rossiyane* (Russian citizens, regardless of ethnicity). Russia’s ultranationalist movements focus on the former, while most of Russia’s ethnic minorities identify themselves with the latter. Now, however, Russian-speaking persons outside of Russia’s borders can be declared *russkie* and protected, whether they ask for it or not. Such an identity crisis hinders the formation of a multi-ethnic, multi-faith nation as a foundation for a nation-state.³²

While the Putin administration and Putin’s United Russia party tolerate and integrate representatives of numerous ethnic groups, staunch nationalists claim that ethnic Russians, the dominant ethnicity, should be the legitimate masters of the state. In an increasingly multiethnic Russia, however, ethnic Russian nationalism cannot play a unifying role, as it usually takes the form of the exclusionary ideology of ethnic Russian, Slavic, or Russian Orthodox superiority. The question remains whether the Russian elites are internationalist enough to rebuild a great power empire void of ethnocentric ideologies.

Xenophobia and Ethnic Nationalism. The extremist movements and ideologies present an additional set of challenges for the Kremlin and Russian society. Previously somewhat suppressed by Soviet authorities, ethnic nationalism and extremism have reemerged in modern Russia.

Racism and xenophobia are on the rise. Freedom House has reported on government and social discrimination and harassment of ethnic minorities, particularly against people from the Caucasus and Central Asia, as well as people from the rest of Asia and Africa, and an increase in racially motivated attacks by extremist groups.³³ In August 2007, 55 percent of the population sympathized with the slogan “Russia for [ethnic] Russians,” while 57 percent believed the authorities should limit the inflow of immigrants.³⁴ According to the Sova Center, which tracks ultranationalist activity in Russia, there were 520 racist attacks, including 54 murders, in 2006.³⁵ (See Table 2.)

The main extremist movements are worth noting. Eurasianism, represented by the notorious neo-

29. Mark H. Teeter, “The Matter with History,” *The Moscow Times*, July 16, 2007, at www.themoscowtimes.com/stories/2007/07/16/007.html (August 20, 2007).

30. Reuters, “Russian Youth: Stalin Good, Migrants Must Go: Poll,” July 25, 2007, at www.reuters.com/article/worldNews/idUSL2559010520070725?feedType=RSS&rpc=22&sp=true (July 30, 2007).

31. Valery Tishkov, “Self-Determination of the Russian Nation,” *International Trends*, Vol. 3, Issue 2(8) (May–August 2005), at www.intertrends.ru/seven_e.htm (September 13, 2007).

32. Ramazan Abdulatipov, “Sozdanie rossiiskoi natsii: proekt dlya XXI veka” [Creation of the Russian nation: Project for the XXI century], *Rossiiskaya Gazeta*, August 28, 2003, at www.rg.ru/2003/08/28/Sozdanierossiiskojnatsii.html (August 23, 2007).

33. Freedom House, *Freedom in the World: Country Reports*, s.v. “Russia,” 2007 ed., at www.freedomhouse.org/template.cfm?page=22&country=7258&year=2007 (August 25, 2007).

34. Levada Center, “Natsionalizm i ksenofobiya” [Nationalism and xenophobia], August 29, 2007, at www.levada.ru/press/2007082901.html (September 15, 2007).

Table 2

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Racist Attacks in Russia, 2004–2007

	2004			2005			2006			2007 (first six months)		
	Killed	Attacked and Wounded	Total Victims	Killed	Attacked and Wounded	Total Victims	Killed	Attacked and Wounded	Total Victims	Killed	Attacked and Wounded	Total Victims
Moscow	17	62	79	16	179	195	37	216	253	23	74	97
St. Petersburg	9	32	41	4	45	49	5	51	56	3	59	62
Country Total	49	218	267	47	416	463	55	487	542	32	215	247

Source: Galina Kozhevnikova and Aleksandr Verkhovskii, "Posevnaya na polyane russkovo natsionalizma" [Sowing the field of Russian nationalism], Sova Center, June 27, 2007, Exhibit 1, at <http://xeno.sova-center.ru/29481C8/96A2F47> (August 15, 2007).

fascist Alexander Dugin, emphasizes Russia's unique fate and inherent hostility toward the West. Dugin flirts with Christian Orthodoxy and promotes Russian imperialism and extreme anti-Americanism. He opposes democracy and supports Vladimir Putin, "an irreplaceable leader," whose obligation to leave office in 2008 is "the greatest political problem for today's Russia."³⁶ Dugin is a frequent guest on state television, which raises concerns about the mainstreaming of fascism in Russia.³⁷

Other ultranationalist movements, some favoring the Russian Orthodox Church and some anti-Christian, peddle racial hate and violence.

- The Nationalist–Patriotic Front "Pamyat" (memory) was set up in 1987 to "lead Russian people to the spiritual and national revival" with slogans blending fascism with autocratic monarchy. Many analysts allege that Pamyat was a KGB front. Its activists have since spread to other extremist groups, and the movement has lost its prominence.
- Russian National Unity (RNE) originated from Pamyat and promotes ethnic nationalism and outright Nazism mixed with aggressive anti-liberalism and anti-Semitism. It functioned as a political party in the early 1990s but has since stagnated and splintered into other groups.
- The Nationalist–Bolshevik Party (NBP), led by the notorious Eduard Limonov, is culturally pro-Soviet and nationalistic and seeks the "protection of the Russian population in the former Soviet territory," often through overt hooliganism. Paradoxically, it is now part of world chess champion Garry Kasparov's Other Russia movement, which draws support from democratic and liberal circles.
- The Movement Against Illegal Immigration (DPNI) is a violent, ultranationalist, anti-immigrant group led by Alexander Belov, a former Pamyat spokesman, that emerged in 2002 in response to the clashes between "native residents and raging immigrants."³⁸ In June 2007, the DPNI announced the formation of People's Self-

35. Galina Kozhevnikova, "Radikalnii natsionalizm v Rossii i protivodeistvie emu v 2006 godu" [Radical nationalism in Russia and counteraction to it in 2006], Sova Center, January 4, 2007, at <http://xeno.sova-center.ru/29481C8/8F76150> (July 30, 2007).

36. Boris Reitschuster, "After Putin Is the Same As Before Putin," *InoPressa*, September 14, 2007, at www.inopressa.ru/focus/2007/09/17/12:04:33/putin (September 16, 2007).

37. Andreas Umland, "'Neoevraziistvo', vopros o russkom fashizme i rossiiskii politicheskii diskurs" ['Neoeurasianism,' the issue of Russian fascism and Russian political discourse], *Zerkalo Nedeli*, No. 48(627), December 16–22, 2006, at www.zn.ua/1000/1600/55389 (July 25, 2007).

38. Dvizhenie Protiv Nelegalnoi Immigratsii, "O dvizhenii" [About the movement], at www.dpni.org/about/o_dvizhenii (September 17, 2007).

Defense groups to “unite native citizens for organized resistance to any aggressive actions of criminal migrants.”³⁹ The DPNI and People’s Union were at the core of the march on National Unity Day, a newly proclaimed national holiday on November 4 that commemorates the expulsion of the Catholic Polish invaders in 1612 and replaces celebration of the Communist October Revolution of 1917.

- Russian March is a neo-Nazi affair, which this year featured screaming skinheads, a white-clad young ladies’ drummer band, and a keynote appearance by Preston Wiginton, a Texas white supremacist.⁴⁰

This looks like the beginning of a new tradition: On November 4, 2005, National Unity Day, extremist groups marched under the slogan “Russia for Russians” and Nazi symbols. In 2006, Russian March was banned in major Russian cities, but smaller protests occurred illegally.⁴¹

Racist aggression erupted in August 2006 when a deadly bomb was thrown at a Moscow produce market frequented by Azeri traders and again during the September 2006 riots in Kondopoga, a town in northern Russia. Putin has denounced the “semi-gangs, some of them ethnic,” that control produce markets in Russian cities and has called for regulations to protect “the native population.” The markets are a source of tension because they are staffed mainly by non-Slavic migrants. In 2007, immigration policy was changed to ease labor immigration rules in all sectors except the markets, where foreign labor was banned in April 2007. All Kondopoga attackers received suspended court sentences.

Today, an estimated 8 million to 12 million migrants are working in Russia illegally.⁴²

Fortunately, anti-migrant organizations in Russia are not yet electable parties. The fragmentation and internal struggle among nationalist–patriot factions compromise the very idea of Russian ethnic unity and push away potential allies. However, Slavs do not pose the only threats to Russia’s internal cohesion.

Radicalization of Russia’s Muslims. The Kremlin faces a growing challenge in dealing with Muslim communities. While most Muslims in Russia are indigenous peoples of multiethnic Russia, the distinction between immigrants and citizens is often blurred in xenophobic discourse. Many Russians associate Islam with extremists, and their anti-Islamic prejudice is growing. At the same time, many recognize the more moderate nature of Tatar and Bashkir Islam. As Russia’s Muslim population grows and interest in the religion surges, its members become vulnerable to extremist ideas, even in currently moderate areas.

Proponents of radical Islam have their own expansionist and often violent agendas. Radicalism spreads in many regions because of local grievances—including Stalinist persecution and ethnic cleansing, poverty, and corruption—and radicalizing foreign Islamic influences. Since 1991, Russia’s Muslims have been exposed to the ideas of Islamic fundamentalism, reinforced by intensive foreign penetration through education, propaganda, and financing.⁴³ The total number of mosques in Russia has increased from 300 in 1991 to 4,000 in 2001 to over 8,000 in 2007.⁴⁴ Private foundations in Saudi Arabia and other Persian Gulf states have financed

39. Dvizhenie Protiv Nelegalnoi Immigratsii, Sluzhba Informatsii, “Vstupai v narodnyu camooboronu DPNI!” [Join DPNI’s people’s self defense!], June 26, 2007, at http://dpni.org/articles/novosti_dp/2802 (October 31, 2007).

40. Natalya Krainova, Kevin O’Flynn, and Nabi Abdullaev, “Racist Chants Undercut Day of Unity,” *The Moscow Times*, November 6, 2007, p. 1, at www.themoscowtimes.com/stories/2007/11/06/002.html (November 7, 2007).

41. Claire Bigg, “Russia: Counterrally to Defy Ultranationalist March,” Radio Free Europe/Radio Liberty, November 3, 2006, at www.rferl.org/featuresarticle/2006/11/b08c1e9c-99ff-4203-897b-bf38073f079f.html (July 30, 2007).

42. “Immigrants in Russia: Market Forces,” *The Economist*, January 18, 2007, at www.economist.com/world/europe/displaystory.cfm?story_id=8562029 (August 23, 2007).

43. Alexey Malashenko, “The Situation Inside Russia,” *Bitterlemons-international*, Vol. 4, Edition 13 (April 6, 2006), at www.bitterlemons-international.org/inside.php?id=516 (October 31, 2007).

44. Dmitry Gorenburg, “Russia’s Muslims: A Growing Challenge for Moscow,” Center for Strategic and International Studies PONARS Policy Memo No. 421, December 8, 2006, at www.csis.org/media/isis/pubs/pm_0388.pdf (August 15, 2007).

the construction of many mosques and have sent clerics to run them. Often, foreign clerics rejected traditional local Hanafi and Shaf'i schools of Islam and preached Salafi Islam and Wahhabism, previously unknown in Russia. Although the new practices appear stricter and more radical, they continue to gain in popularity.

No accurate estimates of the strength of radical Islamists in Russia are available. As Alexey Malashenko of the Carnegie Moscow Center has written:

An entire mythology has developed around it, created by forces within the state, journalists, and the Islamists themselves. All of them, albeit for different reasons, tend to exaggerate the power of the Islamists.⁴⁵

The authorities inflate the power of the adversary, while the Islamists elevate their own self-image to gain influence and attract funds. Lacking a basic understanding of Islam and its practices, the Kremlin fails both to realize the dangers of radical Islam and to provide a coherent policy response.

The political influence of Russia's Muslims will, however, remain limited by their cultural, ethnic, and religious divisions. The diversity of Russia's Muslims presents both a challenge and an opportunity for the Kremlin.⁴⁶ It needs to work carefully to limit the spread of potentially violent radicalism without alienating the rest of the Muslim community. This is a significant challenge in a country in which national identity is still malleable.

The Role of the State. The nexus of the Kremlin's rhetoric, its efforts to revive national pride

based on tsarist and Soviet symbols, and the hate on Russia's streets constitute a potential source of instability. Government rhetoric often hovers in the grey area between sometimes exaggerated national pride and paranoid nationalism.⁴⁷ Experts believe the Kremlin is deliberately tolerating extremism to cultivate an "enemy within," positioning the Kremlin as Russia's only defense against it. Radical activists, in turn, interpret the government's appeals for "strong Russia" as a virtual license to attack.⁴⁸

From the pogroms of the 19th century to the intermittent Soviet racism of the 20th century, Russian rulers have tried to manipulate nationalism to serve their own ends.⁴⁹ Unlike the earlier "external threats," such as imperialism or Zionism, the current "enemy" is homegrown.

The presentation of xenophobia in the Kremlin-controlled media also remains ambiguous. While primitive xenophobia and outright racism are condemned, anti-Western, anti-Turkic, anti-Muslim, and even anti-Georgian or anti-Ukrainian stereotypes dominate the mainstream media. Increasingly crude and intense rhetoric depicts the U.S. as a "wrongdoer" and an adversary of Russian civilization.⁵⁰

Russia's anti-extremism laws are applied selectively, and critics fear that they may be used to persecute the political opposition and undesirable civil society groups.⁵¹ In the penal code, extremism is vaguely defined⁵² and even includes slandering a government official in the performance of his duties.⁵³ The 2006 amendment to the election law aimed at keeping extremists out of elected offices

45. Malashenko, "The Situation Inside Russia."

46. Gorenburg, "Russia's Muslims."

47. "Russian Xenophobia," *The Economist*, February 17, 2005.

48. Yuri Zarakhovich, "Inside Russia's Racism Problem," *Time*, August 23, 2006, at www.time.com/time/nation/article/0,8599,1304096,00.html (August 23, 2007).

49. "Russian Nationalism," *The Economist*, May 11, 2006.

50. Umland, "'Neoevraziistvo', vopros o russkom fashizme i rossiiskii politicheskii diskurs."

51. Press release, "OSCE Media Freedom Representative Asks Russian Authorities to Review Extremism Laws," Organization for Security and Cooperation in Europe, July 27, 2007, at www.osce.org/item/25791.html (July 30, 2007). For example, Putin critic Andrei Piontkovsky is on trial for "extremism" due to his anti-Kremlin books *Unloved Country* and *For the Motherland! For Abramovich! Fire!* The Kremlin claims that the books incite violence against Russians, Americans, and Jews. Piontkovsky joked that this is the first time the Kremlin has looked out for Americans.

52. Kozhevnikova and Verkhovskiy, "Posivnaya no polyane russkogo natsionalizma."

53. Freedom House, *Freedom in the World*.

could also be used to disqualify rivals of the Kremlin unfairly.⁵⁴

At the same time, the justice and law enforcement systems have been slow to recognize actual racist crimes and often classify them as mere “hooliganism.” Many policemen are involved in harassing ethnic groups. In 2006, Amnesty International reported that the Russian “government is shirking its responsibilities” and failing to respond to the shocking regularity of racist attacks.⁵⁵

Followers of both radical ethnic nationalism and Islamism in Russia inspire those who oppose the current state and are willing to shatter it in order to remake it in their own images. Inability to address these domestic tensions and imperial nostalgia among the pro-Kremlin elite are shaping Russia’s sometimes aggressive international behavior. The question remains: Are the state and its institutions capable of opposing extremism?

Governance: Managed Democracy

Russia looks strong, but its political institutions are weak and fragile. The Kremlin, while retaining the trappings of democratic procedures and ceremonies, essentially curtails the development of a democratic regime. The Russian government has a hyperactive presidential system and pliant state institutions, including the legislature and the judiciary. The executive branch manipulates political expression by strictly controlling the mass media, the political opposition, and civil society. Political freedom has mostly been replaced by the competition of bureaucratic and oligarchic clans.⁵⁶ Weakened institutions have no independent legitimacy⁵⁷ and fail to provide institutional stability.

In the Economist Intelligence Unit’s Democracy Index, Russia ranks 102nd among 167 states sur-

veyed.⁵⁸ Given its trend of curtailing civil liberties, Russia could be further downgraded after what is likely to be a flawed 2007–2008 election cycle in which election observers from the Organisation for Security and Co-operation in Europe were denied entry visas. With President Putin leading the United Russia Party in December 2007, the real power may stay with him regardless of his job description.

Ensuring Desired Electoral Outcomes. It is said that in a democracy, electoral rules are clear while the outcome is uncertain. In Russia, the outcome is certain while the rules are unclear. The Kremlin tailors the electoral system to ensure the desired outcome.

This consolidation of power through electoral change is best exemplified by the 2005 abolition of the direct election of regional governors. Under this “reform,” the Russian president appoints the regional governors, who are then confirmed by their respective regional legislatures. As a result, governors are no longer accountable to their constituents. Similarly, majority parliamentary districts have been replaced with proportional representation from party lists, with parties required to receive at least 7 percent of the vote to win any seats.

This severed the link between the voters and their representatives and concentrated the “manageable” political elite in Moscow. The reforms, in other words, have again turned Russia into a centralized state.

The option to reject all candidates on the ballot and the minimum voter turnout threshold have been eliminated from the election law. A minimum turnout of 25 percent was required in the 2003 Duma election for an election to be valid. Critics say that this effort to neutralize voter apathy as a potential factor in the elections is just the latest step by the

54. Press release, “OSCE Media Freedom Representative Asks Russian Authorities to Review Extremism Laws.”

55. Zarakovich, “Inside Russia’s Racism Problem.”

56. Human Rights in Russia, “Managed Democracy Is a Straight Road to Dictatorship and Fascism,” at www.hro.org/ngo/discuss/march.htm (September 17, 2007; unavailable November 5, 2007).

57. Nikolai Petrov, “From Managed Democracy to Sovereign Democracy: Putin’s Regime Evolution in 2005,” Center for Strategic and International Studies PONARS Policy Memo No. 396, December 14, 2005, at www.csis.org/media/csis/pubs/pm_0396.pdf (September 19, 2007).

58. Laza Kekic, “The World in 2007: Democracy Index,” Economist Intelligence Unit, 2007, at www.economist.com/media/pdf/DEMOCRACY_INDEX_2007_v3.pdf (August 10, 2007).

Kremlin to control the political process before the key 2007 and 2008 elections.⁵⁹ Many Russians had resorted to “passive protest” by not voting—turn-outs of 30 percent were common⁶⁰—or by voting against all candidates in the elections that did not offer real alternatives.

In 2007, for the first time, all members of the Russian State Duma will be elected by proportional representation. Banned from forming electoral blocs, smaller opposition parties have little chance of overcoming the 7 percent threshold.⁶¹ Thus, the 2007 legislature is expected to have a large Kremlin-loyal majority in both Houses, comprised of the United Russia Parties led by President Putin and possibly Vladimir Zhirinovskiy’s Liberal Democratic Party. The pro-Putin social democratic Just Russia party and the Communists may be the designated opposition if they manage to clear the 7 percent barrier. Just as after the 2003 Duma elections, when United Russia gained over a two-thirds majority, the parliament will serve mostly as a rubber stamp for executive branch decisions.

In the 2004 presidential election, Putin, the incumbent, won 71.4 percent of the vote in the first round. For the upcoming March 2008 presidential election, Putin is expected to name his successor. In September 2007, 40 percent of Russians were likely to vote for the anonymous candidate nominated by Putin, and 51 percent were likely to name him as the politician they trust.⁶² Recently, Putin has talked of five possible presidential nominees⁶³—including previously obscure Prime Minister Viktor Zubkov and two well-positioned First Vice-Premiers, Sergey

Ivanov and Dmitriy Medvedev—thereby maintaining intrigue and his own influence over events.

The elections have put great assets at stake, exacerbating internal frictions over power and property. A class of high-ranking officials has emerged. These new members of the elite manage, but do not formally own, Russia’s strategic industries on behalf of the state. They are extremely wealthy and influential, but they also depend on their access to power. This means that the stakes for the 2008 elections are very high. Public offices, control over business, and even basic freedoms are at stake.

Taming the Media and Civil Society. Media outlets, owned or controlled by the state, are used as tools in shaping the desired public opinion. Several remaining radio stations, on-line sources, and the remaining printed media that are still critical of the Kremlin are under constant pressure from the authorities. Since 2000, 13 journalists have been killed, and none of these cases has resulted in a conviction.⁶⁴

Since 2003, the government has taken control of all of the television networks, directly or through the state-owned entities. Notably, Ekho Moskvyy radio station and *Kommersant* newspaper, the two relatively independent outlets, are owned by state energy giant Gazprom and a Gazprom subsidiary, respectively. An estimated 27.8 million Russians (25 percent of the population) have Internet access,⁶⁵ making the Internet the main alternative information source and a medium for the opposition’s mobilization.

59. Associated Press, “Russia Scraps Election Turnout Threshold,” *The Washington Post*, December 7, 2006, at www.washingtonpost.com/wp-dyn/content/article/2006/12/07/AR2006120701106.html (September 15, 2007).

60. Petrov, “From Managed Democracy to Sovereign Democracy.”

61. Russian Federation, “Federalnii zakon o byborakh deputatov gosudarstvennoi dumy federalnogo sobranniya rossiiskoi federatsii [Federal law on the election of deputies to the state дума of the federal assembly of the Russian Federation], May 18, 2005, No. 51–F3, at www.cikrf.ru/cikrf/law/2/zakon_51.jsp (September 18, 2007).

62. Levada Center, “Vybory 2008” [Elections 2008], at www.levada.ru/vybory2008.html (September 19, 2007); “Prezident: Odobrenie i doverie” [President: Approval and trust], at www.levada.ru/prezident.html (September 19, 2007); and “Reitingi doveriya” [Trust ratings], September 2007, at www.levada.ru/politiki0907.html (October 31, 2007).

63. C. J. Chivers, “Putin Sees ‘Real Choice’ in Election,” *International Herald Tribune*, September 14, 2007, at www.iht.com/articles/2007/09/15/europe/15russia.php (September 15, 2007).

64. Freedom House, *Freedom in the World*.

65. Public Opinion Foundation, “The Internet in Russia/Russia on the Internet,” Population Poll, 19th Release, Spring 2007, published June 23, 2007, at <http://bd.english.fom.ru/report/map/projects/ocherk/eint0702> (August 23, 2007).

Russia's "managed democracy" constrains the civil space and limits public debate. Russian nongovernmental organizations (NGOs), particularly those that receive foreign funding, have been under state pressure since a 2006 law imposed strict registration and reporting requirements. According to Russian human rights activists, Russia now has political prisoners convicted of criminal offenses in the absence of "political paragraphs" in the penal code.⁶⁶

Rise of Bureaucracy and Red Tape. Critics say that many long-overdue administrative reforms have not been implemented under the Putin administration and that the quality of governance has deteriorated. As one veteran critic puts it, "Russia remains one of the most criminalized, corrupt, and bureaucratic countries in the world."⁶⁷

Russian official data testify that government bureaucracy has grown steadily. It has increased by 40 percent since 2001 and now totals 1.57 million federal and local government employees⁶⁸—roughly equal to the size of Soviet bureaucracy. Thus, Russia's bureaucratic ratio to general population has more than doubled since 1991 because its population is less than half the size of the population of the Soviet Union in 1991. Independent experts estimate Russian bureaucracy, including municipal-level officials, at 3.5 million⁶⁹—more than twice the official number.

Civil service salaries are dramatically higher than the average nationwide wages, and civil service prestige is also on the rise. Yet the quality of Russian bureaucracy remains low. A recent World Bank study of government effectiveness placed Russia in the lowest quartile of the 212 countries surveyed, based on its performance in such key areas as rule of law and control of corruption.⁷⁰ Graft, inertia, and

negligence remain typical of Russia's bureaucracy. State expansion into the private sector worries investors, slows down the economy, and fuels corruption.

The remarkable intertwining of Russia's bureaucratic and business elites illustrates the ruling elite's unsurpassed economic power. For example:

- The *Financial Times* reported in 2006 that 11 members of the presidential administration chaired six state companies and held 12 state directorships and that 15 senior government officials held six chairmanships and 24 other board seats.⁷¹
- The long list of senior officials serving on boards of major companies starts with the two First Deputy Prime Ministers: Dmitriy Medvedev, chairman of Gazprom, and Sergey Ivanov, who oversees the military-industrial complex and state holdings in aircraft, shipbuilding, and nuclear industries.
- Igor Sechin, Putin's Deputy Chief of Staff, chairs Rosneft, Russia's largest state-run oil company.
- Viktor Ivanov, Putin's top aide, heads the board of directors of Almaz-Antei, the country's key defense producer, and the board of directors of Aeroflot, the national airline.
- Alexey Gromov, the President's Press Secretary, sits on the board of Channel One, Russia's main television channel.

The Economy: Commodity Dependence and State Intervention

Banking on its energy revenues, Russia has managed to avoid painful economic restructuring and diversification beyond the natural resource sectors. The growth of the Russian economy is due mainly

66. Moscow Helsinki Group, "Politzaklychennye putinskoi Rossii" [Political prisoners of Putin's Russia], 2004, at www.mhg.ru/publications/4D61A27 (July 29, 2007).

67. "Russia Under Putin: The Making of a Neo-KGB State," *The Economist*, August 23, 2007, at www.economist.com/world/displaystory.cfm?story_id=9682621 (September 18, 2007).

68. Nikolaus von Twickel, "Red Tape Reaching Its Soviet Heights," *The Moscow Times*, August 7, 2007, at www.themoscowtimes.com/stories/2007/08/07/001.html (November 7, 2007).

69. *Ibid.*

70. The World Bank, "Country Data Report for Russia, 1996–2006," at <http://info.worldbank.org/governance/wgi2007/pdf/c187.pdf> (September 15, 2007).

71. Neil Buckley and Arkady Ostrovsky, "Back in Business—How Putin's Allies Are Turning Russia into a Corporate State," *Financial Times*, June 19, 2006, at www.ft.com/cms/s/0/d776a916-ff2f-11da-84f3-0000779e2340.html (September 20, 2007).

to exports of raw materials (oil, natural gas, and metals). After seven years of economic growth, Russia remains heavily dependent on energy exports and is vulnerable to fluctuations in global commodity prices. The International Monetary Fund and the World Bank estimate that:

[I]n 2005 the oil and gas sector represented around 20 percent of the country's GDP, generated more than 60 percent of its export revenues (64 percent in 2007), and accounted for 30 percent of all foreign direct investment (FDI) in the country.⁷²

President Putin has offered an action plan for Russia to diversify away from reliance on energy and natural resources and to become one of the world's leading economies. His vision of Russian economic development entails growing high-tech industries, a strong service sector, and a state boost for "national champions" in key industries—vertically integrated state-owned or state-controlled global companies capable of competing with foreign corporations. However, it is not clear that Russia is emerging as a diversified globally competitive economy, given Russian commodities' competitive advantage and the Kremlin's preference for economic regulation.

The Kremlin has steadily increased the state-controlled share of the economy. The European Bank for Reconstruction and Development reported that the public sector's share of the economy increased from 30 percent to 35 percent in 2005. The state's share of major blue chip companies has quadrupled between 2004 and 2007. The state has also come to play a significant role in mergers and acquisitions. According to KPMG, two transactions—the increase in the state share of Gazprom from 38 percent to 51 percent and Gazprom's purchase of Sibneft—totaled \$20.21 billion and accounted for half of the value of all Russian mergers and acquisitions in 2005.⁷³

Although leading officials have explicitly rejected state capitalism as a model for Russia, the Kremlin is

pushing to consolidate state assets in many domestic industries. The leaders in state intervention are the military-industrial complex and the civilian nuclear sector, which are under state command and control.

Moreover, these influential industries need international instability to increase sales. The USSR and Russia at times have sold weapons to both sides in a conflict, such as to Iran and Iraq in 1980s. Russian experts are fond of saying that weapons exports create allies. "Civilian" nuclear reactors are often precursors of a military nuclear program, as is the case with Iran, to which Russia sold the Bushehr reactor and is planning to sell up to five more units.

Putin envisages the state not as the great re-nationalizer, but as the biggest shareholder in a newly privatized society.⁷⁴ The oil and gas sector has a built-in interest in keeping the Middle East unstable and oil prices high. The industry is notorious for evictions of foreign corporations and internal ownership consolidation by state giant Gazprom. Consolidation of strategic assets under state control is often presented to the public as restoration of national property illicitly acquired in the mid-1990s by corrupt oligarchs at deeply discounted prices. This was the stated justification for Rosneft's 2004 acquisition of Yuganskneftegaz, the key production unit of forcibly bankrupted Yukos.

The Kremlin is also increasing its shares of the aerospace, weapons production, nuclear industry, shipbuilding, shipping, and automotive sectors. This often involves regrouping industry assets into "national champions" through acquisition of privately owned assets by major state holdings. Needless to say, the state is employing multiple administrative levers to avoid paying market prices for these acquisitions.

At the opening of the 2007 economic forum in St. Petersburg, First Deputy Prime Minister Sergey Ivanov cited state holdings as an example of innovative economic development. On paper, such public

72. U.S. Department of Energy, Energy Information Administration, "Country Analysis Briefs: Russia," April 2007, at www.eia.doe.gov/emeu/cabs/Russia/Background.html (September 20, 2007).

73. Buckley and Ostrovsky, "Back in Business."

74. Nick Paton Walsh, "Meet the Chief Exec of Kremlin Inc. . . .," *The Guardian*, July 6, 2005, at www.guardian.co.uk/russia/article/0,2763,1522191,00.html (September 20, 2007).

corporations are assigned ambitious projects such as developing nanotechnology, tripling national ship-building capacity, and promoting Russia's civilian aircraft industry to serve 10 percent of the world market by 2020.⁷⁵ In practice, these sectors are internationally uncompetitive and have demonstrated limited effectiveness even in import substitution.

Experts say that "Kremlin Inc.,"⁷⁶ a set of strategic industries under state control and managed by high-ranking officials, ensures the revival of the military-industrial complex once enjoyed by the Soviet Union. Such massive economic power in the state's hands, multiplied by the oil-fueled budgetary surplus, could lead to a new round of massive Russian rearmament.

The Kremlin's insistence on the legitimacy of mercantilism, which limits Western business to minority stakes in the natural resources sector, negatively affects the U.S.-Russian economic agenda. The pattern of government takeovers of businesses is increasing the political risk of doing business in Russia and driving away much-needed investment. Although foreign investment in Russia topped \$150 billion in 2006⁷⁷ and has exceeded \$70 billion in the first seven months of 2007, experts say these levels are relatively low for a country with a massive and obsolete infrastructure and an economy growing at 6.7 percent annually.⁷⁸

The investment ratio is just over half of what is needed to sustain high growth. Foreign investment will remain much lower than is needed until Russia improves its corporate governance and creates a more welcoming investment environment.⁷⁹

What the U.S. Should Do

Congress and the Administration should understand that Russia is resurging as an assertive autonomous international actor poised to challenge American leadership, particularly in Central Asia, the Caucasus, Eastern Europe, and the Middle East. It is also likely that Russia will conduct forays into the Western Hemisphere, particularly via Venezuela and its satellites, such as Bolivia and Ecuador, as well as Cuba.

However, as long as Iraq, Iran, and the war on terrorism remain high on the U.S. agenda, it is not in America's strategic interest to pick a major fight with Russia, exacerbate differences unnecessarily, or respond tit-for-tat to each provocation. Rather, the U.S. should staunchly defend its national interests and, when possible, involve Russia in resolving international crises.

In view of pressing demands elsewhere, it is understandable that U.S. assistance to Russian democracy and civil society has been limited. In fiscal year (FY) 2006, of \$949.3 million budgeted by all U.S. government agencies for assistance programs in Russia, democracy programs accounted for only \$45.2 million, \$23.6 million was spent on social reform, and security and law enforcement aid accounted for \$860 million.⁸⁰

The Department of State and the National Endowment for Democracy (NED) may need to explore more creative ways to reach their objectives. The total NED budget has grown from \$59 million in FY 2005 to \$74 million in FY 2006 but was cut in FY 2007 to \$50 million despite the Bush Administration's request for \$80 million.⁸¹

75. RIA Novosti, "Russia Among Top 5 in Terms of GDP by 2020—Ivanov," June 9, 2007, at <http://en.rian.ru/russia/20070609/66970013.html> (September 20, 2007).

76. Walsh, "Meet the Chief Exec of Kremlin Inc..."

77. RIA Novosti, "Russia Among Top 5 in Terms of GDP by 2020."

78. American Chamber of Commerce in Russia, "The Economy and Investment Climate in Russia," April 6, 2007, at www.amcham.ru/publications/investment_reports/ir2006 (July 17, 2007).

79. Keith Bush, "Russian Economic Survey," U.S.-Russia Business Council, May 2007, at www.usrbc.org/pics/File/EconSurvey/SurveyMay2007.pdf (July 17, 2007).

80. U.S. Department of State, Bureau of European and Eurasian Affairs, "U.S. Assistance to Russia—Fiscal Year 2006," May 11, 2006, at www.state.gov/p/eur/rls/fs/66166.htm (August 20, 2007).

81. U.S. Department of State, Bureau of Resource Management, "FY 2007 Budget in Brief: Related Appropriations," February 6, 2006, at www.state.gov/s/d/rm/rls/bib/2007/html/60316.htm (August 20, 2007).

The U.S. should establish strategic goals and objectives and pursue greater engagement with the remnants of Russian civil society. Specifically, the U.S. should:

- **Continue to negotiate and cooperate with Russia on matters of mutual concern in the areas of security and nonproliferation.** Moscow and Washington have common interests in preventing a new arms race and renegotiating the Strategic Arms Reduction Treaty (START), which is up for renewal in 2009, and the Intermediate-Range Nuclear Forces (INF) Treaty, which is in force indefinitely. Moscow and Washington should seek common ground in opposing the spread of intermediate-range missiles and weapons of mass destruction, nuclear proliferation, and illicit drug and arms trafficking.

The U.S. and Russia should also expand cooperation in civilian nuclear energy, space exploration, and fighting the spread of radical Islam. The U.S. should clarify that Iran's nuclear arsenal will be even more detrimental to Russia's security than to U.S. security and should work to limit Russian arms sales to Iran, Syria, and Venezuela. The Defense Department should continue the Cooperative Threat Reduction of Russia's strategic arsenals under Nunn–Lugar funding.

- **Promote Russia's integration into the global economy, particularly the rule-based WTO regime.** Russia's increasing role in the global marketplace will further expose it to economic liberalism, freedom of travel, and the free exchange of ideas. The Bush Administration should ask Congress to take the long-overdue step of "graduating" Russia from the Jackson–Vanik Amendment, which bars Russia from enjoying Permanent Normal Trade Relations (NPTR) with the United States. This amendment was overtaken by events over a decade and a half ago when Russia fully liberalized Jewish emigration from the country, as demanded by the Jackson–Vanik Amendment.

At the same time, the U.S. and its European allies should insist that Russia open its natural resources sectors, including energy, to Western investors. The U.S. Trade Representative and

U.S. Department of Commerce should cooperate with their European counterparts to ensure a level playing field for American and other Western companies operating in Russia. If Russia fails to cooperate, the U.S., Japan, and European countries should review the flow of technology and investment to the Russian energy sector. The U.S. should also strive to create an Energy Consumers' Club with China, India, Japan, and Europe to balance the power of OPEC and other energy superpowers, such as Russia.

- **Provide technical medical assistance.** Russia could benefit significantly from assistance in combating the HIV/AIDS and tuberculosis epidemics, improving prevention and treatment for cardiovascular diseases and cancer, improving health care management, and dealing with other pressing health issues. The U.S. State Department should encourage such activities, which would offer new business opportunities for the American health care sector. The U.S. needs to demonstrate to the Russian elites that it has much to offer in their areas of concern.
- **Increase support for civil society groups working to advance media independence, rule of law, political liberalization, and tolerance in Russia.** Russia is a signatory to the Helsinki 1975 Final Act and to the 1991 Moscow Document. Thus, Russian domestic behavior is subject to these obligations. In particular, the National Endowment for Democracy and other U.S.–funded NGOs should provide greater support to Russian NGOs fighting ethnic hatred and working to memorialize Stalin's victims and the mass crimes committed under his regime. Internet-based projects should be emphasized as they facilitate public access to alternative sources of information that the Russian state has had difficulty controlling or shutting down.
- **Constantly and steadily reach out to the Russian people through a comprehensive public diplomacy strategy to debunk the myth of inherent American hostility toward Russia.** The U.S. should expand its public diplomacy efforts via the Internet, international broadcasting under the Broadcasting Board of Governors, and professional and academic exchange programs.

These programs should emphasize improving business relations and the investment environment, as well as cultivating ethnic and religious tolerance in Russian society, thus helping to prevent further radicalization and alienation of marginalized groups. For FY 2008, Congress should also fund the long-delayed reorganization of U.S. Russian-language international broadcasting.

- **Establish a multidisciplinary monitoring project**, through the U.S. government or a consortium of preeminent think tanks with the participation of top U.S. and international scholars, to scrutinize the dynamics of domestic stability, the security and health of Russia's society and economy, and how they influence Russian domestic and foreign policy.

Conclusion

Russia's foreign policy is still driven by former Soviet military and security elites who view Russia as the direct heir to the autocratic Russian Empire and the Soviet Union and who cherish Russia's self-appointed role as America's principal counterbalance on the world stage.⁸² The lack of institutional checks and balances on the executive branch prevents the public airing of differences on foreign and security policy and makes it difficult for sober heads to voice their opposition to truculent foreign policy.

The Russian state is being progressively weakened by negative demographic trends, including alcoholism, HIV/AIDS, tuberculosis, and the resulting decline in life expectancy. The alienation of Muslims and other ethnic groups is leading to an increase in xenophobia and violence and to further Islamic radicalization and deepening divisions in Russian society.

While Russia has become more assertive internationally, its domestic policies have become more authoritarian, and state intervention in the economy has become excessive. U.S.–Russian bilateral

relations are at their lowest since the end of the Cold War, and many trends in Russian foreign policy are justifiably disturbing.

U.S. officials should develop a comprehensive strategy to serve America's objectives, keeping in mind the significant internal vulnerabilities of the Russian state. The U.S. cannot afford to "lose" Russia while Russia is involved in protracted conflicts in the Caucasus and is influencing the situation in Central Asia, in the Middle East, and throughout the Muslim world. Meanwhile, Russia's cooperation is essential to restraining and reversing Iran's quest for nuclear weapons. Although Russian elites may not always recognize it, Russia can ill afford to "lose" the West, especially in view of Moscow's lack of strategic allies and the looming power of China.

The U.S. government should address Russia's adverse domestic trends through a sustained American effort both to reach out to the Russian public, business sector, and intellectual community and to support the empowerment of the remnants of free media and civil society. To be a partner, Moscow needs to behave responsibly along its periphery and in the Middle East, Venezuela, and other key regions and countries. At the same time, some important areas of bilateral relations should remain open to cooperation, and the U.S. government should do its best to encourage and sustain dialogue with its Russian counterparts.

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82. Ariel Cohen, "How to Confront Russia's Anti-American Foreign Policy," Heritage Foundation *Backgrounder* No. 2048, June 27, 2007, at www.heritage.org/Research/RussiaandEurasia/bg2048.cfm.